



**PennState**  
Smeal College of Business



# **NITTANY LION FUND, LLC**

## **MONTHLY REPORT**

**December 2015**



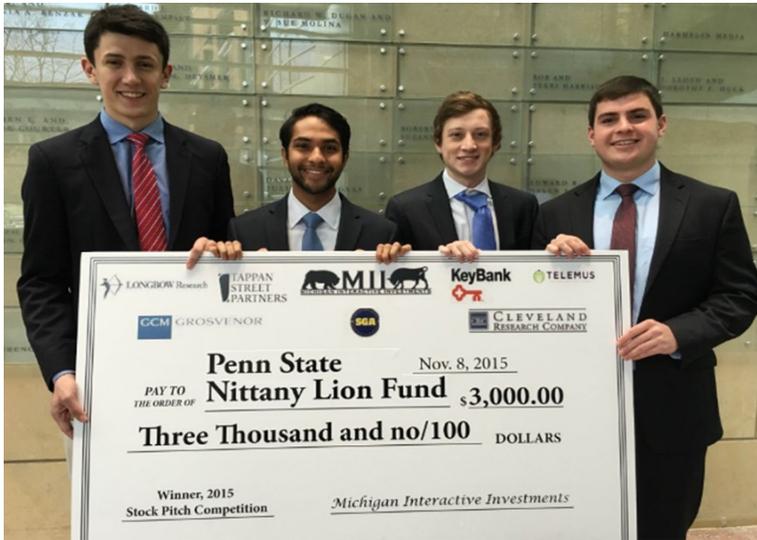


## University of Michigan Stock Pitch Competition

**November 2015**

A group of students from the Nittany Lion Fund recently won the University of Michigan stock pitch competition.

The event is the largest and most prestigious collegiate stock pitch competition, with more than 20 teams representing leading U.S. business schools including NYU, Penn, UVA, Michigan, UC-Berkeley, and Texas. The teams make a “long equity strategy” presentation to a panel of industry professionals, and the competition includes preliminary and final rounds. The winning investment idea presented by the Penn State team was a buy for Ralph Lauren Corp. (RL).



The four students all credit their experience in the Nittany Lion Fund for their success in the competition. The Nittany Lion Fund is a \$7 million dollar student-managed, investor-owned equity fund. Ameya Naik, the Fund’s CIO, believes that the Fund has been

“integral in the success of its students due to the cultivation of a strong culture that promotes financial and technical abilities, while also instilling the ever-necessary traits of accountability and dedication.” Aleksei Cremo notes that “The Nittany Lion Fund teaches you what makes a good stock. Not only are we constantly searching for good investments, but we are forced to defend our losers each day. The level of conviction needed behind each stock that I have ever pitched in the Fund was absolutely the driving force that prepared me for this stock pitch competition.” Michele Carchedi believes that “The Nittany Lion Fund gives students the opportunity to manage money in a real world situation that not only builds the technical knowledge needed to make informed investment decisions, but more importantly builds critical thinking skills needed to answer the toughest questions people might ask.”

The four Penn State seniors have already accepted investment banking positions at major Wall Street firms. Ameya Naik will be starting his career at Goldman, Sachs & Co., Aleksei Cremo will be joining Perella Weinberg Partners, Michele Carchedi will be starting at Bank of America Merrill Lynch, and Vlad Munteanu has accepted a position at Citigroup.

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## Stock Pick of the Month

November 2015



During the month of November, Valero returned 11.30% nominally, a relative outperformance of 9.01%. This past month, WTI crude oil prices have been battered down to below \$40/bbl. A number of factors affected pricing, one being the continued divergence of active onshore rigs and domestic crude oil inventories. Baker Hughes has reported a total rig count of 545 with three straight weeks of declines, while the EIA has reported crude oil inventories at 489.4 MM bbls with ten straight weeks of increases.

The opposite movement shows the tremendous lack of demand, due to both seasonal and non-seasonal factors. The low demand has generated an even larger oversupply and prices have reflected that. Economic strength has also attributed to lower prices as the U.S. dollar has gained strength. A strong job market and Janet Yellen stating a likely rate hike increase in December have effectively lowered prices. The continued low price environment has benefited Valero profit margins and led to outperformance.



## CIO Market Commentary

November 2015

November was a quiet month in terms of broader market volatility. Despite major changes in market expectations of when the Federal Reserve is going to make its initial Fed Funds hike, investors could seem to determine if the move would be a net positive or negative. The S&P 500 traded within a 75 point range over the course of the month. Additionally, Black Friday shopping further substantiated the growing trend of e-commerce, as in-store sales were down 1.5% while online sales rose 14%. The Paris attacks moved markets, bringing global attention to security threats and the geopolitical tension in the Middle East.

Coming into the month, expectations for a December rate hike were roughly 30% according to the Fed Funds futures. After a CPI reading that brought y/y core inflation to 1.9%, comments by Fed governors urging the market to look past the first rate hike and focus on the subsequent pacing of rate hikes, and a stellar jobs report that showed an increase of 298,000 jobs, that probability jumped to just over 70%. As investors begin to price in the fact that Yellen will raise rates in December by 0.25%, the question now becomes "What will the pace of rate hikes be moving forward?" Recent commentary by the Fed governors would suggest that pacing will be slow, "data-dependent", and very different from Greenspan's methodology of raising rates by 0.25% at each FOMC meeting.

Black Friday retail numbers slightly underperformed expectations, with total holiday retail sales expected to increase by 3.7% y/y, lower than 2014's 4.1% gain, but higher than the 10-year average of 2.5% growth. The gain in sales was driven by online shopping, and more specifically by mobile shopping, which is estimated to have been the medium for 57% of the online revenue. This led online retailers like Amazon to perform well, as it received an estimated 35% of the total online revenue. Brick and mortar retail companies like Wal-Mart are attempting to leverage physical stores in their e-commerce operations with an in-store pickup option. One thing is for sure, store traffic is falling by the wayside.

The Paris attacks shocked the globe, as terrorists conducted a coordinated set of attacks that left hundreds dead. Defense stocks rose on the news, as investors priced in the increased likelihood of a proportionate rise in defense spending by developed economies in response. The attacks also played a role in political progress made between Russia and NATO, as Russia agreed to assist in destabilizing ISIS through military operations in the region, even after Turkey shot down a Russian jet that it claimed was flying in Turkish airspace. Domestically, the threat of ISIS activity has benefited Republican presidential candidates, who are seen as taking a harder line regarding military force abroad. Even with the presidential election eleven months away, it will be interesting to see how the market begins to price in the likelihood of either a Democratic or Republican president, which could have impacts on industries ranging from biotechnology to financial services.

Looking forward to December, investors will be waiting to see what Janet Yellen and the Fed do to the Fed Funds rate, if geopolitical tensions will subside in the Middle East and Syria, and how retail stocks will handle scrutiny throughout the remainder of the holiday season.



# NITTANY LION FUND, LLC | THE MONTHLY REPORT

## Sector of the Month

### Materials



The **Materials Sector** returned 3.88% nominally in November, a relative outperformance of 3.03%. Performance was driven by Sherwin-Williams' ability to capitalize on the rising housing markets and from the positive impact of low natural gas prices on LyondellBasell.

Sherwin-Williams returned 3.46% in November, trading up as the purchases of new single-family homes rose to a seasonally adjusted annual rate of 495 k in November, the highest level since 2007. Taylor Morrison Home Corp. reported a 15.00% y/y increase in November sales, while CalAtlantic Group Inc. posted an 8.00% increase. Existing home sales, which constitute 90.00% of the market, are also expected to reach their best sales level in 8 years.

LyondellBasell returned 3.13% in November, trading up as natural gas stockpiles rose to 4.10% above their five-year average. Natural gas prices have slumped for more than few weeks on worries that moderate weather will limit indoor-heating demand and keep the market oversupplied. Most weather forecasters stated the El Nino weather phenomenon is likely to bring a warm winter to many of the country's largest markets for natural gas. This has resulted in a low natural gas prices environment which has strongly benefited LyondellBasell.



## Mergers and Acquisitions

### Financials Lead Analyst — Ed Goodall

Across nearly all economic sectors this year, the mergers & acquisitions (M&A) environment has been particularly strong. Whether it is due to tax benefits, a low cost of debt financing, or operational efficiencies, companies have been eager to seek inorganic growth. Although financials companies are often associated with being the ones to execute such deals, the M&A market for financials companies has also been very active. The merger of Ace and Chubb in October for \$28 bn and GE Capital's sale of \$30 bn in assets to Wells Fargo are amongst the notable deals this year. However, one deal in particular, BB&T's acquisition of Susquehanna and National Penn Bancshares, highlights a very interesting trend within Financials M&A.

Deposit acquisition has been a main theme for regional banks lately, which has been driven primarily by the low interest rate environment. Whereas larger money center banks have a large diversity of fee-based businesses that decrease their sensitivity to a change in rates, regional banks are very concentrated in their operating activities. They rely heavily on making a profit via net interest margin, and therefore are extremely sensitive to changes in interest rates. In a low interest rate environment, such as the one that the U.S. economy is currently in, regional banks suffer because the net interest margin is so low.

BB&T is one example of a regional bank that has consequently looked to increase its deposit base. This stable source of funding is good for enhancing business activities and increases the fee-based income potential for BB&T. Fee-based income is immune to changes in interest rates, and therefore banks typically like to have a large portion of revenue derived from fees. Although this increase in revenue is positive for BB&T and other regional banks, there is the downside of increased expenses associated with additional branches, customers, and acquisition integration, which hurt BB&T in its Q3 earnings results.

Other regional banks have consequently followed suit. New York Community Bancorp, which lacked a large retail deposit base, acquired Astoria Financial this year for this very reason. M&T Bank finally received approval this year to acquire Hudson City Bancorp as well, showing that federal regulators are much more willing to accept bank mergers & acquisitions than they were three years ago when the deal was announced.

Even though it appears as though the Federal Reserve will raise rates in the near future, it does not look like this trend will slow down anytime soon. Net interest margins will still be tight in the near term, leaving banks to look at inorganic opportunities as a way to grow their bottom line.



## NITTANY LION FUND, LLC | THE MONTHLY REPORT

### SECTOR SUMMARIES – Month Ended November 30th



**Consumer Discretionary** returned (0.80%) nominally this month, a relative underperformance of 0.56%. The Sector's best performing holding this month was Toll Brothers, trading up 3.36% nominally. Toll Brothers released preliminary 4Q2015 earnings on November 9, which beat consensus estimates. The Sector's worst performing holding this month was Chipotle Mexican Grill, returning (9.48%) nominally. Chipotle's trade down was largely attributable to the recent E. coli outbreak and management cutting its same-store sales forecasts for 4Q2015 by 8.0% to 11.0%

**Consumer Staples** returned (1.74%) nominally this month, a relative underperformance of 0.65%. The Sector's best performing holding this month was Anheuser Busch, trading up 7.65% nominally. Anheuser Busch continually experienced positive sentiment over the FTC approval of its SABMiller merger during the month through the divestment of SABMiller's stake in its MillerCoors joint venture for \$12 bn and the proposed sale of the Peroni and Grosch brands for \$1 bn. The Sector's worst performing holding this month was CVS Health, returning (4.75%) nominally. CVS Health suffered during the month from the proposed merger between Walgreens Boots Alliance and the Rite Aid Corporation which increased concerns that CVS Health could possibly lose U.S. market share from the combined entity

**Energy** returned (0.38%) nominally this month, a relative underperformance of 0.13%. The Sector's best performing holding this month was Valero Energy, trading up 9.01% nominally. Valero's profit margins have benefited from the strong US dollar, the global oversupply

of crude oil, and crude oil inventory increases. The Sector's worst performing holding this month was Enterprise Products Partners, returning (8.11%) nominally. Enterprise Products Partners has been negatively affected by the low crude oil price environment, as analysts speculate a decrease in throughput

**Financials** returned 3.19% nominally this month, a relative outperformance of 1.28%. The Sector's best performing holding this month was BB&T, trading up 3.96% nominally. In November, BB&T successfully completed the integration of its Susquehanna Bancshares acquisition acquired earlier this year. The Sector's worst performing holding this month was Prologis, returning 0.05% nominally. In November, market sentiment regarding a U.S. interest rate hike by the Federal Reserve increased significantly following statements by Janet Yellen that the economy was prepared for an increase in December

**Healthcare** returned 1.99% nominally this month, a relative outperformance of 2.42%. The Sector's best performing holding this month was Teva Pharmaceutical, trading up 6.32% nominally. In November the FDA designated Teva Pharmaceutical's SD-809 a Breakthrough Therapy for the treatment of patients with moderate-to-severe tardive dyskinesia. The Sector's worst performing holding this month was Pfizer, returning (3.10%) nominally. Pfizer's underperformance is largely attributable to its Phase III clinical trial assessment of its drug Lyrica for the treatment of chronic post-traumatic peripheral neuropathic pain failed to achieve its primary endpoint of a statistically valid reduction in pain from baseline to week 15



## SECTOR SUMMARIES – Month Ended November 30th



**Industrials** returned 1.87% nominally this month, a relative outperformance of 0.94%. The Sector's best performing holding this month was Knight Transportation, trading up 4.33% nominally. Reports that the Company may acquire Con-way's truckload business from the Company's acquirer, XPO Logistics, drove the stock up during the month. The Sector's worst performing holding this month was Northrop Grumman, returning (0.74%) nominally. Slower contract award volume suppressed the Company's trading

**Information Technology** returned 2.97% nominally this month, a relative outperformance of 2.08%. The Sector's best performing holding this month was Fortinet, trading up 4.83% nominally. Fortinet recovered some of the ground it lost when reporting 3Q earnings and expanded its threat prevention portfolio to include virtualized infrastructure protection. The Sector's worst performing holding this month was Verint, returning (1.53%) nominally. Verint continued to trade down as cyber security stocks reported weaker than expected 3Q2015 earnings and cut guidance to concerns with foreign exchange pressures and weaker global demand

**Materials** returned 3.88% nominally this month, a relative outperformance of 3.03%. The Sector's best performing holding this month was Sherwin-Williams, trading up 3.46% nominally. New single-family homes sales rose to a seasonally adjusted annual rate of 495 k in October, the highest level since 2007. This has resulted in an increasing demand for Sherwin-Williams' paint products. The Sector worst performing holding this

month was Dow Chemical, returning 0.89% nominally. The EPA planned to withdraw its approval of Dow Chemical's herbicide license, suggesting that the weed killer is more toxic to surrounding plants than previously thought

**Telecommunications** returned (1.24%) nominally this month, a relative outperformance of 0.01%. The Sector's best performing holding this month was AT&T, trading up 0.48% nominally. On Friday, November 13, AT&T launched a new Mexico Roaming Bonus plan, which allows users to add roaming options for Mexico to AT&T's Mobile Share Value plans at no additional charge. The Sector's worst performing holding this month was Verizon, returning (3.05%) nominally. On Friday, November 13, Verizon announced that it will start charging a \$20.00 fee to cover the costs of activating any new device on a Verizon plan and that the Company will raise the rate of it's unlimited data plan

**Utilities** returned (2.36%) nominally this month, a relative underperformance of 0.23%. The Sector's best performing holding this month was NiSource, trading up 0.16% nominally. NiSource benefited from Indiana's strong economy, with the state's GDP outpacing the national level by 1.20%. The Sector's worst performing holding this month was Dominion Resources, returning (5.68%) nominally. Dominion was ordered to refund customers \$20.00 MM in overpaid bills and continues to face scrutiny from local governments and environmental groups over a \$144.00 MM transmission line being constructed in Virginia



# NITTANY LION FUND, LLC | THE MONTHLY REPORT

## NITTANY LION FUND | PORTFOLIO ANALYSIS

### PORTFOLIO OVERVIEW

Year Beginning Portfolio Value	\$6,868,263.20
Month Beginning Portfolio Value	\$7,130,513.54
Month Close Portfolio Value	\$7,211,772.75
Cash Balance	\$448,123.69

### PERFORMANCE

Performance	Monthly	YTD	Inception
Nittany Lion Fund	1.14%	5.00%	6.46%
S&P 500 Index	0.30%	3.03%	7.57%
NLF vs. S&P 500 <sup>2</sup>	0.84%	1.97%	(1.03%)

### KEY STATISTICS

Key Statistics	NLF
Portfolio Beta	0.99
Sharpe Ratio	0.42
Volatility (26 week)	14.08%
Weighted Ave. Market Value	\$162.49 billion
P/E (NTM)*	19.55
YTD Turnover Ratio	53.74%
Annualized Dividend Yield	1.78%

### SECTOR ANALYSIS

Sector Analysis	Monthly	S&P	Relative
Consumer Discretionary	(0.80%)	(0.24%)	(0.56%)
Consumer Staples	(1.74%)	(1.10%)	(0.65%)
Energy	(0.38%)	(0.24%)	(0.13%)
Financials	3.19%	1.89%	1.28%
Healthcare	1.99%	(0.41%)	2.42%
Industrials	1.87%	0.93%	0.94%
Information Technology	2.97%	0.87%	2.08%
Materials	3.88%	0.83%	3.03%
Telecommunications	(1.24%)	(1.26%)	0.01%
Utilities	(2.36%)	(2.14%)	(0.23%)

### CURRENT HOLDINGS

Current Holding	Ticker	Purchase Date	Purchase Price	Price as of 10/31/15 or Purchase <sup>1</sup>	Price as of 11/30/2015	Monthly Return
Walt Disney Co/The	DIS	4/13/2012	\$41.85	\$113.74	\$113.47	-0.24%
Dollar General Corp	DG	5/13/2015	\$73.73	\$67.77	\$65.41	-3.48%
Comcast Corp	CMCSA	6/15/2015	\$57.65	\$62.62	\$60.86	-2.81%
Toll Brothers Inc	TOL	7/6/2015	\$38.43	\$35.97	\$37.18	3.36%
NIKE Inc	NKE	3/10/2015	\$96.73	\$131.03	\$132.28	0.95%
Chipotle Mexican Grill Inc	CMG	4/24/2015	\$635.80	\$640.23	\$579.55	-9.48%
AutoZone Inc	AZO	7/27/2015	\$672.59	\$784.41	\$783.77	-0.08%
Anheuser-Busch InBev SA/NV	BUD	10/20/2014	\$106.93	\$119.33	\$128.46	7.65%
CVS Health Corp	CVS	7/7/2014	\$78.36	\$98.78	\$94.09	-4.75%
Kroger Co/The	KR	6/16/2014	\$23.54	\$37.80	\$37.66	-0.37%
Procter & Gamble Co/The	PG	2/28/2014	\$78.59	\$76.38	\$74.84	-2.02%
Reynolds American Inc	RAI	10/16/2013	\$25.46	\$48.32	\$46.25	-4.28%
PepsiCo Inc	PEP	11/4/2015	\$100.71	\$102.19	\$100.16	-1.99%
EOG Resources Inc	EOG	11/11/2014	\$98.57	\$85.85	\$83.43	-2.82%
Enterprise Products Partners L	EPD	4/1/2014	\$35.24	\$27.63	\$25.39	-8.11%
Halliburton Co	HAL	5/21/2013	\$44.93	\$38.38	\$39.85	3.83%
Valero Energy Corp	VLO	10/4/2013	\$34.12	\$65.92	\$71.86	9.01%
Exxon Mobil Corp	XOM	9/13/2011	\$71.55	\$82.74	\$81.66	-1.31%
Allstate Corp/The	ALL	3/11/2013	\$49.11	\$61.88	\$62.76	1.42%
BlackRock Inc	BLK	3/16/2015	\$373.77	\$351.97	\$363.72	3.34%
American International Group I	AIG	3/26/2015	\$54.27	\$63.06	\$63.58	0.82%
MetLife Inc	MET	7/16/2015	\$57.83	\$50.38	\$51.09	1.41%
Goldman Sachs Group Inc/The	GS	5/30/2012	\$94.88	\$187.50	\$190.02	1.34%
JPMorgan Chase & Co	JPM	2/18/2014	\$58.55	\$64.25	\$66.68	3.78%
Prologis Inc	PLD	1/2/2014	\$36.80	\$42.73	\$42.75	0.05%
BB&T Corp	BBT	10/28/2015	\$37.29	\$37.15	\$38.62	3.96%
Wells Fargo & Co	WFC	7/9/2010	\$29.41	\$54.14	\$55.10	1.77%
Teva Pharmaceutical Industries	TEVA	11/2/2015	\$60.84	\$59.19	\$62.93	6.32%
Gilead Sciences Inc	GILD	3/26/2014	\$73.79	\$108.13	\$105.96	-2.01%
iShares Nasdaq Biotechnology E	IBB	5/19/2014	\$231.81	\$325.46	\$334.37	2.74%
Pfizer Inc	PFE	8/13/2015	\$33.41	\$33.82	\$32.77	-3.10%
Cardinal Health Inc	CAH	11/16/2015	\$85.98	\$82.20	\$86.85	5.66%
Medtronic PLC	MDT	1/2/2014	\$57.25	\$73.92	\$75.34	1.92%
Bristol-Myers Squibb Co	BMJ	11/18/2015	\$66.51	\$65.95	\$67.01	1.61%
Thermo Fisher Scientific Inc	TMO	4/2/2015	\$133.15	\$130.78	\$138.40	5.83%
Centene Corp	CNC	7/20/2015	\$74.75	\$59.48	\$57.75	-2.91%
Stericycle Inc	SRCL	11/18/2015	\$122.05	\$121.37	\$120.72	-0.54%
FedEx Corp	FDX	4/28/2014	\$134.93	\$156.05	\$158.54	1.60%
General Electric Co	GE	12/14/2011	\$16.68	\$28.92	\$29.94	3.53%
Northrop Grumman Corp	NOC	1/26/2015	\$155.30	\$187.75	\$186.36	-0.74%
Spirit AeroSystems Holdings In	SPR	6/6/2014	\$33.79	\$52.74	\$52.45	-0.55%
Knight Transportation Inc	KNX	10/28/2015	\$24.00	\$25.42	\$26.52	4.33%
Masco Corp	MAS	10/28/2015	\$29.00	\$29.00	\$29.91	3.14%
Apple Inc	AAPL	9/8/2011	\$60.94	\$119.50	\$118.30	-1.00%
Microsoft Corp	MSFT	3/2/2015	\$43.74	\$52.64	\$54.35	3.25%
Facebook Inc	FB	10/28/2014	\$80.10	\$101.97	\$104.24	2.23%
Fortinet Inc	FINI	2/25/2014	\$23.10	\$34.36	\$36.02	4.83%
Alphabet Inc	GOOGL	2/12/2007	\$260.91	\$737.39	\$762.85	3.45%
Texas Instruments Inc	TXN	3/30/2015	\$57.87	\$56.72	\$58.12	2.47%
Verint Systems Inc	VRNT	6/17/2013	\$34.00	\$47.58	\$46.85	-1.53%
Market Vectors Semiconductor E	SMH	6/23/2015	\$57.84	\$54.21	\$55.80	2.93%
Sherwin-Williams Co/The	SHW	11/2/2015	\$270.53	\$266.83	\$276.07	3.46%
LyondellBasell Industries NV	LYB	4/10/2013	\$60.45	\$92.91	\$95.82	3.13%
PPG Industries Inc	PPG	12/8/2009	\$29.68	\$104.26	\$105.74	1.42%
Dow Chemical Co/The	DOW	7/10/2015	\$50.96	\$51.67	\$52.13	0.89%
AT&T Inc	T	9/20/2011	\$29.14	\$33.51	\$33.67	0.48%
Level 3 Communications Inc	LVT	7/31/2015	\$50.55	\$50.95	\$50.83	-0.24%
Verizon Communications Inc	VZ	5/1/2009	\$30.29	\$46.88	\$45.45	-3.05%
Dominion Resources Inc/VA	D	6/9/2011	\$48.66	\$71.43	\$67.37	-5.68%
NextEra Energy Inc	NEE	4/27/2012	\$64.34	\$102.66	\$99.86	-2.73%
WEC Energy Group Inc	WEC	5/21/2009	\$18.53	\$51.56	\$49.32	-4.34%
NiSource Inc	NI	3/20/2015	\$16.88	\$19.16	\$19.19	0.16%