

# Leveraged Lion Capital Monthly Report

June 2019



## LLC Updates

Leveraged Lion Capital's rising juniors and seniors have enjoyed the first month of their summer analyst internships at several of Wall Street's most prestigious firms. As LLC prepares for a historic start to the Fall 2019 semester, students have become excited to share their experiences working in New York City with the entire organization.

During the month of June, LLC's rising sophomores and juniors have participated in career development and networking events at some of the world's most renowned investment firms. Leveraged Lion Capital is proud that its objective to train the next generation of Wall Street analysts through professionalism and experiential learning continues to be fulfilled by the Classes of 2021 and 2022. LLC analysts have become actively involved in the Summer 2020 recruitment process, with several members of the organization having already received coveted internship offers.

The organization will move forward with its plans to implement a three-credit course beginning in the Fall 2019 semester. Members of Leveraged Lion Capital are excited at the prospect of receiving dedicated classroom training during the school day to learn about leveraged loans and high-yield bonds and perform research using professional financial tools. Leveraged Lion Capital thanks its sponsors for their continued dedication to the organization and Smeal College of Business faculty for its commitment to supporting LLC students during this historic chapter for the organization.

## Summer '19 Rising Senior Placement

Name	Placement	Division	Location
Taylor Campbell	Morgan Stanley	Sales & Trading	New York, NY
Kyle Yousif	UBS	Investment Banking	New York, NY
Rohit Madhu	Deutsche Bank	Sales & Trading	New York, NY
Colleen Conway	JPMorgan	Sales & Trading	New York, NY
Annie Liu	Bank of America Merrill Lynch	Sales & Trading	New York, NY
Wes Alexander	PwC	Management Consulting	New York, NY
Daniel Annulli	Scaling Orchards Capital	Alternative Assets	New York, NY
Nicole Chen	UBS	Investment Banking	New York, NY
Ishaan Diwan	Bank of America Merrill Lynch	Sales & Trading	New York, NY
Jered Erlanger	UBS	Wealth Management	New York, NY
Timothy Kelley	Bank of America Merrill Lynch	Wealth Management	New York, NY
Sean Kohler	BDO	Investment Banking	New York, NY
Andrew Koziara	Fidus Partners	Investment Banking	New York, NY
Brock Lieberman	KeyBanc Capital Markets	Investment Banking	Portland, OR
Matthew Lim	TD Securities	Sales & Trading	New York, NY
Sanket Narayana	PNC	Investment Banking	Philadelphia, PA
Chris Peckyno	Morgan Stanley	Sales & Trading	New York, NY
Meredith Quinn	JMP	Investment Banking	New York, NY
Erfan Shakibaei	Tudor, Pickering, Holt & Co.	Investment Banking	Houston, TX
Hunter Whitesel	UBS	Investment Banking	New York, NY
Zachary Zeff	Cowen	Investment Banking	New York, NY

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– *Rohit Madhu*

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– *Billy Young*

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*Thank You to Our Sponsors*

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THE LOAN SYNDICATIONS AND TRADING ASSOCIATION

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### Leveraged Loan News

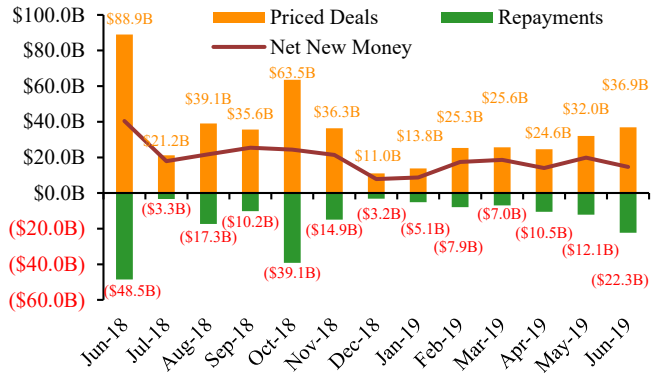
During the month of June, U.S. leveraged loans saw a modest gain of 0.24%. Despite the positive returns, loans significantly underperformed HY bonds in June, with the latter rising 2.42%, the highest monthly increase since January. Interestingly, 1H2019 ended with a flex ratio favoring investors. The spotlight continued to stay on the FOMC, with rates markets suggesting that one or more rate cuts may still be possible for the year. According to June's *LevFin Insights* Monthly Report, the adjusted debt multiple of M&A deals for the quarter remained steady. Media and Consumer Products are still the most popular industries for deals, while the supply of LBO loans fell by more than 50% from 1Q2019 to 2Q2019.

The leveraged loan universe continued to expand, albeit at a slower growth rate, increasing \$4.5 bn to more than \$1.2 tr. While gross new issuance rose, net priced volume fell to a five-month low of \$14.6 bn. CLO issuance increased a mere \$0.8 bn for the month. Meanwhile, mutual fund outflows achieved a yearly peak of \$3.2 bn. Astonishingly, mutual funds witnessed \$8.6 bn of inflows during 1H2018 versus \$17.6 bn of outflows for the first six months of 2019, according to *LevFin Insights*. Only 73.5% of cleared deals contained six months of 101 soft call protection, a considerable decline from May. During the month, single-B spreads widened to L+440 from L+420, or a gain of 38bps when excluding add-on term loans. The average four-B all-in spreads, similarly, widened by 38bps to L+296. In June, the average OID widened by 19bps to 98.96.

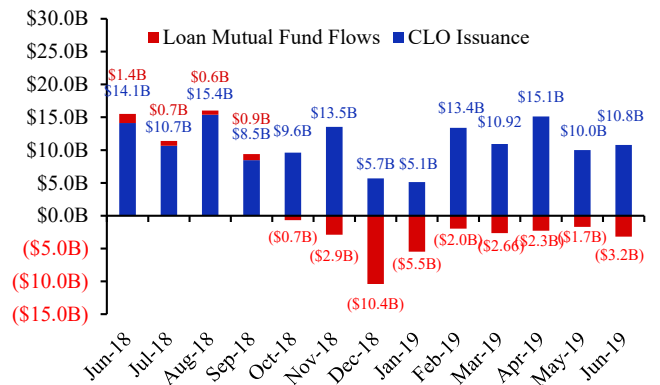
### CIO Commentary

For the month ending June 2019, Leveraged Lion Capital returned 0.69% nominally, a relative outperformance to the LSTA 100 Index of 0.54%. The Media & Communications Sector was the best performer in June. Every Sector, however, posted positive returns. The Materials Sector was the only Sector to underperform the LSTA 100 slightly. LLC's relative outperformance to the LSTA 100 Index in June can be attributed to the portfolio's exposure to companies with marginally higher revenue growth prospects than those in the benchmark, as investors' propensity for risk may have rebounded slightly.

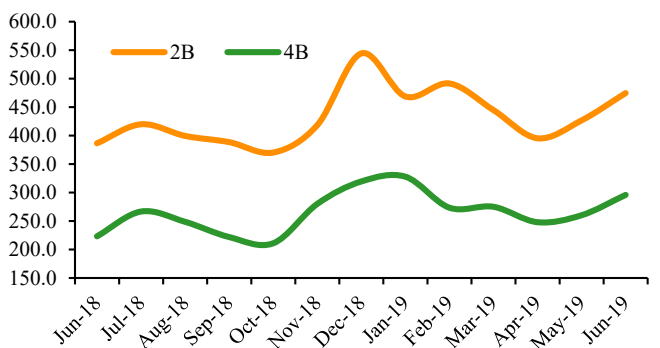
### Net New Money



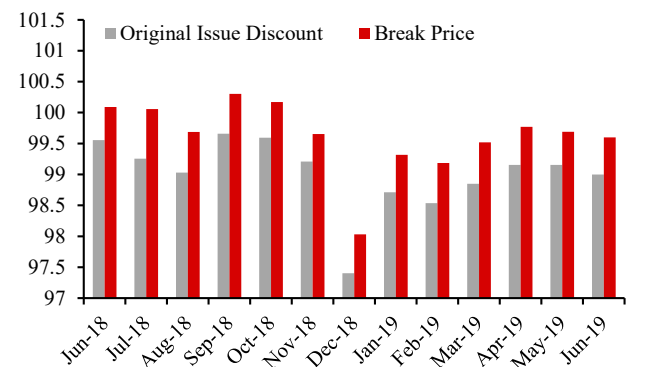
### CLO/Mutual Fund Flows



### Regular Way Deal Pricing



### Break vs. Issue Price



### New-Issue Market Trends

As mentioned previously, June was the first month of the year during which flex activity was in support of investors, with 14 deals flexing higher versus 12 that flexed lower. As such, investors had the ability to control revisions to credit documentation for several new deals. The demand for B3 loans, in particular, gained traction as volume increased to 41% of monthly launched volume from just 36% in May. From May to June, three-month LIBOR plunged from 2.52% to 2.31% as a future rate hike became more probable. In response, four loans witnessed an increase in LIBOR floors. During June, gross new issuance rose to an eight-month high of \$36.9 bn versus \$32.0 bn during the month prior, according to *LevFin Insights*. Overall, June saw an increase in the demand for well-established loans over those by first-time issuers.

### Credit/Documentation Trends

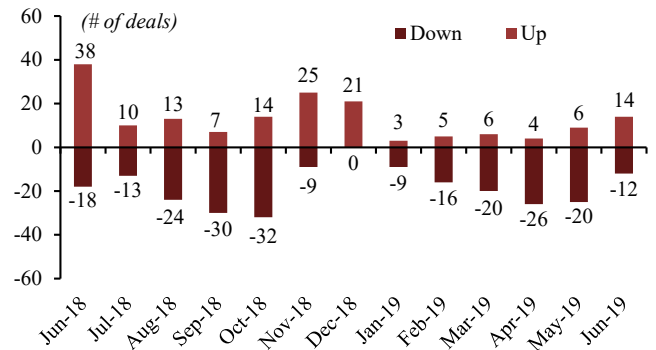
During June, 7 loans cleared with an MFN sunset, unchanged from May's total, according to *LevFin Insights*. More than 40% of loan deals were cleared with asset-sale step-downs during 2Q2019, up significantly from last quarter's 31%. Similarly, the number of cleared deals permitting uncapped EBITDA adjustments rose to 38% for the quarter from just 33% in 1Q2019, while pro forma EBITDA adjustments decreased from 24.3% to 22.7% over the same time period. While the majority of new deals remains cov-lite, the amount of loans clearing the market without financial covenants decreased from 81% in May to 74% in June, according to *LevFin Insights*. Investors may be seeking greater protection in the near-term as expectations for a rate hike grow and U.S.-China trade uncertainty looms.

### Default Statistics

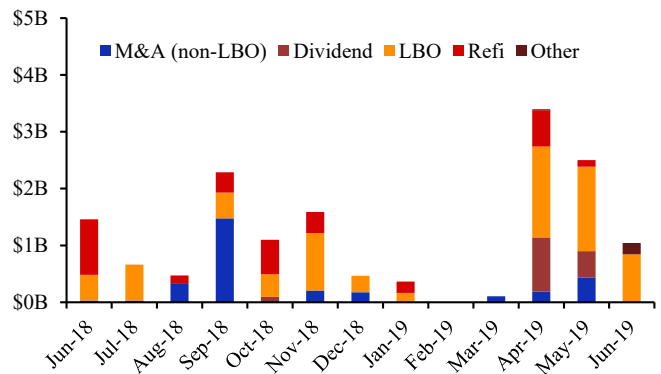
TTM defaults increased slightly to a rate of 1.35% during June, compared to approximately 1.3% in May. The month's three defaults—Joerns Healthcare, Monitronics, and Neiman Marcus—involved nearly \$4.1 bn, constituting a significant portion of the \$11.4 bn in defaults so far for the year. Nonetheless, with nine new instruments downgraded to "concern" status by Fitch during the month, the TTM default rate is forecasted to rise to 2%, considerably higher than 2019's 1.5%.

*Data and statistics for both pages of the June CIO Commentary were directly retrieved from the LevFin Insights Monthly Report for June.*

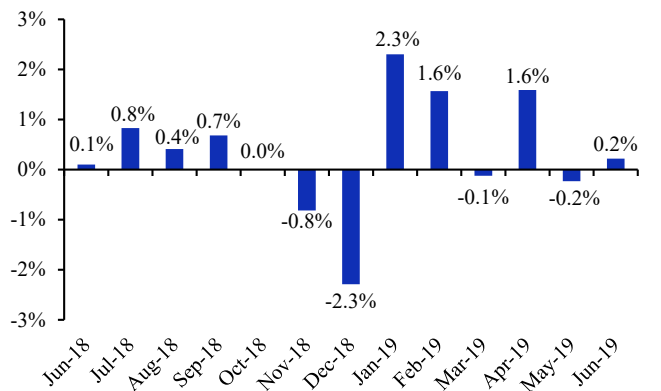
### Flex Activity



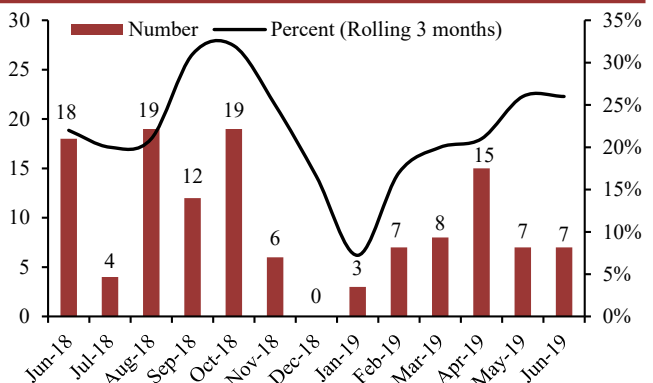
### New-Issue Middle-Market Loan Volume



### Monthly Returns



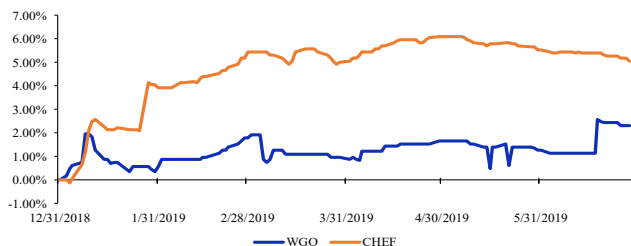
### Deals That Cleared with MFN Sunsets



## Sector Summaries

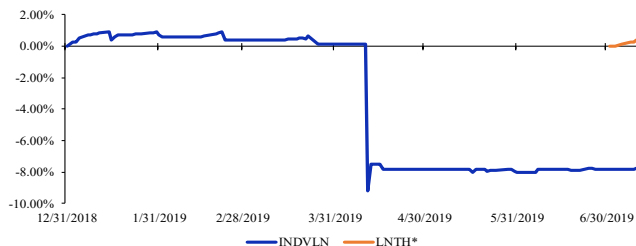
### Consumer & Retail

Consumer & Retail returned 0.50% nominally this month, a relative underperformance of 0.04%. The Sector's best performing holding this month was Winnebago Industries TL B, returning 0.97% nominally. The Company reported higher earnings despite weaker sales growth. The Sector's worst performing holding this month was Chefs' Warehouse TL, returning 0.20% nominally. The Company underperformed after it filed for a Shelf Registration of approximately \$88.00 million in late May. The Consumer & Retail Sector will be monitoring the Consumer Confidence Index to determine sentiment surrounding the broader economy following the recent jobs report.



### Healthcare

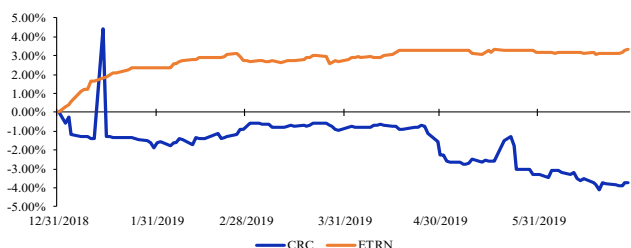
Healthcare returned 0.70% nominally this month, a relative outperformance of 0.54%. The Sector's best performing holding this month was Indivior TL B, trading up 1.38% nominally. The market reacted positively to the announcement of the validation of Marketing Authorization Application (MAA) by the European Medicines Agency for SUBOXONE. The Sector's worst performing holding this month was Lantheus TL B, returning 0.31% nominally. Lantheus traded up after it announced that the presentation of new patient outcomes data for Definity will be presented at the American Society of Echocardiography's 2019 Annual Scientific Sessions. The Healthcare Sector will be monitoring healthcare policy reform during the upcoming presidential debates.



\*Return data for LNTH TL A

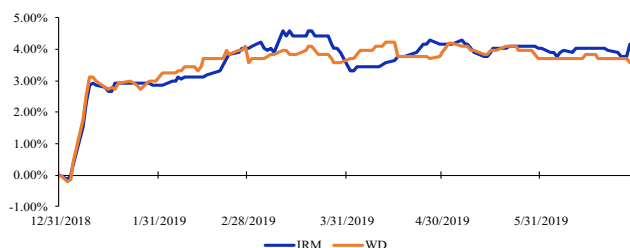
### Energy

Energy returned 0.91% nominally this month, a relative outperformance of 0.72%. The Sector's best performing holding this month was California Resources TL B, trading up 1.03% nominally. The E&P company's debt traded up as crude oil had its best month since January. The Sector's worst performing holding this month was Equitrans TL B, returning 0.80% nominally. Equitrans traded up with the broader market despite an announcement that the Mountain Valley pipeline project would not be completed until mid-2020, although it was originally expected to be placed in service during 4Q2019. The Energy Sector will continue to monitor the performance of WTI crude.



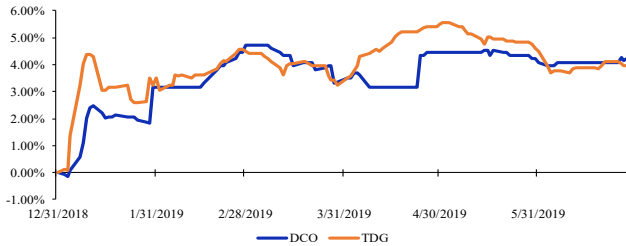
### REGAL-FIG

REGAL-FIG returned 0.86% nominally this month, a relative outperformance of 0.75%. The Sector's best performing holding this month was Iron Mountain Inc. TL A, trading up 1.87% nominally. On June 12, Iron Mountain announced early adoption of first-of-its-kind renewable power data, which helped to drive positive performance. The Sector's worst performing holding this month was Walker & Dunlop TL B, trading up 0.11% nominally. Although still returning positively, Walker & Dunlop lagged due to broader market concerns about the cyclicity of the real estate industry. The REGAL-FIG Sector will be monitoring Federal Reserve decisions regarding a potential interest rate cut.



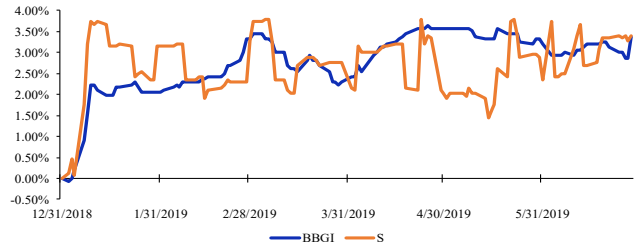
### Industrials

Industrials returned 0.30% nominally this month, a relative outperformance of 0.14%. The sector's best performing holding this month was Ducommun Incorporated TL B, trading up 0.62% nominally. The Company is expected to experience impressive 8.9% YoY revenue growth. The Sector's worst performing holding this month was Transdigm TL F, trading up 0.13% nominally. Company sentiment turned sour after the federal government started an investigation related to overpricing. The Industrials Sector will be closely monitoring a potential trade deal agreement with China.



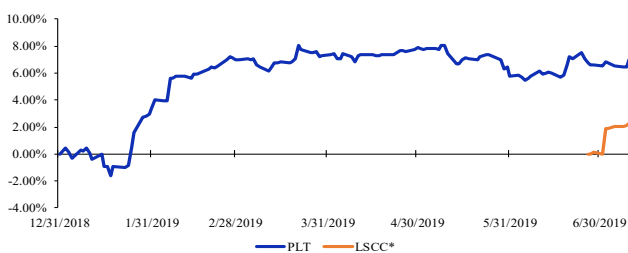
### Media & Communications

Media & Communications returned 1.20% nominally this month, a relative outperformance of 1.11%. The sector's best performing holding this month was Beasley Broadcast TL, trading up 1.68% nominally. In June, Beasley Broadcast agreed to acquire WMDK-FM to increase its revenues and market share in Detroit, Michigan. The Sector's worst performing holding this month was Sprint TL B, returning 0.51% nominally. Sprint's proposed merger with T-Mobile was approved by the FCC, but met additional scrutiny last month from the Department of Justice. T-Mobile and Sprint have offered to sell certain assets to Dish Network in an effort to convince the DOJ that the market will remain competitive.



### Information Technology

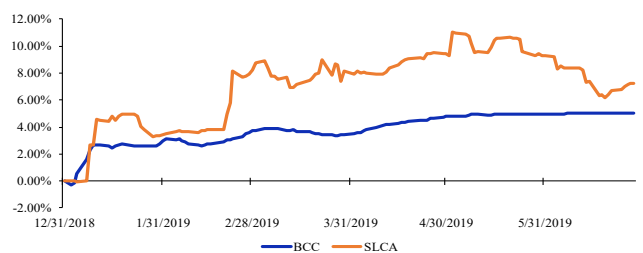
Information Technology returned 0.74% nominally this month, a relative underperformance of (0.33%). The Sector's best performing holding this month was Plantronics Bond, trading up 1.22% nominally. The bond traded up following the launch of a new collaboration-based device called "The G7500." The Sector's worst performing holding this month was Lattice Semiconductor TL B, trading up 0.47% nominally. Despite the Company continuing to improve margins, the ongoing trade dispute has dampened investor sentiment in the semiconductor industry. The IT Sector will be following consumer confidence in July, as it remains elevated despite trade concerns.



\*Return data for LSCC TL

### Materials

Materials returned 0.12% nominally this month, a relative underperformance of (0.12%). The Sector's best performing holding this month was Boise Cascade TL, trading up 0.47% nominally. The Company announced that it will make an additional investment in its Chester County location. The Sector's worst performing holding this month was U.S. Silica TL B, trading down 0.42% nominally. The Company underperformed following a reported rise in domestic crude oil inventories. The Materials Sector will be closely monitoring the price of crude oil futures and staying aware of potential revisions leading to upcoming earnings reports.



# Portfolio Analysis

## CURRENT HOLDINGS

Company Name	Sector	Maturity	LIBOR Spread	Yield at Int. Pmt.	Buy-In Amount	Opening Price	Closing Price	Facility Rating	June Return (%)
YUM Brands, Inc	Consumer	4/03/2025	L + 175	4.11%	\$5,084.40	\$99.71	\$99.88	Ba1/BBB-	0.48%
Winnebago	Consumer	11/08/2023	L + 350	5.91%	\$6,101.40	\$99.25	\$99.75	B2/BB	0.97%
Chefs' Warehouse	Consumer	6/22/2022	L + 400	5.88%	\$4,271.00	\$100.19	\$99.88	B2/B+	0.20%
The Container Store	Consumer	9/14/2023	L + 500	7.44%	\$9,965.20	\$99.50	\$99.63	B2/B	0.71%
California Resources	Energy	12/31/2022	L + 475	8.43%	\$3,842.23	\$95.50	\$95.94	B2/B	1.03%
Equitrans	Energy	1/31/2024	L + 450	6.59%	\$3,842.23	\$100.69	\$100.94	Ba3/BB+	0.80%
Cryolife	Healthcare	12/01/2024	L + 325	5.50%	\$4,044.00	\$99.92	\$100.38	B2/B	0.90%
Indivior	Healthcare	12/18/2022	L + 450	10.24%	\$4,350.50	\$89.50	\$90.25	B3/B+	1.38%
Lantheus	Healthcare	6/30/2022	L + 375	6.09%	\$2,977.19	\$100.19	\$100.00	B2/BB	0.31%
Travelport	Industrials	3/16/2025	L + 250	4.55%	\$4,944.50	\$99.81	\$99.83	B1/B+	0.40%
Transdigm	Industrials	6/09/2023	L + 250	5.32%	\$12,361.00	\$98.56	\$98.31	Ba3/B+	0.13%
CVGI	Industrials	4/12/2023	L + 600	8.66%	\$2,473.00	\$99.38	\$99.00	B2/B	0.29%
Ducommun Incorporated	Industrials	11/21/2025	L + 400	6.26%	\$5,037.38	\$100.25	\$100.38	B2/B+	0.62%
Lattice Semiconductor	IT	3/10/2021	L + 500	6.26%	\$6,171.14	\$100.63	\$100.50	B2/B	0.47%
MTS Systems Corp	IT	7/05/2023	L + 325	5.65%	\$5,082.00	\$99.50	\$99.75	B1/BB-	0.70%
Plantronics	IT	5/31/2023	5.50%	5.43%	\$4,000.00	\$99.49	\$100.26	B1/BB-	1.22%
U.S. Silica	Materials	5/01/2025	L + 400	7.61%	\$2,689.56	\$95.00	\$94.13	B1/B+	-0.42%
Global Brass & Copper Inc	Materials	5/29/2025	L + 250	4.86%	\$3,073.78	\$99.88	\$99.88	B1/BB	0.38%
Boise Cascade	Materials	3/30/2026	L + 213	4.45%	\$1,921.11	\$99.88	\$100.00	Ba1/BB-	0.47%
Sprint	Media & Comm.	2/02/2024	L + 250	5.13%	\$5,289.75	\$98.69	\$98.81	Ba2/BB-	0.51%
CenturyLink	Media & Comm.	1/31/2025	L + 275	5.52%	\$7,053.00	\$97.19	\$97.94	Ba3/BBB-	1.17%
Beasley Broadcast	Media & Comm.	11/01/2023	L + 400	2.32%	\$8,122.71	\$99.58	\$100.75	B1/BB-	1.68%
Hyperion Insurance Group	REGAL-FIG	12/20/2024	L + 350	5.86%	\$1,987.02	\$99.88	\$99.88	B2/B	0.46%
Walker & Dunlop	REGAL-FIG	11/07/2025	L + 225	4.72%	\$1,453.94	\$99.50	\$99.25	Ba2/BBB-	0.11%
Lindblad Expeditions	REGAL-FIG	3/27/2025	L + 350	5.75%	\$3,000.00	\$100.00	\$100.38	B1/BB	0.83%
MGM Growth Properties	REGAL-FIG	6/14/2023	L + 275	4.72%	\$2,898.00	\$99.38	\$99.50	Ba3/BB+	0.53%
Iron Mountain Inc.	REGAL-FIG	1/02/2026	L + 175	4.62%	\$2,841.60	\$96.75	\$98.25	Ba3/BB	1.87%

## SECTOR ANALYSIS

Sector Analysis	Loans	LSTA 100*	Relative	Bonds	LLC HY*	Relative
Consumer & Retail	0.64%	0.14%	0.50%	-	2.54%	-
Energy	0.91%	0.19%	0.72%	-	3.54%	-
Healthcare	0.84%	0.14%	0.70%	-	2.54%	-
Industrials	0.30%	0.17%	0.14%	-	3.02%	-
IT	0.58%	0.19%	0.38%	1.22%	3.53%	-2.32%
Materials	0.12%	0.25%	-0.12%	-	4.48%	-
Media & Communications	1.20%	0.09%	1.11%	-	1.66%	-
REGAL-FIG	0.86%	0.10%	0.75%	-	1.85%	-
<b>Total</b>	<b>0.69%</b>	<b>0.15%</b>	<b>0.54%</b>	<b>1.22%</b>	<b>2.69%</b>	<b>-1.47%</b>

\*Estimates for LSTA 100 and LLC HY individual sector performance. For the most accurate measure of Leveraged Lion Capital's relative performance, please refer to Total figures.

## PORTFOLIO OVERVIEW

### LLC Portfolio (beginning 1/1/2018)

Beginning Portfolio Value	\$124,854.79
Current Portfolio Value	<b>\$131,720.54</b>
Cash Balance	\$1,238.75

### LLC Portfolio (YTD)

Beginning Portfolio Value	\$125,366.54
Current Portfolio Value	<b>\$131,720.54</b>
Cash Balance	\$1,238.75

## PERFORMANCE

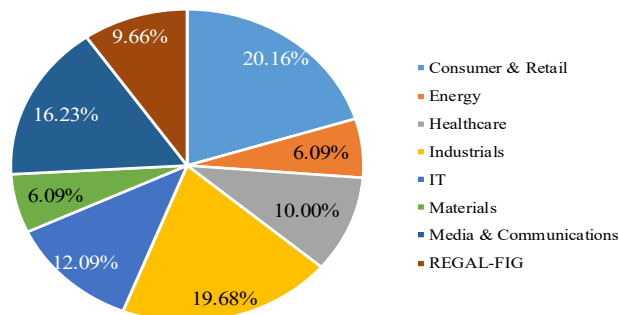
### June 2019 Performance

Leveraged Lion Capital	0.69%
LSTA 100 Index	0.15%
LLC vs. LSTA 100	0.54%
LLC HY	2.69%
LLC vs. LLC HY	-1.47%

### YTD Performance

Leveraged Lion Capital	5.07%
LSTA 100 Index	6.79%
LLC vs. LSTA 100	-1.73%
LLC HY	11.01%
LLC vs. LLC HY	-5.94%

## PORTFOLIO BREAKDOWN



## JUNE OVERALL BEST PERFORMER



## JUNE OVERALL WORST PERFORMER



# Organizational Overview

Leveraged Lion Capital is the nation's first student-run syndicated paper loan portfolio. Founded in Spring 2017 at The Pennsylvania State University, the organization aims to educate undergraduate students about the world of fixed income through the utilization of various resources and unique relationships with organizations and institutions, including Bank of America Merrill Lynch, the LSTA, and S&P Global Market Intelligence. Managing a \$126 million paper portfolio, students seek to learn the fundamentals of credit analysis via a hands-on approach by researching, analyzing, and pitching U.S. leveraged loans and high-yield bonds to the rest of the organization. The club is broken out into eight sectors that are derived from the S&P/LSTA 100 Index, consisting of Media & Communications, Information Technology, Industrials, Materials, Consumer & Retail, Energy, Healthcare, and REGAL-FIG (Real Estate, Gaming & Leisure, Financial Institutions Group).

Name	Email	Position	Career Interest
<b>Executive Board</b>			
Taylor Campbell	taylorjcam@gmail.com	President	Sales & Trading
Kyle Yousif	kyle18yousif@gmail.com	Vice President	Investment Banking
Rohit Madhu	rohit.m.madhu@gmail.com	Chief Investment Officer	Sales & Trading
Colleen Conway	conwayc34@gmail.com	Secretary	Sales & Trading
Annie Liu	16liua@gmail.com	Treasurer	Sales & Trading
<b>Directors</b>			
Billy Young	wjyoung17@gmail.com	Director of Portfolio Analytics & Monthly Reports	Sales & Trading
Taylor Twamley	taylorstwamley@gmail.com	Director of Credit Research	Asset Management
Janeen Porter	porterjaneen15@gmail.com	Director of Equity Research	Sales & Trading
Tommy Lu	tommylu1025@gmail.com	Director of Education	Investment Banking
Amanda Lew	amandaleww@gmail.com	Director of Relations	Investment Banking
<b>Media &amp; Communications</b>			
Andrew Mader	amader39@gmail.com	Lead Analyst	Investment Banking
Michael Anderson	mike.anderson6767@gmail.com	Associate Analyst	Investment Banking
Swati Vipperla	vswati24@gmail.com	Associate Analyst	Investment Banking
Julia Michael	juliamichael62@gmail.com	Associate Analyst	Investment Banking
<b>Information Technology</b>			
Ethan Laster	ethanglaster@gmail.com	Lead Analyst	Investment Banking
Sara Groth	sgroth19@gmail.com	Associate Analyst	Investment Banking
Jia Chen	jiarchen98@gmail.com	Associate Analyst	Investment Banking
Emalee Landis	emaleelandis@gmail.com	Associate Analyst	Sales & Trading
<b>Energy</b>			
John Colendenski	jtcolendenski@gmail.com	Lead Analyst	Sales & Trading
Nevin Mathew	nevinsmathew@gmail.com	Associate Analyst	Sales & Trading
Besijana Shala	shalabesijana@gmail.com	Associate Analyst	Sales & Trading
Nick Vanden	nicholas.vanden11@gmail.com	Associate Analyst	Sales & Trading
<b>Materials</b>			
Nick Finnicum	nick.finnicum@gmail.com	Lead Analyst	Investment Banking
Julia Serafini	julserafini21@gmail.com	Associate Analyst	Sales & Trading
Holden Hunter	hthunter94@gmail.com	Associate Analyst	Sales & Trading
<b>Real Estate, Gaming &amp; Leisure, Financial Institutions Group</b>			
Jack Williamson	jackwilliamson40@gmail.com	Lead Analyst, Director of Weekly Reports	Investment Banking
Anthony Saggese	apsu733@gmail.com	Associate Analyst	Sales & Trading
Jack McCormick	jackmccormick6@gmail.com	Associate Analyst	Investment Banking
Matt Lindquist	mattlindquist2@gmail.com	Associate Analyst	Investment Banking
<b>Healthcare</b>			
Colton Brooks	cjb6390@gmail.com	Lead Analyst	Investment Banking
Christina Flowers	christinamflowers17@gmail.com	Associate Analyst	Sales & Trading
Katrina Whitaker-Lee	kwhittakerlee@gmail.com	Associate Analyst	Investment Banking
Om Salunkhe	omsalunkhe8@gmail.com	Associate Analyst	Investment Banking
<b>Consumer &amp; Retail</b>			
Kevin Kalnas	kkalnas25@gmail.com	Lead Analyst	Investment Banking
Miguel Rios	migueldiosmoran@gmail.com	Associate Analyst	Sales & Trading
Elena Calibeo	ecalibeo@gmail.com	Associate Analyst	Sales & Trading
David Curtin	davidcurtin1@gmail.com	Associate Analyst	Investment Banking
<b>Industrials</b>			
Brandon Huey	brandonhuey@gmail.com	Lead Analyst	Investment Banking
Tommy Viafora	tviafora@gmail.com	Associate Analyst	Sales & Trading
Matt Maiale	mattmaiale18@gmail.com	Associate Analyst	Investment Banking
Zack Himmel	zackhimmel11@gmail.com	Associate Analyst	Sales & Trading