



**PennState**  
Smeal College of Business

# **NITTANY LION FUND, LLC**

## **MONTHLY REPORT**

**March 2016**



# NITTANY LION FUND, LLC | THE MONTHLY REPORT

## Credit Suisse Visit

### Lara Warner

On February 26, Lara Warner from Credit Suisse visited the Nittany Lion Fund Managers in the Rogers Family Trading Room. In 1988, Lara graduated from the Pennsylvania State University with a B.S. in Finance. Lara currently takes on the role as the Chief Compliance and Regulatory Affairs Officer (CCRO) in addition to being a member on the Executive Boards of Credit Suisse Group and Credit Suisse, based in Zurich. Prior to being the CCRO, Ms. Warner was the Chief Financial Officer (CFO) for the Investment Banking division from 2010 to 2015 as well as the Chief Operating Officer (COO) in the same division from 2013 until her appointment as CCRO. Before joining Credit Suisse in 2002, Lara was a senior analyst at Lehman Brothers from 1999 to 2001, and the Director of Investor Relations and CFO for AT&T's Competitive Local Exchange for 10 years.

Fund Managers were delighted to hear Ms. Warner speak about her experiences in many diverse industries at Credit Suisse, Lehman Brothers, and AT&T. As Credit Suisse's CCRO, Ms. Warner is responsible for all compliance and regulatory matters for the Firm globally and across all businesses and functions. In response to a question from the Nittany Lion Fund's Lead Analyst of the Financials Sector, Lara went on to discuss the degree of profitability for European banks following the global Financial Crisis. With Credit Suisse being a Switzerland-based bank, her feedback was very informative to all Fund Managers. Ms. Warner offered invaluable insight to student Fund Managers, who were very intrigued to learn about what it means to work for Credit Suisse and her role as CCRO at the Firm.



## Little Lion Fund

### State College Area High School

Just a couple miles off of Penn State's campus is the State College Area High School, where a select group of students are managing a long-only equity fund with approximately \$55.00 k of assets under management. State High's Little Lion Fund, which was established in 2012, is similar to the Nittany Lion Fund in a sense that all of the Little Lion Fund's money is provided by independent investors, and not from the school's endowment. Current Nittany Lion Fund Managers Ed Goodall and Fred Zheng are former members of the Little Lion Fund while they were students at State High, and both have shared very positive experiences of being exposed to the financial markets and managing an investment portfolio at a young age. The Little Lion Fund took a recent trip to the Rogers Family Trading Room to sit in on the Nittany Lion Fund class and ask questions to current Fund Managers. This experience allowed State High students to gain some helpful insight on their respective sectors, while Nittany Lion Fund Managers were able to develop an alternative perspective on investing in the markets.

#### INSIDE THIS ISSUE:

### page 2

- **Credit Suisse Visit**  
— Lara Warner
- **Little Lion Fund**  
— State College Area High School

### page 3

- **CIO Commentary**  
— Tim Farley

### page 4

- **Sector of the Month**  
— Industrials
- **Stock Pick of the Month**  
— Spirit AeroSystems Holdings, Inc.

### page 5 & 6

- **Sector Summaries**

### page 7

- **Portfolio Analysis**



## **CIO Market Commentary**

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**February 2016**

Coming off of the worst January the markets had ever seen, February continued the trend of high volatility. With that being said, the market was essentially flat during the month. The lows of the year occurred on February 11, and then proceeded to rebound through the end of the month. Fears of the impact of negative interest rates, overblown concern for U.S. and European banks, speculation regarding OPEC oil production, and economic data that would suggest the U.S. economy is in a “sweet spot” in terms of action by the Federal Reserve.

In February, the Bank of Japan surprised investors by moving some of its borrowing rates into negative territory, following a similar move by the ECB in 2014. The difference in this case was the lack of communication with domestic lawmakers, and the investment community, prior to the move. As a result, the yen surprisingly strengthened as global market uncertainty increased, possibly due to the yen’s reputation as a funding currency for carry trades that capitalize on differing interest rate spreads between economies. Japanese politicians have begun to question “Abenomics” as monetary stimulus seems to have been ineffective thus far, and as interest income for the saver-dominated Japanese economy gets squeezed.

In the first half of the month, a frenzy of selling bank stocks and debt took place, as European banks came under special scrutiny. Reports had emerged that Deutsche Bank may not have the capital to pay its contingent convertible debt, magnifying the issue facing global banks: falling net interest margins and a flattening yield curve across the globe. Paired with falling revenue within FICC trading units, and the lack of mergers or capital raising, investment banks are faced with a bleak outlook in terms of growth. European banks drew the extra scrutiny due to the lack of strong capital reserves that U.S. banks were forced to establish, which would make the European financial system the first domino to fall in the event of another financial shock.

Many rumors came out during February regarding the status of OPEC and its production, after a Saudi Arabian “production freeze” deal with Russia in the beginning of the month bore no fruit. After initial euphoria from the market that it was a signal of Saudi Arabian cooperation, expectations came back to earth as analysis demonstrated that in the best case scenario, the supply glut would not be resolved until late 2016 at the earliest. Refiners began to sell off during the month as distillate inventories rose due to lack of demand, and crack spreads tightened in response.

Strong economic data at the end of the month, namely strong CPI, PPI, and relatively strong GDP data, signaled that the U.S. economy may not be as poorly positioned as investors expected in January. Investors took this as positive news, due to the continued dovish comments from Federal Reserve officials, even as the strong numbers were released. That means that a hike may still be off the table for at least a few more meetings, while still allowing corporate earnings to benefit from underlying economic growth.

With so many individual storylines being featured as reasoning for market movements, it will be interesting to see which will come to the forefront in March, as OPEC continues to hide its plans, and as the Fed will likely hold off from a rate hike, but with a potentially more hawkish tone to its statement than some are expecting.

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**Attention NLF Alumni!**

**The 2016 Monthly Report wants to hear from you!**

**If you have any interest in being featured in our future alumni**

**spotlight articles, please contact Morgan Austen at [morganausten96@gmail.com](mailto:morganausten96@gmail.com)**



## Sector of the Month

### February 2016

The Industrials Sector returned 4.01% nominally in February, a relative outperformance of 0.03%. Performance was driven by Spirit AeroSystems positive earnings report as well as reports of a "significant restricted contract."

Spirit AeroSystems returned 8.49% in February, trading up after the Company reported earnings on February 3, meeting expectations on the top line and beating expectations on the bottom line. The Company's financial results were driven by strong operating performance on mature programs such as the 737, A320, 777, and 787. Additionally, the Company provided strong FY2016 guidance even with incorporating lowered production from its largest customer, Boeing. Additionally, on February 17, the Company announced it received a "significant restricted contract" during the month as analysts reported the Company is likely to have been awarded work on the Long Range Strike-Bomber, one of the biggest aerospace defense contracts in the next 15-20 years.

Masco returned 6.86% in February, trading up on continued positive construction, housing, and consumer data and trends, which were noted in its February 9 earnings call. The Company reported adjusted EPS of \$0.29, beating consensus estimates of \$0.26, on revenues of \$1.72 bn, beating consensus estimates of \$1.71 bn as Management stated its results illustrate its ability to deliver consistent and profitable growth. Guidance was reiterated as its business remains on track with encouraging opportunities despite global economic ambiguity as the fundamentals driving its business remain strong through a robust housing market and strong consumer.



## Stock Pick of the Month

### February 2016



During the month of February, Spirit AeroSystems returned 8.49% nominally, a relative outperformance of 4.50%. On February 17, Spirit announced that it received a "significant restricted contract" during the month. Although management did not provide additional details about the contract, analysts reported that it is likely the Company has gained work on the Long Range Strike Bomber project, now named the B-21. Jefferies projected that the award could result in additional revenue of \$300.00 - \$600.00 MM annually, beginning in 5-6 years. The bank also said it would add diversity to the Company's operations, which currently derive 85.00% of its business from Boeing on mostly commercial aviation work. The day before Spirit's announcement, Boeing said it would stop protesting the award of the bomber contract to Northrop Grumman. Additionally on February 3, Spirit announced 4Q2015 earnings. The company met estimates of \$1.61 bn in sales and beat profit estimates with adjusted earnings per share of \$1.01. The Company reported strength in its A350 XWB and propulsion-segment operations.



SECTOR SUMMARIES – Month Ended February 29th



**Consumer Discretionary** returned (1.26%) nominally this month, a relative underperformance of 1.64%. The Sector's best performing holding this month was Amazon.com, trading up 3.47% nominally. Amazon.com's performance was mainly attributed to its focus on increasing Prime subscribers, expanding its high-margin fashion segment, and its recent deal with W.M. Morrison Supermarkets PLC to expand operations in the online grocery business. The Sector's worst performing holding this month was Ralph Lauren, returning (19.32%) nominally. Ralph Lauren reported 3Q2016 earnings of adjusted EPS of \$2.27, beating consensus estimates of \$2.13, on revenues of \$1.95 bn, missing consensus estimates of \$2.03 bn due to foreign currency fluctuations and weak North American sales.

**Consumer Staples** returned (1.25%) nominally this month, a relative underperformance of 1.38%. The Sector's best performing holding this month was Reynolds American, trading up 0.96% nominally. Reynolds American's outperformance was primarily driven by strong earnings reported by the Company in February, showing operating income growth in all four of the Company's segments as well as higher volumes on cigarettes and moist snuff. The Sector's worst performing holding this month was Pernod Ricard SA, returning (8.74%) nominally. Pernod Ricard SA underperformed in the month of February due to the instability in the European markets which greatly affects this holding as it is an ADR.

**Energy** returned (2.36%) nominally this month, a relative underperformance of 0.49%. The Sector's best performing holding this month was Schlumberger, trading up 4.98% nominally. On Thursday, February 11, European Union regulators granted unconditional clearance to the pending merger between Schlumberger and equipment firm Cameron. The Sector's worst performing holding this month was EOG Resources, returning (8.84%) nominally. On Thursday, February 26, EOG Resources reported 4Q2015 and FY2015

earnings, reporting adjusted EPS of (\$0.27), beating consensus estimates of (\$0.31), on revenues of \$1.80 bn, missing consensus estimates of \$2.18 bn.

**Financials** returned (3.84%) nominally this month, a relative underperformance of 0.93%. The Sector's best performing holding this month was Allstate, trading up 4.72% nominally. On Wednesday, February 3, Allstate released 4Q2015 earnings, reporting adjusted EPS of \$1.60, beating consensus estimates of \$1.40, on revenues of \$7.55 bn, missing consensus estimates of \$7.60 bn. The Sector's worst performing holding this month was American International Group, returning (11.12%) nominally. On Monday, February 1, BMO Capital downgraded AIG from "Outperform" to "Marketperform" amid Carl Icahn's attempts to split the Company into three separate businesses.

**Healthcare** returned (1.44%) nominally this month, a relative underperformance of 0.95%. The Sector's best performing holding this month was Medtronic, trading up 1.41% nominally. The Company benefited from FDA approvals for new products as well as successful label expansion for existing devices. The Sector's worst performing holding this month was Teva Pharmaceutical, returning (9.56%) nominally. The Company reported 4Q2015 earnings on February 11 in which it beat top and bottom line consensus estimates but noted concerns regarding soft specialty drug sales and slowing generic inflation.

**Industrials** returned 4.01% nominally this month, a relative outperformance of 0.03%. The Sector's best performing holding this month was Spirit AeroSystems, trading up 8.49% nominally. Spirit AeroSystems traded up following its February 3 earnings, which reported adjusted EPS of \$1.01, beating estimates of \$0.96, on revenues of \$1.61 bn, meeting estimates of \$1.61 bn, while providing EPS guidance above estimates despite the incorporation of lower production



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## SECTOR SUMMARIES – Month Ended February 29th



from its largest customer, Boeing. The Sector's worst performing holding this month was Stericycle, returning (5.33%). Stericycle traded down on lowered ratings, price targets, and estimates following its February 4 earnings, which reported adjusted EPS of \$1.11, beating estimates of \$1.08, on revenues of \$888.30 MM, missing estimates of \$899.80 MM as management provided weaker than expected guidance.

**Information Technology** returned (4.14%) nominally this month, a relative underperformance of 2.95%. The Sector's best performing holding this month was Market Vectors Semiconductor ETF, trading up 1.43% nominally. Semiconductor companies including Intel and Taiwan Semiconductor Manufacturing Company Ltd., each making up 17.92% and 14.19% of the ETF respectively, announced plans for production increases following weak forward guidance this earnings season. The Sector's worst performing holding this month was Microsoft, returning (7.64%) nominally. Microsoft traded down after the Company announced the acquisition of software app tool developer Xamarin for an estimated \$400.00 - \$500.00 MM.

**Materials** returned 7.08% nominally this month, a relative underperformance of 0.46%. The Sector's best performing holding this month was Sherwin-Williams, trading up 5.80% nominally. The Company continues to benefit from increasing its paints volumes and expanding its R&D to meet a growing demand. The Sector's worst performing holding this month was PPG Industries, returning 1.48% nominally. The Company's coatings segment continues to experience increased sales due to lower oil prices leading to stronger auto manufacturing activity.

**Telecommunications** returned 1.69% nominally this month, a relative underperformance of 0.97%. The Sector's best performing holding this month was AT&T, trading up 2.47% nominally. During the month of February, the Company revealed its plan to begin field testing its next-gen 5G technology by collaborating with Ericsson and Intel Corp. The Sector's worst performing holding this month was Verizon Communications, trading up 1.52% nominally. Late this month, ESPN filed a lawsuit against Verizon and stated that Verizon did not include ESPN in one of its FiOS TV sports networks that was promised in the contract by the Company.

**Utilities** returned 1.23% nominally this month, a relative underperformance of 0.69%. The Sector's best performing holding month was WEC Energy Group, trading up 2.03% nominally. WEC Energy Group traded up after Management gave EPS growth guidance of 6.00% to 8.00% and highlighted plans to invest \$1.50 bn yearly in capital investments during the Company's 4Q2015 earnings call. The Sector's worst performing holding this month was Dominion Resources, returning (3.12%) nominally. Dominion traded down as Maryland Attorney General and environmental groups filed a lawsuit challenging the Company's coal ash water permit for the Potomac River.



# NITTANY LION FUND, LLC | THE MONTHLY REPORT

## NITTANY LION FUND | PORTFOLIO ANALYSIS

### PORTFOLIO OVERVIEW

Year Beginning Portfolio Value	\$6,992,363.60
Month Beginning Portfolio Value	\$6,702,229.70
Month Close Portfolio Value	\$6,611,957.99
Cash Balance	\$347,148.01

### PERFORMANCE

Performance	Monthly	YTD	Inception
Nittany Lion Fund	(1.35%)	(5.44%)	5.21%
S&P 500 Index	(0.13%)	(5.09%)	6.47%
NLF vs. S&P 500	(1.21%)	(0.37%)	(1.19%)

### KEY STATISTICS

Key Statistics	NLF
Portfolio Beta	0.97
Sharpe Ratio	-0.32
Volatility (26 week)	15.74%
Weighted Ave. Market Value	\$155.24 billion
P/E (NTM)	19.36x
YTD Turnover Ratio	10.53%
Annualized Dividend Yield	2.17%

### SECTOR ANALYSIS

Sector Analysis	Monthly	S&P	Relative
Consumer Discretionary	(3.24%)	(5.11%)	1.97%
Consumer Staples	3.69%	0.65%	3.02%
Energy	(1.36%)	(3.02%)	1.71%
Financials	(8.25%)	(8.86%)	0.66%
Healthcare	(9.96%)	(7.59%)	(2.56%)
Industrials	(6.54%)	(5.74%)	(0.85%)
Information Technology	(2.79%)	(4.83%)	2.15%
Materials	(8.89%)	(10.57%)	1.88%
Telecommunications	4.52%	6.77%	(2.10%)
Utilities	7.46%	4.93%	2.40%

### CURRENT HOLDINGS

Current Holding	Ticker	Purchase Date	Purchase Price	Price as of 1/29/15 or Purchase	Price as of 2/29/15	Monthly Return
Amazon.com Inc	AMZN	2/19/2016	\$531.92	\$531.92	\$552.52	3.87%
AutoZone Inc	AZO	7/27/2015	\$672.59	\$767.39	\$774.57	0.94%
Comcast Corp	CMCSA	6/15/2015	\$57.65	\$55.71	\$57.73	3.63%
Consumer Discretionary Select	XLY	12/23/2015	\$78.51	\$74.11	\$74.44	0.45%
Home Depot Inc/The	HD	12/21/2015	\$130.46	\$125.76	\$124.12	-1.30%
NIKE Inc	NKE	3/10/2015	\$48.37	\$62.01	\$61.59	-0.68%
Ralph Lauren Corp	RL	12/7/2015	\$119.52	\$112.50	\$90.76	-19.32%
Walt Disney Co/The	DIS	4/13/2012	\$41.85	\$95.82	\$95.52	-0.31%
CVS Health Corp	CVS	7/7/2014	\$78.36	\$96.59	\$97.17	0.60%
JM Smucker Co/The	SJM	12/2/2015	\$121.68	\$128.32	\$127.57	-0.58%
PepsiCo Inc	PEP	11/4/2015	\$100.71	\$99.30	\$97.82	-1.49%
Pernod Ricard SA	PDRDY	12/16/2015	\$22.93	\$23.36	\$21.32	-8.74%
Procter & Gamble Co/The	PG	2/28/2014	\$78.59	\$81.69	\$80.29	-1.71%
Reynolds American Inc	RAI	10/16/2013	\$25.46	\$49.95	\$50.43	0.96%
Wal-Mart Stores Inc	WMT	12/7/2015	\$60.44	\$66.36	\$66.34	-0.03%
EOG Resources Inc	EOG	11/11/2014	\$98.57	\$71.02	\$64.74	-8.84%
Exxon Mobil Corp	XOM	9/13/2011	\$71.55	\$77.85	\$80.15	2.95%
Phillips 66	PSX	2/23/2016	\$79.03	\$79.03	\$79.39	0.46%
Schlumberger Ltd	SLB	2/10/2016	\$68.32	\$68.32	\$71.72	4.98%
Allstate Corp/The	ALL	3/11/2013	\$49.11	\$60.60	\$63.46	4.72%
American International Group I	AIG	3/26/2015	\$54.27	\$56.48	\$50.20	-11.12%
AvalonBay Communities Inc	AVB	2/10/2016	\$164.45	\$164.45	\$171.64	4.37%
BB&T Corp	BBT	10/28/2015	\$37.29	\$32.66	\$32.16	-1.53%
BlackRock Inc	BLK	3/16/2015	\$373.77	\$314.26	\$311.96	-0.73%
Goldman Sachs Group Inc/The	GS	5/30/2012	\$94.88	\$161.56	\$149.53	-7.45%
JPMorgan Chase & Co	JPM	2/18/2014	\$58.55	\$59.50	\$56.30	-5.38%
Prologis Inc	PLD	1/2/2014	\$36.80	\$39.47	\$38.46	-2.56%
Wells Fargo & Co	WFC	7/9/2010	\$29.41	\$50.23	\$46.92	-6.59%
Amgen Inc	AMGN	2/23/2016	\$147.98	\$147.98	\$142.28	-3.86%
Bristol-Myers Squibb Co	BMJ	11/18/2015	\$66.51	\$62.16	\$61.93	-0.37%
Cardinal Health Inc	CAH	11/16/2015	\$85.98	\$81.37	\$81.70	0.41%
Express Scripts Holding Co	ESRX	12/21/2015	\$86.94	\$71.87	\$70.38	-2.07%
Medtronic PLC	MDT	1/2/2014	\$57.25	\$75.92	\$77.39	1.94%
Pfizer Inc	PFE	8/13/2015	\$35.41	\$30.49	\$29.67	-2.69%
Teva Pharmaceutical Industries	TEVA	11/2/2015	\$60.84	\$61.48	\$55.60	-9.56%
Thermo Fisher Scientific Inc	TMO	4/2/2015	\$133.15	\$132.06	\$129.19	-2.17%
FedEx Corp	FDX	4/28/2014	\$134.93	\$132.88	\$136.88	3.01%
General Electric Co	GE	12/14/2011	\$16.68	\$29.10	\$29.14	0.14%
Masco Corp	MAS	10/28/2015	\$29.00	\$26.39	\$28.20	6.86%
Northrop Grumman Corp	NOC	1/26/2015	\$155.30	\$185.06	\$192.22	3.87%
Spirit AeroSystems Holdings In	SPR	6/6/2014	\$33.79	\$42.40	\$46.00	8.49%
Stericycle Inc	SRCL	11/18/2015	\$122.05	\$120.35	\$113.93	-5.33%
Accenture PLC	ACN	2/4/2016	\$102.38	\$102.38	\$100.26	-2.07%
Alphabet Inc	GOOGL	2/12/2007	\$260.91	\$761.35	\$717.22	-5.80%
Apple Inc	AAPL	9/8/2011	\$60.94	\$97.34	\$96.69	-0.67%
Facebook Inc	FB	10/28/2014	\$80.10	\$112.21	\$106.92	-4.71%
Market Vectors Semiconductor E	SMH	6/23/2015	\$57.84	\$49.72	\$50.43	1.43%
Microsoft Corp	MSFT	3/2/2015	\$43.74	\$55.09	\$50.88	-7.64%
Texas Instruments Inc	TXN	3/30/2015	\$57.87	\$52.93	\$53.02	0.17%
LyondellBasell Industries NV	LYB	4/10/2013	\$60.45	\$77.97	\$80.21	2.87%
PPG Industries Inc	PPG	12/8/2009	\$29.68	\$95.12	\$96.53	1.48%
Sherwin-Williams Co/The	SHW	11/2/2015	\$270.53	\$255.67	\$270.50	5.80%
AT&T Inc	T	9/20/2011	\$29.14	\$36.06	\$36.95	2.47%
Verizon Communications Inc	VZ	5/1/2009	\$30.29	\$49.97	\$50.73	1.52%
CMS Energy Corp	CMS	12/7/2015	\$35.40	\$38.88	\$39.56	1.75%
Dominion Resources Inc/VA	D	6/9/2011	\$48.66	\$72.17	\$69.92	-3.12%
NextEra Energy Inc	NEE	4/27/2012	\$64.34	\$111.71	\$112.82	0.99%
WEC Energy Group Inc	WEC	5/21/2009	\$18.53	\$55.23	\$56.35	2.03%