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

- Despite intra-quarter volatility, risk assets largely produced positive returns, led by equity markets, while bond markets were flattish in the second quarter.
- Class I shares of the Fund outperformed 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).
- The macro outlook remains supportive despite the expected slowdown in economic growth, as expectations of U.S. Federal Reserve cuts later in the year have increased amid cooling inflation and signs of softening in labor markets.

Portfolio review

Despite intra-quarter volatility, risk assets largely produced positive returns, led by equity markets, while bond markets were flattish in the second quarter. Early in the quarter, volatility was caused by continued strong economic growth in the United States, strong job markets and a mixed decline in inflation data. This led to a bouncing around of both interest rates as well as expectations of potential Fed cuts later in the year. As June approached, economic and payroll data started showing signs of weakness. The May Consumer Price Index (CPI) report surprised to the downside, which caused yields to drop from their recent peak. By the end of the quarter, the yield on the U.S. 10-year Treasury closed 20 basis points (bp) higher overall at 4.40% but off its peaks seen earlier in the period.

Meanwhile, leveraged credit continued to provide steady returns during the period, although performance trailed 1Q24. The Morningstar® LSTA ® US Leveraged Loan Index gained 1.90%, ahead of the 1.09% return for the Bloomberg U.S. High Yield 2% Issuer Constrained Index. The average price of loans declined by 14 bp to 96.59 as secondary trading levels softened in June, while high yield (HY) spreads finished the quarter modestly wider at 309 bp on an option-adjusted spreads (OAS) basis. From a quality perspective, higher-rated credits outperformed during the quarter. BB, B and CCC rated loans returned 1.80%, 2.06% and 1.24%, respectively, while BB, B and CCC rated bonds delivered respective returns of 1.32%, 1.03% and –0.01%. In general, CCC underperformance was more attributable to credit-specific negatives than to a broad aversion to risk. Gross new-issue supply remained active across the leveraged finance space at $221 billion due to ongoing refinancing activity despite still subdued merger and acquisition deal volume. On the demand side, investor flows into leveraged credit were broadly positive during the quarter, driven by attractive all-in yields and still solid economic backdrop.

Class I shares of the Fund outperformed the benchmark on a NAV basis. The Fund benefited from a modest overweight to loans at the asset allocation level, in addition to positive impacts from select individual holdings. The Fund benefited from the sale of an equity holding in Longview Power that was received as part of a prior restructuring, and by avoiding many of the idiosyncratic negatives that weighed on CCC rated issuers returns in the period. Other positives included security selection in Cable and Media, as well as name-specific wins in VistaJet Malta Finance PLC, which continued to recover from weakness in prior periods, as well as Triton Water Holdings, Inc. and Atlantica Sustainable Infrastructure, both of which were acquisition targets.

Current strategy and outlook

The macro outlook remains supportive despite the expected slowdown in economic growth, as expectations of Fed cuts later in the year have increased amid cooling inflation and signs of softening in labor markets. Fundamental factors in leveraged credit remain generally healthy, barring a few pockets of stress in the more secularly challenged sectors. We believe the main risks include a more meaningful slowdown in growth and the possibility of margin compression, as pricing power diminishes against the backdrop of disinflation. The prevailing supply and demand imbalance should continue to persist, with net issuance remaining muted, while fund flows and coupon reinvestment support demand. Although spreads don't appear particularly cheap, solid credit fundamental factors should limit spread widening and the carry from high all-in yields should cushion total returns.

From an asset allocation standpoint, we continue to be overweight loans relative to HY, although we've reduced that modestly since last quarter as we near the beginning of an expected Fed easing cycle. In terms of sector positioning, we remain positive on the healthcare space given higher utilization rates and easing labor costs as well as the energy sector, which continues to benefit from firm commodity prices. In addition, we've become more constructive recently on the chemicals sector, as we believe the economic weakness in Europe and China has bottomed out. Meanwhile, we continue to hold a cautious stance in industries that face secular challenges, such as media and cable. From a ratings perspective, we maintain a single-B average credit profile, with a continued focus on single-name risk.

Holdings detail

Companies mentioned in this report – percentage of Fund investments, as of 6/30/24: Longview Power 0.0%, VistaJet Malta Finance PLC 0.12%, Triton Water Holdings, Inc. 0.32%, Atlantica Sustainable Infrastructure 0.0%. 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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