Leveraged Lion Capital

Monthly Report

March 2018

Bank of America Merrill Lynch Visit

On March 23rd, Leveraged Lion Capital made the trip to New York City to visit Bank of America Merrill Lynch. Members were welcomed by a number of Penn State alumni from the firm as well as from Credit Suisse Asset Management. Additionally, they also got to meet non-Penn State alumni at the bank and representatives from The Loan Syndication and Trading Association (LSTA).

Leveraged Lion Capital members were invited by Brian Callahan who organized the visit. Members were then treated to a panel of Penn State alumni bankers from the Leveraged Finance group including Michele Carchedi, Timothy Farley, Rachel Kalinsky, Robyn Farrell, Troy Merigliano and Erika Borger. LLC members were able to take the opportunity to ask questions about the nature of their work as well as learn more about the loan origination and syndication process.

Portfolio Managers were also able to learn more about CLO structuring, thanks to an informative presentation by Alfredo Moreira. Following the presentation was a panel from Ilan Friedman of Credit Suisse and Michael C. Wright of Bank of America Merrill Lynch, which showed the dynamics between the buy and sell side, and how each participant thought about a potential trade.

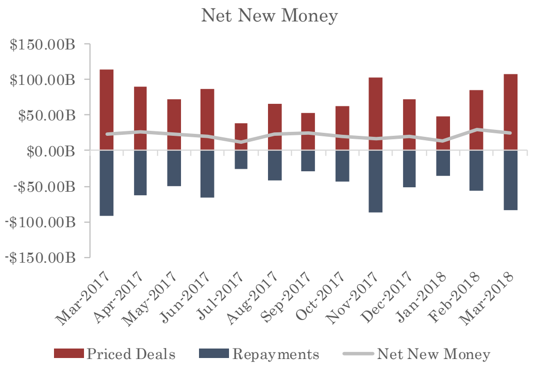
Both Lee Shaiman and Ted Basta from the LSTA presented to members, highlighting key metrics and trends currently developing in the leveraged loan market. The group was then given a tour of the trading floor by Justin Adams, who gave a very insightful Q&A session regarding the nature of his work and how to best prepare for a career on Wall Street to cap off the day.

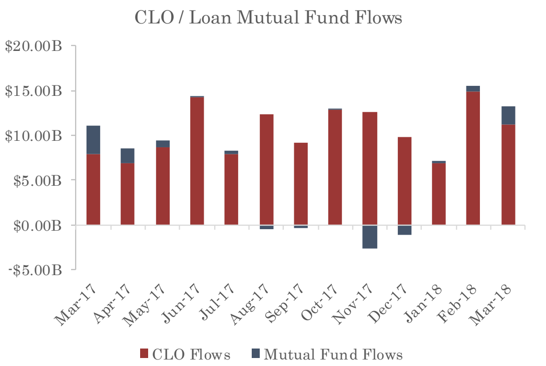
"I really enjoyed the accessibility of the bankers and their candor in answering questions. It was insightful to see how deals were structured and syndicated. It was also interesting to see how the buy and sell side interacted and what they looked when working on a new deal. The presentation by the LSTA was also very informative and I gained a lot of insight into the leveraged loan market as a whole."

- Tyler DiMatteo, Healthcare Associate Analyst

Leveraged Lion Capital

CIO Commentary





For the month of March, Leveraged Lion Capital returned 0.32% while the S&P/LSTA U.S. Leveraged Loan 100 Index returned 0.28%. REGAL and Industrials were the best performing sectors of the month, beating their benchmarks by 1.08% and 0.50%, respectively.

Technical imbalances continued to ease this month with robust allocation in the second half of March and CLO issuance cooling down. Average bid price on leveraged loans fell 12 basis points to 98.41 cents on the dollar with the average bid-ask spread widening slightly.

In March, gross priced volume surged to a 12-month high of $107.9 billion, with the second half of March accounting for $73.5 billion. Although gross priced volume spiked in March, net new money fell short at $24.2 billion due to a significant amount of repayments during the month. Two notable repayments were Energy Future Holdings' $6.3 billion term loan and Envision Healthcare's $2.1 billion term loan.

Demand, despite the drop compared to February's figure, remained robust. Total inflows to mutual funds and CLOs topped last year's inflow of $11.2 billion at $13.2 billion. Mutual fund inflows went further into positive territory to $2 billion, which was the highest in 12 months while CLO inflows dipped from $14.9 billion in February to $11.2 billion in March, leading to a lower total compared to February.

As more allocations came into the loan market, investors are expected to be more risk averse with loan selections. The 4B rated loans' credit spread has been tightening three months in a row, and in fact, has fallen below the L+200 barrier to L+197 this past month. Meanwhile, the riskier 2B rated loans' credit spread has been relatively stable, hovering around the L+332 level.

Despite this, spreads on leveraged loans have been kept compressed, with investors being well compensated by the rising 3-month LIBOR rate. In March, the 3-month LIBOR rate increased by 29 basis points to 2.31%. The higher LIBOR rate led the yield-to-maturity for 4B rated loans to rise 25 basis points and settle at 4.27% despite spread compression. However, a rising TED spread (a measure of default rate risk) should keep investors on their toes as it approaches its highest level in five years.

The flex activity continued to indicate that the market is still in issuers' favor. Downward flex still outnumbers upward flex at a ratio of 44 to 15, moving slowly towards investors' favor as compared to February's ratio of 39 to 8.

Sources: LevFin Insights, S&P Global Market Intelligence and the Loan Syndication & Trading Association

Sector Summaries

Natural Resources

The Natural Resources sector returned 1.10% nominally this month, a relative underperformance of 0.29%. On Thursday, March 23rd, President Trump appointed former American ambassador to the United Nations, John Bolton, as his third national security adviser, replacing Lieutenant General H. R. McMaster. Bolton is expected to advise the President on taking a more hard-lined stance against nations including Iran and Venezuela, potentially boosting oil prices. The sector's best performing holding this month was Global Brass & Copper, returning 2.12% nominally. Global Brass & Copper loans outperformed after the company recorded a 58.07% y/y increase in net income from $32.2 MM to $50.9 MM y/y, with top line growth rising 16.61% to $1,560.8 MM in FY2017. The increase was mainly due to a combination of the following: a decrease in refinancing costs and interest expense, the $7.40 per share of income coming from a recovery of insurance proceeds, and the impact of the Olin Brass production outage from the prior year. The sector's worst performing holding this month was Ultra Petroleum, returning 0.30% nominally. Ultra Petroleum's term loan underperformed after Moody's downgraded their rating outlook on Ultra Petroleum from "Positive" to "Stable". Analysts cited lower expectations for the company's FY2018 realized natural gas prices as a primary driver for the downgrade.

Consumer

The Consumer sector returned 0.11% compared to the LSTA 100's performance of 0.12% for a relative underperformance of 0.01%. The Consumer's sector performance can largely be attributed to Chef's Warehouse returning 0.49%. Analysts are optimistic on Chef's Warehouse due to expanding margins and growing consumer reach. The Consumer sector expects to see strong performance from Chef's Warehouse going forward. The sector's lowest performing holding was YUM Brands! with a return of 0.02% due to an interest payment, with a price drop of $100.75 to $100.44. The decrease in its price can be attributed to the general hit that the industry saw due to looming fear of a trade war due to tariffs. This is especially so for YUM Brands! due to their large presence in China. Winnebago returned 0.08% with a price decrease from $101.50 to $101.13. Winnebago's slight downturn can be attributed to the correction seen in the wider RV sector, but despite this correction, Winnebago looks to experience positive growth as consumer spending continues to increase. Overall, the consumer sector is poised to see growth in all holdings due to strong market positions and continued capitalization on synergies. Going forward, the sector will look to monitor potential fluctuations in consumer confidence and spending, but are optimistic about the year going forward.

Real Estate, Gaming & Leisure (REGAL)

REGAL returned 0.63% nominally this month, outperforming the LSTA 100 index by 1.08% this month. REGAL maintains a relatively stable outlook for the real estate, gaming, lodging, cruise, and entertainment & leisure industries. The sector is currently exposed to real estate, lodging, gaming, and cruise. The sector's best performing holding this month was RE/MAX Inc. at LIBOR+275, trading up 0.70%. This is an excellent turnaround from last month, as new CEO Adam Contos has been able to transition into the role. Lindblad Expeditions at LIBOR+450, traded up 0.65% this month. The company is maintaining its expansion plan and continues to be one of the Sector's top performing holdings. The sector's worst performing holding this month was MGM Growth Properties at LIBOR+225, trading up 0.54%. Unfortunately, MGM Growth Properties was refinanced to LIBOR+175 because of improved credit ratings. The sector believes exposure to this industry is still important and is looking for alternative investments that offer a higher spread. The sector looks to maintain both RE/MAX Inc. and Lindblad Expeditions, but will look for a potential alternative investment opportunity to replace MGM Growth Properties.

Sector Summaries

Industrials

The Industrials sector returned 0.14% in March as the LSTA 100's Industrials sector declined 0.36%, for a relative outperformance of 0.50%. The industrials industry struggled as a whole due to the announcement of tariffs on imported steel and aluminum by President Trump. Subsequently, China announced tariffs on goods including aircrafts. This significantly affected the sector's top allocation, TransDigm. However, the ISM's manufacturing index came in at 59.3 which reflected continued strong demand in manufacturing sales, and accelerating hiring and production. Consumer Vehicle Group was the sector's top performer in March as it returned 0.53%. CVGI's loan traded relatively flat as investors remained bullish despite tariff concerns. The worst performer was TransDigm, which returned 0.02%. The loan traded down $0.37 due to the announcement of the acquisition of Kirkhill's elastomers business, in addition to the tariffs. Additionally, Travelport refinanced their loan which was signed effective on March 16th. The refinancing moved the LIBOR spread from 2.75% to 2.50%, the maturity from 2021 to 2025, and Moody's rating from B2 to B1. In the first two weeks of trading, the loan returned 0.14%. The sector remains bullish on aerospace investments despite the current impeding factors due to continuing strong demand for the sector's holdings' products.

Healthcare

The Healthcare sector reversed last month's gains and finished down -0.09%. The sector had a relative underperformance of -1.09% compared to the LSTA benchmark. Teva Pharmaceuticals' term loan was repaid this month, resulting in the sector sitting on $1.249MM in cash. Community Health Systems returned -0.38% in March. The negative return was driven by a drop in their credit rating due to poor operational performance and uncertainty regarding its refinancing plans for upcoming debt maturities. Cryolife and Indivior each returned 0.14% and -0.20%, respectively. Cryolife has seen strong growth in all product lines as well as strong performance in all geographic regions. The company has been gaining ground on competitors by directly selling to end users. Moreover, the company has a strong current ratio of 4.18x, as the completion of the JOTEC acquisition has propelled the company forward. Cryolife has seen increased liquidity and cash on its balance sheet, which will likely result in more debt repayments. Indivior has been struggling lately as it has been in a recent battle for one of its pivotal Opioid drugs, Suboxone. It has filed patent infringement lawsuit against a multitude of companies for making generic versions of Suboxone. Despite this, Indivior has initiated a $10MM licensing deal for a preclinical candidate regarding addiction treatment. On a macro level, the healthcare industry is poised to grow extensively in 2018 as deregulation and increased M&A activity propels the industry forward.

Technology, Media & Telecommunications (TMT)

The TMT sector returned 0.31% in March, against the LSTA 100 Index's 0.27% for a relative outperformance of 0.04%. The sector's best performer was CenturyLink with a return of 0.51%. The term loan traded up from $98.38 to $98.50. The sector's worst performer was Science Applications International Corporation (SAIC). SAIC traded down from $100.81 to $100.75, but the price move was mitigated due to an interest payment. Despite SAIC's strong financial position, the loan traded down due to the increased consolidation in the government-contractors space, with General Dynamics winning a bidding war with CACI International for government IT services conglomerate CSRA, potentially putting pressure on SAIC's market position. Western Digital announced the redemption of all outstanding 10.500% senior unsecured notes due 2024 and 7.375% senior secured notes due 2023 in a bid to enhance their capital structure. The sector remains optimistic on the technology industry despite the recent concerns over government regulation and has since reallocated capital accordingly.

Sector Summaries

Financial Institutions

The Financials sector returned 0.40% in March, outperforming the LSTA 100 by 0.42%. The sector's holdings, Hyperion Insurance and MoneyGram International, returned 0.32% and 0.49%, respectively. Caisse de Depot (CDPQ), a long term institutional investor and pension fund, acquired a minority stake in Hyperion for over $400MM, contributing to Hyperion's strong returns in recent months. However, the reaction from the market has slowly declined from this acquisition. The Howden Group, a subsidiary of Hyperion Insurance, launched an insurance broking business, diversifying Hyperion's core business segments. On March 21st, MoneyGram announced a partnership with Walmart (WMT) to create Walmart2World which expands Walmart's electronic payment options. This, along with MoneyGram's expansion into international markets such as France and Spain, has driven returns this past month. Earnings look strong in the Financials sector for the remainder of the year with more relaxed financial regulation potentially strengthening growth within the sector. Additionally, rising interest rates will likely give lenders higher earnings potential in the future, despite potentially dampening the mortgage market.

Best Performer

Global Brass & Copper
returned 2.21%

GLOBAL Brass and Copper, Inc.

Worst Performer

Community Health Systems
returned -0.43%

CHS Community Health Systems

Portfolio Analysis

PORTFOLIO OVERVIEW

LLC Portfolio (beginning 3/1/2018)	
Beginning Portfolio Value	$125,836.17
Current Portfolio Value	$126,233.66
Cash Balance	$26,358.00

PERFORMANCE

Performance	Through 3/1/2018
Leveraged Lion Capital	0.32%
LSTA 100 Index	0.28%
LLC vs. LSTA 100	0.04%

SECTOR ANALYSIS

Sector Analysis	LLC	LSTA 100	Relative
TMT	0.31%	0.27%	0.04%
Industrials	0.14%	-0.36%	0.50%
Consumer	0.11%	0.12%	-0.01%
Healthcare	-0.09%	1.00%	-1.09%
Natural Resources	1.10%	1.39%	-0.29%
Regal	0.63%	-0.44%	1.08%
FIG	0.40%	-0.02%	0.41%
Total	**0.32%**	**0.28%**	**0.04%**

CURRENT HOLDINGS

Company Name	Sector	Maturity	Libor Spread	March Return (%)
U.S. Silica	Natural Resources	7/23/2020	L + 350	0.45%
Global Brass & Copper	Natural Resources	7/18/2023	L + 325	2.12%
Ultra Petroleum Corporation	Natural Resources	4/12/2024	L + 300	0.35%
Travelport	Industrials	3/16/2025	L + 250	0.18%
Transdigm	Industrials	5/14/2022	L + 275	0.02%
American Airlines	Industrials	10/10/2021	L + 200	0.21%
CVGI	Industrials	4/12/2023	L + 600	0.53%
Sprint	TMT	2/2/2024	L + 250	0.37%
SAIC	TMT	5/4/2022	L + 250	0.31%
CenturyLink	TMT	1/31/2025	L + 275	0.51%
Western Digital	TMT	4/29/2023	L + 275	0.39%
Hyperion Insurance Group	Financials	12/20/2024	L + 350	0.32%
MoneyGram	Financials	3/28/2020	L + 325	0.49%
Remax	REGAL	12/15/2023	L + 275	0.70%
Lindblad Expeditions	REGAL	5/8/2021	L + 450	0.65%
MGM Growth Properties	REGAL	4/25/2023	L + 225	0.54%
YUM Brands	Consumer	6/16/2023	L + 200	0.02%
Chef's Warehouse	Consumer	6/22/2022	L + 400	0.49%
Winnebago	Consumer	11/8/2023	L + 350	0.08%
Community Health Systems	Healthcare	1/27/2021	L + 373	-0.38%
Cryolife	Healthcare	12/1/2024	L + 400	0.15%
Indivior	Healthcare	12/18/2022	L + 450	-0.16%

Sectors Sitting on Cash	Amount $
TMT	$15,144
Healthcare	$1,249
Consumer	$9,965

Leveraged Lion Capital