

# Leveraged Lion Capital Monthly Report

April 2018



# Introduction: New Analysts

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*A Foreword from the Executive Board:*

Continuing our efforts to grow and expand Leveraged Lion Capital, at the end of the semester in April of 2018, we conducted interviews for candidates interested in joining the organization. In the absence of a formal recruiting pipeline, we decided to host an information session for prospective members seeking additional information about Leveraged Lion Capital. The event was a great success, with the strong turnout being indicative of the growing interest on campus, as word of the success of our members continues to spread. After a brief presentation on the organization's background and structure, several current portfolio managers spoke about their experiences within Leveraged Lion Capital at the meeting. In conjunction with our recruitment efforts to the broader student body, we have continued to leverage our current portfolio managers and the diverse set of organizations they are involved in for talented candidates that were interested in becoming involved.

We selected 40 of the strongest candidates for first round interviews. In a departure from previous semesters, we decided to hold two rounds of interviews in April. The first round consisted of a technical screen conducted by current lead and associate analysts. Candidates were asked questions on basic accounting concepts in addition to having their knowledge of financial markets tested during the interviews. The second round was conducted by the executive board, focusing more on candidates' character and personal motivation.

At the conclusion of interviews, eight new members consisting of freshman and sophomores were selected to join Leveraged Lion Capital. Each candidate was exceptional in their own way, with many of them belonging to organizations that our existing members were actively involved in. Without further ado, we are very excited to introduce the newest members of Leveraged Lion Capital below.

## **Annie Liu**

Annie is a sophomore Finance and Statistics Major in the Smeal College of Business and the Eberly College of Science from Pittsburgh, PA. She currently serves as the Summer Associate of the Real Estate, Gaming, & Leisure and Technology, Media & Telecommunications Sectors in Leveraged Lion Capital. Annie is interested in pursuing a career in investment banking. This summer, she will be interning with the Nittany Lion Fund in the Information Technology Sector. In her free time, Annie enjoys musical theatre, TED Talks, and following the Billboard Hot 100.

## **Brandon Huey**

Brandon is a freshman Finance Major in the Smeal College of Business from San Francisco, CA. He currently serves as the Summer Associate of the Healthcare and Industrials Sectors in Leveraged Lion Capital. Brandon is interested in pursuing a career in investment banking or wealth management. In his free time, Brandon enjoys biking, fishing, and airplane spotting.

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# Introduction: New Analysts

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## **Erfan Shakibaei**

Erfan is a sophomore Finance Major in the Smeal College of Business from Berwyn, PA. He currently serves as the Summer Associate of the Consumer and Natural Resources Sectors in Leveraged Lion Capital. Erfan is interested in pursuing a career in investment banking. This summer, he will be interning with the Nittany Lion Fund in the Energy Sector. In his free time, Erfan enjoys breakdancing, staying active, and watching rugby.

## **Meredith Quinn**

Meredith is a sophomore Risk Management and English Major in the Smeal College of Business and the College of Liberal Arts from Doylestown, PA. She currently serves as the Summer Associate of the Healthcare and Real Estate, Gaming & Leisure Sectors in Leveraged Lion Capital. Meredith is interested in pursuing a career in investment banking. This summer, she will be studying abroad in London, United Kingdom. In her free time, Meredith enjoys writing, painting, and exercising.

## **Taylor Twamley**

Taylor is a freshman Finance Major in the Smeal College of Business from Robbinsville, NJ. He currently serves as the Summer Associate of the Consumer and Technology, Media & Telecommunications Sectors in Leveraged Lion Capital. Taylor is interested in pursuing a career in wealth management or asset management. This summer, he will be interning at Sysco Guest Supply in the Finance Division. In his free time, Taylor enjoys football, basketball, and golf.

## **Tommy Lu**

Tommy is a freshman Finance and Economics Major in the Smeal College of Business and the College of Liberal Arts from State College, PA. He currently serves as the Summer Associate of the Industrials and Natural Resources Sectors in Leveraged Lion Capital. Tommy is interested in pursuing a career in investment banking. This summer, he will be interning with the Nittany Lion Fund in the Industrials Sector. In his free time, Tommy enjoys playing the Ukulele and the Alto Saxophone.

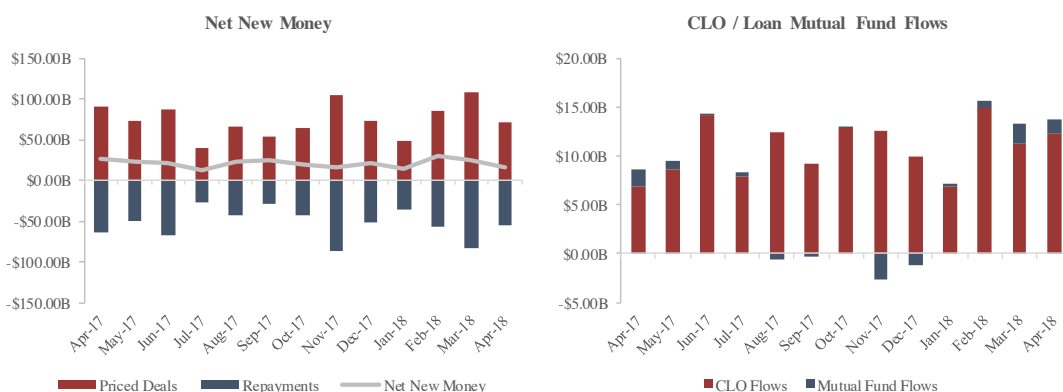
## **Wesley Alexander**

Wes is a sophomore Finance Major in the Smeal College of Business from Wayne, PA. He currently serves as the Summer Associate of the Consumer and Industrials Sectors in Leveraged Lion Capital. Wes is interested in pursuing a career in sales and trading or investment banking. This summer, he will be interning at the Uncommon Individual Foundation in startup consulting. In his free time, Wes enjoys football, snowboarding, and music production.

## **Zachary Zeff**

Zak is a sophomore Finance Major in the Smeal College of Business from Pittsburgh, PA. He currently serves as the Summer Associate of the Financial Institutions and Real Estate, Gaming, & Leisure Sectors in Leveraged Lion Capital. Zak is interested in pursuing a career in investment banking. This summer, he will be interning at Gleason Experts in research and valuation. In his free time, Zak enjoys hanging out with friends and watching movies.

# CIO Commentary



For the month of April, Leveraged Lion Capital returned 0.39%, underperforming the S&P/LSTA 100 Leveraged Loan Index by 0.01%. Healthcare and Industrials were the best performing sectors of the month, beating their benchmarks by 0.54% and 0.39% respectively, while Natural Resources was the worst performer of the month, underperforming their benchmark by 1.48%.

Net priced volume alongside with gross priced volume fell to a 3-month low of \$16.01 billion and \$70.34 billion respectively, while the percentage of repricing volume reached a three-month high of 61.43%. Demand for leveraged loans remained strong as CLO issuance stayed robust at \$12.2 billion, in line with March's figure. Loan Mutual Fund flows stayed in positive territory at \$1.6 billion, just short of last month's figure by \$0.4 billion. Although net new money still topped inflows, the gap between the two dipped to \$2.24 billion, the lowest level seen over the past 15 months.

It might be intuitive that the market should remain in issuer's favor as demand has outpaced supply over the past year. Yet, the frenzy of supply in April has rebalanced the market somewhat, as investors weighed on several tougher credits marketed, including Airxcel, American Greetings, and GI Revelation. Flex activity reached the most balanced ratio in 10 months at 28 to 15, versus 44 to 15 in March and 39 to 8 in February.

With the concern of default risk, investors are in favor of credits with higher ratings and stricter documentation. Leveraged Loans with a 4B rating kept below L+200, while the spread on 3B rated loans increased by 28 basis points. From a documentation perspective, the number of deals that cleared with MFN sunset declined to 14, down from 16 in March. The percentage of deals clearing as covenant-lite dropped to 78%, the lowest level since the start of the year.

Upon strong first quarter economic data and robust corporate earnings, the yield on the U.S. 10 year treasury broke 3% temporarily in the month of April, a psychological threshold that hasn't been touched since 2014. Additionally, the growth of the leveraged loan market hit a major milestone in April, as the S&P/LSTA Loan Index reached a record-breaking \$1 trillion level, growing every year since hitting a post-crisis low of \$497 billion in 2010.

Looking forward, net new money down the pipeline is currently standing at \$45.17 billion, which doubles the \$27.50 billion that was standing at the end of last month. This should provide investors with more choice and further support the supply-demand rebalancing activity.

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

# Sector Summaries

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## Natural Resources

Natural Resources returned (0.85%) nominally this month, a relative underperformance of 1.48%. The Sector's best performing holding this month was U.S. Silica, returning 0.95% nominally. U.S. Silica reported net income of \$31.30 MM this quarter, a 12.40x increase from 1Q2017, leading to the trade-up. Rising demand for silica products from oil and gas exploration and production companies further contributed to the loan's strong performance. In addition, the firm acquired EP Minerals for \$750.00 MM, with the transaction being finalized on May 1, 2018. The Sector's worst performing holding this month was Ultra Petroleum Corporation, returning (5.47%) nominally. The Company reported average production in 1Q2018 to be 803.00 MMcfe/d, in-line with management's previous guidance of 790-810 MMcfe/d. Starting June 30th, 2018, the Company requested that its lenders increase its maximum net leverage ratio up to 4.50x before being reduced to 4.25x by FY2019 and 4.00x by FY2020. CEO Brad Johnson stated that the Company didn't ask for covenant relief because of any prominent concerns that the Company may have been facing. Rather the request was in response to unwarranted concerns that the market seemingly held in regards to Ultra Petroleum's liquidity and balance sheet flexibility.

## Consumer

Consumer returned 0.32% nominally this month, a relative outperformance of 0.19%. GDP estimates for 1Q2018 show that GDP grew by 2.90% Y/Y due to strong consumption. The unemployment rate had stayed flat at 4.10%, and inflation has been held in check at around 2.20%. This has allowed for an increase in discretionary spending. The Sector's best performing holding this month was YUM! Brands, returning 0.69% nominally after being refinanced in 1Q2018. YUM! Brands far outpaced projections, with adjusted EPS of \$0.90 and revenue of \$1.37 B beating projections of \$0.76 and \$1.08 B, respectively. This can be attributed to increasing success of menu items at franchise chains Taco Bell and Pizza Hut, as well as a \$66.00 MM deal with food delivery company GrubHub. The Sector's worst performing holding this month was Winnebago Industries, returning 0.39% nominally. Winnebago's loan was negatively impacted by investor sentiment surrounding deteriorating recreational vehicle industry fundamentals. Investors were primarily concerned with a lack of visibility surrounding retail demand in addition to high expectations for revenue growth for several companies within the industry.

## Real Estate, Gaming & Leisure (REGAL)

Real Estate, Gaming, & Leisure returned 0.82% nominally this month, a relative outperformance of 0.26%. 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 this month was Lindblad Expeditions, returning 1.58% nominally. In April, the loan's price increased by \$1.13 to \$100.69 as a result of the Company's strong 1Q2018 earnings and commitment to its expansion plans. Additionally, Lindblad is expecting to refinance its loan to L+350 when it hits the soft call of \$101.00. The Sector's worst performing holding this month was MGM Growth Properties, returning 0.33% nominally. MGM Growth Properties was refinanced to L+275, a less attractive spread for the Sector. During the month, the Company expanded geographically into Ohio through a new casino acquisition. The Sector looks to maintain both Lindblad Expeditions and Re/MAX Inc, but will look for a potential alternative investment opportunity to replace MGM Growth Properties.

# Sector Summaries

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## Industrials

Industrials returned 0.46% nominally this month, a relative outperformance of 0.36%. The Sector looks to capitalize on the aerospace & defense industry while monitoring a potential tariff war with China. The Sector will continue to track the growth of the travel & tourism industry, which will have a direct affect on the demand for airline and travel services, and thus will impact three of the Sector's four holdings. Travelport was the Sector's top performer in April, returning 0.93% nominally after being refinanced from L+275 to L+250. The loan traded up 0.93%, lifted by solid 1Q2018 earnings and a 5.00% growth in revenues driven by its commercial payment platform, eNett. The Company's online travel agency service (OTA) is expected to grow at twice the global market rate, and to secure an increasing market share in the Asia Pacific region. The Sector's worst performing loan was Commercial Vehicle Group which traded down 0.58% due to concerns over the steel and aluminum tariffs and the risk profile of its loan. Although concerns remain, there is still a high demand for CVGI's products, and the Sector maintains a positive outlook on the trucking industry.

## Healthcare

Healthcare returned 0.85% nominally this month, a relative outperformance of 0.54%. Optimism continues as the healthcare industry remains poised for strong growth throughout FY2018 as a result of deregulation and increased M&A activity. The Sector is looking to increase its exposure to Medical Technologies and Devices companies going forward as it expects these companies to have strong growth with support coming from healthcare providers and insurance companies increasing their spendings to obtain better technologies. The Sector's best performing holding this month was Community Health Systems, returning 1.43% nominally. The return was a function of an uptier exchange on three of Community Health System's bond issues, as well as better than expected quarterly results. The Sector's worst performing holding this month was CryoLife, returning 0.49% nominally. The Company had a successful 1Q2018 with growth across all four of its major product lines. CryoLife expects to continue expanding into new markets, as they look to introduce new product lines in China and the U.S., while also expanding its R&D capabilities through the Company's recent acquisition of JOTEC.

## Technology, Media & Telecommunications (TMT)

Technology, Media & Telecommunications returned 0.70% nominally this month, a relative outperformance of 0.08%. The Sector's best performing holding this month was Sprint, returning 0.92% nominally. The loan traded up from \$100.06 to \$100.56. Analysts are optimistic about Sprint as a result of the T-Mobile merger, which is expected to enlarge Sprint's customer base and market share within the telecommunications industry. Additionally, the merger is expected to position the combined entity on the forefront of 5G development. Sprint has currently been deploying several small-cell solutions, such as the Sprint Magic Box, in an effort to improve network performance. This effort has led to a significant increase in the number postpaid and prepaid customers on the Company's network. The Sector's worst performing holding this month was Lattice Semiconductor, returning 0.51% nominally. The price of the loan remained unchanged at \$100.75. Lattice reported 1Q2018 results within analyst expectations. Revenues were reported at \$98.60 MM, up 3.50% from 4Q2017. Lattice is currently in acquisitions talks, however, past deals have been blocked over security concerns.

# Sector Summaries

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## Financial Institutions

Financials returned 0.16% nominally this month, a relative underperformance of 0.01%. The Sector remains bullish on earnings growth for companies within financial services in FY2018 due to the expected positive impact of deregulation on net income gains. Through its holdings, the Sector currently maintains exposure to the insurance and money transfer industries. The Sector's best performing holding this month was Hyperion Insurance Group, returning 0.20% nominally. The Howden Group, a subsidiary of Hyperion Insurance Group, looks to continue its expansion into the retail brokerage space as it expands into Turkey and the United Kingdom. The Sector's worst performing holding this month was MoneyGram International, returning 0.12%. MoneyGram's previously announced partnership with Walmart resulted in the formal launch of Walmart's electronic payment system, Walmart2World, in early April. The system will allow customers to send money from any Walmart in the US to any MoneyGram location in 200 countries. The Sector maintains its belief that rising rates will likely lead to lenders having higher earnings potentials in the future, despite potentially dampening the mortgage market.

## Best Performer

Lindblad Expeditions  
returned 1.58%



## Worst Performer

Ultra Petroleum  
returned (5.47%)



# Portfolio Analysis

## PORTFOLIO OVERVIEW

### LLC Portfolio (beginning 4/1/2018)

Beginning Portfolio Value	\$126,118.550
Current Portfolio Value	\$126,614.941
Cash Balance	\$11,203.950

## SECTOR ANALYSIS

Sector Analysis	LLC	LSTA 100	Relative
TMT	0.70%	0.59%	0.11%
Industrials	0.46%	0.07%	0.39%
Consumer	0.32%	0.13%	0.19%
Healthcare	0.85%	0.31%	0.54%
Natural Resources	(0.85)%	0.63%	(1.48)%
Regal	0.82%	0.56%	0.26%
FIG	0.16%	0.17%	(0.01)%
<b>Total</b>	<b>0.39%</b>	<b>0.40%</b>	<b>(0.01)%</b>

## PERFORMANCE

### Performance Through 5/1/2018

Leveraged Lion Capital	0.39%
LSTA 100 Index	0.40%
LLC vs. LSTA 100	(0.01)%

### Current Holdings

Company Name	Sector	Maturity	Libor Spread	April Return (%)
Winnbago	Consumer	11/8/23	L + 350	0.39%
Chef's Warehouse	Consumer	6/22/22	L + 400	0.49%
YUM Brands, Inc	Consumer	3/29/25	L + 175	0.69%
MoneyGram	Financials	3/28/20	L + 325	0.12%
Hyperion Insurance Group	Financials	12/20/24	L + 350	0.20%
Cryolife	Healthcare	12/1/24	L + 400	0.49%
Indivior	Healthcare	12/18/22	L + 450	1.03%
Community Health Services	Healthcare	1/27/21	L + 373	1.43%
CVGI	Industrials	4/12/23	L + 600	-0.58%
American Airlines	Industrials	10/10/21	L + 200	0.34%
Transdigm	Industrials	5/14/22	L + 275	0.52%
Travelport	Industrials	3/16/25	L + 250	0.93%
Ultra Petroleum Corporation	Natural Resources	4/12/24	L + 300	-5.47%
Global Brass & Copper Inc	Natural Resources	7/18/23	L + 325	0.42%
U.S. Silica	Natural Resources	7/23/20	L + 350	0.95%
MGM Growth Properties	REGAL	4/25/21	L + 275	0.33%
Remax Inc.	REGAL	12/15/23	L + 275	0.52%
Lindblad Expeditions	REGAL	3/27/25	L + 350	1.58%
Lattice Semiconductor	TMT	3/10/21	L + 425	0.51%
CenturyLink	TMT	1/31/25	L + 275	0.57%
Western Digital	TMT	4/29/23	L + 275	0.62%
SAIC	TMT	5/4/22	L + 250	0.90%
Sprint	TMT	2/2/24	L + 250	0.92%