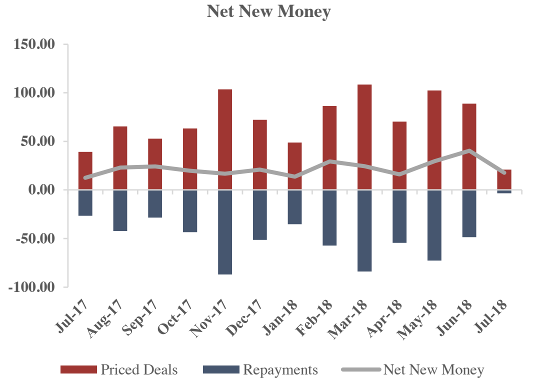
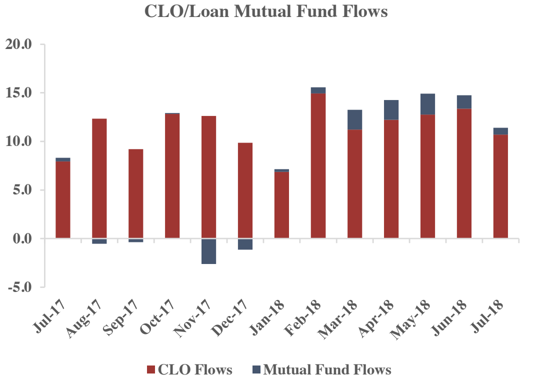
Leveraged Lion Capital

Monthly Report

July 2018

CIO Commentary





For the month of July, Leveraged Lion Capital returned 0.56%, underperforming the S&P/LSTA Leveraged Loan 100 Index by (0.32%). TMT was the best performing sector during the month, underperforming the benchmark by (0.08%). Natural Resources was the worst performing sector, underperforming the benchmark by (0.92%).

A combination of the Fourth of July celebrations, the World Cup, and the kickoff of second quarter earnings season muted leveraged loan issuance levels. Gross priced volume plummeted 46% YoY and 76% sequentially to the lowest level of the year at $21.8 billion. Net new money, which received some support from negligible repayment volume of $3.3 billion, finished higher than expected at $17.7 billion.

In contrast with issuance volumes, inflows were relatively unaffected by the eventful month. Loan mutual funds recorded their seventh consecutive month of inflows, with $0.7 billion of new demand. Newly-issued CLO volume finished on a strong note once again, closing at $10.7 billion in the month of July, up ~35% on a YoY basis.

Despite the drop in July, loan supply still outpaced demand by $6.3 billion for the month. However the monthly margin between the two figures was the second lowest YTD, with only April's difference of $1.8 billion being lower. As a result, flex activity reached a better balance, leaning slightly towards issuers' favor at 11 to 13, in contrast to a landslide victory for investors at 39 to 18 in June.

Documentation also continued to shift towards investors' favor. Call protections on new deals have been extended, while the percentage of deals clearing with free-and-clear tranches dropped from 73% in 1Q18 to 67% for the three months ended July 31. In addition, fewer deals were cleared with MFN sunset protection. The reading showed that the percentage of new deals with MFN sunset decreased from 30% in 1Q18 to 20% for the three months ended July 31.

Looking forward, the question remains whether or not investors will be able to retain favorable documentation. With sustainable demand in the leveraged loan market, the biggest uncertainty would be the amount of supply that hits the market. We can observe from the forward calendar pipeline that, despite a relatively light month for issuance, the forward pipeline appears robust past the Labor Day holiday.

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

Leveraged
Lion
Capital

Sector Summaries

Consumer

The Consumer sector returned 0.59% nominally this month, a relative underperformance of (0.32%). Strong U.S economic data, decreasing unemployment and steadily increasing wage growth fueled strong consumer discretionary spending. However, trade war tensions, rising input costs and a volatile market backdrop weighed on holdings, resulting in an underperformance of the benchmark despite relatively strong sector performance. The sector's strongest holding was Winnebago Industries, returning 1.69% nominally. Winnebago has benefitted from strong demand in the outdoor markets and higher disposable income from its customer base. The company beat earnings estimates in June and has continued to show strong growth. Winnebago is projected to report $514.36mm in sales for the full year when reporting in October, representing a 13.1% YoY growth rate. While Winnebago faces risk from trade tensions as well as rising fuel costs, the sector remains bullish on the holding. The sector's worst performing holding was Chefs' Warehouse, which returned 0.45% nominally. Chefs' Warehouse continued its strong performance with increased consumer spending fueling analyst's bullish expectations on the company. The sector looks ahead to Chefs' Warehouse reporting Q2 earnings on August 1st, with consensus estimates expecting $0.21 EPS, up from $0.14 EPS y/y. Despite underperforming the benchmark, the sector remains bullish on its current holdings with positive nominal returns for the month and strong U.S. economic data continuing to fuel positive consumer sentiment and spending.

Financials

The Financials sector returned 0.55% in July, underperforming the LSTA 100 by (0.22%). The best performing holding this month was Hyperion Insurance, which returned 0.85%. Howden, a subsidiary of Hyperion, announced its entrance into a strategic partnership with B.R. Puri & Company Limited. The newly formed local entity looks to actively explore new insurance products and expand its overall product portfolio, a credit positive. Potential repricing talks on Hyperion's term loan ended in July as repricing activity across all sectors waned during the month. The sector's worst performing holding this month was MoneyGram International, which returned 0.14%. MoneyGram International recently released second quarter earnings, missing top line on revenue but beating earnings estimates. MoneyGram reported revenue of $374.6mm, below consensus estimates of $387.9mm, while an EPS figure of $0.21 beat consensus estimates of $0.16. MoneyGram continued to expand its global digital footprint in the month of July, extending the launch of its online platform in five new countries. Overall, Financials maintains its stable outlook with strong corporate balance sheets and solid loan demand. A rising rate environment and tightened treasury spreads continue to draw concerns, but overall the sector believes loan growth and net interest margins will continue to expand despite facing more pressure from a flattening yield curve.

Healthcare

Healthcare returned 0.63% nominally this month, a relative underperformance of (0.35%). The sector's best performing holding was Community Health Systems, returning 1.29% nominally as a result of continued deleveraging efforts. The hospital operator reduced total debt outstanding to $13.67bn, from $13.94bn. Since the end of the first quarter, the company has sold several of its hospitals in Arkansas, Tennessee, Florida, and Louisiana. This divestment path is anticipated to generate about $1bn in proceeds for the full year. In addition, Community Health Systems beat their Q2 earnings estimates by $0.42, as they suffered lower than anticipated costs. The sector's worst performing holding this month was Indivior, returning 0.44% nominally. Indivior's term loan due 2022 moved higher this month as a federal court ruling prohibited the sale of a competing generic version of their opioid addiction drug, Suboxone. However, the generic drug has already had a $25mm impact on the company's 2018 revenues.

Sector Summaries

Industrials

The Industrials sector returned 0.81% nominally this month, underperforming the LSTA by (0.47%). The sector has been under pressure due to increasing trade tensions between the U.S. and China. However, global manufacturing activity has improved despite the recent slowdown. The Purchasing Managers' Index was at 58.1 in July, down 2.1% from June. The sector's best performing holding this month was Transdigm, returning 0.96% nominally as a result of the company's acquisition of Skandia Inc. for ~$84mm. This acquisition will allow Transdigm to gain exposure to the jet market, as Skandia Inc. generates 85% of its revenue from this segment. The sector's worse performing holding this month was American Airlines returning 0.66% nominally. This was due to the company cutting its second-quarter outlook for unit revenue growth to 1.0%-3.0% instead of previous projections of 1.5% to 3.5%. American Airlines' revenue is expected to face significant headwinds going forward as management expects slower momentum in all lines of business, as well as increased margin pressure from rising fuel costs.

Natural Resources

Natural Resources returned 0.05% nominally this month, a relative underperformance of (0.92%). The sector's best performing holding was U.S. Silica Holdings, returning 0.23% nominally. On Wednesday, July 18, a report released by Bloomberg highlighted a frac sand shortage within the Permian Basin. Frac sand is utilized within the process of hydraulic fracturing, in which pressurized water is injected within a well and sand is used to keep the tiny fractures opened in the well as oil and gas are extracted. Currently, there is scarcity surrounding the supply of "brown sand," which is traditionally mined in West Texas. Brown sand is cheaper to mine than traditional "white sand," found within Wisconsin and Minnesota. Within Texas, over 23 new frac sand mines are being developed in order to capitalize on the growing demand, as oil producers focus around the Permian Basin. The sector's worst performing holding was Global Brass & Copper, returning (0.12%). The company faced continued negative sentiment throughout the month as escalating trade tensions threatened to hurt the production and sale of non-ferrous metals such as aluminum and copper. More recently, China retaliated against the U.S. through the announcement of a $16bn tariff on automobiles, crude oil, scrap metal, and more. This retaliation comes after the Trump administration had passed a 25.00% and 10.00% tariff on steel and aluminum against China earlier during the year. While the majority of the Company's operations reside within the U.S., negative sentiment around the company's long-term ability to sufficiently operate and maintain a stable cash flow profile weighed on the loan's performance.

Real Estate, Gaming, & Leisure (REGAL)

Real Estate, Gaming, & Leisure returned 0.48% nominally this month, a relative underperformance of (0.24%). The sector currently maintains a relatively stable outlook for the industries within REGAL which include: real estate, lodging, gaming, and cruise. The sector's best performing holding was Lindblad Expeditions, which returned 0.65% nominally. This success was fueled by an estimated 46.9 million Americans traveling this past Independence Day holiday period, a record high and a 5% increase compared to 2017. The uptick in travel is attributable to an increase in consumer confidence coupled with consumer's additional disposable income. The sector's worst performing holding this month was Re/Max, returning 0.35%. This was sparked by a decrease in the national trend of Canadian housing starts, as well as weakening demand in the US housing market due to a continued supply shortage. Additionally, housing prices in many US markets sit at all-time highs, while mortgage rates have increased from 4% to 4.6% since the beginning of 2018, pushing many homes beyond affordability for many citizens.

Sector Summaries

Technology, Media & Telecommunications (TMT)

Technology, Media, & Telecommunications returned 0.59% this month, a relative underperformance of (0.08%). In the month of July, Tech firms headlined markets as strong corporate earnings and lingering trade concerns provided a volatile landscape for investors. Facebook and Twitter dragged markets as shares plunged 19% and 20%, respectively. Apple reversed Tech losses with impressive quarterly earnings, while reaching a $1 trillion market cap. The sector's best performing holding this month was CenturyLink, returning 1.01% nominally. CenturyLink topped EPS estimates while raising adjusted EBITDA and free cash flow outlooks for full year 2018 in its most recent earnings call. Shares have jumped as high as 14% since earnings were released. It also expanded its cloud computing services by incorporating Oracle FastConnect in customer networks to enhance private connections. The sector's worst performing holding this month was Western Digital, which returned 0.37% nominally. Western Digital beat consensus estimates on earnings and revenue in its fiscal fourth quarter ended June 29 as customer demand for cloud-computing services fueled growth. In addition, the company recently announced plans to launch a $5 billion share repurchase program.

Best Performer
Winnebago
Returned 1.69%

Worst Performer
Global Brass and Copper
Returned (0.12%)

Portfolio Analysis

PORTFOLIO OVERVIEW

LLC Portfolio (beginning 7/1/2018)	
Beginning Portfolio Value	$126,868.65
Current Portfolio Value	$127,584.20
Cash Balance	$11,203.950

SECTOR ANALYSIS

Sector Analysis	LLC	LSTA 100	Relative
TMT	0.59%	0.67%	(0.08%)
Industrials	0.81%	1.28%	(0.47%)
Consumer	0.59%	0.91%	(0.32%)
Healthcare	0.63%	0.98%	(0.35%)
Natural Resources	0.05%	0.97%	(0.92%)
Regal	0.48%	0.72%	(0.24%)
FIG	0.55%	0.77%	(0.22%)
Total	0.56%	0.88%	(0.32%)

PERFORMANCE

Performance	Through 8/1/2018
Leveraged Lion Capital	0.56%
LSTA 100 Index	0.88%
LLC vs. LSTA 100	(0.32%)

Current Holdings				
Company Name	Sector	Maturity	Libor Spread	July Return (%)
U.S. Silica	Natural Resources	5/1/2025	L + 400	0.23%
Global Brass & Copper Inc	Natural Resources	5/29/2025	L + 250	(0.12%)
Ultra Petroleum Corporation	Natural Resources	4/12/2024	L + 300	0.07%
Travelport	Industrials	3/17/2025	L + 250	0.66%
Transdigm	Industrials	6/9/2023	L + 250	0.96%
American Airlines	Industrials	10/10/2021	L + 200	0.66%
CVGI	Industrials	4/12/2023	L + 600	0.69%
Sprint	TMT	2/2/2024	L + 250	0.79%
SAIC	TMT	5/4/2022	L + 200	0.42%
CenturyLink	TMT	1/31/2025	L + 275	1.01%
Western Digital	TMT	4/29/2023	L + 175	0.37%
Lattice Semiconductor	TMT	3/10/2021	L + 500	0.48%
Hyperion Insurance Group	Financials	12/20/2024	L + 350	0.85%
MoneyGram	Financials	3/27/2020	L + 400	0.14%
Remax Inc.	REGAL	12/15/2023	L + 275	0.35%
Lindblad Expeditions	REGAL	3/27/2025	L + 350	0.65%
MGM Growth Properties	REGAL	4/23/2021	L + 275	0.41%
YUM Brands, Inc	Consumer	4/3/2025	L + 175	0.95%
Winnebago	Consumer	11/8/2023	L + 350	1.69%
Chefs' Warehouse	Consumer	6/22/2022	L + 400	0.45%
Community Health Systems	Healthcare	1/27/2021	L + 373	1.29%
Cryolife	Healthcare	12/2/2024	L + 400	0.56%
Indivior	Healthcare	12/19/2022	L + 450	0.44%

Leveraged
Lion
Capital

Leveraged Lion Capital

Description & Contact Information

Leveraged Lion Capital is the nation's first student-run syndicated paper loan portfolio. Founded in spring 2017 at the Pennsylvania State University, the student organization aims to educate undergraduates 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 $125 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 to the rest of the organization. The club is broken out into seven sectors that are derived from the S&P/LSTA 100 Index including TMT (Technology, Media & Telecommunications), Healthcare, Natural Resources, Industrials, REGAL (Real Estate, Gaming & Lodging), Consumer and Financial Institutions.

Executive Board

Michael Coppola	President	michaelcoppola113@gmail.com
Shreyas Radhakrishna	Vice President	shreyas.radhakrishna2019@gmail.com
Federico Sarboraria	Secretary	federico.saboraria@gmail.com
Kevin Xie	CIO	kevin041421@gmail.com

Consumer

Hunter Whitesel	Lead Analyst	h.whitesel44@gmail.com
Sean Kohler	Associate Analyst	seandkohler@gmail.com
Rohit Madhu	Associate Analyst	rohit.m.madhu@gmail.com

Financials

Daniel Annuli	Lead Analyst	daniel.annulli@gmail.com
Zachary Zeff	Associate Analyst	zacharyzeff98@gmail.com
Timothy Kelley	Associate Analyst	timkelley924@gmail.com

Healthcare

Wilfred Guo	Lead Analyst	wguo2009@gmail.com
Tyler DiMatteo	Associate Analyst	tylerdimatteo11@gmail.com
Brandon Huey	Associate Analyst	brandonwhuey@gmail.com
Brock Lieberman	Associate Analyst	liebermanbrock@gmail.com

Industrials

Andrew Koziara	Lead Analyst	andrewkoziara97@gmail.com
Tommy Lu	Associate Analyst	tommylu1025@gmail.com
Wes Alexander	Associate Analyst	wesalexander25@gmail.com
Amanda Lew	Associate Analyst	amandaleww@gmail.com

Natural Resources

Taylor Campbell	Lead Analyst	taylorjcam@gmail.com
Nicole Chen	Associate Analyst	nicolechen16@gmail.com
Erfan Shakibaei	Associate Analyst	eshakibaei@gmail.com

Real Estate, Gaming & Leisure (REGAL)

Kyle Yousif	Lead Analyst	kyle18yousif@gmail.com
Colleen Conway	Associate Analyst	conwayc34@gmail.com
Meredith Quinn	Associate Analyst	meredithq97@gmail.com
Sanket Narayana	Associate Analyst	nvsanket@gmail.com

Technology, Media & Telecommunication (TMT)

Ishaan Diwan	Lead Analyst	ishaandiwan1@gmail.com
Annie Liu	Associate Analyst	16liua@gmail.com
Taylor Twamley	Associate Analyst	taylortwamley@gmail.com
Jered Erlanger	Associate Analyst	jerlanger3@gmail.com

S&P Global

Bank of America Merrill Lynch

LSTA

THE LOAN SYNDICATIONS AND TRADING ASSOCIATION