Nittany Lion Fund Visits

Speakers

As part of the Goldman Sachs firm-wide campus visit to Penn State, Chris Conforti spent some time speaking to the Nittany Lion Fund Managers in the Rogers’ Family Trading Room. Conforti graduated from the Smeal College of Business in 2012 with a Bachelors of Science in both Finance and Economics. Currently, Conforti is a TMT Equity Capital Markets Associate at Goldman Sachs. Conforti shared many of his experiences working in San Francisco, the similarities and differences between New York and San Francisco, some of his most memorable moments working at Goldman Sachs, and the various opportunities the Firm provides to Penn State students.

In September, Bank of America Merrill Lynch visited Penn State and the Nittany Lion Fund. Brian Callahan, Managing Director and head of US Par Loan Trading and Head of Global Credit and Special Situations Electronics initiative, spoke to Fund Managers about what it means to work for Bank of America Merrill Lynch. He also highlighted how Fund Managers can find success in a highly competitive Wall Street environment. Callahan received his undergraduate degree in 1995 from Penn State University. After speaking more in-depth about how Bank of America Merrill Lynch is committed to developing careers and the traits that the Firm looks for when evaluating potential hires, Callahan spoke about his macroeconomic outlook on the bond market.

Steve Luber and Matthew Boss from J.P.Morgan paid a visit to one of the Nittany Lion Fund’s weekly meetings in September. Luber shed light on his time in U.S. Institutional Equity Sales at the firm while Boss spoke about the Equity Research division at the Investment Bank. Both spoke in-depth about their time at Penn State and the real world applications that the Nittany Lion Fund provides for Fund Managers at a young age. They also touched on the characteristics and skills that they believed are necessary to succeed at both an internship and full-time position at J.P.Morgan.
Nittany Lion Fund Tailgate

10 Year Anniversary

On Saturday, September 19, the Nittany Lion Fund hosted a 10th anniversary tailgate for alumni, investors, faculty, and student fund managers. The event took place on the Business Building lawn and featured speeches from the Dean of the Smeal College of Business, Charles Whiteman; Chief Executive Officer of the Nittany Lion Fund, Dr. Woolridge; Chairman of the Board of Directors, Arthur Miltenberger; former president of the Penn State Investment Association, Sachin Aggarwal; and current President of the Nittany Lion Fund, Chris Loggia.

Dean Whiteman began his speech about the Nittany Lion Fund by focusing on how it offers a distinctive experience for college students, one that is different from other universities across the United States. Whiteman ended his speech by introducing Dr. Woolridge who went on to speak heavily about his involvement with the Nittany Lion Fund over the last ten years. Dr. Woolridge shed light about the Nittany Lion Fund’s origins in early 2005, performance since inception, and increasing Wall Street prominence and placement for student Fund Managers. Dr. Woolridge then handed the stage off to Sachin Aggarwal who explained his desire to start the Nittany Lion Fund after serving as president of the Penn State Investment Association. Aggarwal mentioned William Schreyer’s visit to Penn State in 2002 as a pivotal point in helping making Nittany Lion Fund students more marketable to Wall Street firms. Focusing on the importance of alumni support in order to ensure the longevity of the Nittany Lion Fund, Arthur Miltenberger was able to reinforce much of what Dr. Woolridge had highlighted when speaking about Wall Street prominence. Speeches were concluded by Chris Loggia, the Nittany Lion Fund’s current president, who spoke about his unique experiences with the Nittany Lion Fund and how those experiences helped prepare him for his internship at Perella Weinberg Partners. Loggia also thanked the numerous investors and alumni who were present at the event for their effort in helping build the Nittany Lion Fund over the last ten years.

At the tailgate, many Alumni provided color about the numerous opportunities that the Nittany Lion Fund was able to provide for them. They went on to describe how the Fund offers a significant leg up when interning or working full time due to its real world responsibility and demanding expectations.
Stock Pick of the Month

September 2015

During the month of September, NiSource, Inc. returned 10.48% nominally, a relative outperformance of 11.77%. NiSource’s positive performance was primarily driven by the Company’s request for a rate increase and positive commentary on its ability to withstand potential stricter efficiency rules. Northern Indiana Public Service Company (NIPSCO), a NiSource company, submitted a request to increase its electric base rates starting in FY2016. NIPSCO has not submitted a rate increase request for five years, and in that time the costs to produce and distribute power have increased. The request will be answered by the Indiana Utility Regulatory Commission, and also contains evidence to support the rate increase. If the filing is unchanged, customer’s electric bills would rise by an average of $10.53 a month to $102.16.

Furthermore, news outlets such as Bloomberg reported that NiSource is in a strong position compared to peers should stricter efficiency rules arise due to state-authorized cost recovery and revenue adjustments, as well as the Company’s well-organized operations. NiSource’s long-standing efforts for sustainable business practice were also recognized by its addition to the Dow Jones Sustainability Index.

CIO Commentary

September 2015

September saw the continued volatile trading that has characterized recent months. Janet Yellen’s decision to keep rates at zero, and her press conference, which featured the use of the word “China” 16 times, shocked global markets. Investors were surprised by the degree to which the Fed was factoring international developments into its future expectations of the U.S. economy. A continuing dichotomy of U.S. and international economic performance has created uncertainty in the markets, as the battle to determine the net effect on company earnings starts to ramp up.

Chairwoman Yellen’s dovish comments moved markets, even though investors already expected the Fed to delay a rate hike for at least one more meeting. What traders had not priced in was the level of importance that Yellen and her peers were giving to economic progress overseas, primarily the uncertainty over Chinese demand for goods and commodities. Additionally, Yellen referenced the Fed’s dual mandate, but gave much greater importance to the inflation component, stating that unemployment could run below its NAIRU level for some time before warranting hawkish policy. These market revelations pushed back expectations of a rate hike to a December consensus. In turn, a selloff of the broader equity markets ensued, hurting major banks while giving a boost to high-dividend stocks.

Concerns about a global deleveraging cycle rose during September, as Brazil continued a political and economic meltdown, losing its investment-grade credit rating. Lack of confidence in Abenomics in Japan has sown concerns about the structural integrity of the country’s economy. An inability to expand GDP will impact Japan’s options in dealing with its massive debt burden, and any uncertainty by investors will translate to higher borrowing costs, further exacerbating issues for Abe and the government. Smaller oil-dependent nations continue to struggle, as Venezuela teeters on the brink of default, staying afloat with asset sales and domestic austerity measures. Reports also indicated that Saudi Arabia liquidated $70 billion in investment securities to fund its budget, signaling the early stages of a cash crunch brought about by the OPEC leader.

Moving forward, there should be a continued focus on domestically-focused businesses, especially in cyclical industries centered around either the consumer or technology. The U.S economy has benefited from rising consumer confidence, at annual highs, and an upward revision of second quarter GDP to 3.9%. Increasing consumer and business sentiment will drive further consumption and investment, which was revised up to 4.1% after being suppressed in previous quarters. A rebounding housing market and rising business investment/nonresidential construction should help continue the trend of strong U.S. GDP growth through the end of 2015.
The Materials Sector returned (0.33%) nominally in September, a relative outperformance of 3.94%. Performance was driven by LyondellBasell as rebounds in crude oil prices benefited the Company's cost advantage relative to global peers.

LyondellBasell returned (2.37%) nominally in September as the Company announced plans for further expansion in Texas and Gulf Coast in FY2016. Bob Patel, CEO of LyondellBasell indicated that the Company plans to spend $4.00 bn through 2020 in these regions to take advantage of the low cost oil environment. These plants will allow the chemical manufacturing giant to produce more polyethylene, a chemical component used in different industries. Additionally, in September, management indicated that sales continued to be strong in US and Europe while sales in China have stagnated. The Company’s operations are still running at 12.00% efficiency, above the industry average and this is likely to increase to 15.00% in FY2016. Its current production of ethylene is $0.10 per pound and LyondellBasell is selling at $0.50 per pound to its customers, giving it a 80.00% profit margin. The Company also planned to add another 2.5 bn pounds of production to its current 9.8 bn of production in FY2016.

Dow Chemical returned (3.11%) nominally in September after Dow AgroSciences, a wholly owned subsidiary of Dow Chemical, announced a license agreement to Critical Path, a biotechnology research institute. This license will provide Critical Path the method to detect multiple proteins in plants using mass spectroscopy. The Company hopes that with this new collaboration, it could accelerate the development for farming products and expand profit margins.

The Business Investment Cycle

Industrials Lead—Tim Farley

Technology is the future. As digital analytics and enterprise software systems become more prevalent for large corporations, new orders of non-defense capital goods has begun to fade, most recently falling 0.2% in August. This is due to the relatively constant levels of capital expenditures that CFOs have to maintain, and the increased focus on technology squeezing out durable goods capital spending. Investments in technology now represents 40% of total capital equipment investment, the highest levels ever recorded.

Increased workforce productivity drove the economic boom of the late 1990’s, boosted by the onset of the internet and other technological innovations. During the second half of the 1990’s, workforce productivity averaged 3.5% growth. Since the conclusion of the Great Recession in 2009, the U.S. has averaged 1.3% growth, significantly lower than the 2.3% average annual growth seen over the last 30 years. Some economists believe that this is a secular trend rather than a cyclical one, and that the current waves of technological innovations do not carry the same weight as they once did. This is due to the much smaller marginal change in efficiency of new systems relative to the old ones, compared to the massive shift from paper to network-connected computers seen in the 1990’s.

In theory, technology would be expected to boost worker productivity. However, workforce demand for legacy systems is rarely taken into account. In simple terms, employees spend years working with a certain enterprise software system, or data analytics platform, and while the newer option may have more features and higher efficiency, the training costs for the workforce and the initial hit to company productivity make the investment look, in hindsight, unnecessary. A recent business executive survey showed that only 35% of executives believed that their investments in digital technology had met or exceeded expectations. Only 26% expressed the same sentiment about investments in data analytic tools. As more focus is put on technology infrastructure projects, and as those projects underperform expectations, aggregate business investment will continue to suffer, contributing to the increasingly worrisome weak global demand picture, the main talking point of the market at the moment.

This weak global macroeconomic picture contributes to the lack of durable goods capital investment as well. As John Maynard Keynes discovered, “animal spirits”, or investor sentiment, plays a major role in determining the level of capital spending that companies are willing to commit to. Pre-financial crisis (2004-2007), the U.S. recorded annual nonresidential fixed investment growth of 6.3%, and in 2Q2015, the U.S. reported 3.2% annualized growth. These numbers are especially concerning given the massive difference in interest rates during the two periods, with investors from 2004-2007 still investing heavily despite the higher borrowing costs.

The declining level of business investment negatively impacts global growth, and vice versa, creating a vicious cycle of weak investor sentiment. Systematically deflated investor sentiment will hold back business investment of both durable goods and technological projects and, in the process, will provide a serious headwind to global economic growth. As attractive returns on investment opportunities become less common for both investors and companies, the demand for cash will decline relative to supply, and over the long run, interest rates will fall.
Consumer Discretionary returned 2.16% nominally this month, a relative outperformance of 0.62%. The Sector’s best performing holding this month was Nike, trading up 10.04% nominally. Nike reported 1Q2016 earnings on September 24. Nike reported adjusted EPS of $1.34, beating consensus estimates of $1.19 per share, on revenues of $8.41 bn, beating consensus estimates of $8.22 bn. The Sector’s worst performing holding this month was Toll Brothers, returning (7.38%) nominally. On Tuesday, September 29, the S&P Case-Shiller Index reported that home prices declined 0.2% m/m in July, missing consensus estimates of a 0.1% m/m increase.

Consumer Staples returned 3.47% nominally this month, a relative outperformance of 1.64%. The Sector’s best performing holding this month was Reynolds American, trading up 5.72% nominally. Reynolds American traded up on the month due to the $5 bn sale of international distribution rights of Natural American Spirit to Japan Tobacco as well as decreased sentiment behind the raising of interest rates as Reynolds American is a high dividend yielding stock. The Sector’s worst performing holding this month was Archer Daniels Midland, returning (7.87%) nominally. Archer Daniels Midland has traded down on the month due to research reports released by banks such as Credit Suisse that have decreased their ratings on the Company because of a negative forecast on the American ethanol industry that has been threatened with reduced regulation.

Energy returned (1.54%) nominally this month, a relative outperformance of 1.37%. The Sector’s best performing holding this month was Valero Energy, trading up 1.28% nominally. Valero Energy benefited from generally lower WTI crude oil pricing as Chinese crude oil demand weakened coupled with volatility in emerging markets. The Sector’s worst performing holding this month was Energy Transfer Equity, returning (25.81%) nominally. Energy Transfer Equity experienced lower throughput as domestic oil production stagnated as well as trading down due to negative sentiment around its acquisition of Williams Cos.

Financials returned (2.84%) nominally this month, a relative flat performance. The Sector’s best performing holding this month was Allstate, returning (0.07%) nominally. This performance was mainly attributable to significant ratings increases by investment firms following a sharp selloff in shares of Allstate after the Company released 2Q2015 earnings. The Sector’s worst performing holding this month was Goldman Sachs, returning (7.87%) nominally. This performance was mainly attributable to the Company facing significant downward pressure after the Federal Reserve decided to delay raising interest rates till the foreseeable future in its September Federal Open Market Committee meeting.

Healthcare returned (4.30%) nominally this month, a relative underperformance of 1.51%. The Sector’s best performing holding this month was Thermo Fisher Scientific, returning (2.46%) nominally. At the beginning of the month, several of Thermo Fisher’s research instruments, including its Prelude MD HPLC and Endura MD mass spectrometer, were cleared in Europe for general laboratory uses. The Sector’s worst performing holding this month was Centene, returning (12.14%) nominally. Small cap and mid cap companies within the
Sector experienced a sharp trade down as the Nasdaq plunged at the end of the month, driving investors away from riskier firms.

**Industrials** returned (1.61%) nominally this month, a relative underperformance of 0.76%. The Sector’s best performing holding this month was General Electric, trading up 1.61% nominally. General Electric divested assets from its GE Capital division, including its railcar business and private equity division, and continued progress on its takeover of Alstom. The Sector’s worst performing holding this month was Cummins Inc., returning (10.82%) nominally. Oversupply in machinery as a result of lower energy investment and decreased demand for agricultural products drove negative sentiment for all machinery companies.

**Information Technology** returned 0.05% nominally this month, a relative underperformance of 0.43%. The Sector’s best performing holding this month was Texas Instruments, trading up 3.51% nominally. This was due to Apple including four new TI chips in its new iPhone 6S and iPhone 6S Plus. The Sector’s worst performing holding this month was Verint, returning (19.09%) nominally. Verint missed 3Q2015 earnings estimates this month, and has continued to trade down due to negative investor sentiment regarding the poor guidance given in the earnings call.

**Materials** returned (0.33%) nominally this month, a relative outperformance of 3.94%. The Sector’s best performing holding this month was LyondellBasell, trading down (2.37%) nominally. The Company's large polyethylene plants have resulted in better cost-advantages compared to its peers despite being in a low oil price environment. The Sector's worst performing holding this month was Eastman Chemical, returning (10.68%) nominally. This is due to a low oil price environment that benefited international petrochemical companies more than the US firms.

**Telecommunications** returned (5.36%) nominally this month, a relative underperformance of 1.20%. The Sector’s best performing holding this month was AT&T, returning (1.87%) nominally. Citigroup upgraded its rating on AT&T to "Buy" from "Neutral," raising its price target to $37.00 from $32.81. The Sector’s worst performing holding this month was Verizon Communications, returning (5.43%) nominally. At an investor conference, CEO Lowell McAdam announced that earnings for the next fiscal year will likely be flat y/y.

**Utilities** returned 4.35% nominally this month, a relative outperformance of 1.29%. The Sector's best performing holding this month was NiSource, trading up 10.48% nominally. NiSource has benefited from the expectation of bringing more low-cost natural gas to market from its investments in several small pipeline construction projects in the Marcellus shale. The Sector's worst performing holding this month was NextEra Energy, returning (0.87%) nominally. NextEra Energy has faced headwinds from local lawmakers calling for a further study of the potential benefits and costs from the Company’s proposed acquisition of Hawaiian Electric Industries.
NITTANY LION FUND | PORTFOLIO ANALYSIS

PORTFOLIO OVERVIEW

Year Beginning Portfolio Value $6,868,263.20
Month Beginning Portfolio Value $6,784,152.69
Month Close Portfolio Value $6,732,027.03
Cash Balance $354,101.36

PERFORMANCE

Performance Monthly YTD Inception
Nittany Lion Fund (0.77%) (1.98%) 6.46%
S&P 500 Index 0.18% (3.71%) 7.57%
NLF vs. S&P 500 2 (0.94%) 1.73% (1.03%)

KEY STATISTICS

Key Statistics NLF
Portfolio Beta 1.01
Sharpe Ratio 0.20
Volatility (26 week) 12.51%
Weighted Avg. Market Value $143.68 billion
P/E (NTM) 22.59
YTD Turnover Ratio 43.31%
Annualized Dividend Yield 1.93%

SECTOR ANALYSIS

Sector Analysis Monthly S&P Relative
Consumer Discretionary 2.16% 1.53% 0.62%
Consumer Staples 3.47% 1.80% 1.64%
Energy (1.54%) (2.87%) 1.37%
Financials (2.84%) (2.84%) 0.00%
Healthcare (4.30%) (2.84%) (1.51%)
Industrials (1.61%) (0.86%) (0.76%)
Information Technology 0.05% 0.48% (0.43%)
Materials (0.33%) (4.11%) 3.94%
Telecommunications (5.36%) (4.20%) (1.20%)
Utilities 4.35% 3.03% 1.29%