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# AIM QUARTERLY

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## Greetings from AIM XXXVII

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As the fall semester of 2013 comes to a close, Professors Jerry Langley and Frank Reilly are preparing a group of 28 undergraduate analysts to present their final AIM portfolio to the Advisory Board. Both rounds of valuations have concluded and our votes have determined the final portfolio. A full list of AIM XXXVII members, their stocks, and their post-graduation plans is on page 8.

It's hard to believe that another AIM class is concluding, but the AIM XXXVIII class of new analysts has been selected, and once again, we expect a wonderful performance from a very talented group of MBA students.

## Quarter 4, Fall 2013

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*State of the Economy, 2*



*Portfolio Performance, 4*



*AIM Alumni Update, 7*



*AIM XXXVII class list, 8*

*Final Portfolio, 9*

# Economic Outlook

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## GDP Growth

The most recent reading on US GDP growth came in at 2.8% (annualized) for Q3 2013. This represented an improvement over Q2 2013 at 2.5% and Q1 2013 at 1.8%. The largest contributors to GDP growth were investment and consumption, which outweighed a decrease in government spending. Both investment and consumption were aided by an increase in disposable income over the past two quarters, an improvement from the 2% decrease in Q1 2013.

## Inflation

Following recent trends, inflation has continued to fall short of the Fed's target rate of 2%. Since dropping below this target in early 2012, the PCE index has remained below 2% and has failed to return to this goal, which the Fed believes may even continue through 2016. Commodity and import prices are expected to remain stable, and slack in the labor and product markets is expected to continue. The Fed is looking to ease back the asset purchase program, but since the inflation rate still hasn't reached the 2% target, tapering has not yet begun. There is some worry that the \$85 billion that is injected into the economy each month as part of the asset purchase program will lead to a run-up in inflation, though there have been no signs of this yet.

## Monetary Policy

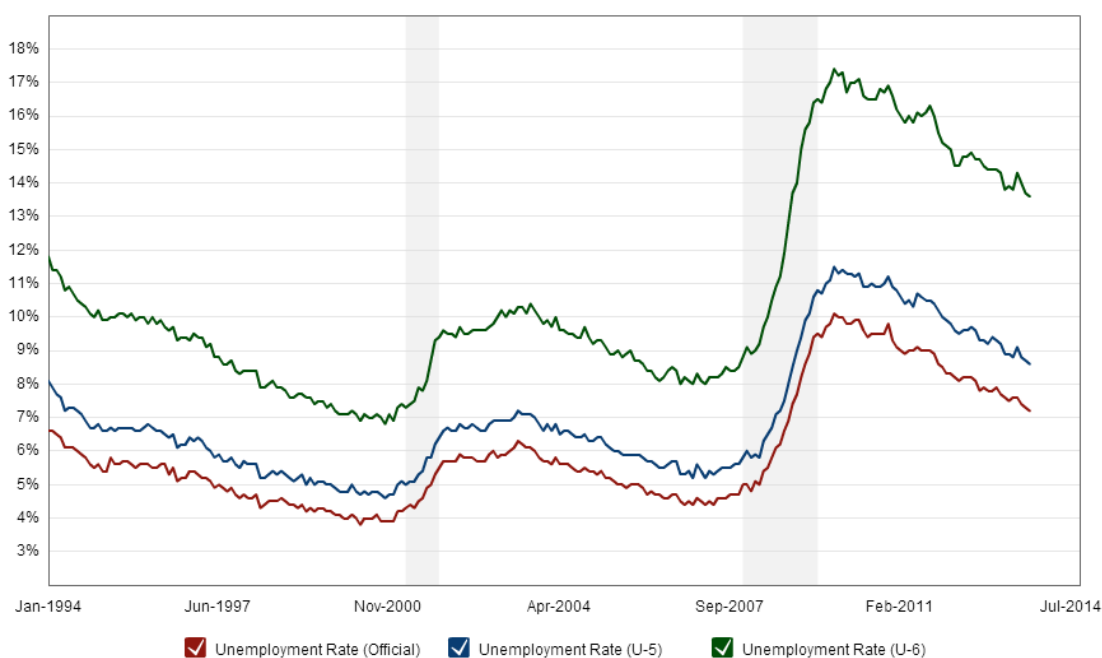
The Fed announced that it will continue its asset purchases at \$85 billion per month due to recent employment and economic growth numbers, though claiming economic activity is expanding at a moderate pace. Individual members of the FOMC have voiced confidence that tapering will begin in the near future, as of the October Fed meeting, but the \$85 billion per month purchases will continue until more evidence of economic progress is available. The Fed has stated on numerous occasions that it will remain committed to a highly accommodative monetary policy even after tapering the asset purchase program, a stance Janet Yellen is expected to support.

## Fiscal Policy

S&P estimated the government shutdown took \$24B out of the economy, shaving 0.6% off of Q4 GDP. The budget conference committee that has been formed as a result of the shutdown is tasked with forging a spending plan for 2014 to replace sequester cuts. Two meetings of the budget conference committee have failed to yield tangible results. The bipartisan committee is still divided on new tax revenues, spending cuts, and entitlement programs. Party leaders are confident a deal can be reached in order to avoid another shutdown before government funding ends on January 15, 2014.

## Unemployment

Unemployment is currently at 7.3%, but the Fed has expectations of this number dropping to between 6.4% and 6.8% by the end of 2014. As shown in the graph below, the unemployment rate increases significantly when both discouraged workers who have dropped out of the labor force and those that are underemployed are included. The gap between the U-6 unemployment rate and the official unemployment rate is extremely large, which is cause for concern. This is one of the reasons that the Fed is hesitant to begin tapering. Though unemployment is decreasing, there is still concern about the dwindling labor force and the increase in underemployment.



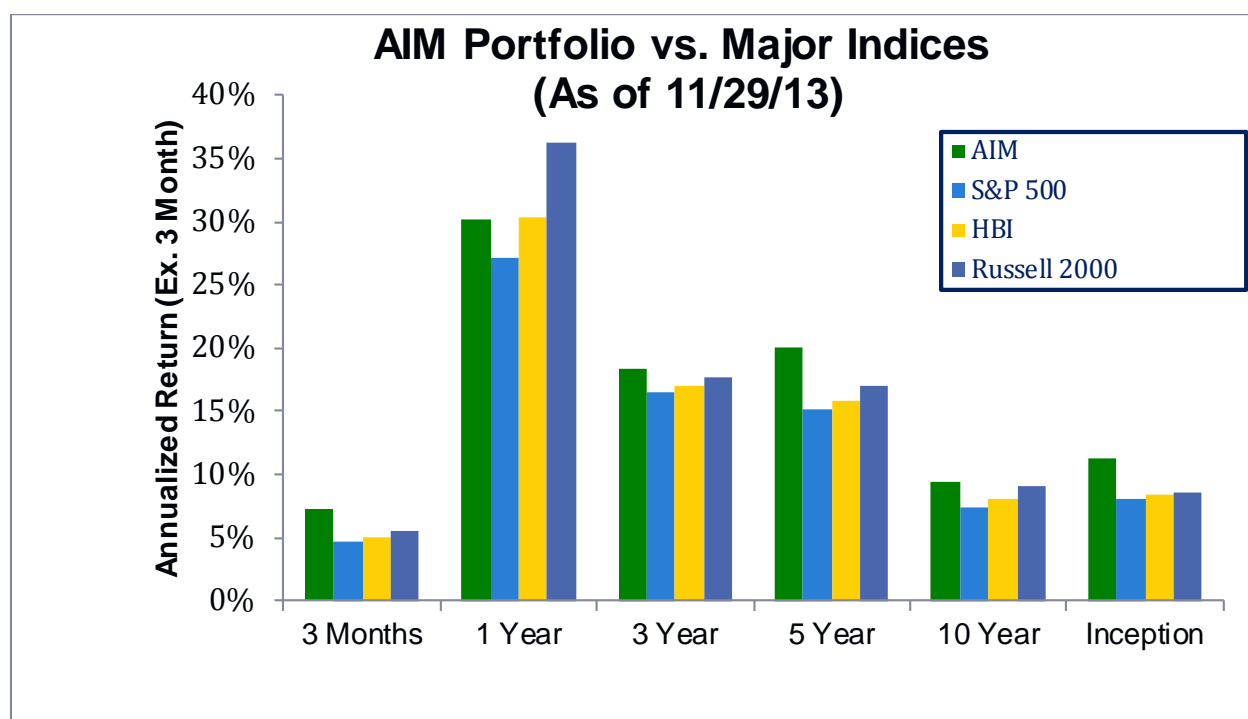
## Housing

Conditions in the housing sector continue to improve. The benchmark S&P Case Shiller index has risen consistently, ending in June with a value of 159.4, representing a 9% gain over the past six months. While mortgage rates remain near historic lows, expectations that the Fed will start tapering have caused an increase in rates. As of December 1, 2013, the 30 year mortgage rate increased from a low of 3.2% to around 4.3%. With this recent rise in both rates and home prices the housing sector's recovery has begun to slow, however expectations hold that this sector will continue to grow. With a decrease in the affordability of homes, demand will drop and home prices will grow at a more manageable, single digit rate

# Portfolio Performance

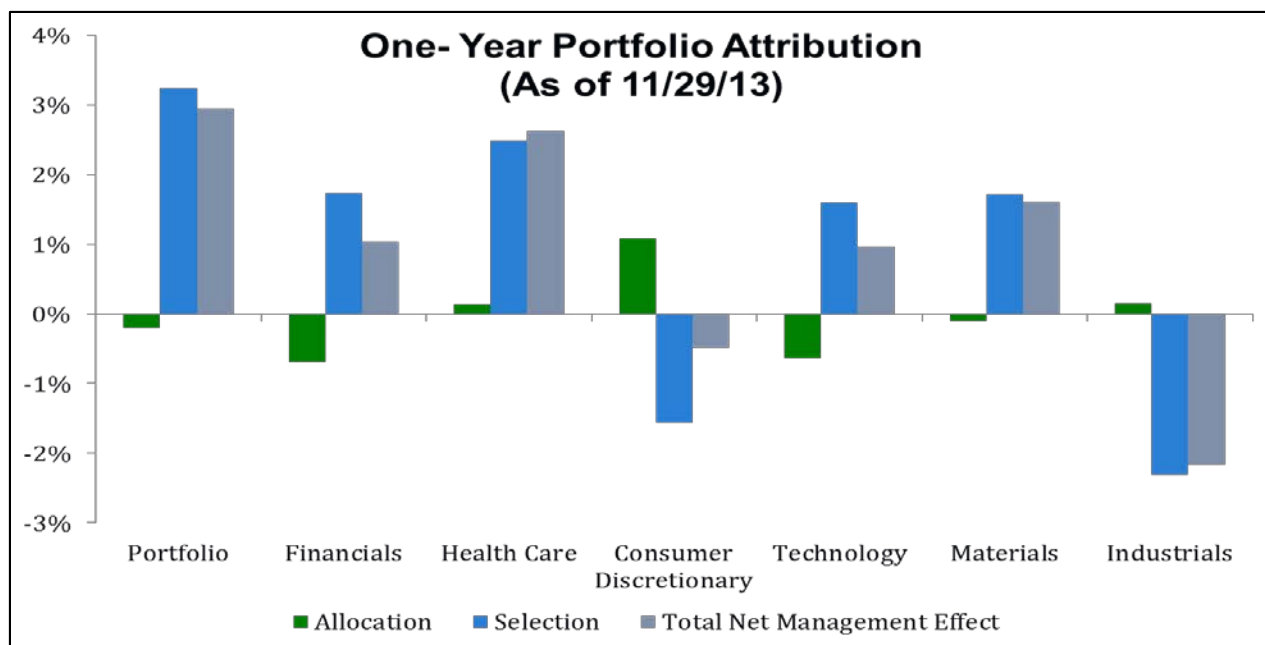
## Benchmark Comparison

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 11.3% annualized compounded return compared to 8.0% and 8.6% for the S&P 500 and Russell 2000, respectively.



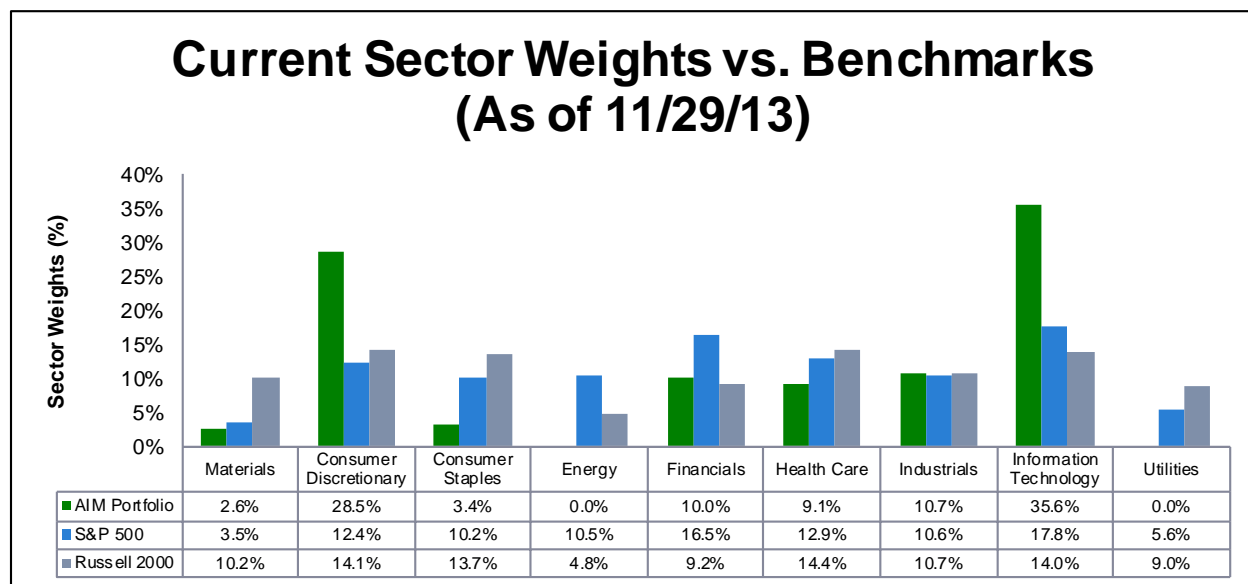
## Portfolio Attribution Analysis

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 -2.1%. Overall, we have experienced a positive net management effect in five of the seven sectors in which the AIM portfolio is invested in over the past one year.



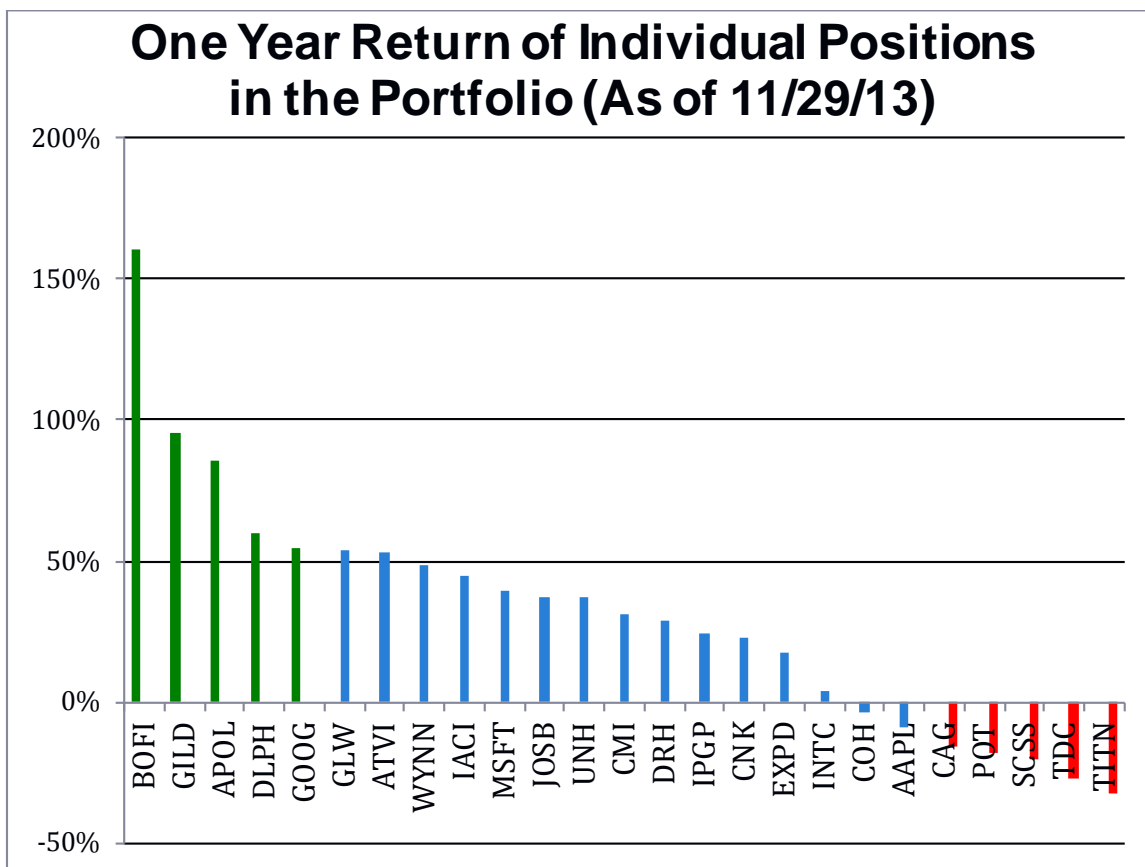
## Sector Allocation

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 because AIM is more focused on bottom-up stock picking as opposed to top-down allocation. Currently the portfolio is overweight in Consumer Discretionary, Industrials, and Information Technology, and underweight in Materials, Consumer Staples, Energy, Financials, Healthcare, and Utilities.



## Individual Stock Results

Over the past year, ending as of 12/3/13, ten of the positions generated returns of 30% or better with Gilead Sciences and United Health (AIM's only two healthcare stocks) generating returns greater than 100%. During this same period, five of our portfolio's positions generated a negative return with Titan Machinery and Teradata generating the largest negative returns (-33% and -27% respectively).



## AIM Alumni Update

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### Cas Schneller, AIM IX

Cas has been in the investment business for almost 10 years, with the past seven years spent at Friedman, Fleischer & Lowe (FFL), a private equity firm based in San Francisco. He acts as one of eight partners at the firm, covering various industries, including financial services and energy. FFL is currently raising its fourth fund after nearly fully investing its \$1.5 billion third fund.

On a personal note, we want to congratulate Cas and his wife who welcomed their fourth child in November. They are currently embracing a bit of good mayhem around the house.

### Vijen Patel, AIM XXV

Vijen founded a company called Pressbox this summer after working at a private equity firm and McKinsey. The concept of his company is comparable to Redbox DVD rental but for dry cleaning. Customers can drop off cleaning at any of Pressbox's locations 24/7. When the clothes are cleaned, Pressbox sends an access code that allows the customer to pick them up at any time. The company currently has 40 locations around Chicago, including a couple at Fitness Formula Club gyms, Union Station, and some high rise apartments.

# AIM XXXVII- Fall 2013

Analyst	E-Mail	1st Stock	2nd Stock	Post-Grad Plans
Eric An	ean@nd.edu	Carmax	United Natural Foods	Triple Tree LLC- Minneapolis, MN
Javon Bea	jbea3@nd.edu	Cummins	Sunstone Hotel Investors	Undecided
Jason Bergstrand	jbergst2@nd.edu	Select Comfort	Craft Brew Alliance	Undecided
Bobby Besio	rbesio@nd.edu	IPG Photonics	Tesla Motors	Undecided
Tyler Bliha	tbliha@nd.edu	InterActive Corp	Leap Frog	BofA Merrill Lynch- New York, NY
D.J. Boyd	dboyd1@nd.edu	Cinemark	Apache Corp.	JP Morgan – New York, NY
Cameron Breisch	cbreisc1@nd.edu	Intel	Bluebird Bios	Undecided
Logan Britt	mbritt1@nd.edu	Teradata	Netflix	JP Morgan – Los Angeles, CA
Eric Ciura	eciura@nd.edu	Apollo Group	Roundy's	Robert W. Baird & Co.- Milwaukee, WI
Julie Comfort	jcomfort@nd.edu	Titan Machinery	J&J Snack Foods	BofA Merrill Lynch – Chicago, IL
Steven Feczko	sfezko@nd.edu	United Health	Autodesk	McKinsey & Co. – Pittsburgh, PA
Nicole Gantz	ngantz@nd.edu	Delphi Automotive	DSW	Bain & Co. – Chicago, IL
John Garry	kgarry1@nd.edu	ConAgra	Orbital Sciences	Notre Dame Investment Office
Liz Garvin	egarvin@nd.edu	Bank of Internet	Estee Lauder Cos.	Undecided
Brandon Hall	bhall3@nd.edu	Activision Blizzard	Lifeway Foods	Lazard- Minneapolis, MN
Turner Harty	tharty@nd.edu	Coach	Costco	JP Morgan – New York, NY
Katie Lill	klill@nd.edu	Wynn Resorts	Soda Stream	JP Morgan – New York, NY
Sean McKelvey	smckelve@nd.edu	Microsoft	Manchester United	Credit Suisse- Los Angeles, CA
Matthew Menker	mmenker@nd.edu	Corning	Buffalo Wild Wings	Lincoln International– Chicago, IL
Michael Nettesheim	mnettes1@nd.edu	Apple	Rockwell Automation	Greenhill & Co. – Chicago, IL
Patrick O'Brien	pobrien8@nd.edu	Diamondrock Hospitality	WholeFoods	JP Morgan- New York, NY
Ben O'Neill	boneill4@nd.edu	Google	Pixelworks	Deutsche Bank – San Francisco, CA
Tom O'Sullivan	tosulli1@nd.edu	Joseph A. Banks	Cott Corp.	Lincoln International– Chicago, IL
Kyle Patel	kpatel2@nd.edu	Expeditors International	Covanta Holding Corp.	Ares Management- Los Angeles, CA
Clayton Pauls	cpauls1@nd.edu	Caterpillar	Dollar Tree	JP Morgan- New York, NY
Nikki Puckett	npuckett@nd.edu	Ecolab	PetMeds Express	Credit Suisse – New York, NY
Jackie Rose	jrose8@nd.edu	Gilead Sciences	Vitamin Shoppe	JP Morgan – New York, NY
Rob Wahl	rwahl@nd.edu	Potash	Energy Recovery	Credit Suisse- Chicago, IL



## Final Portfolio (As of 12/3/13)

Stock	Ticker	Weight	Market Value
Apple	AAPL	4.97%	\$453,057
Apache Corp.	APA	3.68%	\$335,072
Activision Blizzard	ATVI	3.95%	\$359,520
Cummins	CMI	3.85%	\$351,081
Cott Corp.	COT	3.75%	\$341,880
Covanta Holding Corp.	CVA	4.38%	\$399,050
Delphi Automotive	DLPH	4.46%	\$406,262
Dollar Tree	DLTR	3.70%	\$336,964
DiamondRock Hospitality	DRH	3.70%	\$336,720
Estee Lauder Cos.	EL	3.84%	\$350,103
Expeditors International	EXPD	3.51%	\$320,198
Gilead Sciences	GILD	4.37%	\$398,310
Corning	GLW	4.11%	\$374,194
Google	GOOG	4.62%	\$421,304
InterActive Corp	IACI	4.13%	\$376,596
Intel	INTC	3.39%	\$308,505
IPG Photonics	IPGP	3.61%	\$328,624
Joseph A. Bank	JOSB	4.47%	\$407,376
Microsoft	MSFT	4.25%	\$386,931
Potash	POT	3.77%	\$343,332
Pixelworks	PXLW	3.95%	\$359,502
Rockwell Automation Inc.	ROK	4.27%	\$389,060
Select Comfort	SCSS	3.35%	\$305,550
Teradata	TDC	3.58%	\$326,520
United Health Group	UNH	3.88%	\$353,904
Proshr UltrShrt MSCI Japan	EWV	0.05%	\$4,155
iShares MSCI Mexico	EWV	0.05%	\$4,637
Cash & Cash Equivalents		0.36%	\$33,186
<b>TOTAL</b>		<b>100%</b>	<b>\$9,213,809</b>