



Leveraged Lion Capital

Fixed Income Research Report

02.24.20

LLC Portfolio Review

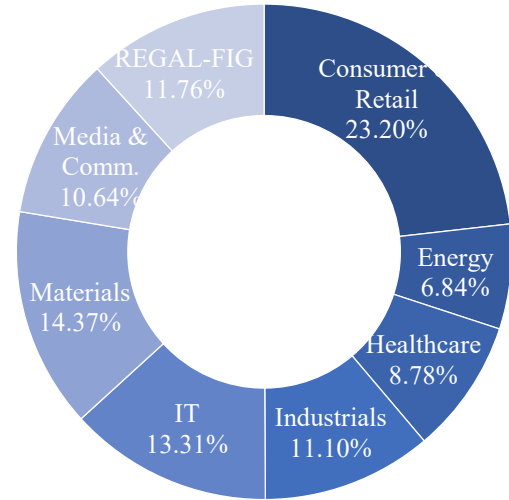
Portfolio Characteristics

Number of holdings	27
Average price	99.11
Average YTM	5.89%
Average total leverage	4.17x
Average interest coverage	5.46x

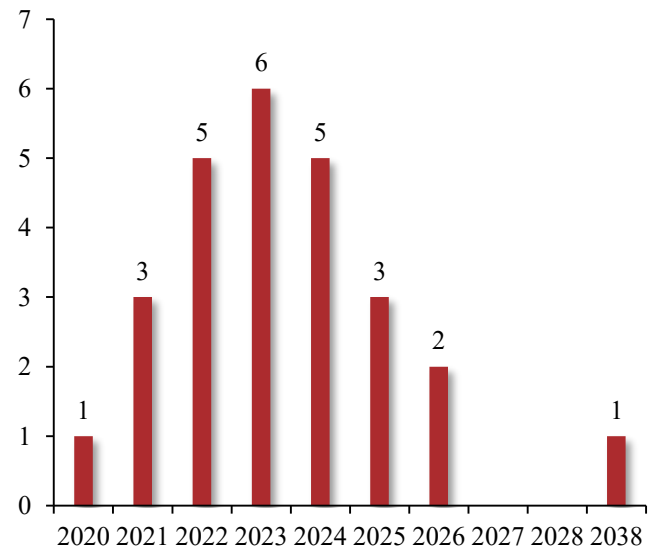
Credit Quality (# of holdings)

Bank Loans	71.42%
BBB-	14.29
BB+	9.52
BB	14.29
BB-	9.52
B+	23.81
B	19.05
High Yield Corporates	22.16%
BB-	60.00
B+	20.00
B	20.00
B-	0.00
CCC-	0.00
Cash & Cash Equivalents	6.41%

Sector Allocation (% of total assets)



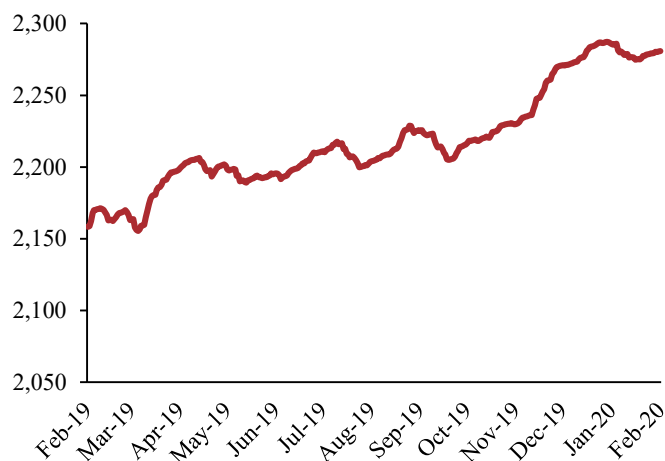
Maturity Distribution (# of holdings)



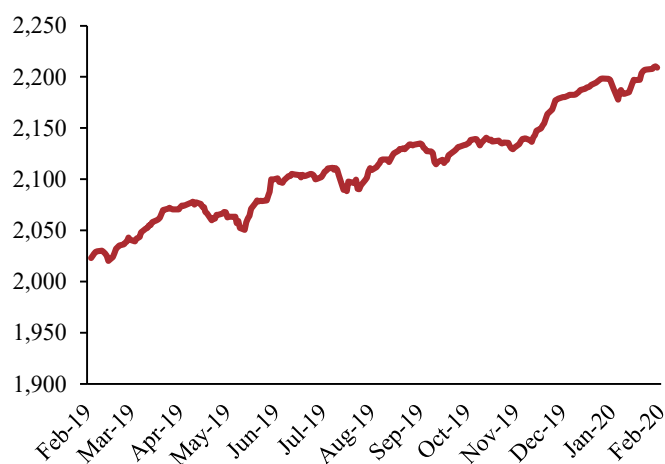
Loan & HY Bond Market Recap

- Loan fund outflows continued for the fifth consecutive, experiencing \$165 mm in withdrawn funds this week, while CLOs saw \$2.39 bn in inflows
- U.S. investment grade funds saw inflows again this week at \$5.14 bn, while high yield funds saw outflows of \$39.6 mm
- Leveraged loan launch volume and high yield sales both declined this week to \$10.2 bn and \$4.96 bn
- US corporate investment bond yields reached a record low of 2.56% on Tuesday, as investors bet that interest rates and inflation will remain muted for the foreseeable future

S&P/LSTA US Leveraged Loan 100 Index



Bloomberg Barclays US Corp HY Index



Top Leveraged Loan Movers

Leaders:

1. Vericast Corp's 1L TLB7 +3.13% to 83.00
2. Longview Power LLC's 1L TLB +2.88% to 53.38
3. Technicolor SA's 1L TLB +2.50% to 87.63
4. Advantage Sales & Marketing's 2L TL +2.25% to 94.75
5. Minotaur Acquisition Inc's 1L TL +2.00% to 99.38

Laggards:

1. Belk Inc's 1L TLB -2.50% to 69.88
2. Encino Acquisition Partners' 2L TL -2.00% to 68.00
3. Carestream Health Inc's 1L TL -1.88% to 96.00
4. Seadrill Operating LP's 1L TLB -1.86% to 43.50
5. ADB Safegate Luxembourg's 1L TL -1.38% to 93.00

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

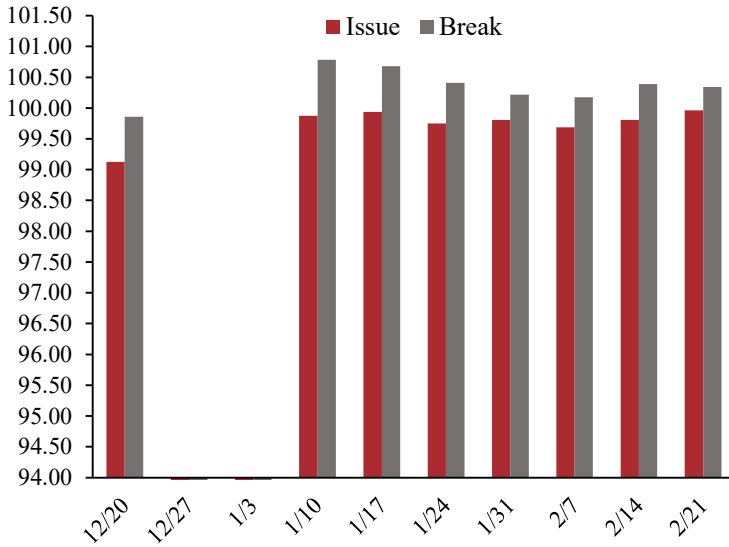
Bloomberg Barclays U.S. Corp HY

	S&P/LSTA U.S. Leveraged Loan 100	Bloomberg Barclays U.S. Corp HY
1-month	-0.23%	0.92%
YTD	0.31%	1.21%
Index value	2280.21	2209.12
52-week high	2287.33	2210.18
Wtd. avg. yield / YTW	5.60%	5.16%
OAS	-	3.59

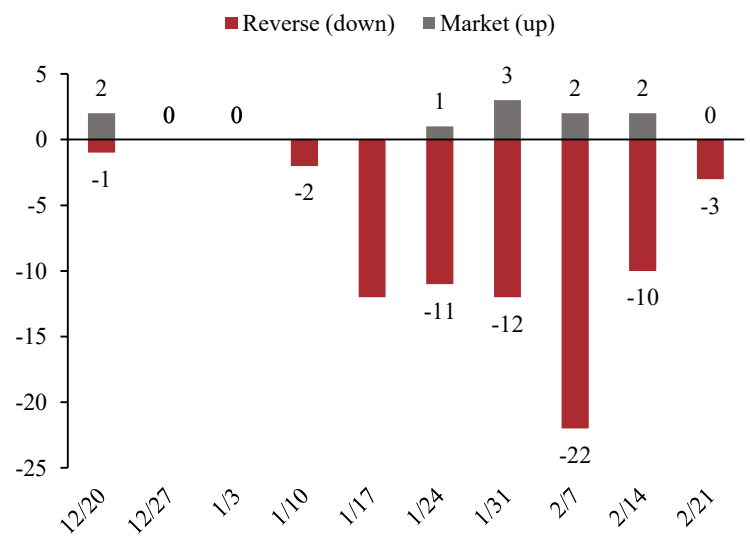
Source: Bloomberg

+1.38%

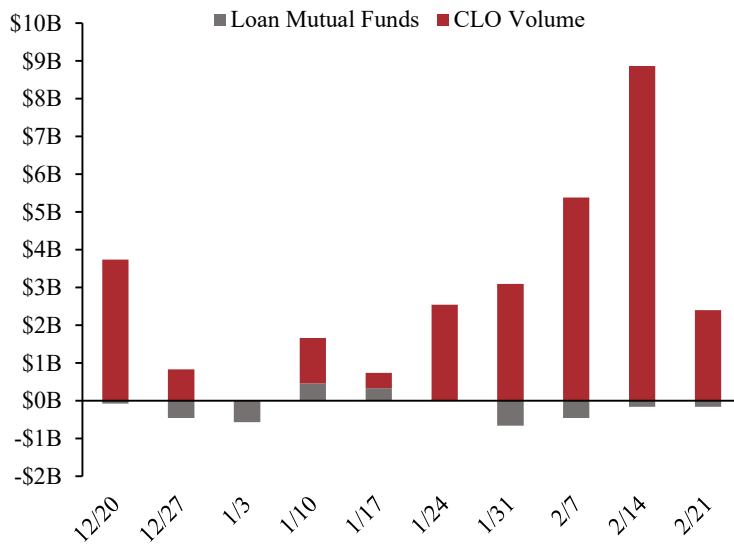
Prices (first-lien deals)



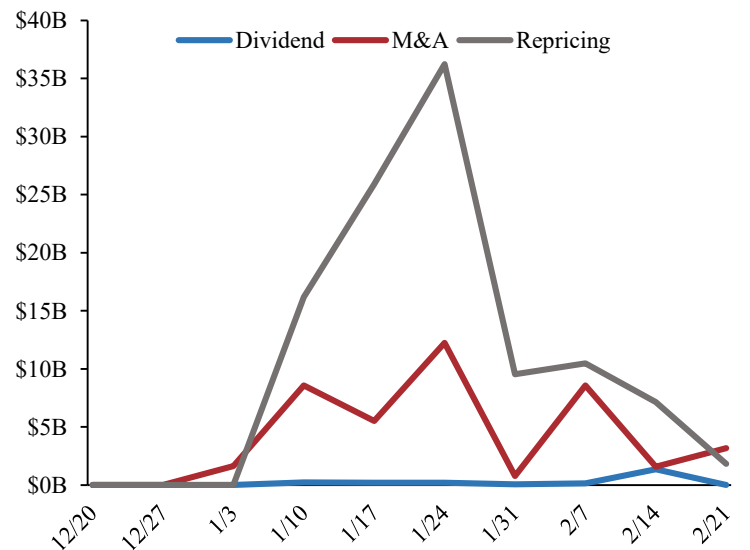
Flex Activity



Fund Flows

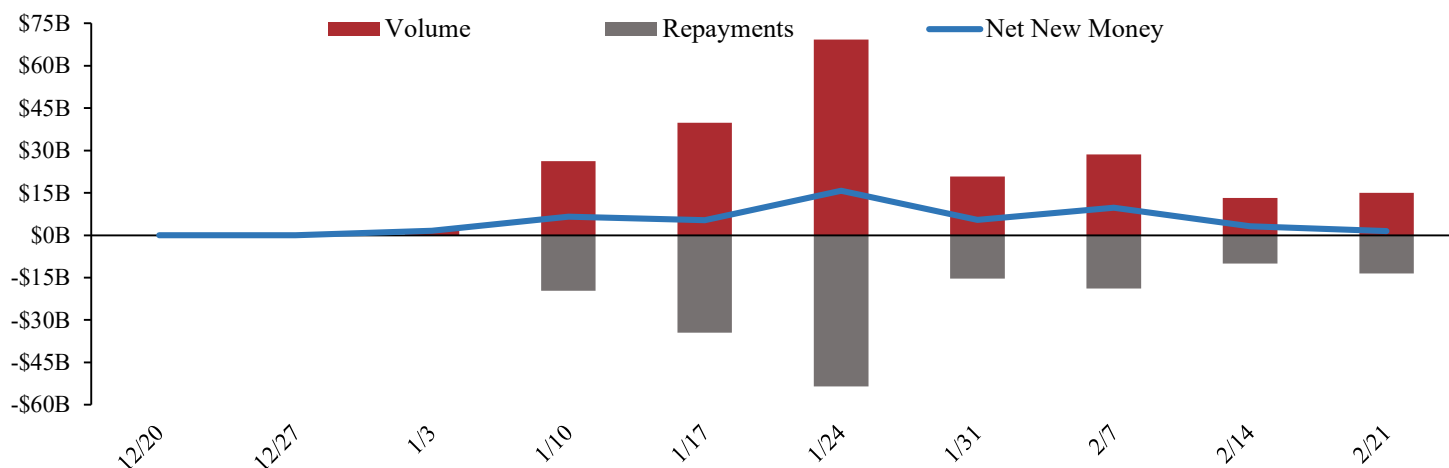


Launched Deal Volume by Purpose



Source: LevFin Insights

Net Launched Volume



Recent Leveraged Loan Deals

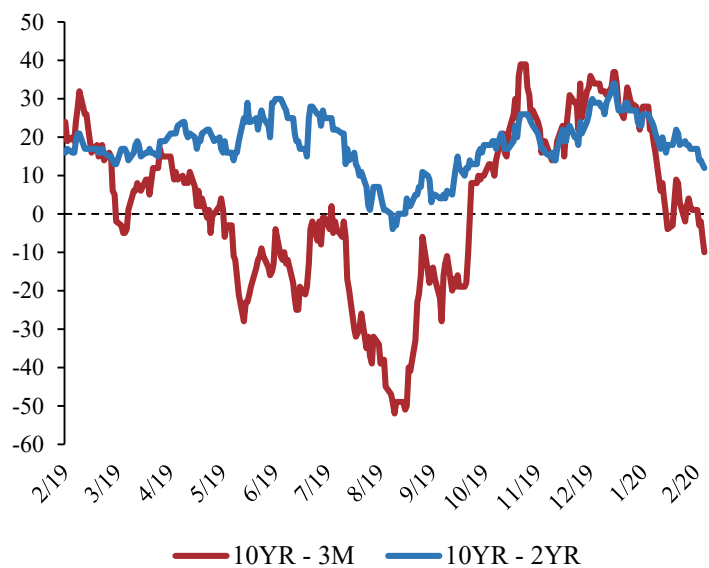
Company	Purpose	Tranche Size	Spread (bps)	OID
Zayo Group LLC	LBO	\$4,750.00 mm	L+300	99.75
Zayo Group LLC	LBO	\$810.00 mm	E+325	100.00
Aptean Inc	M&A	\$100.00 mm	L+425	100.00
Medforth	Repricing	\$788.00 mm	L+325	100.00
Sabre Industries	Repricing	\$411.00 mm	L+350	100.00
ThoughtWorks Inc	Repricing	\$450.00 mm	L+375	100.00
ACProducts Inc	M&A	\$1,100.00 mm	L+650	102.00
Ceridian HCM	Repricing	\$672.00 mm	L+250	100.00

Recent High-Yield Bond Deals

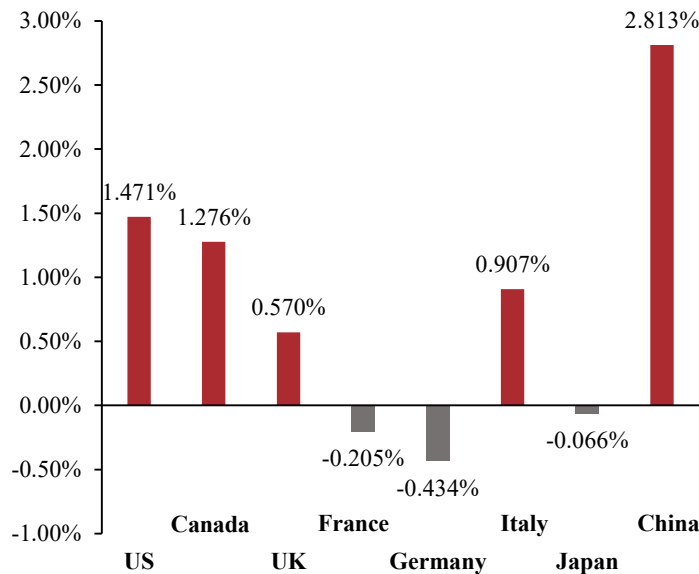
Company	Purpose	Tranche Size	Coupon	Issue Price
Freeport-McMoRan Inc	Refinancing	\$700.00 mm	4.125%	100.00
Freeport-McMoRan Inc	Refinancing	\$600.00 mm	4.250%	100.00
MSCI Inc	Refinancing	\$400.00 mm	3.625%	100.00
Forestar Group	Refinancing	\$300.00 mm	5.000%	100.00
Tallgrass Energy	Refinancing	\$430.00 mm	6.000%	98.59
APX Group	Refinancing	\$600.00 mm	6.750%	100.00
Buckeye Partners	Refinancing	\$500.00 mm	4.125%	100.00
Buckeye Partners	Refinancing	\$500.00 mm	4.500%	100.00

Source: LevFin Insights

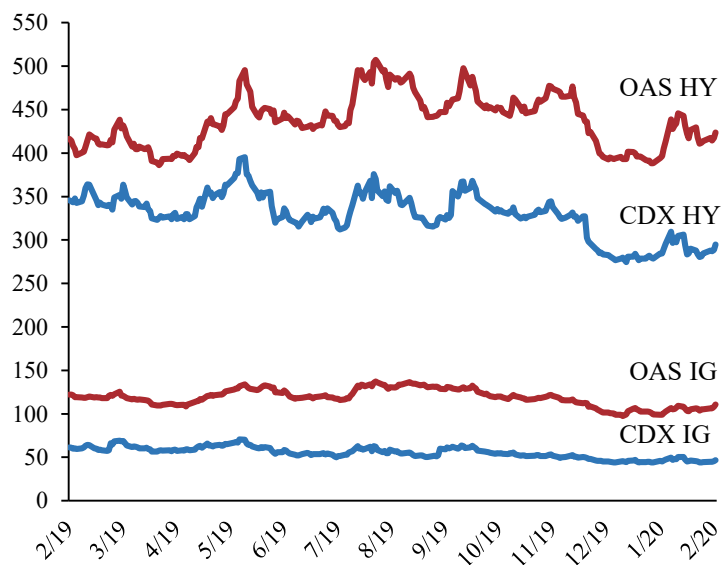
Treasury Yield Curve Spreads



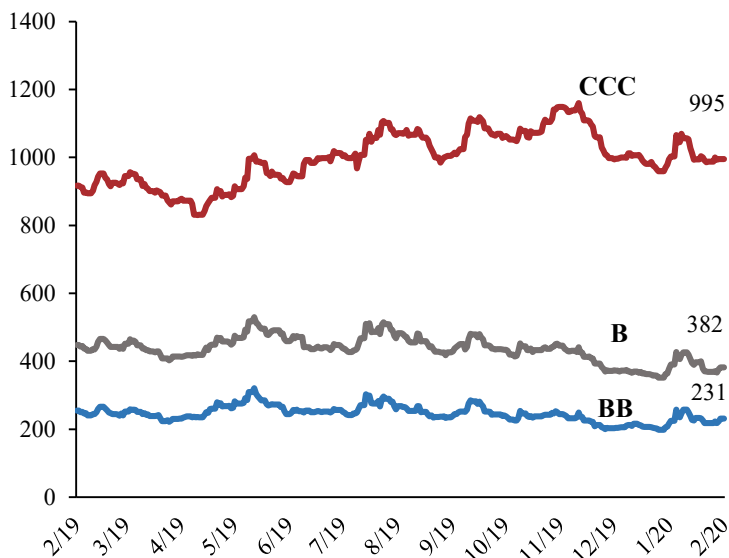
10-year Government Bond Yields



Corporate Credit OAS & CDS Spreads



ICE BofAML US High-Yield Index YTW



Source: Bloomberg & FactSet

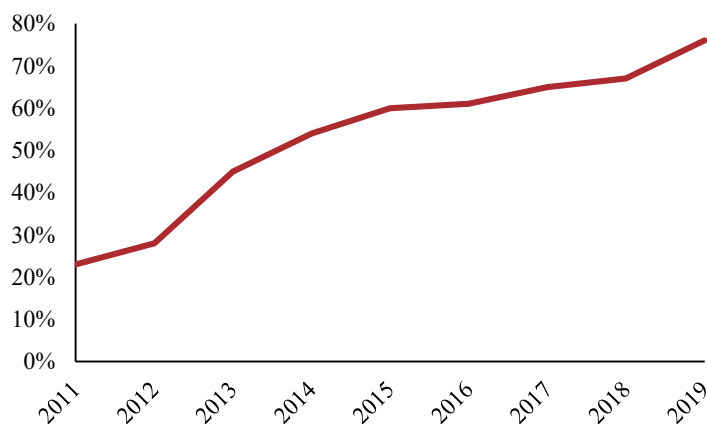
Special Topics & Notable Developments

Zayo's LBO Featuring Both Loans and Bonds

- Private equity firms Digital Colony Partners and EQT Partners have financed the LBO of Zayo Group Holdings Inc with a debt package totaling more than \$8 bn, consisting of both leveraged loans and bonds
- The Caa1 rated company issued around \$2.5 bn in bonds and \$5.5 bn in loans
 - The bond bundle is made up of \$2.1 bn of 8-year unsecured bonds and \$1 bn of secured 7-year bonds
- It is important to note however, that the bond deal removes typical call protection for the bonds
 - The usual 3-5 year call period has been trimmed, giving the company the ability to pay back the bonds at 102 cents on the dollar after one year, making it increasingly similar to leveraged loans

Weak Protection in Bonds Will Likely Result in Lower Recoveries

- High yield bond credit documentation has significantly weakened throughout the decade with a record percentage of junk bonds classified at the weakest level in terms of investor protection
- From 2011 to 2019 the percentage of bonds classified as CQ-5 (the weakest level) has risen from 23% to 76%
- The CQI remains near its lowest point ever, with the average CQ of the bond market clocking in at 4.48 in January, up from 4.02



Swings in Treasury General Account Contributing to Trouble in Repo Market

- The Federal Reserve has been purchasing \$60 bn a month in Treasury bills to keep money markets stable since last September when repo rates spiked to 10%
- The Treasury Department in large part, is responsible for the troubles in the repo market, due to the swings in the amount of money it has on deposit in its account at the Fed
- As the budget deficit soars to \$1 trillion, the Treasury must make sure it has adequate cash to pay its bills, resulting in large increases from taxes from corporations and decreases from government spending
- Come time to pay taxes, corporations pay out cash, while the Treasury balance increases
- The balance has wildly swung from a high of \$451 bn to a low of \$112 bn

Junk Rated Debt Seeing Record Low Spreads

- Debt including corporate bonds, sovereign debt, and municipal debt that are sub-investment grade have spreads that are near or at record lows
- Countries such as Greece and Ukraine, that narrowly avoided default in recent years see their 10 year treasury yields at near record lows, with Greece's 10 year yield falling from 44% in 2012 to 1%
- The average YTW for risky municipal bonds has also decreased to a record low of 3.59%

Source: Bloomberg & Moody's Investors Service

Upcoming Economic Calendar

Day	Time	Report	Period	Previous	Forecast
Monday 2/24	8:30 am	Chicago Fed National Activity	January	-0.35	-0.6
Monday 2/24	10:30 am	Dallas Fed Manufacturing Index	February	-0.2	8
Tuesday 2/25	10:00 am	CB Consumer Confidence	February	131.6	132.0
Tuesday 2/25	10:00 am	Richmond Fed Manufacturing	February	20	5
Wednesday 2/26	10:00 am	New Home Sales (MoM)	January	-0.4%	1.9%
Thursday 2/27	8:30 am	Durable Goods Orders (MoM)	January	2.4%	-2.0%
Thursday 2/27	8:30 am	QoQ GDP Growth Rate 2 nd Est.	Q4	2.1%	2.1%
Thursday 2/27	8:30 am	Initial Jobless Claims	2/22	210K	215K
Friday 2/28	8:30 am	Personal Income (MoM)	January	0.2%	0.3%
Friday 2/28	8:30 am	Personal Spending (MoM)	January	0.3%	0.2%
Friday 2/28	8:30 am	PCE Price Index (YoY)	January	1.6%	1.9%
Friday 2/28	8:30 am	Core PCE Price Index (YoY)	January	1.6%	1.8%
Friday 2/28	8:30 am	Goods Trade Balance Adv	January	\$-68.67 bn	\$-72.90 bn

Previous Economic Calendar

Day	Time	Report	Period	Previous	Actual
Tuesday 2/18	8:30 am	Empire State Manufacturing	February	4.8	12.9
Wednesday 2/19	8:30 am	Housing Starts (YoY)	January	16.9%	-3.6%
Wednesday 2/19	8:30 am	Building Permits (YoY)	January	-3.7%	9.2%
Wednesday 2/19	8:30 am	PPI	January	1.3%	2.1%
Wednesday 2/19	8:30 am	Core PPI	January	1.1%	1.7%
Wednesday 2/19	2:00 pm	FOMC Minutes	1/29	-	-
Thursday 2/20	8:30 am	Initial Jobless Claims	2/15	206K	210K
Thursday 2/20	8:30 am	Philadelphia Fed Manufacturing	February	17	36.7
Friday 2/21	9:45 am	Markit Manufacturing PMI	February	51.9	50.8
Friday 2/21	9:45 am	Markit Services PMI	February	53.4	49.4
Friday 2/21	9:45 am	Markit Composite PMI	February	53.3	49.6
Friday 2/21	10:00 am	Existing Home Sales	January	5.53 mm	5.46 mm