Voya Floating Rate Fund

An Attractive Income Option for a Strategic Allocation

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Strategy overview

Actively managed, ultra-short duration floating-rate income strategy that invests primarily in privately syndicated, below investment grade senior secured corporate loans.

Key takeaways

- For the quarter, the Morningstar® LSTA ® US Leveraged Loan Index (the Index) returned 2.04%, up from 1.90% last quarter.
- On a NAV basis, Class I shares of the Fund underperformed the Index.
- Looking ahead, loans remain resilient given attractive yields and a favorable fundamental backdrop.

Portfolio review

The third quarter of 2024 was characterized by a continued stable earnings backdrop, a gradual moderation in the labor market, further easing of inflation, and a proactive shift in monetary policy by the U.S. Federal Reserve. This moderation in the labor market did not significantly hinder consumer spending, which continued to advance at a decent rate. As a result, the macro backdrop remained supportive, leading to strong returns across most risk assets.

For the quarter, the Index returned 2.04%, up from 1.90% last quarter. The average bid price increased by 12 basis points (bp), closing out the period at 96.71. Looking at ratings, single-B rated loans outperformed this quarter, posting gains of 2.20%, while CCC and Double-B rated loans returned 2.07% and 1.90%, respectively. On a year to date basis lower-rated categories have outperformed given the stable macro backdrop.

Despite the seasonal market slowdown in August, leveraged buyouts (LBOs) and merger and acquisition supply surged in September. For the first time since January 2022, volume was mainly driven by acquisition-related deals. For context, acquisition-related deals increased from U.S. $27 billion to $45 billion in 3Q24. Overall, total institutional volume, excluding repricings and amendments, was about $110 billion in 3Q24. Turning to opportunistic deals, repricings fell to their lowest level since June 2023 to $1.2 billion in August. However, repricings are on a record pace in 2024, reaching a total of $479 billion YTD. Refinancings volume fell to $29.8 billion from $94.8 billion last quarter, but YTD total issuance is at a record high at $207 billion. Turing to the investor demand, collateralized loan obligations (CLO) issuance slightly decreased in 3Q24 to $40.6 billion from $52.6 billion last quarter. YTD CLO volume is now tracking $142 billion, up from last year's volume of $84 billion for the comparable period. On the other hand, retail loan funds experienced a net outflow of $4.7 billion during the quarter (first negative quarter in 2024).

On a NAV basis, Class I shares of the Fund underperformed the Index. By industry, the Fund benefited from selection in the software space. At an issuer level, the avoidance of underperforming loans helped the Fund, most notably Mcafee Enterprise. In contrast, the top industry detractor was the underweight allocation to diversified telecommunication services, where several stressed names jumped in price on some idiosyncratic positive news which buoyed the entire sector. By ratings, selection in single-B rated loans was the main drag this quarter. Away from loan-level performance, the Fund's exposure to high yield (HY) bonds boosted performance, as the HY bond market outperformed loans in 3Q24 (5.29% return for the Bloomberg U.S. Corporate High Yield Index).

Portfolio and positioning changes were both mostly minimal during the period. The number of individual names in the portfolio decreased from 362 to 343.

Current strategy and outlook

Looking ahead, loans remain resilient given attractive yields and a favorable fundamental backdrop. The overall carry should continue to boost performance on both a total return and excess return basis. Easing Fed policy should lower financing costs for loan borrowers and provide a buffer in the event of a more pronounced slowdown in economic activity. We expect leveraged borrowers will continue to grow earnings and manage their debt opportunistically given the accommodative capital markets and strong market technical factors. Although default activity remains muted, distressed exchanges and liability management exercises (LME) will continue to be very topical across a handful of acute credit situations. Downgrade activities should continue to pose a challenge, especially for issuers in the lower rating spectrum, as key downgrade themes include earnings, margin pressure, elevated leverage levels, increased borrowing costs and developing sectoral themes. Market technical factors are expected to remain supportive, driven by strong investor demand. Tighter CLO liability spreads remain a catalyst behind the material uptick in CLO issuance alongside attractive CLO equity economics and strong demand for CLO AAA rated tranches from banks and other institutional investors.

From a positioning standpoint, we continue to maintain primarily a high, single-B rated credit profile, with an ongoing underweight in the right tail of the market. Credit selection remains key, as the market continues to be bifurcated between the "haves" and "have-nots." Specifically, we are paying close attention to segments in consumer services for further evidence of continued deceleration given the guidance revisions we are seeing in some sectors: airlines, hotels, autos, manufacturers. We remained cautious on cyclical sectors and those reliant on discretionary consumer spending.

Holdings detail

Companies mentioned in this report-percentage of Fund investments, as of 9/30/2024: Mcafee 0.42%. 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subjected to change on a daily basis.

Read our fund factsheet

The Morningstar LSTA Leveraged Loan Index is designed to measure the performance of the 100 largest facilities in the US leveraged loan market. Index constituents are market-value weighted, subject to a single loan facility weight cap of 2%.

Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.**

All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. You could lose money on your investment and any of the following risks, among others, could affect investment performance. The following principal risks are presented in alphabetical order which does not imply order of importance or likelihood: Asset-Backed Securities; Bank Instruments; Cash/Cash Equivalents; Collateralized Loan Obligations and Other Collateralized Obligations; Covenant-Lite Loans; Credit (Loans); Credit Default Swaps; Currency; Demand for Loans; Derivative Instruments; Environmental, Social, and Governance (Fixed Income); Equity Securities Incidental to Investments in Loans; Foreign (Non-U.S.) Investments/ Developing and Emerging Markets; Foreign (Non-U.S.) Investments for Floating Rate Loans; High-Yield Securities; Interest in Loans; Interest Rate for Floating Rate Loans; Limited Secondary Market for Loans; Liquidity for Floating Rate Loans; Market Disruption and Geopolitical; Other Investment Companies; Prepayment and Extension; Repurchase Agreements; Sovereign Debt; Valuation of Loans. **Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks.**

The Fund discussed may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance to vary from stated performance. Please call your benefits office for more information.

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The opinions, views and information expressed in this commentary regarding holdings are subject to change without notice. The information provided regarding holdings is not a recommendation to buy or sell any security. Portfolio holdings are fluid and are subject to daily change based on market conditions and other factors. **Past Performance does not guarantee future results**

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