



Leveraged Lion Capital

Fixed Income Research Report

01.27.2020

LLC Portfolio Review

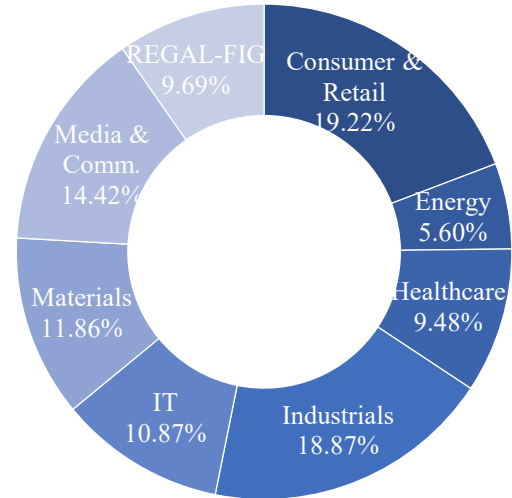
Portfolio Characteristics

Number of holdings	30
Average price	97.40
Average YTM	5.84%
Average total leverage	4.17x
Average interest coverage	5.46x

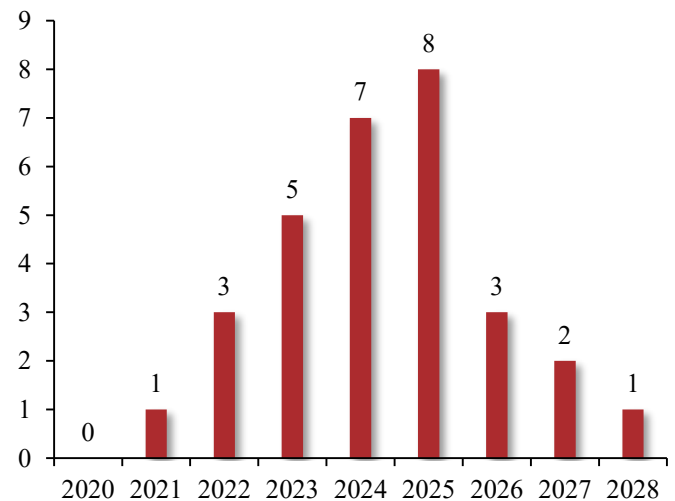
Credit Quality (% of holdings)

Bank Loans	63.37%
BBB-	9.63
BB+	5.04
BB	8.65
BB-	13.65
B+	11.18
B	15.18
High Yield Corporates	35.49%
BB-	12.86
B+	3.40
B	2.29
B-	9.51
CCC-	7.43
Cash & Cash Equivalents	0.87%

Sector Allocation (% of total assets)



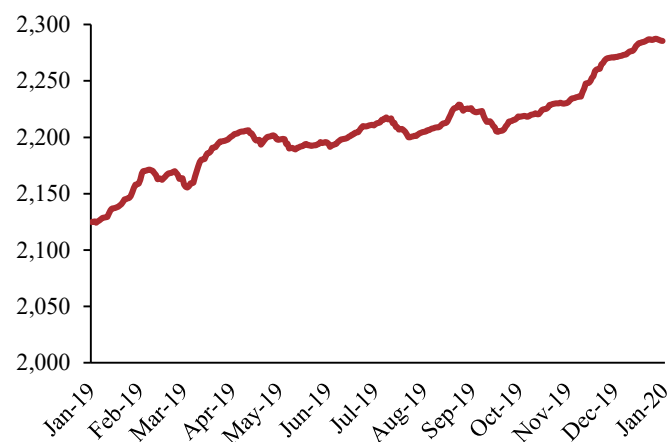
Maturity Distribution (# of holdings)



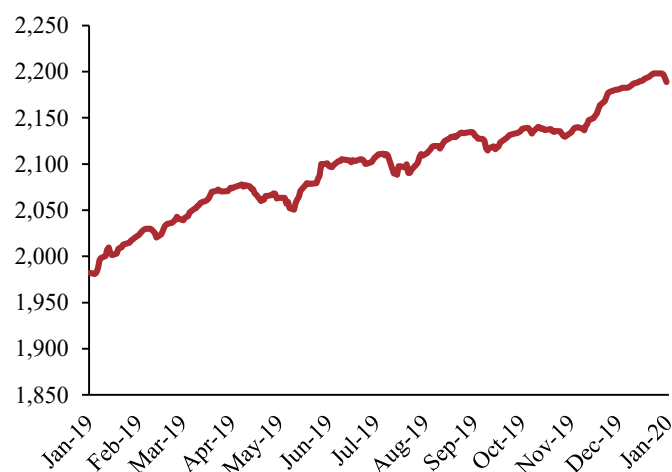
Loan & HY Bond Market Recap

- Loan funds saw \$13.5 mm in outflows this week after 2 consecutive weeks of inflows
- U.S. high-yield and investment grade funds saw inflows of \$719 mm and \$4.19bn, respectively
- New issuances in the leveraged loan market topped \$70.7bn in volume this week, resulting in the busiest month since May 2018
- US HY bond market volume rose to \$33.2 marking it on track for the busiest January in a decade
- The \$133.1bn in in HY bonds trading above call prices are making it attractive for issuers to redeem securities

S&P/LSTA US Leveraged Loan 100 Index



Bloomberg Barclays US Corp HY Index



Top Leveraged Loan Movers

Leaders:

1. Engineered Machinery's 1L TL +2.75% to 99.75
2. Steak n Shake's 1L TLB +2.75% to 69.75
3. Uniti Group's 1L TLB +2.00% to 100.13
4. Pier 1 Imports' 1L TLB +0.79% to 24.33
5. Wok Holdings' 1L TLB +0.75% to 81.38

Laggards:

1. NPC International's 1L TL -5.13% to 39.75
2. Checkout Holding's 1L TL -2.00% to 78.25
3. NeuStar's 1L TL B4 -1.25% to 93.25
4. Bluestem Brands' 1L TLB -1.25% to 72.38
5. Auris Luxembourg III Sarl's 1L TL B2 -1.13 to 98.13

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	0.60%	0.29%
YTD	0.54%	0.28%
Index value	2285.35	2188.95
52-week high	2287.33	2198.28
Wtd. avg. yield / YTW	5.52%	5.29%
OAS	-	3.56

Source: Bloomberg

Leveraged Lion Capital

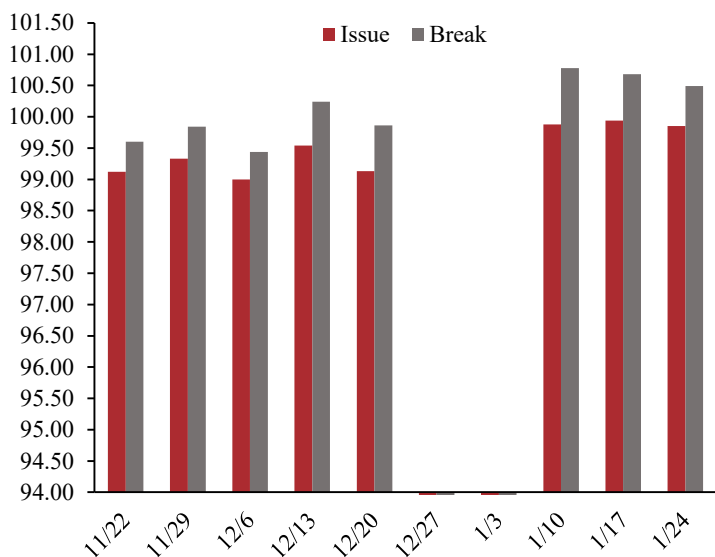
Fixed Income Weekly Report

+1.38%

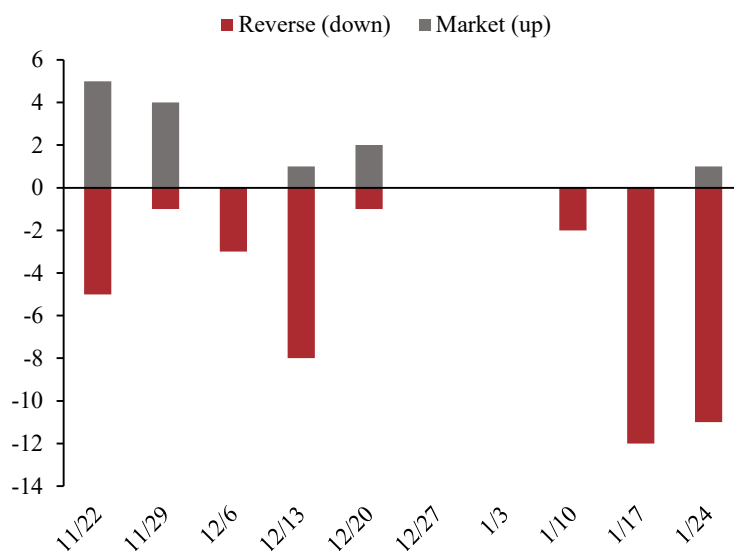
LLC

January 27, 2020

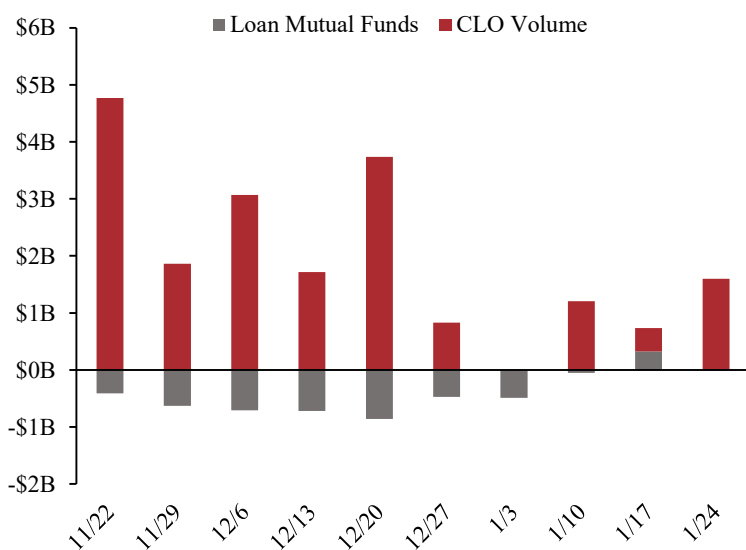
Prices (first-lien deals)



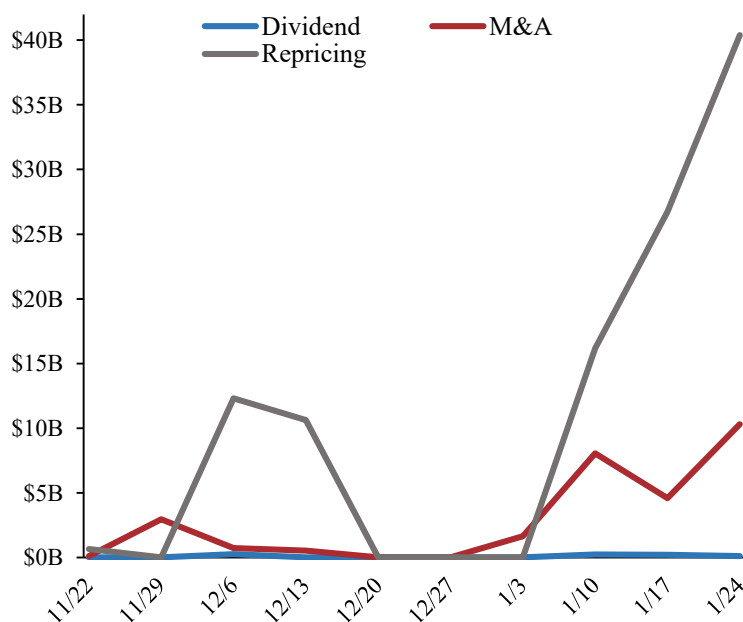
Flex Activity



Fund Flows

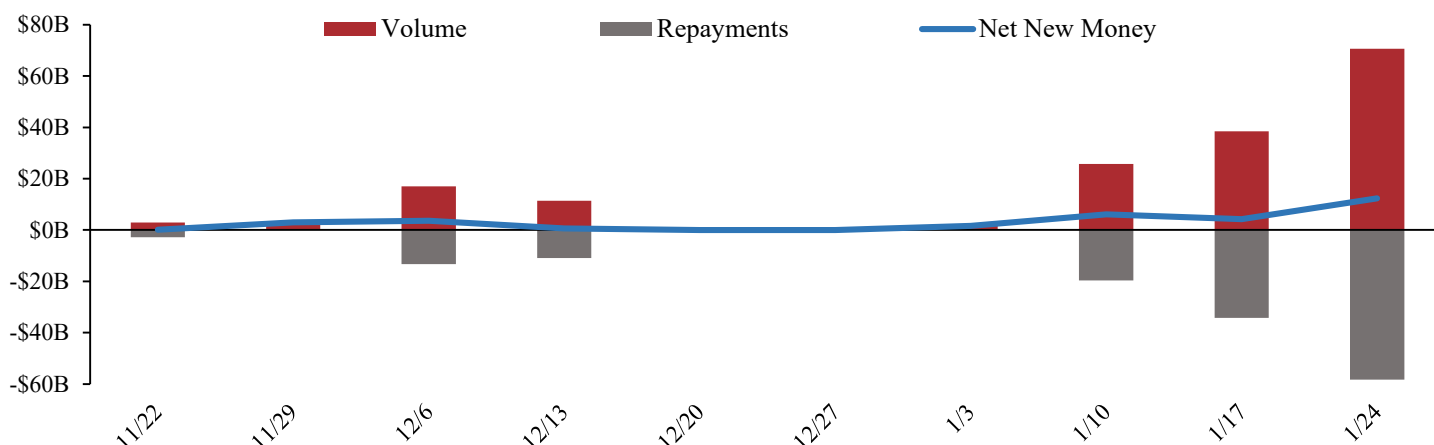


Launched Deal Volume by Purpose



Source: LevFin Insights

Net Launched Volume



Recent Leveraged Loan Deals

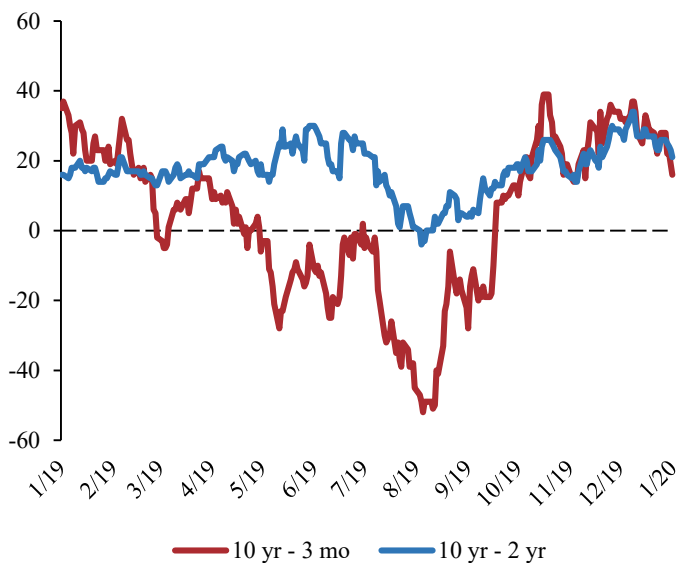
Company	Purpose	Tranche Size	Spread (bps)	OID
ABRA Auto Body & Glass	Repricing	\$1,945.00 mm	L+300	100.00
AECOM	LBO	\$1,090.00 mm	L+400	99.50
American Airlines Group	Refinancing	\$1,220.00 mm	L+175	99.75
BJ's Wholesale Club Inc	Repricing	\$1,319.00 mm	L+225	100.00
Lineage Logistics LLC	M&A	\$500.00 mm	L+300	100.00
Novaria Group Inc	LBO	\$220.00 mm	L+550	99.00
First Advantage	LBO	\$670.00 mm	L+350	99.50
Grocery Outlet Inc	Repricing	\$460.20 mm	L+275	100.00

Recent High-Yield Bond Deals

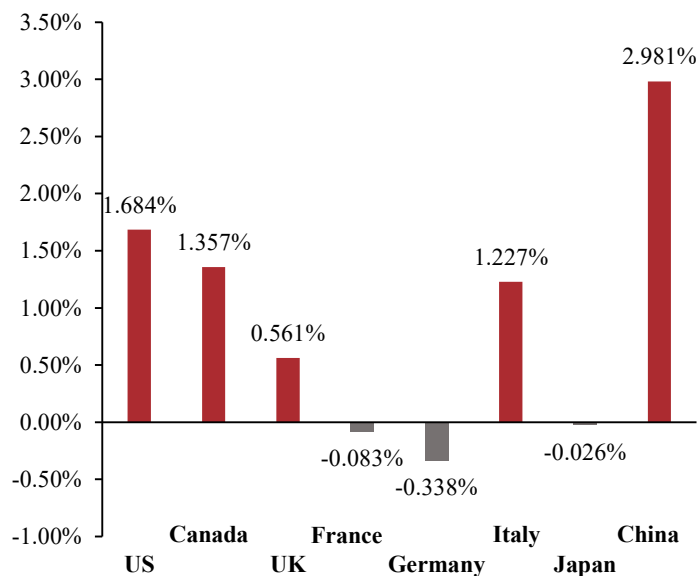
Company	Purpose	Tranche Size	Coupon	Issue Price
Radiology Partners	Refinancing	\$710.00 mm	9.25%	100.00
Station Casinos LLC	Refinancing	\$750.00 mm	4.500%	100.00
Adams Homes	Refinancing	\$225.00 mm	7.500%	100.00
Community Health Systems	Refinancing	\$1,462.00 mm	6.625%	100.00
Garda World Security Corp	Refinancing	\$450.00 mm	4.625%	100.00
Icahn Enterprises LP	Refinancing	\$300.00 mm	4.750%	102.00
Navient Corp	Refinancing	\$700.00 mm	5.000%	100.00
Albertsons	Refinancing	\$1,000.00 mm	4.875%	100.00

Source: LevFin Insights

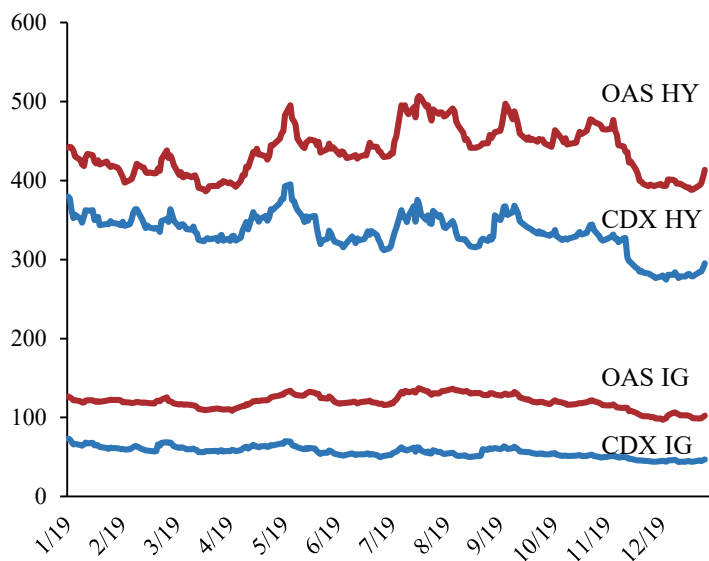
Treasury Yield Curve Spreads



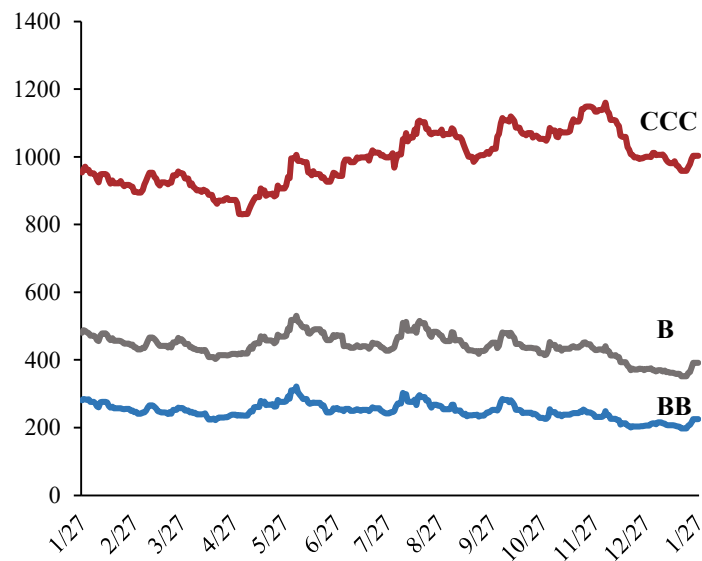
10-year Government Bond Yields



Corporate Credit OAS & CDS Spreads



ICE BofAML US High-Yield Index YTW

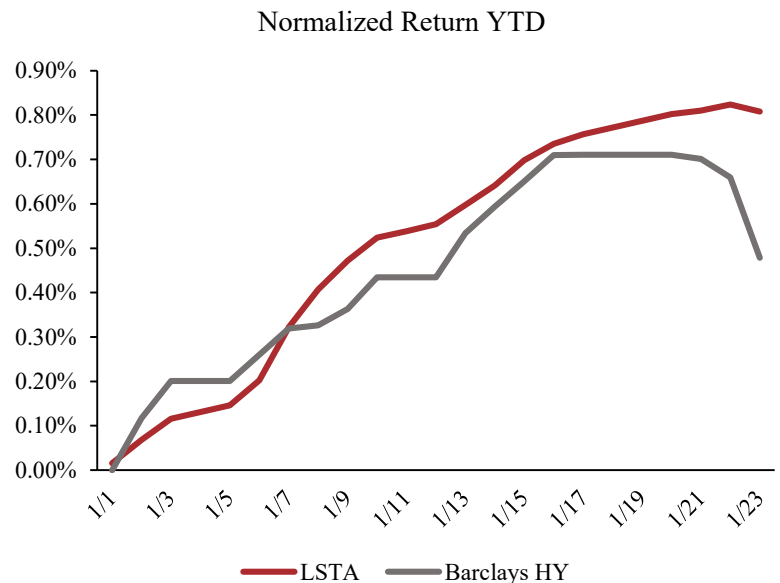


Source: Bloomberg & FactSet

Special Topics & Notable Developments

Leveraged Loans Beating HY Bonds

- Leveraged loans are outperforming junk bonds YTD, with leveraged loans returning 0.81% compared to 0.48%, due to the likelihood of a recession falling and the Fed's policy actions currently on hold
- This surge comes even with the repricings by private equity firms reaching their fastest pace in two years, especially due to over 60% of leveraged loans quoted above par
- With many analysts expecting a 4% return on HY bonds, Chris Remington of Eaton Vance believes "even if half the market were to reprice down 25 bps, that's only 12 to 13 bps in a 5% to 6% return asset class."



Weakening CLO Documentation

- In recent months, managers participating in the more than \$600bn CLO market have been more frequently using loopholes in deal documentation which allows them to swap one distressed loan for another without incurring a loss. The weakening documentation is a way for managers to circumvent certain compliance tests which are used to determine when managers must divert equity tranche payments to reduce the principal balance of senior tranches.
 - The most important test is the overcollateralization test which uses the par value of loans that are bought above 80 cents on the dollar, and the purchase price for loans bought for less than 80
 - When a loan market at par for the OC test traded into distressed territory collateral managers would normally be forced to sell the debt and take a hit to their OC ratio
- However, manager have recently placed "swapped non-discount obligation" stipulations in new documentation which allows the manager to swap out a loan that becomes distressed with a similarly distressed loan but hold it at par for OC purposes
- Other recent developments in deal document language includes ratings arbitrage, participations in restructurings, and including debt assets that don't count toward the CCC threshold such as debtor-in-possession financing and loans in technical default.
- Although it is beneficial for CLO managers to have a certain level of flexibility, many investors are considering these an "abuse of documentation"
- If the credit market takes a turn for the worse, the more senior tranches may take unexpected losses
- Surprisingly, managers are now trying to participate in restructurings, which CLO rules have prevented in the past, because it makes managers risk every tranche in order to have unequal rewards for the equity tranche and the manager's own fees.

Source: Bloomberg & WSJ

Upcoming Economic Calendar

Day	Time	Report	Period	Previous	Forecast
Monday 1/27	10:00 am	New Home Sales	December	719,000	730,000
Monday 1/27	10:30 am	Dallas Fed Manufacturing Index	January	-3.2%	-3.1%
Tuesday 1/28	8:30 am	Durable Goods Orders	December	-2.1%	0.5%
Tuesday 1/28	10:00 am	Consumer Confidence Index	January	126.5	128.0
Wednesday 1/29	8:30 am	Goods Trade Balance	December	-\$62.99 bn	-\$68.75 bn
Wednesday 1/29	10:00 am	Pending Home Sales	December	1.2%	0.5%
Wednesday 1/29	2:00 pm	Fed Interest Rate Decision	1/29	1.5%-1.75%	1.5%-1.75%
Thursday 1/30	8:30 am	Core PCE Prices	Q4	2.10%	1.70%
Thursday 1/30	8:30 am	GDP	Q4	2.1%	2.1%
Thursday 1/30	8:30 am	Initial Jobless Claims	1/25	211,000	215,000
Friday 1/31	8:30 am	Employment Wages	Q4	0.90%	-
Friday 1/31	8:30 am	Personal Income	December	0.50%	0.30%
Friday 1/31	8:30 am	Personal Spending	December	0.40%	0.30%

Previous Economic Calendar

Day	Time	Report	Period	Previous	Actual
Wednesday 1/22	8:30 am	Chicago Fed National Activity	December	0.41	-0.35
Wednesday 1/22	9:00 am	House Price Index	November	0.20%	0.20%
Wednesday 1/22	10:00 am	Existing Home Sales	December	5.35 mm	5.5 mm
Thursday 1/23	8:30 am	Initial Jobless Claims	1/18	205,000	211,000
Friday 1/24	9:45 am	Manufacturing PMI	January	52.4	51.7
Friday 1/24	9:45 am	Markit Composite PMI	January	52.7	53.1
Friday 1/24	9:45 am	Services PMI	January	52.8	53.2