Leveraged Lion Capital
Monthly Report

February 2018

LSTA Presentation

On February 8th, Leveraged Lion Capital was pleased to welcome Bridget Marsh and Tess Virmani of the Loan Syndications and Trading Association (LSTA) to University Park for a presentation on their organization, the leveraged loan market, and credit agreements.

Bridget and Tess gave a brief background on the history of leveraged loans and how the secondary loan market has grown since the 1990's. They also went through the credit agreement provisions, including conditions precedent, representations, covenants, events of default, assignments and participations, DQ structure, and buybacks.

After the presentation, members were able to ask Bridget and Tess questions and get to know them better over breakfast which Bridget and Tess were generous enough to provide.

Front Row (L – R): Nicole Chen, Benjamin Rowles, Andrew Koziara, Amanda Lew, Michael Coppola, Noelle Ferrara, Hunter Whitesel, Matthew Lim, Bailey Rice

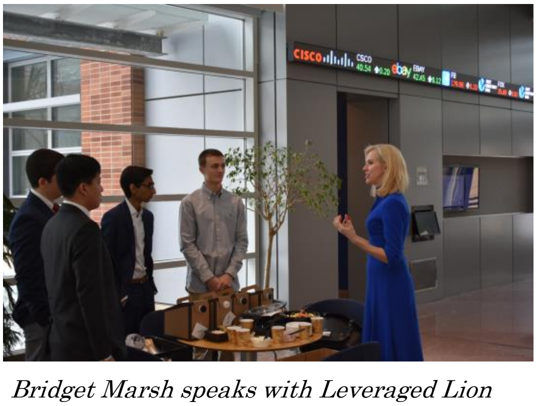
Back Row (L – R): Timothy Kelley, Kevin Xie, Tyler DiMatteo, Bridget Marsh, Tess Virmani, Ishaan Diwan, Christopher Unis, Brock Lieberman

Bridget Marsh is Executive Vice President & Deputy General Counsel for the LSTA. Bridget heads the LSTA's Primary Market Committee and Trade Practices and Forms Committee, and also leads the legal projects for the development and standardization of the LSTA's documentation.

Tess Virmani is Senior Vice President & Associate General Counsel of the LSTA. Tess works with the LSTA's Primary Market Committee and Trade Practices and Forms Committee on legal projects for the development, standardization and revision of the LSTA's documentation and is also involved in resolving secondary loan market trading disruptions.

"I really enjoyed attending the LSTA presentation because I learned more about how the LSTA monitors the leveraged loan market and provides key data and analysis for market participants. One of my favorite parts, was when they discussed carve outs within credit agreements and how the proliferation of cov-lite loans has led to companies having poor financial conditions without triggering any covenants."

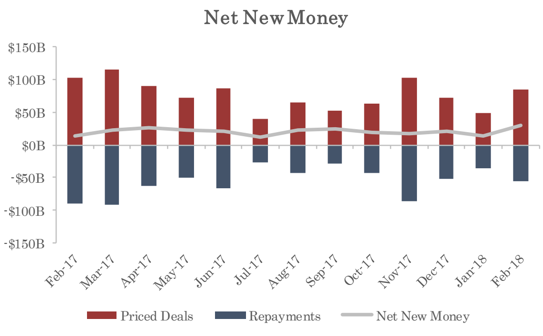
- Brock Lieberman, Industrials Associate Analyst

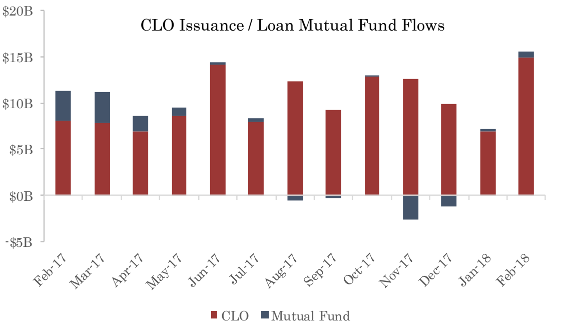


Bridget Marsh speaks with Leveraged Lion Capital members

Leveraged Lion Capital

CIO Commentary





For the month of February, Leveraged Lion Capital returned 0.14% while the S&P/LSTA U.S. Leveraged Loan 100 Index returned 0.06%. Healthcare and Financials were the best performing sectors of the month, beating their benchmarks by 1.44% and 0.52% respectively.

In early February, concerns of inflation and hawkish monetary policy hit equity and high-yield markets, causing both markets to lose all of their gains in January. The market selloff also affected the leveraged loan market and caused the S&P/LSTA Leveraged Loan 100 Index to lose 0.16% in early February. However, the index was able to recover all of its losses in the second half of February, returning 0.06% at the end of the month, making it the only market to post a positive gain in February.

The theme of the month is the easing of technical imbalance. Growth in supply outpaced the growth in demand, leading the average bid price of leveraged loans to tick down 15 basis points to 98.53. The average break price also eased to 100.40 from 100.66 in January.

Net new money, indicating the additional supply in the leveraged loan market, soared to $29.17 billion in February, more than double the $13.71 billion in January and $13.64 billion in the same period last year. New priced volume increased by $36.85 billion which outpaced the $21.39 billion increase in repayment. Acquisition of DST Systems by SS&C Technologies and Regal Entertainment by Cineworld Entertainment combined accounts for approximately $11 billion of the new supply.

Demand remains to be robust in the leveraged loan market. Although analysts expect CLO issuance to drop in the short-term due to a 45 day window until the risk-retention order comes into effect, actual CLO issuance blew past expectations and jumped to $14.9 billion. CLO issuances in the first two months of 2018 combined were at an astonishing $21.9 billion, compared to the same period in 2017. Meanwhile, loan mutual funds have had extended inflows of $3.34 billion, increasing steadily over the last four months.

Even though we see more volatility in the loan market, the environment remains issuer friendly, with 39 out of 47 deals flexing down, and 81 percent of new deals coming as cov-lite. This has pushed a record of 26 deals cleared with MFN sunsets in February. The issuer-friendly environment catalyzed repricing activity, causing repricing to account for around fifty percent of the newlu priced volume.

With concerns that the Fed could potentially raise the Fed Funds rate four times in 2018, the 10 Year Treasury yield rose 15 basis points to 2.87%. This sent the 3-month Libor over 2%. We foresee a significant increase in repricing activity over the course of the next few months as market participants gain a better understanding of the current state of the business cycle based on first quarter economic data and the Fed's intention on future interest rate hikes.

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

Sector Summaries

Natural Resources
Natural Resources returned 0.08% nominally this month, a relative underperformance of 0.29%. On Tuesday, February 13th, the IEA reported that rising U.S. shale production could cause imbalances to global supply and demand levels. However, on Wednesday, February 28th, it was reported that OPEC production for the month fell to 10-month lows. Production volumes of 32.28 MM barrels per day during the month represented a 70.00 k bbls/d m/m decline. The sector's best performing holding this month was Global Brass & Copper, trading up 0.50% nominally. Global Brass & Copper loans outperformed after the company reported 4Q2017 earnings, indicating adjusted EBITDA of $29.20 MM, on revenues of $411.50 MM. Management highlighted the stronger than anticipated performance despite the challenging volume environment in FY2017. The sector's worst performing holding this month was Ultra Petroleum, returning -0.02% nominally. Loans of Ultra Petroleum underperformed after the company reported 4Q2017 earnings, indicating operating revenues of $240.63 MM. The company announced plans to reduce capital expenditures by nearly 30.00% y/y, leading to negative sentiment surrounding the loan.

Consumer
Consumer returned -0.13% this month with a relative underperformance of -0.18%. This can largely be attributed to the performance of YUM Brands Inc. having a return of -0.16% with a price drop of $101.88 to $100.75 in February. The company reported financials on February 21st that it had exceeded financial expectations goals for 2017, so the drop in price could be attributed to the expectation that YUM Brands will experience diminishing margins in the coming year because of their growth plans. The Consumer sector entered into the Winnebago position on February 19th. No price movements have been recorded since the entry. Winnebago saw a return of 0.39% in February. The sector currently holds $14,236,000 in cash and will be looking to invest in Chefs' Warehouse, pending approval. Looking forward, YUM Brands and Winnebago should perform relatively well given growth prospects, realizations of synergies, and a generally consumer friendly climate. All of this, accompanied by Chefs' Warehouse, should help the Consumer Sector realize better returns in the coming months.

Industrials
Industrials led LLC this month as the sector returned 0.46%. However, the sector underperformed the LSTA 100 by just -0.09%. Our top performer in February was TransDigm which returned 0.58%. On the other hand, our worst performer was Travelport which just returned 0.02% even though they beat earnings and revenue expectations. Their success in their earnings report was mainly due to their growth in their e-commerce travel platform. However, management guided revenue growth on the lower end of their 4-6% guidance, which led the loan price to fall. An important note, our Travelport holding is currently in the process of being refinanced to L+250 from L+275. Our other holding is American Airlines which returned 0.46%. Their earnings report will come out in early March, which analysts project it to beat revenue expectations. This is due to airline's expansion plans, such as United Airline's announcing capacity expansion of 4-6% per year through 2020. Consequently, this expectation of increased aircraft production boosted TransDigm's loan as it directly leads into increased revenue growth, and eventually, an increase in after-market revenue which yields more favorable margins than original sales.

Sector Summaries

Healthcare

Healthcare's performance this month yielded a solid return of 0.28%. This comes in at 1.44% relative to the LSTA 100 benchmark index. The gains were driven largely by Teva Pharmaceuticals, an inverse of the previous month. Teva returned 0.91% and broke out above par. The news of Berkshire Hathaway's initiation of a large stake in Teva drove up the value of its debt, as this raised questions of Buffet's possible plans to incorporate Teva into Berkshire, Amazon, and J.P. Morgan's highly talked about healthcare venture. Indivior lost 0.34%, erasing much of last months' gains. It was most likely due to weaker than expected fourth quarter financials from the opioid addiction treatment company. A new position in Cryolife was initiated, returning over 0.27% already. The cardiac transplant and repair specialist has soared off of impressive financial results and bullish investor sentiment. Community Health Systems returned a loss of 0.09%, as opposed to last months outsized gains. They have indicated they will seek a restructuring of their immediate debt in order to pay back their coming maturities. Their recent fourth quarter results showed a 27.4% drop in EBITDA from Q4 of last year, leading to a downgrade to CCC+ by S&P.

Financial Institutions

The Financial Institutions sector returned 0.33% in February, outperforming the LSTA 100 by 0.52%. Our holdings, Hyperion Insurance and MoneyGram International, returned 0.44% and 0.18%, respectively. Insurance premiums increased by 11.97%, and Caisse de Depot (CDPQ), a long term institutional investor and pension fund, acquired a minority stake in Hyperion and invested over $400 MM. Both these factors contributed to Hyperion's strong returns. The investment from Caisse de Depot has helped Hyperion execute its growth strategy from a strongly capitalized position, providing more than $300 MM of additional capital for Hyperion's growth strategy and investments. On the other hand, the relatively weak returns of MoneyGram were due to the increased regulation of the crypto-currency space as well as the negative sentiment towards the asset class as a whole. Both Google and Facebook have banned cryptocurrency ads moving forward as this is part of corporation's plans to avoid the volatile asset class. MoneyGram as a whole continued its 7 month slide as the company has seen declining revenue. However, MoneyGram recently expanded its services into Spain and France, marking a key theme of international expansion which could drive revenues moving forward.

Technology, Media & Telecommunications (TMT)

TMT returned 0.06% nominally in February, under-performing the LSTA 100 Index by 0.17%. This is primarily due to the sector being under-allocated with cash on hand, as well as Western Digital returning a loss of -0.16%. The sector added SAIC's 2022 term loan to our portfolio on February 19th and saw returns of 0.31%. CenturyLink had returned 0.27% as investors were pleased with CenturyLink's Q4 results which showed gains across the company's capital structure and provided positive guidance for free cash flow and adjusted EBITDA in 2018. The TMT sector maintains a positive outlook on technology, specifically electronics/electrical, but will be looking to reduce exposure in the telecommunications industry.

Sector Summaries

Real Estate, Gaming & Leisure (REGAL)
REGAL returned 0.11% nominally this month, outperforming the LSTA 100 Index by 0.26%. REGAL maintains a relatively stable outlook for the real estate, gaming, lodging, cruise, and entertainment & leisure industries. We are currently exposed to real estate, lodging, gaming, and cruise. However, we are looking at investment opportunities in the entertainment & leisure industry to diversify the Sector's holdings further. The sector's best performing holding this month was Lindblad Expeditions at LIBOR+450, returning 0.59% nominally. The US cruise industry looks to maintain adjusted EBITDA growth of about 7.00% in 2018 as it did in 2017. The company is maintaining its expansion plan as it adds on new cruise ships and expands into Egypt. Additionally, they are seeing new and promising partnerships for their up and coming cruise ship manufacturing plans that are set to add two new ships by the end of 2018. The sector's worst performing holding this month was RE/MAX Inc. at LIBOR+275, trading down -0.29%. The company completed its chief executive officer transition this month as Adam Contos took over as CEO. REGAL looks to maintain its holdings as it looks for potential opportunities within the entertainment & leisure industry.

Best Performer

Teva Pharmaceuticals
returned 0.91%

Worst Performer

Indivior PLC
returned -0.34%

Portfolio Analysis

PORTFOLIO OVERVIEW

LLC Portfolio (beginning 2/1/2018)	
Beginning Portfolio Value	$125,663
Current Portfolio Value	$125,836
Cash Balance	$31,822

PERFORMANCE

Performance	Through 2/28/2018
Leveraged Lion Capital	0.14%
LSTA 100 Index	0.06%
LLC vs. LSTA 100	0.08%

SECTOR ANALYSIS

Sector Analysis	LLC	LSTA 100	Relative
TMT	0.06%	0.23%	-0.17%
Industrials	0.46%	0.55%	-0.09%
Consumer	-0.13%	0.04%	-0.18%
Natural Resources	0.08%	0.37%	-0.29%
Healthcare	0.28%	-1.17%	1.44%
Regal	0.11%	-0.16%	0.26%
FIG	0.33%	-0.20%	0.52%
Total	0.14%	0.06%	0.08%

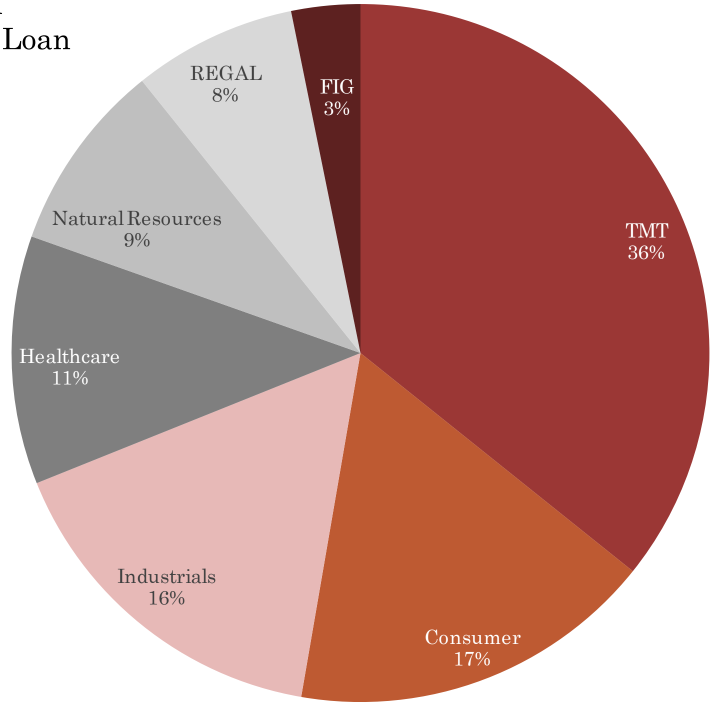
CURRENT HOLDINGS

LLC Holdings	Sector	Maturity	Libor Spread	Purchase Date	February Returns
NRG Energy	Natural Resources	6/30/2023	L + 225	10/2/2017	0.23%
Global Brass & Copper Inc	Natural Resources	7/18/2023	L + 325	10/18/2017	0.50%
Ultra Petroleum Corporation	Natural Resources	4/12/2024	L + 300	11/13/2017	-0.02%
Travelport	Industrials	9/2/2021	L + 275	11/15/2017	0.02%
Transdigm	Industrials	5/14/2022	L + 275	2/19/2018	0.58%
American Airlines	Industrials	10/10/2021	L + 200	10/18/2017	0.46%
Sprint	TMT	2/2/2024	L + 250	11/29/2017	0.00%
SAIC	TMT	5/4/2022	L + 250	2/19/2018	0.31%
CenturyLink	TMT	1/31/2025	L + 275	10/16/2017	0.27%
Western Digital	TMT	4/29/2023	L + 275	11/8/2017	-0.16%
Hyperion Insurance Group	Financials	12/20/2024	L + 350	9/27/2017	0.44%
MoneyGram	Financials	3/28/2020	L + 325	11/1/2017	0.18%
Remax Inc.	REGAL	12/15/2023	L + 275	10/16/2017	-0.29%
Lindblad Expeditions	REGAL	5/8/2021	L + 450	11/8/2017	0.59%
MGM Growth Properties	REGAL	4/25/2023	L + 225	9/27/2017	-0.01%
YUM Brands, Inc	Consumer	6/16/2023	L + 200	10/10/2017	-0.16%
Winnebago	Consumer	11/8/2023	L + 350	12/19/2018	0.39%
Community Health Services	Healthcare	1/27/2021	L + 373	11/8/2017	0.09%
Cryolife	Healthcare	12/1/2024	L + 400	2/19/2018	0.27%
Teva Pharmaceuticals	Healthcare	11/16/2020	L + 125	10/11/2017	0.91%
Indivior	Healthcare	12/18/2022	L + 450	11/15/2017	-0.34%

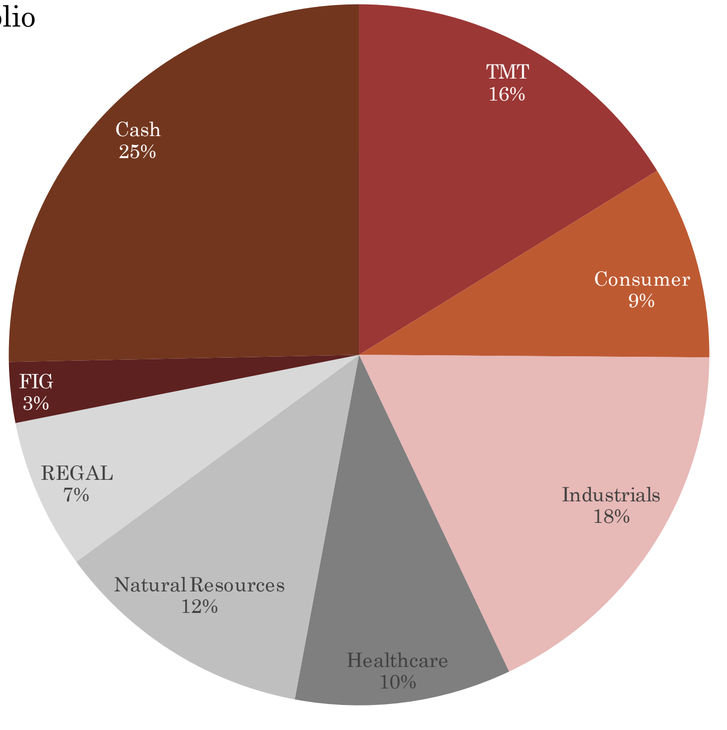
*TMT, Industrials and Consumer are under allocated with cash on hand.

Portfolio Analysis

S&P/LSTA
Leveraged Loan
100 Index



LLC Portfolio
Allocation



Leveraged
Lion
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