Voya Credit Income Fund

Access to a Broad Range of Credit Sectors through Closed-End Interval Fund

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

- Risk assets bounced back in a significant way in the fourth quarter, bolstered by economic resilience, the continued slowdown in inflation, and signs that the U.S. Federal Reserve may soon start to cut interest rates.
- Class I shares of the Fund underperformed the benchmark on a net asset value (NAV basis), the 50% Bloomberg High Yield Bond—2% Issuer Constrained Composite Index/ 50% Morningstar LSTA US Leveraged Loan Index (benchmark) during the quarter.
- The macro outlook for 2024 looks supportive for U.S. risk assets with low but positive growth and expectations for the Fed to begin cutting rates.

Portfolio review

Risk assets bounced back in a significant way in the fourth quarter, bolstered by economic resilience, the continued slowdown in inflation, and signs that the Fed may soon start to cut interest rates. The dovish December Federal Open Market Committee meeting was the cherry on top for markets, as Chair Powell stated that the Fed started discussing cuts for 2024. This was driven by another benign inflation print in November and resilient economic data. With the market moving to price in aggressive rate cuts for 2024, Treasury yields rallied, with the yield on the 10-year note declining from 4.69% at the beginning of the quarter to 3.88% by quarter-end.

This backdrop was positive for higher beta sectors within fixed income. Spread moved tighter across both senior loans and high yield (HY) bonds, with the HY market outperforming due to the sharp rally in rates. The Morningstar® LSTA ® US Leveraged Loan Index advanced by 2.87%, while the Bloomberg U.S. High Yield 2% Issuer Constrained Index gained a robust 7.15%. This brought their respective full year returns to 13.32% and 13.44%, resulting in some of their highest annual returns on record. On a ratings quality basis, dispersion in total returns was relatively limited, although CCC rated credits generally underperformed. For the period, BB, B and CCC rated loans returned 2.71%, 3.16% and 2.18%, respectively, while BB, B and CCC rated bonds delivered respective returns of 7.35%, 7.01% and 6.91%. Gross new-issue activity decreased across the leveraged finance space ($118 billion versus $97 billion last quarter), partly due to seasonality effects. Refinancing activity continued to be the primary driver of supply, as net issuance remained low given muted mergers and acquisitions formation.

Class I shares of the Fund underperformed the benchmark on a NAV basis. The Fund was negatively impacted by an underweight in high yield bonds at the asset allocation level, while a few idiosyncratic challenges also detracted from performance. Among them are Save-A-Lot (weak earnings), holdings in technology (primarily due to Commscope, Inc.), select underperforming holdings within media (primarily Centerfield Media Parent, Inc. (Millennium Escrow) and Spanish Broadcasting Systems) and exposure within metals and mining (notably First Quantum Minerals Ltd. and Graftech Finance). In contrast, positive contributors included select retailers (Macy's Retail Holdings LLC. and Gap Inc.), exposure in wirelines (primarily due to Telecom Italia Capital S.A.), and exposure within the energy space that benefited from firm commodity prices.

Current strategy and outlook

The macro outlook for 2024 looks supportive for U.S. risk assets with low but positive growth and the Fed expected to begin cutting rates. Fundamental factors in leveraged credit remain relatively healthy, with limited credit deterioration. 3Q23 earnings were more mixed than in the prior quarters, but consensus earnings estimates call for a rebound in earnings growth from 4Q23 through 2024. We are somewhat more cautious, as we expect a trend of weaker topline growth as pricing power diminishes against the backdrop of disinflation and weaker consumer demand, leading to margin erosion for companies, with lower-rated issuers being incrementally impacted due to elevated borrowing costs. Market technical should remain supportive, with high all-in yields attracting buyers and the higher cost of debt limiting issuance. However, spreads begin the year at tight levels, skewing outcomes negatively in the event of any surprises.

In sector positioning, we remain positive on the healthcare space given higher utilization rates and easing labor cost, and the energy sector where commodity prices remain supportive and industry consolidation continues to offer upside to bond prices. In contrast, we are less constructive on consumer-reliant business models with weaker credit profiles given our view of moderating consumer strength in 2024 and we remain selective in sectors that have faced secular challenges, such as telecom and media. From a ratings perspective, we maintain a single-B average credit profile, with a heightened focus on single-name risk.

Holdings detail

Companies mentioned in this report – percentage of Fund investments, as of 12/31/23: Save-A-Lot 0.28%, Commscope, Inc. 0.12%, Centerfield Media Parent, Inc. (Millenium Escrow) 0.15%, Spanish Broadcasting Systems 0.06%, First Qauntum Minerals Ltd. 0.25%, Graftech Finance 0%, Macy's Retail Holding LLC. 0.22%, Gap Inc. 0.18%, and Telecom Italia Capital S.A. 0.23%; 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to daily change.

The **Morningstar® LSTA ® US Leveraged Loan index** is an unmanaged total return index that captures accrued interest, repayments, and market value changes. The index does not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an Index.**

Bloomberg U.S. High Yield 2% Issuer Constrained Index is an unmanaged index that covers U.S. corporate, fixed-rate, non-investment grade debt with at least one year to maturity and at least $150 million in par outstanding. Index weights for each issuer are capped at 2%.

Principal Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. **Investment Risks:** The Fund invests primarily in below investment grade, floating rate senior loans (also known as "high yield" or "junk" instruments), which are subject to greater levels of liquidity, credit, and other risks than are investment grade instruments. There is a limited secondary market for floating rate loans, which may limit the Fund's ability to sell a loan in a timely fashion or at a favorable price. If a loan is illiquid, the value of the loan may be negatively impacted and the manager may not be able to sell the loan in order to meet redemption needs or other portfolio cash requirements. The value of loans in the Fund could be negatively impacted by adverse economic or market conditions and by the failure of borrowers to repay principal or interest. A decrease in demand for loans may adversely affect the value of the Fund's investments, causing the Fund's net asset value to fall. Because of the limited market for floating rate senior loans, it may be difficult to value loans in the Fund on a daily basis. The actual price the Fund receives upon the sale of a loan could differ significantly from the value assigned to it in the Fund. The Fund may invest in foreign instruments, which may present increased market, liquidity, currency, interest rate, political, information, and other risks. These risks may be greater in the case of emerging market loans. Although interest rates for floating rate senior loans typically reset periodically, changes in market interest rates may impact the valuation of loans in the portfolio. In the case of early prepayment of loans in the Fund, the Fund may realize proceeds from the repayment that are less than the valuation assigned to the loan by the Fund. In the case of extensions of payment periods by borrowers on loans in the Fund, the valuation of the loans may be reduced. The Fund may also invest in other investment companies and will pay a proportional share of the expenses of the other investment company. **Derivative Instruments:** Derivative instruments are subject to a number of risks, including the risk of changes in the market price of the underlying securities, credit risk with respect to the counterparty, risk of loss due to changes in interest rates and liquidity risk. The use of certain derivatives may also have a leveraging effect which may increase the volatility of the Fund and reduce its returns. Other investment risks of the Fund include, but are not limited to: **Equity Securities, Foreign Investments, High-Yield Securities, Leverage, Liquidity, Prepayment and Extension. Investors should consult the Fund's prospectus and statement of additional information for a more detailed discussion of the Fund's risks. An investment in the Fund is not a bank deposit and is not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.**

This commentary has been prepared by Voya Investment Management for informational purposes. Nothing contained herein should be construed as (i) an offer to sell or solicitation of an offer to buy any security or (ii) a recommendation as to the advisability of investing in, purchasing or selling any security. Any opinions expressed herein reflect our judgment and are subject to change. Certain of the statements contained herein are statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (1) general economic conditions, (2) performance of financial markets, (3) interest rate levels, (4) increasing levels of loan defaults (5) changes in laws and regulations and (6) changes in the policies of governments and/or regulatory authorities. **Past performance is no guarantee of future results.**

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.

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.

Performance Attribution: During the period from January 1, 2017 to July 31, 2020, an unaffiliated data provider, which is used by the Funds to identify individual senior loans and groups of senior loans that detracted from or contributed to portfolio performance on an absolute or relative basis (commonly known as "attribution analysis"), provided the Funds with inaccurate data. As a result, the attribution analysis used to explain and analyze a portfolio's performance against a particular benchmark was inaccurate in some instances during the period. Importantly, the Funds' actual performance information and performance comparison to their respective benchmark which appeared in various Fund commentaries during this period were correct and were not impacted by the inaccurate data. The data provider has identified and corrected the issue that caused the transmission of inaccurate information, and correct information is reflected in attribution analysis used in commentaries prepared after September 30, 2020.performance. Please call your benefits office for more information.

The Standard & Poor's rating scale is as follows, from excellent (high grade) to poor (including default): AAA to D, with intermediate ratings offered at each level between AA and CCC. Anything lower than a BBB- rating is considered a non-investment grade or junk bond. Any security that is not rated by Standard & Poor's is placed in the NR (Not Rated) category.

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