Commentary | 3Q22

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

- In 3Q22, risk asset performance remained volatile, as high inflation and aggressive fed policy continued to impact investor sentiment.
- The Fund underperformed its benchmark, the 50% Bloomberg High Yield Bond—2% Issuer Constrained Composite Index/ 50% Morningstar LSTA US Leveraged Loan Index (the Index) during the quarter.
- The macro outlook is expected to remain challenged in 4Q22, as risk asset valuations continue to be affected by tightening of financial conditions, earnings deceleration and the increasing prospects of a global recession.

Portfolio review

In 3Q22, risk asset performance remained volatile, as high inflation and related aggressive fed policy continued to impact valuations. While performance was generally positive in the first two months of the quarter, September was marked by steep declines across broader financial markets. In particular, the re-emergence of rate volatility favored less duration-exposed asset classes. Starting with the loan market, the Morningstar® LSTA® US Leveraged Loan Index (loan Index) returned 1.37% during the quarter. Performance was a function of interest carry, as the average Index bid price decreased by 24 basis points (bp) from June levels to 91.92. A continued flight to quality theme was evident with returns for BB, single-B and CCC rated loans coming in at 2.45%, 1.18% and –1.71%, respectively. The dislocation amongst different ratings buckets and liquidity profiles remained intact in 3Q22 with better-rated and liquid areas holding better, as lower quality and illiquid names remain under pressure.

On the other hand, the macro and rate-driven selloff at the end of the quarter pushed the Bloomberg U.S. High Yield 2% Issuer Constrained Index (high yield (HY) Index) into the red at –0.64%, leading to negative returns across the credit ratings stack within the HY Index. However, dispersion in ratings performance was less prevalent versus the loan market, with BB rated securities returning –0.70%, B rated bonds returning –0.66% and CCC rated securities returning –0.42%. The market also ended the quarter 16 bp tighter with an option-adjusted spread (OAS) of 554 bp.

New-issue supply remained muted in both markets due to the difficult backdrop, while investor demand was stronger in the loan market given persistent collateralized loan obligations (CLO) bid. Leveraged Commentary & Data (LCD) reported institutional loan volume of $21.4 billion during the quarter, while HY bond issuance was slightly lower at $18.9 billion. Prospects for a busier primary market in 4Q22 appear slim with recently shelved deals causing a further dent in the forward pipeline. Although CLO issuance continued at a solid clip in 3Q22 (nearly $30 billion) and helped provide some technical support for the loan market, retail fund flows in both markets remained firmly negative, as investor sentiments remain cautious.

The class I shares of the Fund underperformed the Index. As of June 30, 2022, the Fund's strategy, benchmark and portfolio management team have changed, and the Fund was renamed to Voya Credit Income Fund. Since the effective date of those changes, we have been transitioning the portfolio of investments from the former Senior Income Fund strategy to the new Credit Income Fund Strategy. Over the quarter, a decision was made to underweight in HY bonds, relative to the 50/50 benchmark, given the current interest rate environment. The Fund's underweight in HY bonds and overweight to senior loans were slight positives to relative returns, given the underperformance of HY bonds to loans over the quarter. However, the allocation to senior loans suffered from an overweight to CCC rated loan and selection in single-B rated loans. From an industry perspective, the top relative detractor stemmed from selection in software. Looking at individual issuers, the main hurdle stemmed from an overweight to two loans from Avaya Inc, where trading levels came under pressure following unexpected earnings miss. Away from investment level performance, the Fund's use of leverage was a challenge to returns given the decrease in average loan and bond prices experienced during the period.

Current strategy and outlook

The overall macro setup for the balance of the year is difficult with a challenging outlook for risk assets given the ongoing repricing of the global risk-free rate, tightening of financial conditions, earnings deceleration and the increasing prospects of a global recession. Under such a backdrop, it is difficult to identify a catalyst to recovery over the short-term. As the ability of the US Federal Reserve to orchestrate a soft landing has narrowed, markets are now starting to price more than a short and shallow recession, although expectations of a deep, prolonged recession remain low for now.

Issuer fundamental factors will continue to drive sentiment and price movement given the developing sectoral themes and higher prospects of a substantial slowdown in earnings. While default activity remains contained for now in leveraged credit markets, the recent uptick alongside continued ratings downgrade activity would add more pressure to the ongoing theme of spread and ratings dispersion among weaker credits and continued decompression as we navigate the remainder of the year. Given the bevy of concerns that remain top of mind, we will continue to closely monitor our credit selection and positioning in the near term.

Holdings detail

Companies mentioned in this report – percentage of Fund investments, as of 9/30/22: Avaya Inc. 0.96% 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to daily change.

The S&P/LSTA 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.**

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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