

Weekly Recap

11/05/2018 – 11/11/2018

"For global markets and the global economy as a whole, I think this was the best outcome. When you look at the pressure on the U.S. dollar, the expectations of more fiscal spending in the U.S. adding to more pressure on debt and debt issuance, having a split government now with more checks and balances is actually a positive set-up."

- Nader Naeimi, Head of Dynamic Markets at AMP Capital Investors ([Bloomberg](#))

MARKET SUMMARY

- Midterm elections on Tuesday caused some volatility this week:
 - In equities, the S&P rose after the elections before tapering down. There were some micro changes by sector – utilities winning small regulatory victories, shares of gun companies rallying, etc. Most of these changes reverted to their pre-election mean. ([WSJ](#))
 - The dollar declined slightly post-election. Democrats winning the House and Republicans taking the Senate was largely expected and decreased prospects of further economic stimulus such as the tax cut – if not gridlocking most initiatives in general. ([Bloomberg](#))
- 13Fs are due on 11/15/18, following a poor October that piled losses onto hedge funds. Clients have already pulled \$11BN in 2018 with \$9.1BN of that in the third quarter, and it is expected that investors will pull more funds as the week closes. ([Bloomberg](#))
 - Quant funds such as AQR and factor-based ETFs weren't spared from October's losses. Some researchers are attributing this to the decorrelation that occurs when investors deleverage after losses. They contend this would prevent investors from seeing concentration risk. ([Bloomberg](#))
- Oil prices fell 1% with crude futures benchmarks dropping over 23% in October. The market looks like it will swing into oversupply with exporters looking to cut outputs to maintain balance. Bear market in energy. ([CNBC](#), [Reuters](#))

DEALS & CORPORATE ACTIONS

November 05, 2018

- Cowen and Intrepid Partners announced an exclusive strategic alliance to provide capital markets advisory and execution services to the North American O&G sector. Skip McGee, co-founder and CEO of Intrepid, formerly worked at Lehman and Barclays. ([Cowen](#))
- Morgan Stanley Expansion Capital, the growth-focused private investment platform in MSIM, has announced the closing of its \$400MM capital commitments for North Haven Expansion Equity and related funds – exceeding goals by \$100MM+. ([Business Wire](#))
- MGM has tasked Morgan Stanley with exploring a transaction with Caesars. Activist hedge funds that own 25% of Caesars have been pushing for the white knight deal, but they might face complications with other casinos and PE firms interested in buying MGM. ([NYPost](#))
- Wendel has hired Rothschild to review Cromology's debt structure with lenders running an independent review through Houlihan Lokey. The French paint company had 250.5MM euros in net debt at end of June 2018; loans traded at 85 cents on the euro. ([Bloomberg](#))

November 06, 2018

- After slashing its dividend to a penny the week before, GE is selling Current to American Industrial Partners in a race to reduce its debt-riddled balance sheet. GE previously agreed to sell its locomotive division and GE Healthcare and is working hard under its new CEO Larry Culp. ([CNN](#))
- American firm, Stifel, is buying MainFirst Bank's brokerage operations as an expansion into the European mainland. While banks have been preparing for Brexit by relocating staff and setting up new trading hubs, Stifel chose to bypass difficulties by simply acquiring a European rival to expand its London office. ([Bloomberg](#))
- Bojangles' has reached an agreement to be acquired by Durational Capital Management and The Jordan Company in an all-cash deal for \$16.10 a share at a 39% premium. ([MarketWatch](#))
- Investors Bancorp has hired KBW to find a potential buyer raising shares 9%. ([WSJ](#))
- RBC Capital Markets represented Kraft Heinz in its divestiture of its Canadian natural cheese business. The C\$1.62BN sale to Parmalat will help Kraft reduce its debt. ([Reuters](#))

November 07, 2018

- Blackstone and privately held LLOG Exploration Company are working to sell their \$2BN JV in the Gulf of Mexico. ([Reuters](#))
- Chenavari Credit Partners is said to be axing its distressed-debt strategy and parting ways with the managers who led the unit, Clemens Zehndorfer and Mark Berry. This conflicts with hiring trends at other firms anticipating a sell-off in the debt of highly-levered companies. ([Bloomberg](#) – Link N/A)
- Diamond Bank has received a cash injection offer from an unnamed investor to keep its capital adequacy ratio above the threshold. Carlyle is the biggest investor in the Nigerian lender which has been struggling from capital and foreign-currency liquidity. ([Bloomberg](#))

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Notable Trends

- 1) Corporate debt CDO issuance has tripled to at least \$3.8BN for the year. Fortress Investment Group, Anchorage Capital, and Brigade Capital Management are issuing CDOs to generate annual returns exceeding 20%. Unlike CLOs, CDOs also buy unsecured HY bonds. ([WSJ](#))
- 2) Heading into a blockbuster year for tech IPOs with Airbnb, Uber, Lyft, and Pinterest on the docket, MS and GS are focusing on maintaining their duopoly while JPM is using its lending ability to attract business. ([CNBC](#))
- 3) An op-ed recently touched upon the tendency for Big Tech to set up "kill zones" for industry upstarts by acquiring companies, hiring all top talent, and attempting to anticipate market entry of competing Big Tech firms. ([Bloomberg](#))

CSSG's Weekly Recap is a resource that provides links to news that our analysts found interesting during the week. While not proprietary in nature, we find that publishing these reports helps hold ourselves accountable and aware of the economic climate.

Weekly Recap

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November 07, 2018 (continued)

- Hyundai and Kia have invested a collective \$250MM in Southeast Asia's largest ride-hailing service, Grab. They will be working on electric vehicle projects in Singapore. ([Nikkei](#))
- Virtu Financial has agreed to buy Investment Technology Group for \$1BN to add institutional relationships to its HFT and market making business. The deal is priced at a 40% premium above ITG's closing price and will increase revenue contribution from execution, reducing Virtu's earnings volatility QoQ. ([Bloomberg](#))

November 08, 2018

- ADW Capital Partners sent a letter to Fiat Chrysler asking for efforts such as spinning off or merging its Fiat brand, separating its luxury car business from the firm, and potentially consolidating with US based car manufacturers. ([PR Newswire](#))
- DaVita, 23% owned by Berkshire Hathaway, rose 10% after Tuesday's elections before dropping 9% on an expectations miss. The company shelled out \$66.6MM lobbying against Proposition 8 which would have capped the amount dialysis providers could earn treating patients. ([CNBC](#))
- Goldman Sachs is facing increasing scrutiny and its stock is taking a beating over the firm's role in underwriting 1MDB's \$6.5BN bond offering. Goldman charged a fee of \$600MM for the raise; the two bankers are confirmed to have been involved in money laundering and bribery of foreign officials in the process. ([FT](#))
- Robyn Denholm, Telstra Corp CFO and Tesla board member since 2014, has been named Tesla's new chairman replacing CEO Elon Musk. ([WSJ](#))
- UBS is facing a civil suit from the Justice Department for misleading investors in the years leading up to the 2006-2007 crisis. The legal uncertainty of UBS's decision to fight the suit adds to its problems as the firm continues restructuring its business. Deutsche Bank, Credit Suisse, and Barclays have all settled and paid fines. ([WSJ](#))

November 09, 2018

- Scaramucci's SkyBridge Capital is seeking \$3BN for a non-traded private REIT focusing on low-income neighborhoods. This follows a string of alternative firms that have launched similar funds to take advantage of opportunity zone tax breaks. ([BI](#))
- Yelp stock dropped 32% to its new 52-week low as it reported zero net new advertising customers for the year. The company switched from long-term to more flexible nonterm contracts leading to cancellations, but it failed to compensate with gross customer adds. Yelp also saw negative impacts from changes in Google's algorithms and higher sales employee exits. ([CNBC](#))

November 10, 2018

November 11, 2018

- SAP is buying Qualtrics for \$8BN, only days before a potential \$5BN IPO. The startup specializes in experience management or XM and comes shortly after the announcement of IBM's Red Hat acquisition. ([CNBC](#))
- Veritas Capital and Elliott Management are buying Athenahealth for \$5.7BN in an all-cash, \$135 per share deal. Over the past half year, Elliott has been seeking a buyout – initially making an offer of \$160 per share. ([CNBC](#))

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