

# Leveraged Lion Capital Monthly Report

July 2019



## LLC Updates

As the first day of the Fall 2019 semester quickly approaches, members of Leveraged Lion Capital have begun preparing for an exciting new development in the organization's curriculum. Students will soon begin to enroll in LLC's three-credit course, scheduled to meet during Monday, Wednesday, and Friday mornings in the Fall. Before the opening bell, LLC analysts will have the special opportunity to follow market news and events in real time using one of the University's Bloomberg machines, while engaging in classroom conversations with fellow students about the fixed income markets. LLC is excited that members will now have dedicated classroom time to pitch leveraged loans and high-yield bonds to the rest of the organization, brief classmates on overnight market developments, and contribute to an engaging, inclusive community for students interested in financial careers.

Current LLC members have continued to participate in Summer 2020 recruitment events and interviews during the month of July. With the summer coming to an end, LLC looks forward to announcing internship placement for the Classes of 2021 and 2022 in the coming months. At this moment, several rising juniors have already received internship offers for Summer 2020 and the organization hopes that every LLC analyst will be able to seek opportunities at some of the country's most respected firms.

## 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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### Leveraged Loan News

After performing exceptionally in the first half of the year, financial markets paused for breath in July, with most asset classes delivering muted returns. In July, the S&P/LSTA Leveraged Loan index rose by 1.04%. On the last day of the month, Fed announced its plan to cut the federal funds rate by 25 bps. Immediately following the announcement, stocks and loans fell. Although the rate cut in July was broadly expected by the market, investors expecting greater commitment to policy easing were disappointed with Fed chair Jerome Powell's statement that the cut is not the beginning of a long series of cuts. Additionally, trade tensions between the U.S. and China, which have intensified throughout most of the summer, were also in the spotlight.

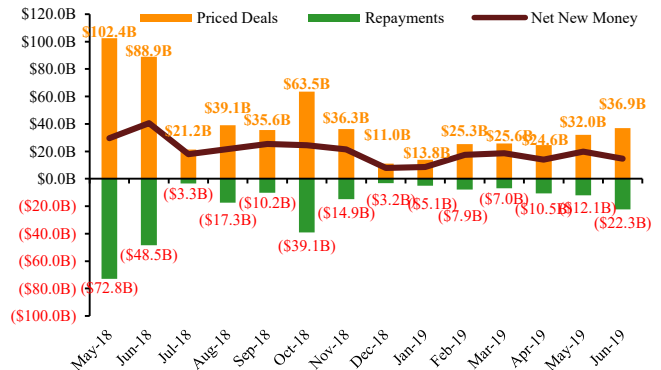
In the primary market, as expected, the leveraged loan universe continued to grow, increasing by \$23.1 bn during the month versus a mere \$4.5 bn outstanding during June, according to the Credit Suisse Leveraged Loan Index. Gross new issuance did fall slightly from June to July, while net priced volume rebounded slightly from its five-month low. In the CLO realm, issuance tumbled to a six-month low. Mutual fund also fell approximately \$0.6 bn off its yearly peak of \$3.2 bn achieved in June.. From just 73.5% in June, a very impressive 92.3% of cleared deals contained six months of 101 soft call protection in July. Single-B spreads widened last month but fell by 48 bps in July. The average original issue discount (OID), meanwhile, widened by 28 bps.

### CIO Commentary

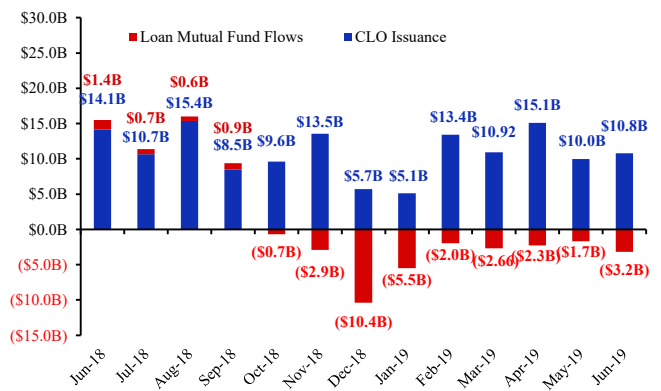
For the month ending July 2019, Leveraged Lion Capital returned 0.26% nominally, a relative underperformance to the LSTA 100 Index of (0.79%). The Media & Communications Sector continued to be the best performer nominally and every Sector except Healthcare and Information Technology posted positive nominal returns. As very few holdings experienced negative price movement, LLC's relative underperformance to the LSTA 100 Index in July can be explained by a select few holdings enduring significant monthly losses, particularly Lantheus and Travelport in the Healthcare Sector and Lattice Semiconductor in the IT Sector.

Data and charts used in the July CIO Commentary (pages 2 and 3) were directly retrieved from the LevFin Insights July Monthly Report, the Loan Syndications and Trading Association (LSTA) "July Secondary Market Monthly," Covenant Review, Fitch Ratings, and Thomson Reuters Lipper for educational purposes only. Data and charts for the Monthly Charts (located on pages 4 and 5) and Portfolio Analytics Report (page 6) were directly retrieved from Bloomberg, the LSTA, and S&P Global for educational purposes only. Leveraged Lion Capital is not associated with any of the aforementioned organizations and does not take credit for data and charts used in this report. No copyright infringement intended.

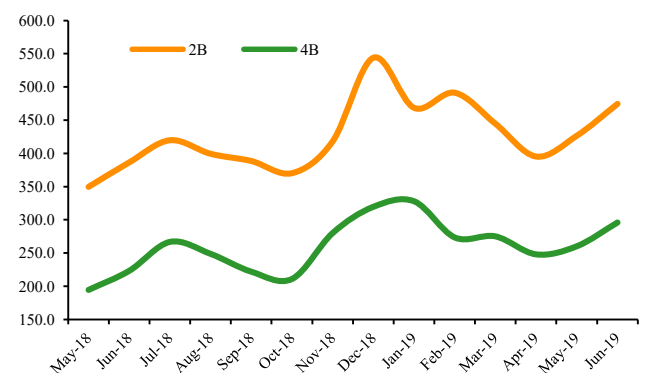
### Net New Money



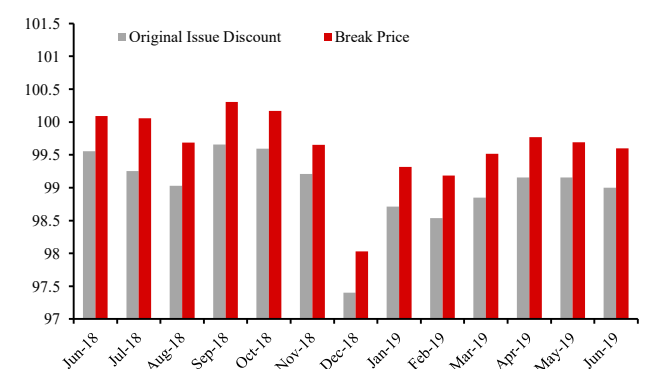
### CLO/Mutual Fund Flows



### Regular Way Deal Pricing



### Break vs. Issue Price



### New-Issue Market Trends

In July, flex favored issuers considerably: 20 deals flexed lower and only 6 flexed higher. New-issue first-lien yields fell during the month, with the average single-B and double-B yields falling 52 bps and 18 bps respectively. According to *LevFin Insights*, first-lien spreads also plunged, falling 58 bps to L+370. Meanwhile, second-lien spreads tightened slightly. Break prices and issue prices kept rising. Loans related to refinancing, repricing, and dividends totaled \$13.2 bn, up significantly from just approximately \$8 bn in June, according to *LevFin Insights*. Middle-market volume continued its losing streak from an April peak of \$3.4 bn, with M&A deals constituting more than \$500 mm of July's volume of \$768 mm.

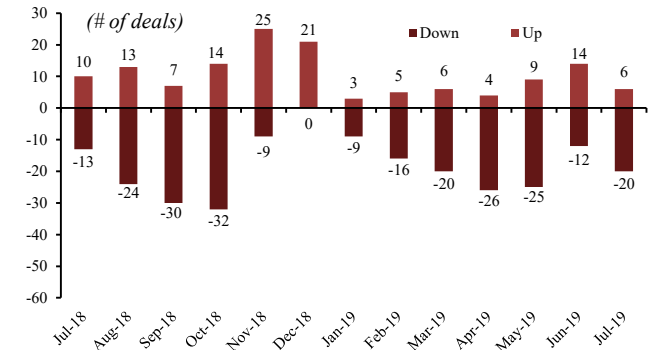
### Credit/Documentation Trends

The cov-lite trend persists, with 88% of loans clearing without financial maintenance covenants in July compared to 79% in the month prior. Approximately 40% of deals were cleared with asset-sale step-downs, compared to 41% in 2Q2019 and just 31% in 1Q2019. During the month, 10 loans were cleared with an MFN sunset and the average pro forma EBITDA adjustment was 21.9%. LLC hopes to regularly educate new members on the implications of MFN sunsets during upcoming semesters. More than a third of deals were still allowed to have uncapped EBITDA adjustments during the start of May to the end of July. In related news, average total leverage rose substantially, with the overall adjusted debt multiple for M&A deals reaching 5.77x in 2Q2019 compared to 5.39x in the previous quarter.

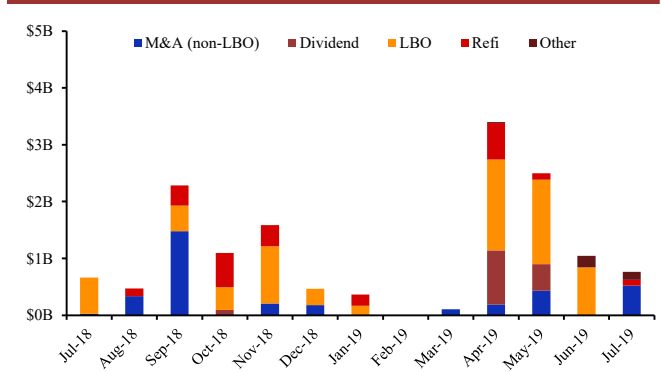
### Default Statistics

TTM defaults continued to increase during July, reaching a rate of 1.5%. Year-to-date, defaulted volume is now approximately \$13.9 bn, up from \$11.4 bn recorded from the start of the year to the end of June. Several instruments are now being closely monitored on Fitch's "Top Loans of Concern" list, including that of former department store stalwart J.C. Penney, mattress maker Serta Simmons, and fast food chain Checkers who is currently dealing with a security breach.

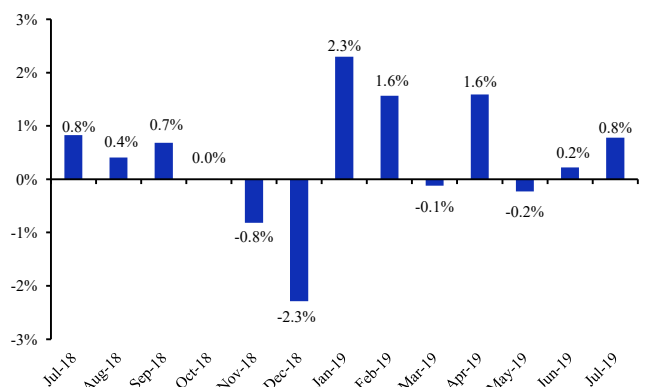
### Flex Activity



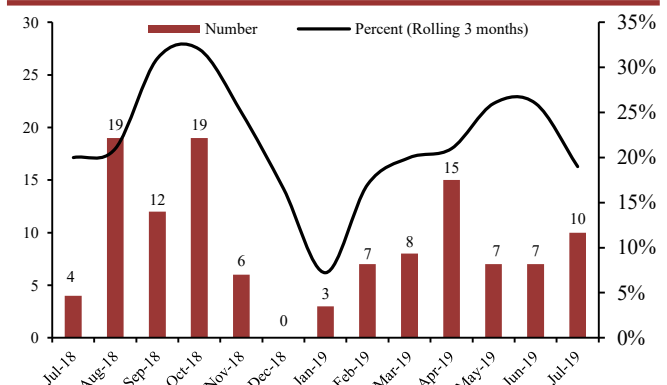
### New-Issue Middle-Market Loan Volume



### Monthly Returns



### Deals That Cleared with MFN Sunsets

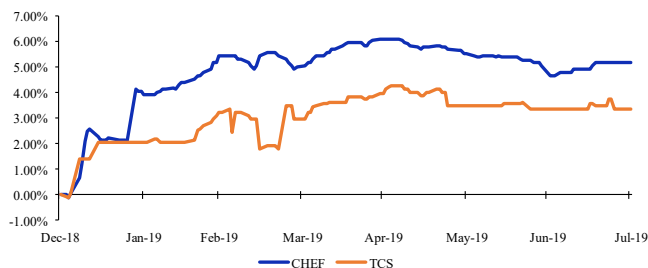




## Sector Summaries

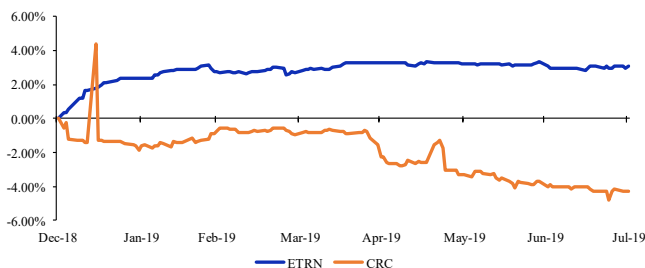
### Consumer & Retail

Consumer & Retail returned 0.39% nominally this month, a relative underperformance of (0.77%). The Sector's best performing holding this month was Chefs' Warehouse TL B, trading up 0.63% nominally. During the month, the Company reported EBITDA of \$26.00 million, representing an increase of 20.93% y/y. The Sector's worst performing holding this month was The Container Store TL B, returning 0.20% nominally. The Company reported a net loss of \$4.10 million for the previous quarter. The Sector will continue to monitor trade tensions between the U.S. and China.



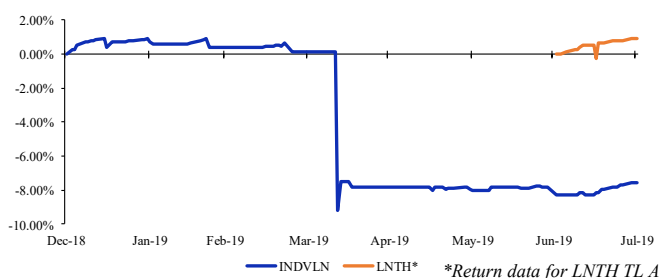
### Energy

Energy returned 0.10% nominally this month, a relative outperformance of 1.58%. The Sector's best performing holding this month was Equitrans TL B, returning 0.35% nominally. The midstream company outperformed as investors favored the natural hedge that the pipeline provides against energy prices. The Sector's worst performing holding this month was California Resources TL B, returning (0.16%) nominally. California Resources' debt traded down as investors continue to be cautious on upstream companies. The Sector will continue to monitor U.S. crude oil, as crude stocks reportedly fell for the eighth week in a row.



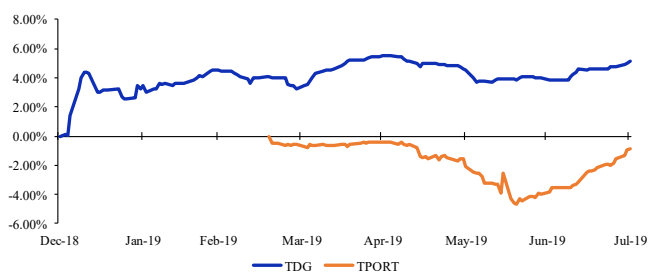
### Healthcare

Healthcare returned (0.98%) nominally this month, a relative outperformance of 0.38%. The Sector's best performing holding this month was Indivior TL B, trading up 0.81% nominally. The Company outperformed after it raised its FY2019 guidance. The Sector's worst performing holding this month was Lantheus TL B, returning (5.51%) nominally. Investors reacted negatively after Lantheus missed consensus expectations on 2Q2019 revenues due to the Company experiencing Molybdenum-99 supply disruptions. The Sector will be monitoring developments in domestic healthcare policies as key political debates and discussions take place during the upcoming month.



### Industrials

Industrials returned 0.62% nominally this month, a relative outperformance of 0.14%. The Sector's best performing holding this month was Transdigm TL F, trading up 1.59% nominally. The Company traded up following a \$4.00 billion acquisition of Esterline Technologies. The Sector's worst performing holding this month was Travelport TL B, returning (2.09%) nominally. The Company traded down after an expected slight decline in revenue as customers have been fleeing to new international startups with similar business models. Moving forward, the Sector will continue to monitor rising U.S.-China trade tensions and the alleged global manufacturing slowdown.



## Sector Summaries

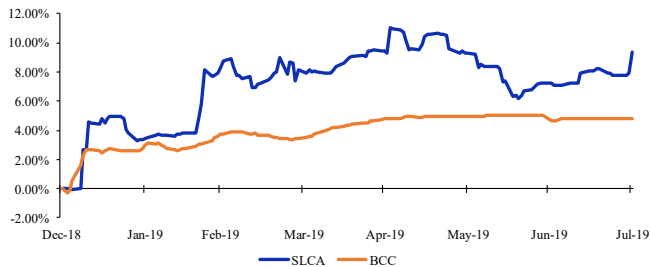
### Information Technology

Information Technology returned (0.86%) nominally this month, a relative underperformance of (3.12%). The Sector's best performing holding this month was Plantronics HY bond, trading up 1.79% nominally. In its recent earnings report, the Company was able to improve operating cash flow and the bottom line. The Sector's worst performing holding this month was Lattice Semiconductor TL B, returning (3.89%) nominally. The market reacted negatively to Lattice's exposure to China, where it makes 49.00% of its revenue. Moving into August, the Sector will be monitoring recent antitrust investigations into big tech.



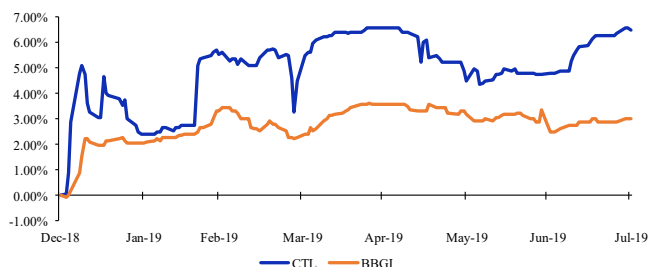
### Materials

Materials returned 1.04% nominally this month, a relative outperformance of 1.39%. The Sector's best holding this month was U.S. Silica TL B, trading up 2.35% nominally. The Company's debt traded up after 2Q2019 volume expectations were beaten and the Oil and Gas segment beat sales records. The Sector's worst holding this month was Boise Cascade TL, trading up 0.09% nominally. The Company's stagnant performance corresponded to a lack of major developments during the month of July, with the Company making a minor adjustment to its wood structure design process. During the upcoming month, the Sector will be closely monitoring U.S.-China trade developments as well as the prices of precious metals.



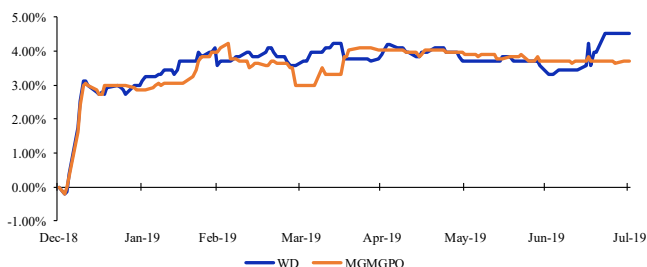
### Media & Communications

Media & Communications returned 1.19% nominally this month, a relative underperformance of (1.21%). The Sector's best performing holding this month was CenturyLink TL B, trading up 1.73% nominally. In July, CenturyLink announced plans to deploy nearly 5.00 million miles of fiber throughout the United States and Europe. The Sector's worst performing holding this month was Beasley Broadcasting TL DD, returning 0.62% nominally. In July, Beasley Broadcasting announced a dividend of \$0.05. During the upcoming month, the Sector will monitor the early impact of the approval of the T-Mobile and Sprint merger.



### REGAL-FIG

REGAL-FIG returned 0.41% nominally this month, a relative underperformance of (1.25%). The Sector's best performing holding this month was Walker and Dunlop TL B, returning 1.11% nominally. The Company plans to expand to different geographic regions such as Southern California and Houston. The Sector's worst-performing holding this month was MGM Growth Properties TL B, returning 0.02% nominally. The Company recently announced that it will be entering into sale-leaseback transactions on a number of prominent properties to reduce its debt exposure in the coming months. The Sector will monitor the impact of the Fed rate cut moving into August.



# Portfolio Analysis

## CURRENT HOLDINGS

Company Name	Sector	Maturity	LIBOR Spread	Yield at Int. Pmt.	Buy-In Amount	Opening Price	Closing Price	Facility Rating <sup>1</sup>	July Return (%)
YUM Brands, Inc	Consumer	4/03/2025	L + 175	3.76%	\$5,084.40	\$99.88	\$99.88	Ba1/BBB-	0.31%
Winnebago	Consumer	11/08/2023	L + 350	5.48%	\$6,101.40	\$99.75	\$99.88	B2/BB	0.58%
Chefs' Warehouse	Consumer	6/22/2022	L + 400	6.03%	\$4,271.00	\$99.88	\$100.00	B2/B+	0.63%
The Container Store	Consumer	9/14/2023	L + 500	6.95%	\$9,965.20	\$99.63	\$99.25	B2/B	0.20%
California Resources	Energy	12/31/2022	L + 475	6.77%	\$3,842.23	\$95.94	\$95.25	B2/B	-0.16%
Equitrans	Energy	1/31/2024	L + 450	6.46%	\$3,842.23	\$100.94	\$100.75	Ba3/BB+	0.35%
Cryolife	Healthcare	12/01/2024	L + 325	5.19%	\$4,044.00	\$100.38	\$100.00	B2/B	0.06%
Indivior	Healthcare	12/18/2022	L + 450	6.38%	\$4,350.50	\$90.25	\$90.50	B3/B+	0.81%
Lantheus	Healthcare	6/30/2022	L + 375	6.20%	\$2,977.19	\$100.00	\$94.00	B2/BB	-5.51%
Travelport	Industrials	3/16/2025	L + 250	4.58%	\$4,944.50	\$99.83	\$97.38	B1/B+	-2.09%
Transdigm	Industrials	6/09/2023	L + 250	4.50%	\$12,361.00	\$98.31	\$99.50	Ba3/B+	1.59%
CVGI	Industrials	4/12/2023	L + 600	7.85%	\$2,473.00	\$99.00	\$99.63	B2/B	1.29%
Ducommun Incorporated	Industrials	11/21/2025	L + 400	5.88%	\$5,037.38	\$100.38	\$100.50	B2/B+	0.62%
Lattice Semiconductor	IT	3/10/2021	L + 500	7.39%	\$6,171.14	\$100.50	\$96.00	B2/B	-3.89%
MTS Systems Corp	IT	7/05/2023	L + 325	5.27%	\$5,082.00	\$99.75	\$100.00	B1/BB-	0.69%
Plantronics	IT	5/31/2023	5.50%	5.17%	\$4,000.00	\$100.26	\$101.62	B1/BB-	1.79%
U.S. Silica	Materials	5/01/2025	L + 400	5.83%	\$2,689.56	\$94.13	\$95.88	B1/B+	2.35%
Global Brass & Copper Inc	Materials	5/29/2025	L + 250	4.45%	\$3,073.78	\$99.88	\$100.00	B1/BB	0.50%
Boise Cascade	Materials	3/30/2026	L + 213	4.12%	\$1,921.11	\$100.00	\$99.75	Ba1/BB-	0.09%
Sprint	Media & Comm.	2/02/2024	L + 250	4.46%	\$5,289.75	\$98.81	\$99.75	Ba2/BB-	1.32%
CenturyLink	Media & Comm.	1/31/2025	L + 275	4.61%	\$7,053.00	\$97.94	\$99.25	Ba3/BBB-	1.73%
Beasley Broadcast	Media & Comm.	11/01/2023	L + 400	5.90%	\$8,122.71	\$100.75	\$100.88	B1/BB-	0.62%
Hyperion Insurance Group	REGAL-FIG	12/20/2024	L + 350	5.40%	\$1,987.02	\$99.88	\$100.00	B2/B	0.58%
Walker & Dunlop	REGAL-FIG	11/07/2025	L + 225	4.23%	\$1,453.94	\$99.25	\$100.00	Ba2/BBB-	1.11%
Lindblad Expeditions	REGAL-FIG	3/27/2025	L + 350	5.39%	\$3,000.00	\$100.38	\$100.13	B1/BB	0.20%
MGM Growth Properties	REGAL-FIG	6/14/2023	L + 275	4.78%	\$2,898.00	\$99.50	\$99.13	Ba3/BB+	0.02%
Iron Mountain Inc.	REGAL-FIG	1/02/2026	L + 175	3.72%	\$2,841.60	\$98.25	\$98.50	Ba3/BB	0.56%

## SECTOR ANALYSIS

Sector Analysis	Loans	LSTA 100 <sup>2</sup>	Relative	Bonds	LLC HY <sup>2</sup>	Relative
Consumer & Retail	0.39%	1.15%	-0.77%	-	0.59%	-
Energy	0.10%	-1.48%	1.58%	-	-0.76%	-
Healthcare	-0.98%	-1.36%	0.38%	-	-0.70%	-
Industrials	0.62%	0.47%	0.14%	-	0.24%	-
IT	-1.80%	2.59%	-4.39%	1.79%	1.33%	0.47%
Materials	1.04%	-0.35%	1.39%	-	-0.18%	-
Media & Communications	1.19%	2.39%	-1.21%	-	1.23%	-
REGAL-FIG	0.41%	1.66%	-1.25%	-	0.85%	-
<b>Total</b>	<b>0.26%</b>	<b>1.04%</b>	<b>-0.79%</b>	<b>1.79%</b>	<b>0.53%</b>	<b>1.26%</b>

## PORTFOLIO OVERVIEW

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

Beginning Portfolio Value	\$124,854.79
Current Portfolio Value	<b>\$132,124.99</b>
Cash Balance	\$1,238.75

### LLC Portfolio (YTD)

Beginning Portfolio Value	\$125,366.54
Current Portfolio Value	<b>\$132,124.99</b>
Cash Balance	\$1,238.75

## PERFORMANCE

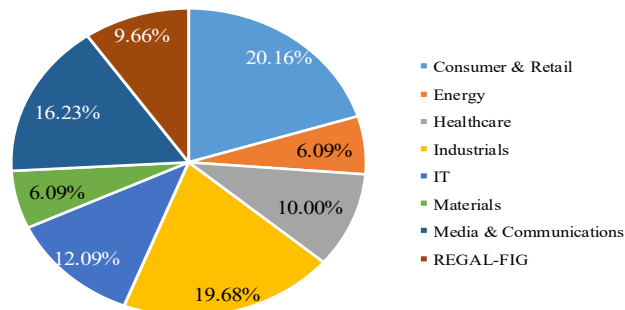
### July 2019 Performance

Leveraged Lion Capital	0.26%
LSTA 100 Index	1.04%
LLC vs. LSTA 100	<b>-0.79%</b>
LLC HY	0.53%
LLC vs. LLC HY	1.26%

### YTD Performance

Leveraged Lion Capital	5.39%
LSTA 100 Index	7.91%
LLC vs. LSTA 100	<b>-2.52%</b>
LLC HY	11.60%
LLC vs. LLC HY	<b>-6.21%</b>

## PORTFOLIO BREAKDOWN



## JULY OVERALL BEST PERFORMER



## JULY OVERALL WORST PERFORMER



<sup>1</sup> Facility ratings for June 2019.

<sup>2</sup> 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.

# 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
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Janeen Porter	porterjaneen15@gmail.com	Director of Equity Research	Sales & Trading
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