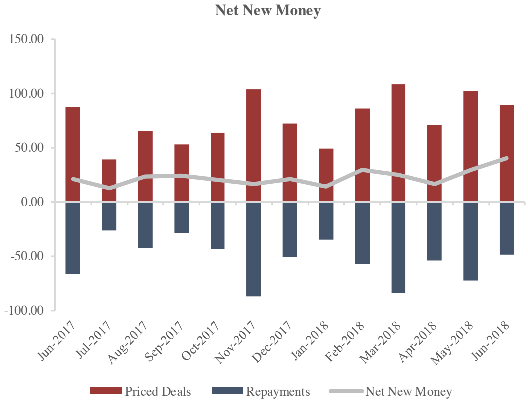
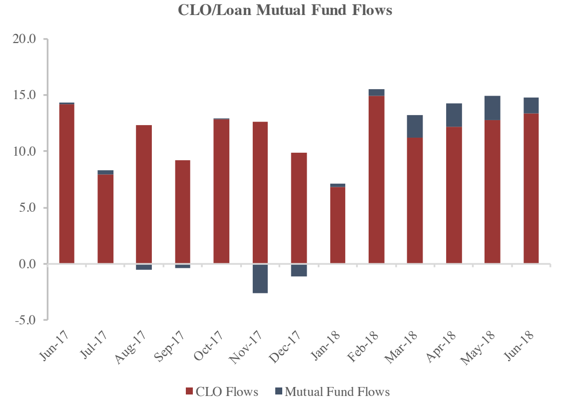
Leveraged Lion Capital

Monthly Report

June 2018

CIO Commentary





For the month of June, Leveraged Lion Capital returned 0.05%, outperforming the S&P/LSTA Leveraged Loan 100 Index by 0.04%. Industrials and REGAL were the best performing sectors of the month, outperforming their benchmarks by 1.30% and 0.32% respectively. Consumer was the worst performing sector of the month, underperforming their benchmark by 0.70%.

Supply continued to deluge the market while the demand for paper remained relatively flat. On the supply side, net new money jumped to a record high $40.4 billion in June. Gross priced volume was higher than the YTD average at $83.3 billion dollars while repayment dropped to the lowest level since January. On the demand side, CLO activity reached a 12-month high at a count of 26 and volume picked up gradually since March to $13.4 billion. Also, loan mutual fund inflows were muted and retracted to $1.4 billion in June, down from a 14-month high of $2.1 billion in May. Overall, net new money outpaced the CLO and Loan mutual fund inflows by $14.7 billion, a record high.

Following two consecutive months of double-digit demand surplus, flex activity turned to investors' favor for the first time in 18 months. Flex ratio reversed to 18 to 42 in June with the majority of upward flex coming in the last week of June, an contrary versus the 30 to 18 ratio in May. An increase in supply further pressured the original issue discount and break price. OID and break price decreased 9 bps and 11 bps respectively in June. Meanwhile, both S&P/LSTA Leveraged Loan Index and S&P/LSTA Leveraged Loan 100 Index extended their loss by (0.33%) and (0.39%) respectively in June.

Yields for first-lien jumped in June given ample supply in the leveraged loan market. The 3 bps points increase in the 3-month US Dollar LIBOR in June, along with an increase in the average spread on the first-lien by 55.7 bps, resulted in the yield on the first-lien to surge to 6.02% from 5.38% in May. Meanwhile, spread on second-lien tanked another 62.6 basis point in June, following a 23.1 basis point slide in May. This could indicate that some investors in leveraged loan market are shifting from first-lien loan to second-lien loan in search for value.

The U.S economy remained robust in June. The unemployment rate ticked up slightly to 4% in June from 3.8% a month earlier, potentially indicating some workers coming back to the job market. The nonfarm payroll employment increased by 213,000 in May, topping economic forecasts of 195,000. Also, the CPI increased by 2.9% Y/Y, recording the biggest gain since February 2012. It seemed like everything was going towards the right direction for the Fed to continue in its path of raising interest rates until the unexpected trade war came to reality and left the Fed concerned that a hike in interest rate could further slowdown investments. Going forward, given the strong and improving labor market conditions, we expect the domestic inflation rate to be a bigger concern for the Fed and believe the Fed will stay on track for two more rate hikes this year.

Excess supply from the past two months in the loan market is going to take some time to digest. We expect the leverage loan market to stay investor favored for another month as the forward calendar show $27.8 billion unlaunched.

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

Leveraged Lion Capital

Sector Summaries

Consumer

The Consumer sector returned (0.19%) this month, a relative underperformance of (0.70%). U.S.-Chinese tariffs and trade war tensions weighed on the sector, as well as increasing input costs from wage growth and higher freight costs along with surging freight volumes exacerbating the already prevalent trailer-driver capacity shortage. The Sector's best performing holding this month was Chef's Warehouse, returning 0.50% nominally. Earnings projections for the quarter are up $0.07 YY to $0.21 EPS, as positive macroeconomic sentiment has fueled an uptick in discretionary spending. Specifically, the Company benefited from the positive wage growth of 3.20% and the tight unemployment rate of 4.00% in June FY2018, fueling consumer confidence. The Sector's worst performer was YUM! Brands, returning (0.73%) nominally. YUM! Brands has relatively high-risk exposure to foreign market revenue, deriving ~10.20% of its total revenues from China. After markets, on Friday, June 15, the U.S. announced it would implement a 25.00% tariff on $50.00 bn of Chinese goods, with China announcing the implementation of 25.00% tariffs on $34.00 bn of U.S. goods in retaliation. These tariffs, as well as general trade war sentiment, has weighed on company outlook. Despite continuing tensions, going forward, the sector remains optimistic on YUM! Brands holdings given its strong historical growth and continued development of e-commerce and delivery services through partnerships with GrubHub and other providers.

Financials

Financials returned (0.28%) nominally this month, a relative outperformance of 0.08%. The Sector's best performing holding this month was Hyperion Insurance, returning 0.31% nominally. In early June, a Morgan Stanley led arranger group including J.P. Morgan and Barclays backed off a proposed repricing of its $1.22 billion cross-border term debt. Potential repricing of the term loan continued with targets of L+325-350 with a 0% floor and a 0% floor and a par offer price, from L+350 with a 0% floor. On June 14th , Hyperion announced a global shared services partnership with WNS (Holdings) Limited, a leading provider of global business process management services. This partnership will provide a range of services and processing requirements enhancing underwriting and London Market processing. The Sector's worst performing holding this month was MoneyGram International, returning (1.06%). With regards to the payment transfer industry, U.S. security panel regulation has loosened as foreign investment inflows have increased in FY2018, including recent deals regarding Genworth Financial and potential talks with Western Digital. MoneyGram International has continued to pursue international diversification initiatives, partnering with UK Post Offices to provide money transfer services inside thousands of UK Post Office locations through 2021.

Healthcare

Healthcare returned 0.16% nominally this month, a relative outperformance of 0.54%. Looking ahead, the healthcare industry is promising given the strong balance sheets of the companies and an increasing need for health services as a result of aging population and an increase in obesity. However, the sector is still shadowed by regulatory uncertainty especially with the Affordable Care Act. The Sector's best performing holding this month was Cryolife, returning 0.80% nominally. We expect Cryolife to continue benefiting from the 2017 acquisition of JOTEC, the German company which has grown 25.00% CAGR the past 3 years in a market growing just 3.00% a year. We also remain optimistic on management's plan to build a diversified product portfolio and limit the risk exposure to any single product. The Sector's worst performing holding this month was Indivior, returning (0.70%) nominally. The holding fell upon news that Moody's would be putting two company subsidiaries on review for downgrade after the FDA approved a generic version of Indivior's primary drug, Suboxone Film.

Sector Summaries

Industrials

Industrials returned 0.13% nominally this month, a relative outperformance of 1.30%. Similar to performance in May, and the past five months, holdings outperformed despite trade war concerns. Although concerns loom, the Institute for Supply Management's Manufacturing Index came in at very healthy reading of 60.20 in July, outperforming estimates of 58.40. The outperformance was due to strong demand as the New Order Index has been 60.00% or above for the 14th straight month. Despite the positives, the Sector outperformance is partially offset due to concerns of continued trade war rhetoric and the potential of rising wages ultimately decreasing company earnings. The Sector's best performing holding this month was CVGI, returning 0.67% nominally due to Class 8 truck orders growing at double-digit rates. Truck orders have increased in line with freight volume, as positive macroeconomic sentiment has increased consumer discretionary spending. The Company continues to grow its customer base while branching out into emerging markets, primarily India. The Sector's worst performing holding this month was American Airlines, trading down (0.03%) nominally. The loan traded down as American Airlines reduced revenue growth projections for the second time this year, down to a 1.00% - 3.00% range. The airline has faced margin erosion as fuel prices have risen over supply shortages and geopolitical tensions, greatly increasing y/y input costs. Additionally, increased competition from fellow domestic carriers has held domestic flight prices down, reducing the expected offset of these higher costs during the summer travel season.

Natural Resources

Natural Resources returned 0.41% nominally this month, a relative outperformance of 0.40%. The Sector has outperformed the LSTA relatively the past two months despite the ongoing and escalating trade tensions between the U.S. and China. Ongoing uncertainty around global economic growth, geopolitical tensions, and inflationary pressures within a low-interest rate environment support precious-metal prices as global money supply expands. However, rate hikes and stronger growth within the U.S. may potentially add to dollar strength and detract from company's earnings. Additionally, precious-metals supply growth could stay constrained in FY2018 as mining companies are mining lower grades of metals and production costs continue to increase. The Sector's best performing holding was Global Brass & Copper Holdings Inc., returning 0.51% nominally. The loan traded up following support for precious-metal prices in 2H2018. The Sector's worst performing holding was U.S. Silica Holdings Inc., trading down 0.08% nominally. The Company faced negative sentiment after the Occupational Safety and Health Administration announced the implementation of strict regulations regarding standards for silica exposure. Under the proposed regulations, Companies are required to offer medical examination at their own expense to employees who have exceeded the permissible exposure limits (PEL) to silica for 30 or more days per year; over 2.30 MM workers within the industry exceed that limit. Additionally, PEL now limits worker exposures to silica to at most, 50 micrograms of respirable crystalline silica per cubic meter of air, over an eight-hour day. This mandate will significantly hinder the operations of the Company and results in added costs as well as hidden expenses that may arise due to the inefficiency that will arise from the industry-wide regulations.

Sector Summaries

Real Estate, Gaming & Leisure (REGAL)

REGAL returned 0.64% nominally this month, for a relative outperformance of 0.32%. The Sector currently maintains a relatively stable outlook for the industries within REGAL. The Sector's best performing holding this month was Lindblad Expeditions, returning 1.34% nominally. The rise was influenced by the release of reports by Morgan Stanley and Carnival Corporation sighting high oil prices, increasing industry supply growth, a rising U.S. dollar versus currency weakness in the Caribbean and China. The Sector's next best performing holding this month was Re/Max, Inc., returning 0.40% nominally. This success was fueled by low home inventory accompanied by high demand. The Sector's worst holding is MGM Growth Properties, which returned 0.15% nominally in June. The Company refinanced their loan to L+250 after the $850MM acquisition of Empire City Casino. The Sector looks to maintain both MGM Growth Properties and Re/MAX Inc., but will look for a potential alternative investment opportunity to replace Lindblad Expeditions.

Technology, Media & Telecommunications (TMT)

The Technology, Media, & Telecommunications Sector returned (0.12%) nominally, a relative underperformance of 0.38% compared to the LSTA 100 Index. The Sector's best performer was Lattice Semiconductor, with a return of 0.46%. The Company has stabilized due to growth in industrial and automotive end markets and is growing in robotics and security. The Sector's lowest performing holding was CenturyLink, with a return of (0.44%). The Company's current expansion away from rural telecom has put pressure on its free cash flow due to higher capital expenditures. Overall, the TMT Sector experienced increased concerns due to lingering trade concerns with China.

Best Performer

Lindblad Expeditions
Returned 1.34%

Worst Performer

MoneyGram International
returned (1.06%)

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Portfolio Analysis

PORTFOLIO OVERVIEW

LLC Portfolio (beginning 6/1/2018)	
Beginning Portfolio Value	$126,756,626
Current Portfolio Value	$126,825,446
Cash Balance	$11,203,950

SECTOR ANALYSIS

Sector Analysis	LLC	LSTA 100	Relative
TMT	(0.12%)	0.26%	(0.38%)
Industrials	0.13%	(1.17%)	1.30%
Consumer	(0.19%)	0.51%	(0.70%)
Healthcare	0.16%	0.04%	0.12%
Natural Resources	0.41%	0.01%	0.40%
Regal	0.64%	0.33%	0.32%
FIG	(0.28%)	(0.35%)	0.08%
Total	0.05%	0.01%	0.04%

PERFORMANCE

Performance	YTD
Leveraged Lion Capital	1.46%
LSTA 100 Index	1.83%
LLC vs. LSTA 100	(0.37%)

Current Holdings

Company Name	Sector	Maturity	Libor Spread	June Return (%)
YUM Brands, Inc	Consumer	03/04/25	L + 175	-0.73%
Chef's Warehouse	Consumer	22/06/22	L + 400	0.50%
Winnebago	Consumer	08/11/23	L + 350	-0.53%
Hyperion Insurance Group	Financials	20/12/24	L + 350	0.31%
MoneyGram	Financials	27/03/20	L + 400	-1.06%
Community Health Services	Healthcare	27/01/21	L + 373	0.64%
Cryolife	Healthcare	02/12/24	L + 400	0.80%
Indivior	Healthcare	19/12/22	L + 450	-0.70%
Travelport	Industrials	17/03/25	L + 250	0.05%
Transdigm	Industrials	09/06/23	L + 275	0.11%
American Airlines	Industrials	10/10/21	L + 200	-0.03%
CVGI	Industrials	12/03/23	L + 600	0.67%
U.S. Silica	Natural Resources	01/05/25	L + 400	-0.08%
Global Brass & Copper Inc	Natural Resources	18/07/23	L + 325	0.43%
Ultra Petroleum Corporation	Natural Resources	12/04/24	L + 300	1.11%
Remax Inc.	REGAL	15/12/23	L + 275	0.40%
Lindblad Expeditions	REGAL	27/03/25	L + 350	1.34%
MGM Growth Properties	REGAL	23/04/21	L + 275	0.15%
Sprint	TMT	02/02/24	L + 250	-0.22%
SAIC	TMT	04/05/22	L + 200	-0.26%
CenturyLink	TMT	31/01/25	L + 275	-0.44%
Western Digital	TMT	29/04/23	L + 175	-0.08%
Lattice Semiconductor	TMT	10/03/21	L + 500	0.46%

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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.

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LLC