
AIM QUARTERLY



Greetings from AIM XXXVII

As the third quarter of 2013 comes to a close, Professors Jerry Langley and Frank Reilly continue to lead a group of 28 undergraduate analysts in managing the AIM portfolio. The first round valuations of existing holdings are underway, and each analyst is now selecting a stock for the second round.

The AIM XXXVII class recently had the pleasure of making the first-ever class trip to San Francisco, which provided a great overview of the money management industry and the entrepreneurial culture on the West Coast.

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Economic Outlook

GDP Growth

The most recent reading on US GDP growth came in at +2.50% (annualized) for Q2 2013. This represented an improvement versus Q1 2013 at 1.8%. The largest contributors to GDP growth were investment and consumption, which outweighed the decrease in government spending. Both investment and consumption were aided by the 3.4% increase in disposable income, a large improvement from the 8.2% decrease in Q1 2013.

Inflation

Following recent trends, inflation has continued to fall short of the Fed's target rate of 2%. According to the Bureau of Labor Statistics, over the past 12 months the Consumer Price Index has increased 1.5%, expanding a mere .1% in the month of August after increasing by .5% in June and .7% in July. The recent hikes have been led by oil prices, up 1.1% in August. The rise in oil prices has been mitigated in the same month by a 2.3% decline in the price of natural gas, and as a result the overall index was largely unchanged. On an annual basis, Energy Services and Medical Services continued to drive CPI growth, up 3.2% and 3.1% respectively. Though inflation will remain a major Fed concern, it is likely that under the purview Ben Bernanke's successor, particularly Janet Yellen, employment would emerge as the predominant mandate of the FOMC.

Monetary Policy

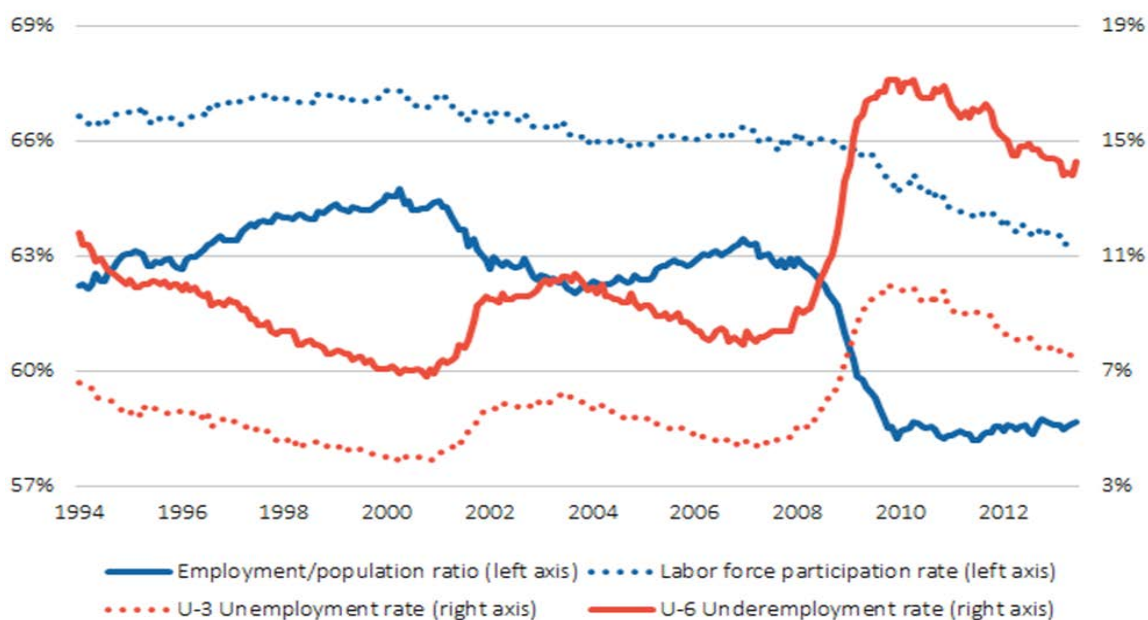
The Fed announced that it will continue its Quantitative Easing purchases due to poor employment numbers and sluggish economic growth. Though individual members of the FOMC have voiced confidence that tapering will begin in the near future, as of the September Fed meeting, the \$85B/month purchases will continue until more evidence of economic progress is available. Ben Bernanke remains committed to asset purchases so long as the economy is not growing at an acceptable pace, but he left open the possibility of tapering beginning later this year. The exit strategy from the purchase program will fall mainly to Bernanke's successor, likely Janet Yellen. Yellen and Bernanke voted to keep the current easing policy intact.

Fiscal Policy

Congress has shut down due to disagreements over the debt ceiling and the budget, particularly the funding of Obamacare. While a government shutdown will provide a significant drag on economic growth, by far the more threatening event would be a failure to raise the debt ceiling. The rate volatility that would follow from defaulting on loans, as well as the uncertainty in the equity markets would far outweigh the drag resulting from this shutdown.

Unemployment

In July, the Fed discussed for the first time whether they should alter the benchmarks of 2.5% inflation and 6.5% unemployment. Specifically, conversations focused on possibly lowering the target for unemployment and/or establishing a floor for inflation. Unemployment is currently at 7.3%, but the Fed has expectations of 7% unemployment by mid-2014. In August, the number of long-term unemployed (jobless for 27 weeks or more), which makes up 38% of the unemployed, was unchanged at 4.3 million (tradingeconomics.com). Additionally, the number of discouraged workers in August also remained unchanged. These underlying issues are preventing anyone from getting too excited about the decreasing unemployment rate. It's a real possibility to see the unemployment rate increase again going forward as more people begin to re-enter the labor force.



Housing

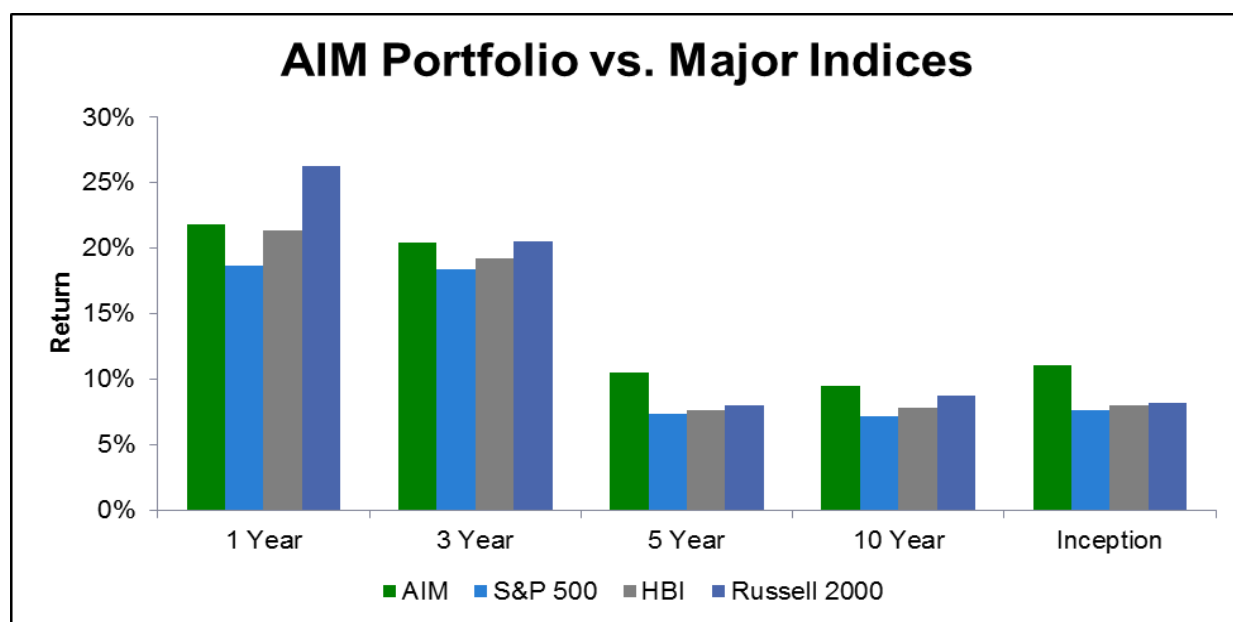
Conditions in the housing sector continue to improve. The benchmark S&P Case Shiller index has risen consistently in the past few months to end June with a value of 159.4, representing a 9% gain over the past six months.

While mortgage rates remain at historic lows, expectations that the Fed will start tapering have started to drive rates up. As of September 23, 2013, the 30 year mortgage rate increased to around 4.5%. Despite this recent rise in rates, there is confidence that the housing sector will continue to grow.

Portfolio Performance

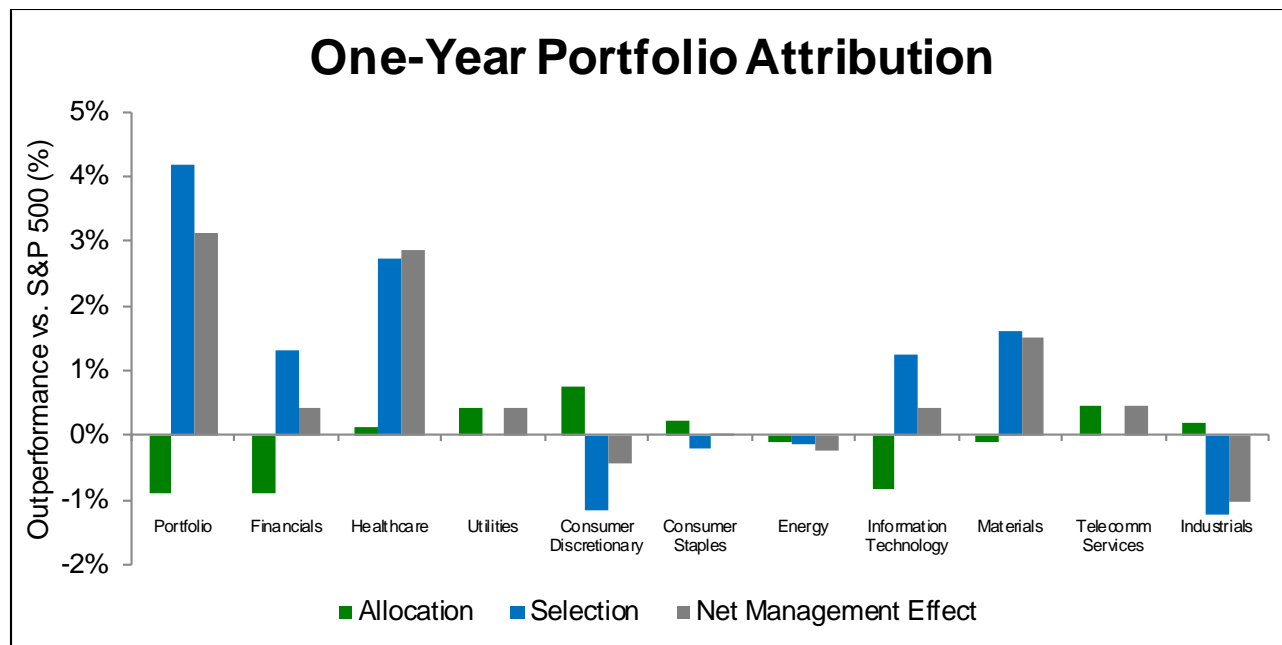
Benchmark Comparison

The AIM portfolio continues to outperform its benchmarks: S&P 500, HBI (65% S&P 500, 35% Russell 2000), and Russell 2000 over its long-term horizon (at least three years). Since inception, the AIM portfolio has returned an 11.0% annualized compounded return compared to 7.6% and 8.2% for the S&P 500 and Russell 2000, respectively.



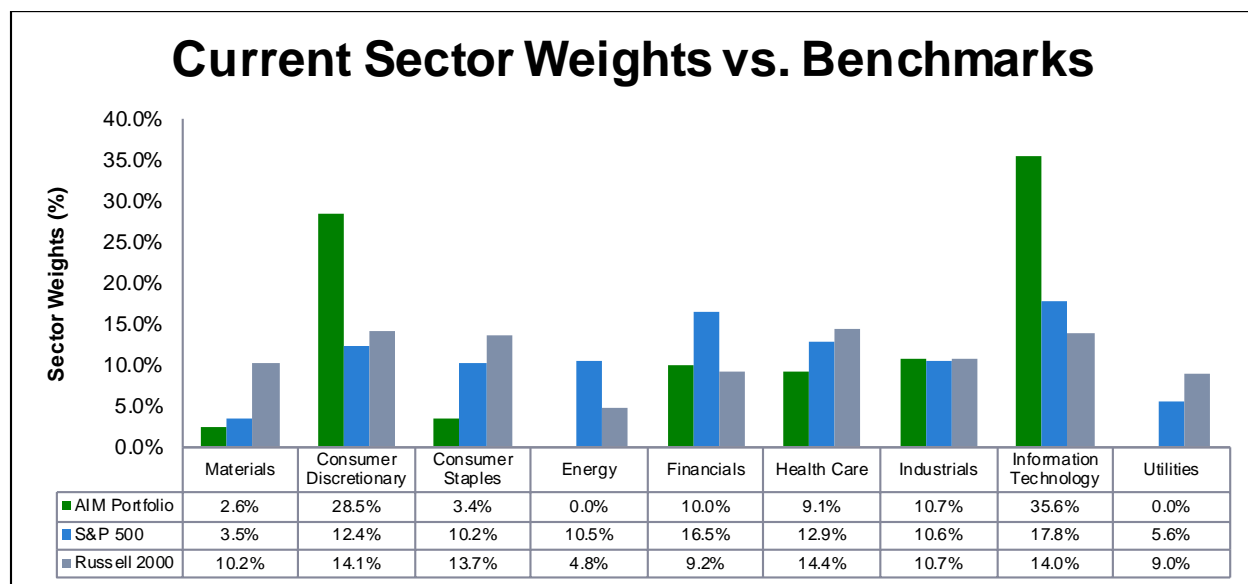
Portfolio Attribution Analysis

Over the past year, the AIM portfolio's largest contributor to outperformance has been in the healthcare space, driven by the selection effect. The portfolio's most problematic sector has been industrials, in which we have seen a net management effect of -1.0%. We note a positive net management effect in seven out of ten sectors in which the AIM portfolio is invested in over the past one year.



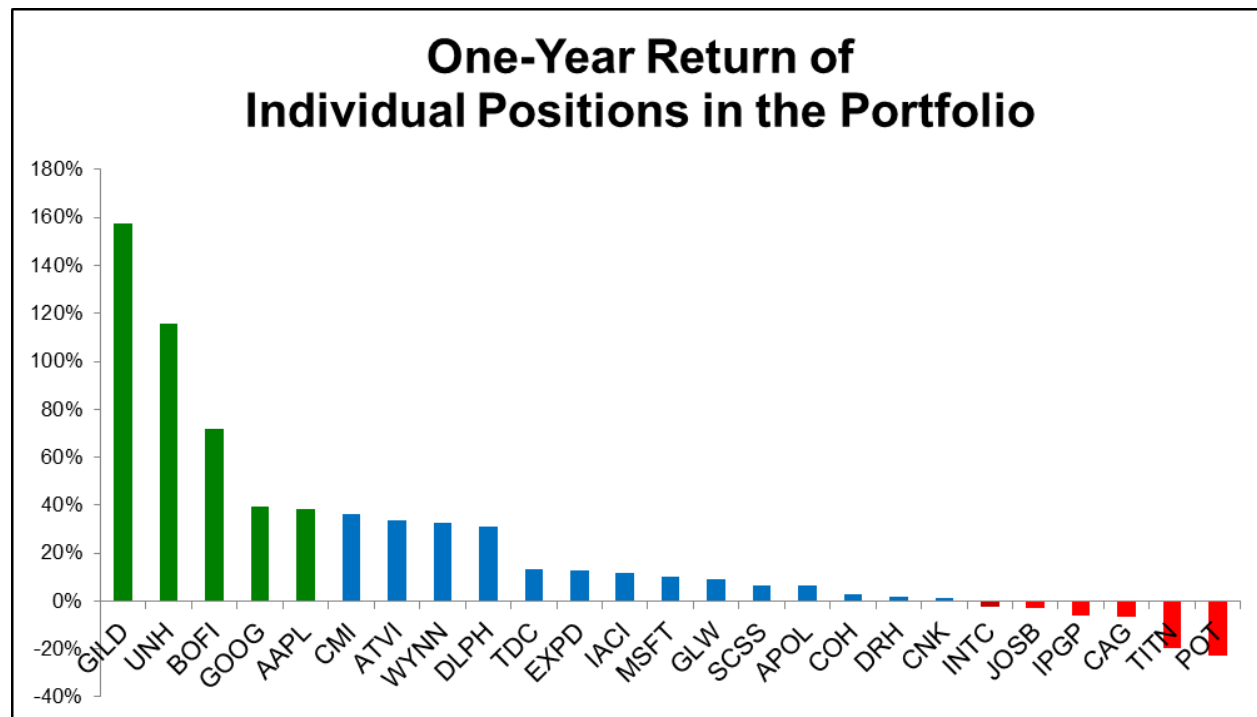
Sector Allocation

The AIM portfolio seeks to benchmark the S&P 500 and the Russell 2000, but sector allocations between the portfolio and the two benchmarks vary over time. Currently the portfolio is overweight in Consumer Discretionary, Industrials, and Information Technology. The AIM portfolio is currently underweight in Materials, Consumer Staples, Energy, Financials, Healthcare, and Utilities. Right now, Information Technology and Consumer Discretionary are substantially overweight.



Portfolio Positions

Over the past year, nine of the positions generated a return upwards of 30% with Gilead Sciences and United Health (only two healthcare stocks) generated a return greater than 100%. During this same period, six of our portfolio's positions generated a negative return with Potash Corp and Titan Machinery generating the most negative returns (-23% and -20% respectively).



AIM Alumni Update

Kristin Boyd, AIM XIX

In 2005, Kristin began working at Credit Suisse in New York in Equity Derivatives Sales. She is currently a VP in the same area and she looks after the European clients for US derivative products. Kristin was recently featured in *Forbes* 30 Under 30 for Finance.

Joseph Marek, AIM XXXV

This year Joseph began working at Morgan Stanley on the Investment Grade Analytics desk in the Fixed Income Division. He covers financials and insurance companies and expects to transition to the trading desk after a year of research. Joseph covered eBay and Select Comfort during his time in AIM.

Tom Haddad and Jessica Sullivan, AIM XXXI

Tom (GILD, CALM) and Jessica (ECL, RCL) got engaged on June 15, 2013 after meeting in AIM XXXI. To ask Jess on a first date, Tom followed Jess out of class one day and chased her down the hallway as she left Mendoza. He had fallen for her after spending many nights in the BIC together, fervently working on their presentations. Tom and Jess will be married on October 25, 2014 in Mystic, Connecticut. Tom currently works as a risk arbitrage analyst at Credit Suisse and just passed the 3rd level of the CFA exam. Jessica currently works as a financial analyst in Private Equity for Fortress Investment Group where she just recently joined. Prior to that, Jessica completed the Financial Management Program at GE Capital.

Tom and Jess would also like to congratulate **Ty DeBoer (AIM XXXI)** and **Chelsea Clarke (AIM XXXI)** on their recent engagement, helping to prove that doing equity research together can be just as romantic as a fancy dinner or an expensive gift.



San Francisco Trip

The AIM XXXVII class embarked on the first ever class trip to San Francisco in the early afternoon on Wednesday, September 11, 2013. After a short bus ride to Chicago, we departed on our cross-country flight to the Bay Area. As most of us had never been to the city before, we were anxious to explore the city by the time we arrived at the Westin St. Francis on Union Square.

We woke up early Thursday morning for our first meeting with Sujay Jaswa, the Head of Operations at Dropbox. After providing a delicious breakfast, Sujay gave us an overview of his career in management consulting and business development, and then offered valuable insight into the unique start-up culture at Dropbox. After, we were provided a tour of the office, which included many amenities to aid creative thinking, such as a gym, a recording studio, and a bar.

Our next set of meetings took place at the Golden Gate Club, which included a spectacular view of the marina and Golden Gate Bridge. First, we met with Michael Mauzé and Kara Cissa-Roell, two of the co-founders of VMG Partners. Michael and Kara delivered a great presentation on their focused-investment strategy on branded consumer product companies in the lower-middle market, and they described the challenging task of building a brand.

The following meeting was with Bill Duhamel, Jason Moment, Richard Voon, and Will Stegall from Route One Investment Company. In this interactive session, we analyzed one on Route One's past

investment ideas to learn more about locating undervalued international investment opportunities with downside that can be underwritten. After this case study, we all had a better idea of the in-depth economic, political, and currency factors that must be considered in any investment decision.

Our final meeting of the day was with Chris Hansen, the founder and president of Valiant Capital Management. Chris provided a substantive explanation of his short-selling approach to investing, comparing his research process to that of a private investigator rather than a typical Wall Street analyst. Throughout his presentation, Chris stressed the mental aspect of investing, and the patience required to succeed over the long-term.

After a long day of meeting, we returned to the Westin a dinner with AIM alumni living in the San Francisco area, who were all excited to have finally had a visit from the AIM class. It was a great opportunity for us to network and learn about different opportunities available to us in the future. After dinner, all alumni shared their current career path and the stocks that they covered as AIM analysts.

On Friday morning, we departed for Palo Alto, where we made our first stop at the Stanford Graduate School of Business. Derrick Bolton, the assistant dean and director of MBA admissions, provided us with a tour of the campus and answered

questions regarding the application process and coursework.

Then, we visited with Ryan Sweeney ('99, AIM VII) at Accel Partners. In this visit, we were introduced to the exciting field of venture capital. Ryan explained to us the challenges in both venture and growth equity investing in technology companies. We learned about how Accel fosters relationships with talented entrepreneurs, and then helps its companies to continue to grow and attract world-class talent.

Our final meeting of the day was with Doug Leone at Sequoia Capital. Doug delivered a powerful presentation regarding the mindset that it takes to be successful in any field, but with a particular emphasis on venture capital. Doug challenged us to have a strong drive to succeed, and to never become satisfied.

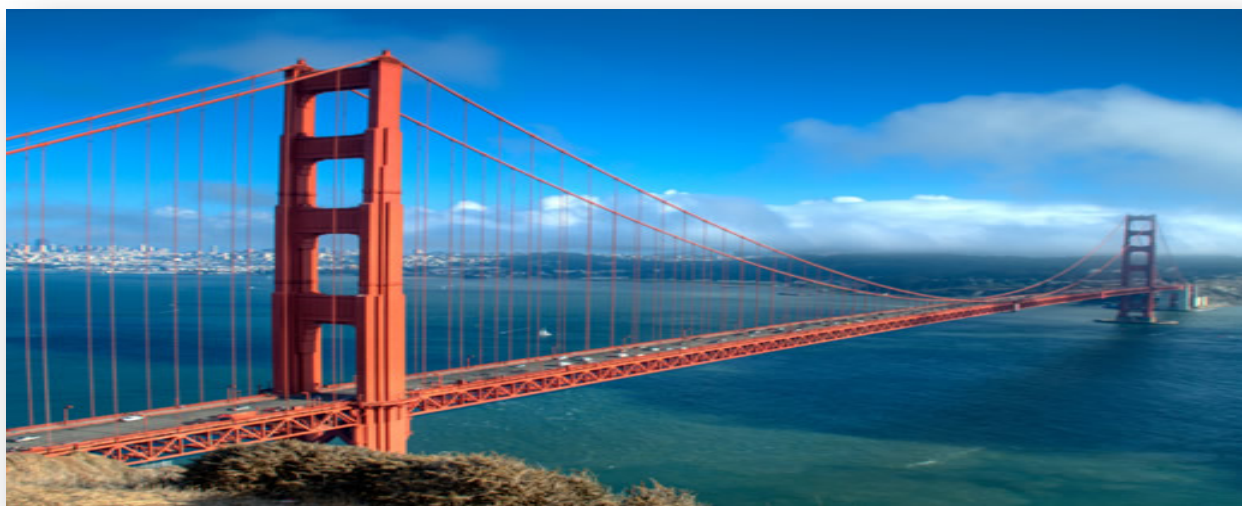
After our visit to Palo Alto, we returned to San Francisco for the evening. The class had a fantastic dinner at Harris' the San Francisco Steakhouse, where we were able to continue to get to know each other better and reflect upon our earlier meetings.

On Saturday morning, we met with David Glynn ('00), managing director at Glynn Capital Management. David presented to us a few case studies on his firm's venture capital investments. Afterward, students were able to ask David additional questions about working with motivated entrepreneurs.

Our concluding meeting was a private equity panel with Brain McMullen ('00, AIM IX) from H.I.G. Capital, Cas Schneller ('00, AIM IX) from FFL, and Jay DeCoons ('99, AIM VII) President and COO of YogaWorks. In this session, we were able to gain a better understanding of the different investment approaches within private equity.

During Saturday afternoon, we were given the opportunity to explore San Francisco. Many students visited the Marina and cheered on Oracle Team USA in America's Cup. In the evening, the class gathered to watch the Fighting Irish defeat Purdue.

On Sunday morning, we departed San Francisco for our return to South Bend. Overall, the class enjoyed this unique experience to soak-in the entrepreneurial culture on the West Coast.



AIM XXXVII – Fall 2013			
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* Not Currently in Portfolio