Commentary | 1Q25

Voya Floating Rate Fund

An Attractive Income Option for a Strategic Allocation

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 were volatile during the first quarter, as macro and policy-related uncertainties soured investor sentiment.
- The Fund underperformed the Index on a net asset value (NAV) basis in 1Q25 due to some expenses related to the proposed merger into Voya Short Duration High Income Fund, which is pursuant to a Shareholder vote occurring in May 2025.
- As headline noise remains elevated with limited visibility on the full potential impacts on the economy due to the various moving pieces, we expect the loan market to be correlated with broader financial markets in the near term until more clarity forms.

Portfolio review

Risk assets were volatile during the first quarter, as macro and policy-related uncertainties soured investor sentiment. Equities experienced declines and credit spreads moved wider, with the bulk of move occurring in March as tariff rhetoric intensified against the backdrop of weaker consumer and business survey data. Although the loan market still registered a positive return of 0.48% for the quarter, it was one of the worst first quarters in the last 25 years. The average Index bid price lost 102 basis points (bp), closing out the period at 96.31. Looking at ratings, double-B rated loans outperformed this quarter, posting gains of 0.93%, followed by single-B rated loans with a positive return of 0.35%. On the other hand, CCC rated loans were in the negative territory at –0.57%.

In the primary market, mergers and acquisitions and refinancing transactions were the main drivers of supply this quarter, while repricings have understandably slowed given the recent decline in secondary trading levels. Total repricing volume was about $186 billion in 1Q25, down from $295 billion in 4Q24, but surpassing the $159 billion recorded during the comparable period in 2024. The share of loans priced at par or higher decreased to 10.3% from 63% in 4Q24. The Index's nominal spread compressed by 10 bp over that time timeframe to S+331 bp. Excluding repricings, institutional volume was $144.3 billion, higher than 1Q and 4Q of 2024. Total refinancings were about $65.4 billion, up from $48.5 billion last quarter, and acquisition-related deals grew to $52 billion from $28 billion in 4Q24. On the investor side, both institutional and retail demand decreased this quarter as compared to 4Q24.

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For the quarter, there were 97 collateralized loan obligation (CLO) deals that priced during that period, totaling $48.6 billion, in line with 1Q 2024 volume of $48.8 billion. On the retail side, total year to date net inflow stands at $1.7 billion. Of this total, approximately 26% of the flows came from exchange-traded funds (ETF), while mutual funds accounted for the remaining 73%.

There were three defaults in the Index during the quarter. The trailing 12-month default rate by principal amount decreased to 0.82% from 0.91% in December. Including liability management exercises, the loan default rate closed out the quarter at 4.31%, down from 4.70% in 4Q24.

The Fund underperformed the Index on a NAV basis in 1Q25 due to some expenses related to the proposed merger into Voya Short Duration High Income Fund, which is pursuant to a Shareholder vote occurring in May 2025. Given our up-in-quality positioning with an underweight in the right tail of the market, the portfolio was well positioned against market volatility and market weakness. Across ratings, the main contributor to this quarter's performance was selection in the B and BB rated category and underweight positioning in CCC rated loans. By industry, the underweight in diversified telecommunication services, selection in specialty retail and the overweight to building products detracted from performance. In contrast, selection in chemicals, commercial services and supplies and food products added to performance. At an issuer level, the overweight allocation to Petco Animal Supplies, Inc. and Leslies Poolmart, Inc. had a modest negative impact on performance. On the other hand, the portfolio benefited from the avoidance of underperforming loans, most notably the avoidance of Ascend Performance Materials Llc and Cdk Global.

Current strategy and outlook

As headline noise remains elevated with limited visibility on the full potential impacts on the economy due to the various moving pieces, we expect the loan market to be correlated with broader financial markets in the near term until more clarity forms. Key questions need to be addressed related to the duration of the announced tariffs and whether they can be negotiated down, the reaction of trade partners, reactionary fiscal and monetary effects, impact on global trade and economic growth. The Fed has expressed concern over recent policy and signaled that it will continue to closely monitor incoming economic data for any signs of weakness in growth and the labor market before making any decisions on interest rate cuts. We believe the likelihood of more material slowdown in growth has increased assuming the announced tariffs remain in place for an extended period of time with no benefits from potential bilateral trade negotiations.

Despite the increased uncertainty, fundamental factors continue to remain in good shape and are starting from a place of strength, particularly among stronger-rated borrowers. The issuers that are most exposed to tariff impacts and lower-quality issuers in stressed sectors remain the most susceptible to downgrade risk, while a slowdown in growth may trigger a pickup in distress exchanges and defaults, especially from companies already under pressure. While technical factors in the loan market have understandably softened as of late, we expect the backdrop to firm once the macro-related noise subsides. We expect the demand and supply imbalance to persist, driven by steady CLO issuance and still muted new-issue activity.

Across credit quality, we continue to maintain our high single-B rated profile and remain vigilant on our portfolio's exposure to increased costs, supply chain disruption, geographical exposures and any additional negative second-order effects.

Holdings detail

Companies mentioned in this report-percentage of Fund investments, as of 3/31/2024: Ascend Performance Materials Llc 0%, Cdk Global 0%, Petco Animal Supplies, Inc. 0.39%, and Leslies Poolmart, Inc. 0.27% indicates that the security is no longer in the portfolio. Portfolio holdings are subjected to change on a daily basis

Read our [Fund Fact Sheet]

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 Floating Rate 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.

Credit quality is calculated based on S&P, Moody's and Fitch ratings. Generally accepted, AAA is the highest grade (best) to D which is the lowest (worst). If the ratings from all 3 rating agencies are available, securities will be assigned the median rating. If the ratings are available from only two of the agencies, the more conservative of the ratings will be assigned to the security. If the rating is available from only one agency, then that rating will be used. Any security that is not rated is placed in the NR (Not Rated) category. Ratings do not apply to the Fund itself or to the Fund shares. Ratings are subject to change.

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