



Leveraged Lion Capital

Fixed Income Research Report

02.10.20

LLC Portfolio Review

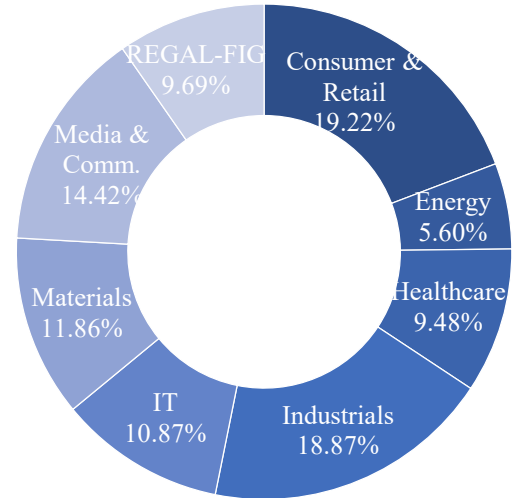
Portfolio Characteristics

Number of holdings	28
Average price	98.64
Average YTM	5.25%
Average total leverage	4.17x
Average interest coverage	5.46x

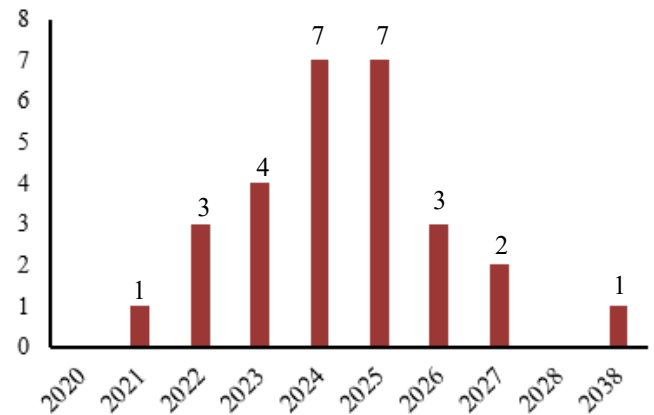
Credit Quality (# of holdings)

Bank Loans	69.68%
BBB-	13.64
BB+	9.09
BB	13.64
BB-	9.09
B+	18.18
B	27.27
High Yield Corporates	19.13%
BB-	50.00
B+	16.67
B	16.67
B-	16.67
CCC-	0.00
Cash & Cash Equivalents	11.19%

Sector Allocation (% of total assets)



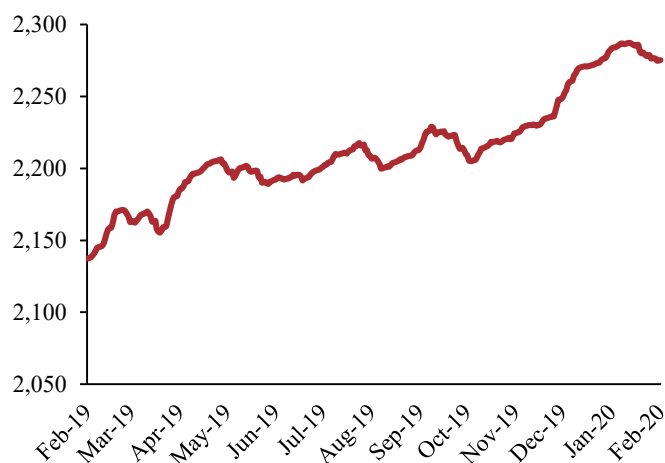
Maturity Distribution (# of holdings)



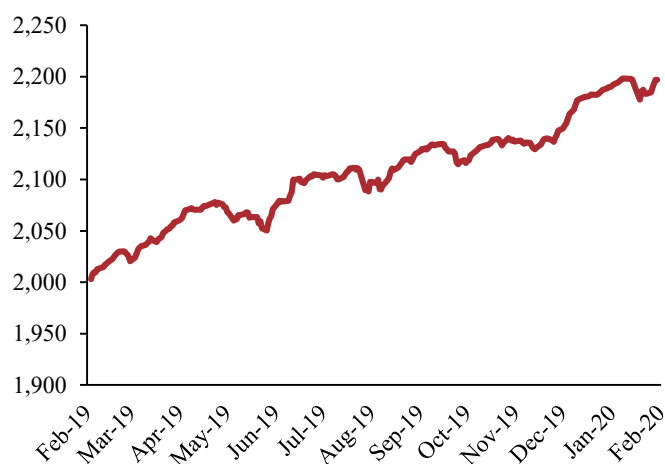
Loan & HY Bond Market Recap

- Leveraged loan funds saw their third straight week of outflows, totaling \$487 mm
- US high yield funds also saw outflows of \$784 mm, while there were inflows of \$4.9 bn into investment grade funds
- US leveraged loans with a single B rating have seen average margins fall to 333 bps in January, marking a 6 year low
- The loan market's distressed debt supply increased to \$105 bn in January, now making up 8.6% of the ICE BofAML US High Yield Index. This figure is much lower than the peak of 27% from the last credit cycle in February 2016

S&P/LSTA US Leveraged Loan 100 Index



Bloomberg Barclays US Corp HY Index



Top Leveraged Loan Movers

Leaders:

1. RentPath LLC's 1L TLB +3.63% to 49.13
2. Ligado Networks LLC's 1L PIK-TL + 3.13% to 53.88
3. Securus Technologies' 1L TLB +3.00% to 76.75
4. Casa Systems Inc's 1L TLB +2.50% to 82.50
5. Bright Bidco BV's 1L TLB +1.50% to 58.38

Laggards:

1. Plantronics' 1L TL -2.75% to 93.25
2. JBS USA's 1L TLB -1.38% to 98.38
3. BPTW Buyer LLC's 1L TLB -1.38% to 97.50
4. Ligado Networks LLC's 2L PIK-TL -1.30% to 16.08
5. Syniverse Holdings Inc's 1L TLC -1.13% to 91.25

S&P/LSTA U.S. Leveraged Loan 100

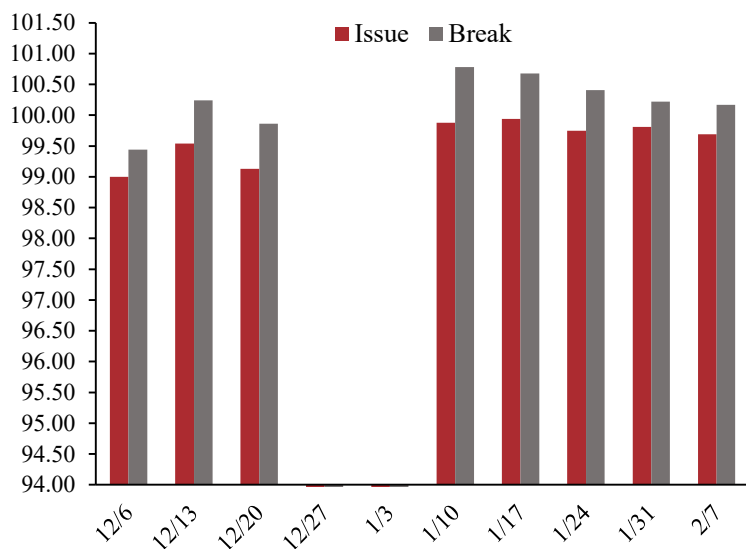
Bloomberg Barclays U.S. Corp HY

	S&P/LSTA U.S. Leveraged Loan 100	Bloomberg Barclays U.S. Corp HY
1-month	-0.40%	0.21%
YTD	0.07%	0.65%
Index value	2274.70	2196.88
52-week high	2287.33	2198.28
Wtd. avg. yield / YTW	5.63%	5.27%
OAS	-	3.54

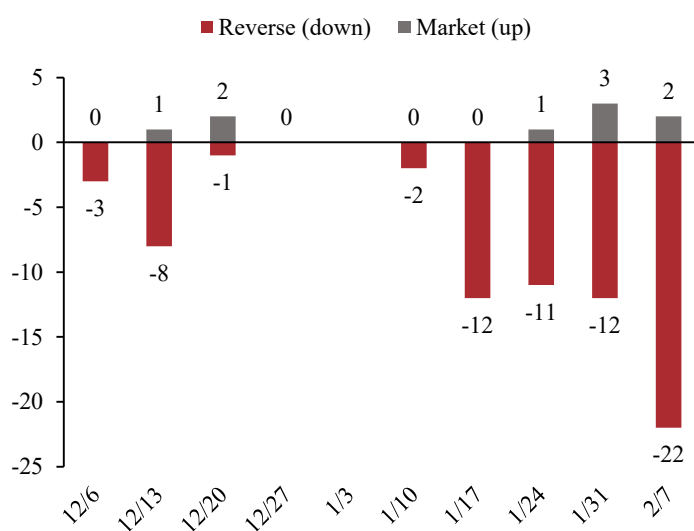
Source: Bloomberg

+1.38%

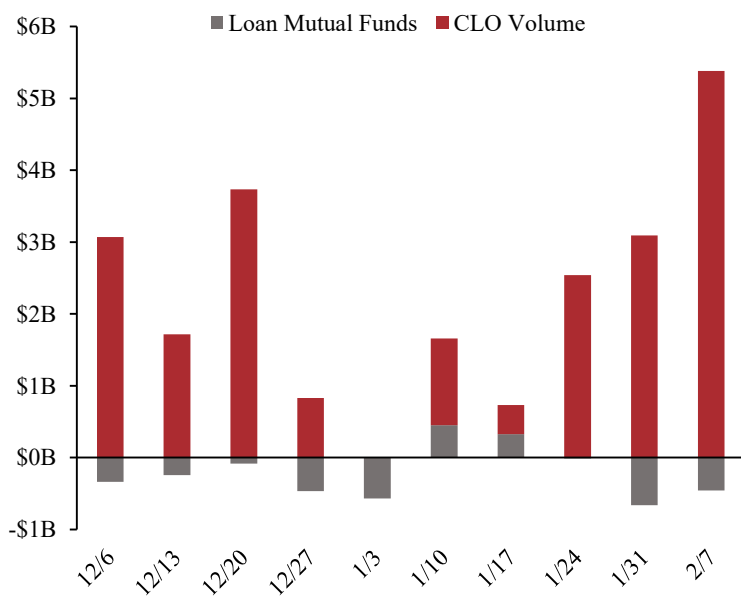
Prices (first-lien deals)



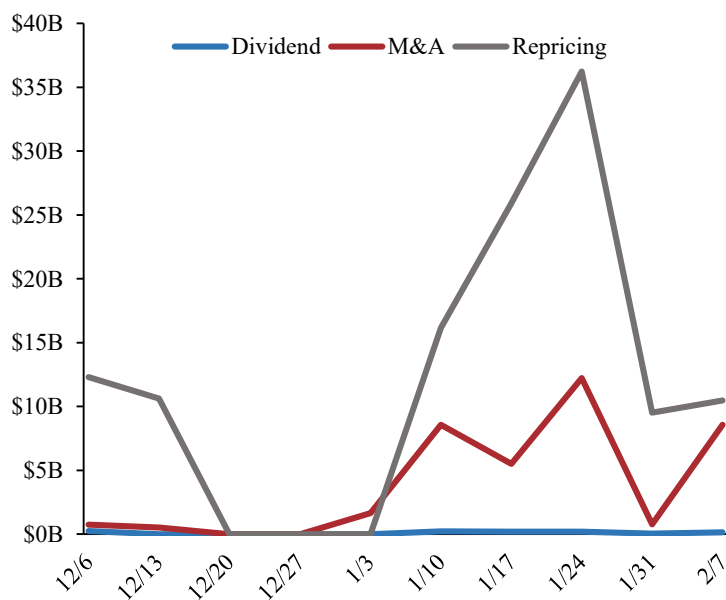
Flex Activity



Fund Flows

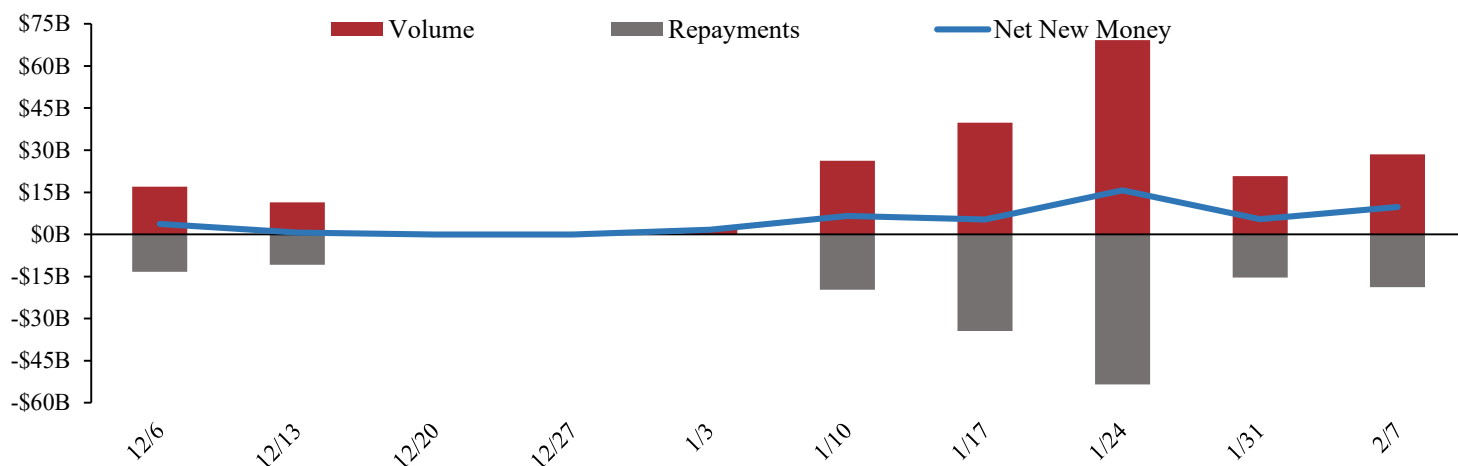


Launched Deal Volume by Purpose



Source: LevFin Insights

Net Launched Volume



Recent Leveraged Loan Deals

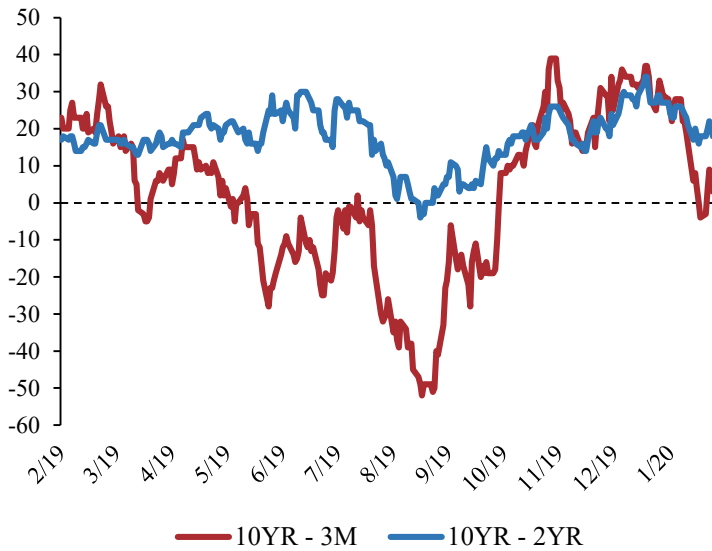
Company	Purpose	Tranche Size	Spread (bps)	OID
Alera Group	Repricing	\$697.00 mm	L+400	100.00
Civitas Solutions	Refinancing	\$205.00 mm	L+425	100.00
Inovalon	Repricing	\$915.30 mm	L+300	100.00
Lonestar II Generation	GCP	\$60.00 mm	L+500	99.75
Match Group Inc	Refinancing	\$425.00 mm	L+175	99.75
Pitney Bowes	Refinancing	\$200.00 mm	L+550	98.50
Standardaero Aviation	Refinancing	\$2,340.00 mm	L+350	100.00
UFINET	Repricing	\$593.10 mm	L+450	100.00

Recent High-Yield Bond Deals

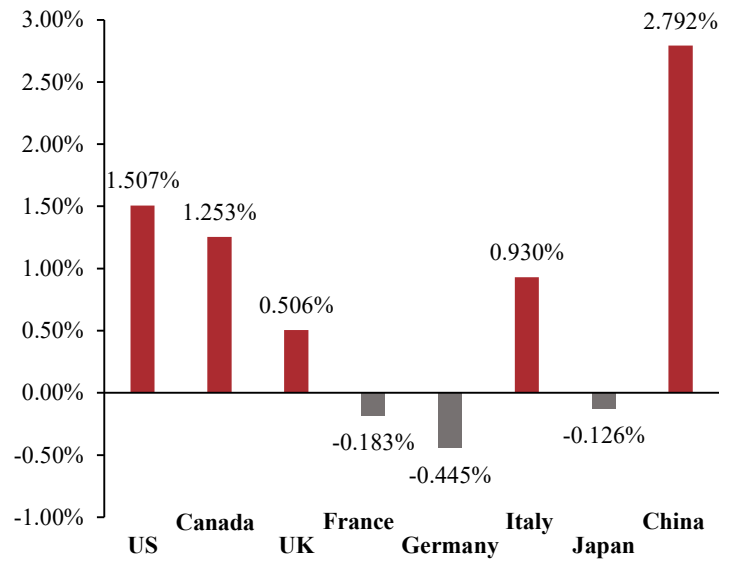
Company	Purpose	Tranche Size	Coupon	Issue Price
Allen Media LLC	M&A	\$300.00 mm	10.500%	100.00
Builders FirstSource Inc	Refinancing	\$550.00 mm	5.000%	100.00
Match Group Inc	Dividend	\$500.00 mm	4.125%	100.00
Parsley Energy Inc	Refinancing	\$400.00 mm	4.125%	100.00
Asbury Automotive Group	M&A	\$525.00 mm	4.500%	100.00
Asbury Automotive Group	M&A	\$600.00 mm	4.750%	100.00
Arconic Rolled Products	M&A	\$600.00 mm	6.125%	100.00
Griffon Corp	Refinancing	\$850.00 mm	5.750%	100.00

Source: LevFin Insights

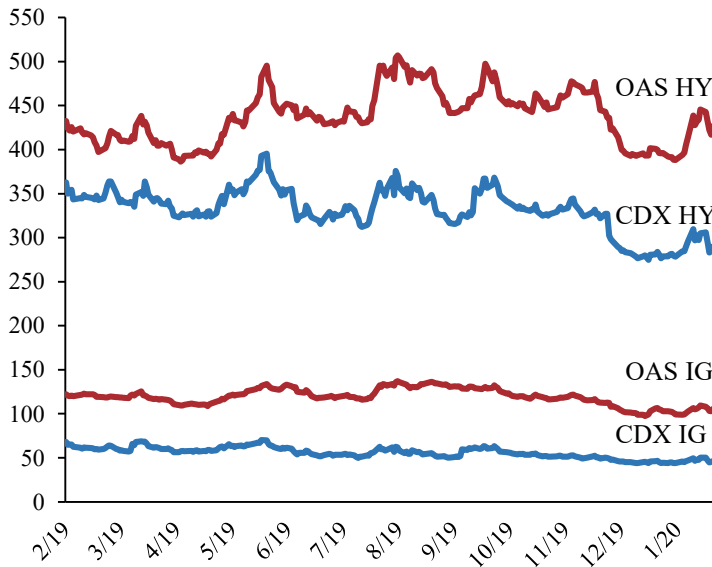
Treasury Yield Curve Spreads



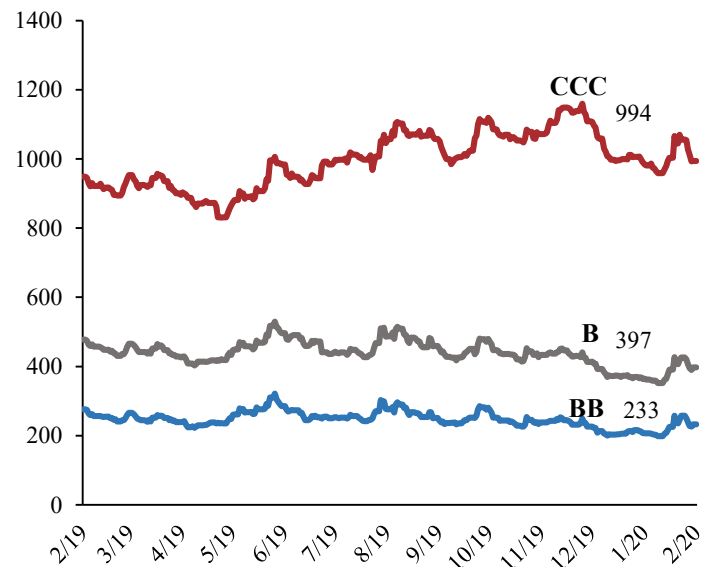
10-year Government Bond Yields



Corporate Credit OAS & CDS Spreads



ICE BofAML US High-Yield Index YTW



Source: Bloomberg & FactSet

Special Topics & Notable Developments

Flight to High Yield Municipal Debt

- Investors are flooding high yield municipal bond mutual funds with cash as the hunt for yield grows more difficult and is involving increasing risk levels
- These funds saw inflows of \$713 mm last week, which sets the second largest influx on record for that market
- Due to the caps placed on state and local deductions, investors were already shifting money into the municipal securities market for tax-exempt debt. However, in this low interest rate environment, governments are selling taxable bonds, in order to not violate any federal restrictions. Additionally, since yields on tax-exempt debt have been driven down to their lowest point in over six decades, investors are now taking on more risk and shifting their money to the high yield corner of the municipals market
- Furthermore, demand for these securities are also increasing due to the price appreciation caused from a supply and demand distortion. This distortion is due to only 42% of the securities sold this year in the municipal market being taxable.

Coronavirus Threatening Credit in Energy Sector

- Although the Bloomberg Barclays HY Index rose 0.65% so far in 2020, junk bonds in the energy sector have declined 1.4%. This is due to fears of energy companies deteriorating as the impact of the coronavirus damages the oil markets.
- China accounts for 13% of the demand for the global oil supply, but oil purchasing for the country has declined by around 20%, sending WTI oil prices down to about \$50
- Energy companies in the high yield market were already under scrutiny because 42 producers filed for bankruptcy in 2019, which resulted in almost a third of high yield energy notes to trade at distressed levels at the end of last year
- Since energy makes up a large portion of the high yield market, at 12%, the effects of the virus may have a larger than expected impact on how the broader high yield index performs

Proposed Revision to Volcker Rule

- Recently the Federal Reserve approved a proposal to revise a Volcker Rule ban on banks to own CLO tranches with any exposure to bonds'
- Originally the Volcker Rule limited how much banks could invest in "covered funds", which includes investment funds such as hedge funds, private equity funds and debt securities of CLOs. However, CLOs were exempt due to the "loan securitization" carve out
- The proposed change in for the rule is that a 5% allowance for corporate bonds in loan-only securitizations and if accepted, this rule would mostly be beneficial for the equity tranche, while debt holders would take on the additional risk of lower recoveries from the bonds

Source: Bloomberg & WSJ

Upcoming Economic Calendar

Day	Time	Report	Period	Previous	Forecast
Thursday 2/13	8:30 am	CPI	January	2.3%	2.4%
Thursday 2/13	8:30 am	Core CPI	January	2.3%	2.2%
Thursday 2/13	8:30 am	Initial Jobless Claims	2/8	202,000	211,000
Friday 2/14	8:30 am	Import Price Index	January	0.5%	0.2%
Friday 2/14	8:30 am	Export Price Index	January	0.7%	-
Friday 2/14	8:30 am	Retail Sales	January	0.3%	0.3%
Friday 2/14	9:15 am	Industrial Production	January	-0.3%	-0.3%
Friday 2/14	10:00 am	Consumer Sentiment Index	February	99.8	99.4

Previous Economic Calendar

Day	Time	Report	Period	Previous	Actual
Monday 2/3	9:45 am	Markit Manufacturing PMI	January	51.7	51.9
Monday 2/3	10:00 am	ISM Manufacturing PMI	January	47.2	50.9
Tuesday 2/4	10:00 am	Factory Orders	December	-0.70%	1.8%
Wednesday 2/5	8:30 am	Trade Balance	December	-\$43.1 bn	-\$48.9 bn
Wednesday 2/5	9:45 am	Markit Services PMI	January	53.2	53.4
Wednesday 2/5	10:00 am	ISM Nonmanufacturing Index	January	55	55.5
Thursday 2/6	8:30 am	Initial Jobless Claims	1/31	216,000	202,000
Friday 2/7	8:30 am	Nonfarm Payrolls	January	145,000	225,000
Friday 2/7	8:30 am	Average Hourly Earnings	January	2.9%	3.1%
Friday 2/7	8:30 am	Labor Force Participation Rate	January	63.2%	63.4%
Friday 2/7	8:30 am	Unemployment Rate	January	3.5%	3.6%