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# AIM QUARTERLY

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## Quarter 1, Spring 2015

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## Greetings from AIM

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Halfway through the spring semester of 2015, 23 MBA analysts have completed the first round of valuations under the guidance of Professors Jerry Langley and Bill McDonald. The analysts are now undertaking research for the second round.

The voting for the final stock selection is scheduled to take place on April 15, 2015.

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# State of the Economy

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## GDP Growth

GDP growth for the overall US economy grew by 2.4% for the year in 2014, which was only marginally better than the average over the past six years. The disappointing figure was pulled down by a sluggish fourth quarter, where GDP grew by only 2.6%, relative to last year's 5% growth in the fourth quarter. One of the largest factors leading to the weaker results was the appreciating US dollar. A widening trade gap brought on by cheaper imports and more expensive exports lowered overall GDP growth by nearly a full percentage point. Other factors weighed against each other as lower gas prices boosted consumer spending, however business spending decreased to dampen the excitement.

## Housing

Lower gas prices brought on by the sharp decline in crude oil prices has served as a boon to the American household. Personal spending for 2014 was up 3.9% relative to a rise of 3.6% in 2013. This was met by the consumer sentiment index as calculated by The University of Michigan recording its highest figure in over a decade in late January with a figure of 98.2. At the same time the personal savings rate is climbing. In December the figure rose to 4.9% of disposable income, up from 4.3% the prior month. This accounted for \$75 billion of savings, which affected consumer spending. The overall outlook for consumer spending remains optimistic. Improving conditions in the labor market and wages, as well as the continued boon from lower gas prices have economists anticipating positive figures for 2015.

## Labor Market

In the most recent data the number of Americans filing for unemployment rose, but contrary to popular belief, this is not a bad sign. The uptick in claims is actually a positive sign for people returning to the labor market, after several periods of declining participation. In January of 2015 the participation rate crept up to 62.9%, up from previous readings at 62.7%. This negatively affects unemployment in the near term, but is a positive sign for the overall job market. For the week ending January 31<sup>st</sup> initial jobless claims were 278,000, below the WSJ estimate of 290,000. Currently the unemployment rate is currently 5.7%, up from the previous 5.6%, but down relative to early 2014.

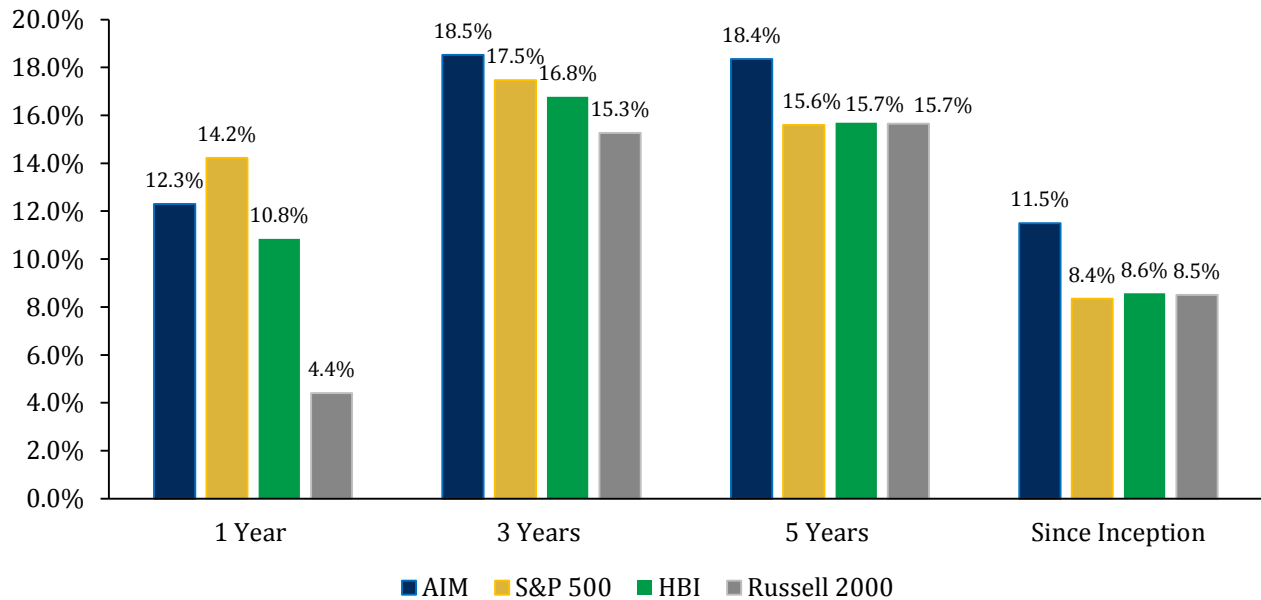
## Monetary Policy

For quite a while now the world has been waiting for the Fed to change course, and allow short and long term interest rates to start to creep above their historic lows. In their most recent meetings in late January however, they echoed their commitment to keep their target for the federal funds rate between 0 and ¼ percent. Inflationary concerns have not risen out of the low for long interest rate environment, and actually declined in the period leading up to their January meetings. They believe in the medium term inflation will begin to climb towards their long term goal of 2 percent. The Fed will meet again on the 17<sup>th</sup> and 18<sup>th</sup> of March, where we will see whether they intend to stick to their outlined mid 2015 schedule for rate hikes.

# Portfolio Performance

## Benchmark Comparison

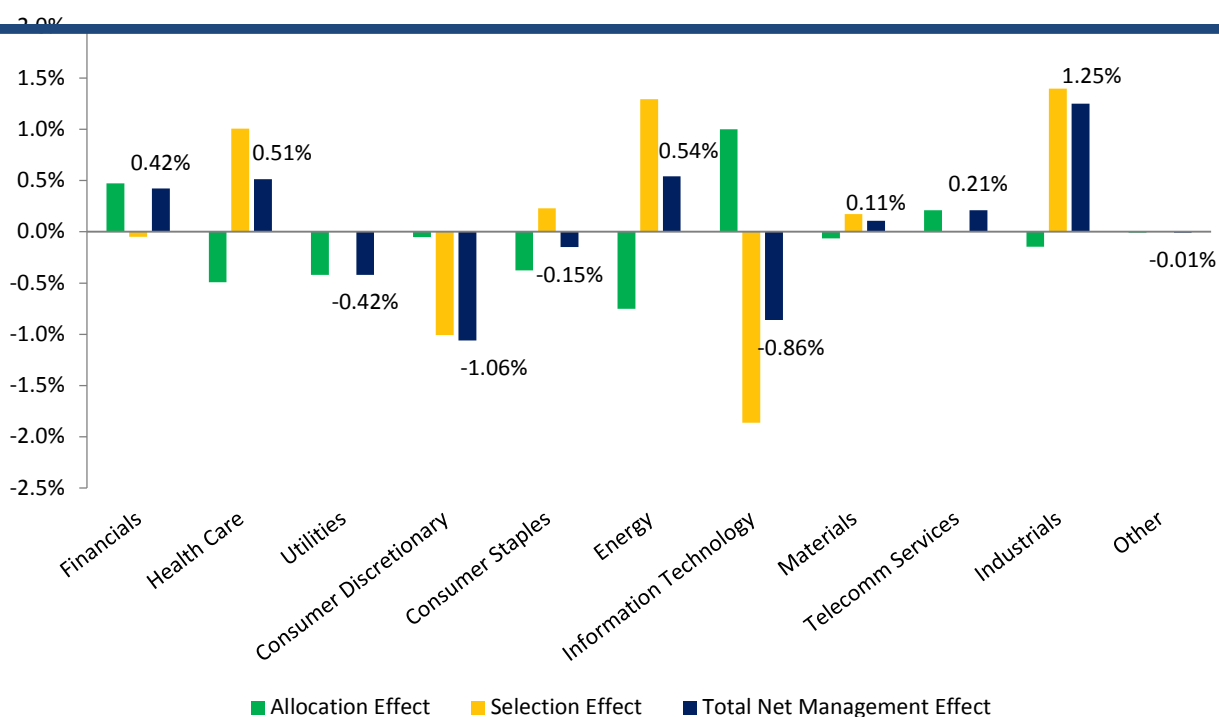
The AIM portfolio has continued to outperform its benchmarks – S&P 500, Russell 2000, and HBI (65% S&P 500, 35% Russell 2000) – over the long-term horizon, 3-5 years. However, the AIM portfolio did not outperform the S&P 500 over the past year.



(as of 01Feb2015)

## Portfolio Attribution (see graph on next page)

The S&P 500 outpaced the AIM portfolio by 1.9% last year. The bulk of the underperformance results from sector allocation as opposed to individual stocks. Technology stocks account for 34.3% of the portfolio’s weight, and healthcare accounts for 10.7% of the portfolio’s weight. Meanwhile, technology and healthcare account for 19.5% and 15.0% of the S&P 500’s weight, respectively. In the AIM portfolio, technology had a return of 14.2%, while healthcare had a return of 38.6%, and in the S&P 500, technology had a return of 17.4%, while healthcare had a return of 22.14%. Overall, the portfolio had a net management effect of (1.9%) with only 6 of the 10 sectors outperforming the S&P500.

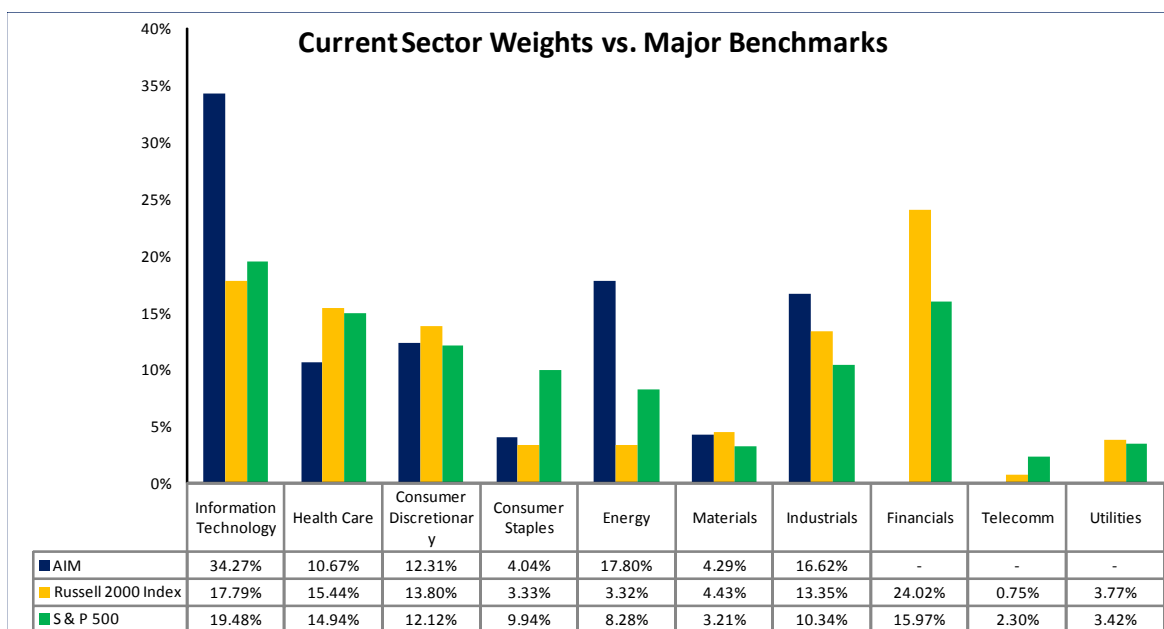


## Best & Worst Performers

Over the trailing twelve months, the AIM portfolio has experienced exceptional performances from its Top 5 Performers, but it has also witnessed negative returns from its Bottom 5 Performers. On the positive side, Apple has led the way with a return of 67.4%, and on the negative side, Seadrill has lost 26.8% since it was added to the portfolio last year.

Top 5 Performers			Bottom 5 Performers		
Company Name	Industry	Return	Company Name	Industry	Return
Apple Inc.	Technology	67.4%	Seadrill Ltd.*	Energy	(26.8%)
UnitedHealth Group Inc.	Health Care	49.4%	Covanta Holding Corp.*	Energy	(17.5%)
Intel Corp.	Technology	38.7%	Las Vegas Sands*	Consumer Discretionary	(13.9%)
Gilead Sciences Inc.	Health Care	29.9%	Verifone Holdings Inc.*	Technology	(11.9%)
Activision Blizzard Inc.	Technology	23.2%	IAC/Interactive Corp.	Technology	(11.5%)

# Sector Updates



**Technology:** This sector represents the portfolio's most heavily weighted group. The top holdings consist of Apple, Activision Blizzard, Check Point Software, Google and Intel. On a macro level, the technology sector has outperformed the market, returning 3.91% YTD compared to the S&P 500 Index of 2.5% return. Despite growing widespread fear of technology company valuations, e.g. Uber's \$40Bn valuation and Snapchat's \$19Bn valuation, the technology industry has advanced forward due to growth in the cloud, enterprise software, and the social media segments. Two other fields of considerable performance drivers are the wearables and internet of things (IoT). The field for wearables is expected to grow to \$5.8Bn by 2018 and the market size for IoT is also predicted to become \$14.4T by 2020. The technology industry has seen its leaders take command with acquisitions by SAP buying Concur Technologies for \$7.4Bn and Oracle acquiring MICROS Systems for \$5.3Bn. The ambitious nature of the leaders in the technology space is expected to continue going forward.

**Healthcare:** The portfolio continues to remain underweight in healthcare equities, with Gilead and Universal Healthcare standing as the only two positions. However, the sector continues to be one of the best performers in the market, posting a 5.26% increase YTD. As stated in the previous newsletter, the focal point for healthcare is centered on the country's aging demographic and improved treatment technology e.g. non-invasive technology.

**Energy:** The portfolio maintains an overweight position in the energy sector, with an allocation of 17.80% versus 3.32% from the Russell 2000 Index and 8.28% from the S&P 500. The top energy holdings include Schlumberger, Calumet Specialty Products, and Kinder Morgan Energy Partners. The sector has underperformed this year, increasing only 0.42% YTD as volatile oil prices and geopolitical tensions globally create a shadow of concern for the sector.

# Key Company Developments



Delphi Automotive, the automotive parts manufacturing company headquartered in Gillingham, Kent, UK, reached a deal to sell its lower margin automotive heating and cooling business to German rival Mahle GmbH for \$727 million. Delphi also reached a separate deal to sell its stake in Shanghai Delphi Automotive Air-Conditioning System Co. to Mahle, and expects the transaction to close in the third quarter. The sale marks another attempt to refocus operations since emerging from bankruptcy in 2009, to concentrate on supplying systems to improve fuel economy, auto safety and self-driving technologies. The deal comes just ahead of a leadership transition at Delphi, as CEO Rodney O'Neal, is set to retire on March 1. Taking over for Mr. O'Neal is Delphi's CFO Kevin Clark. Earlier this month, Delphi posted a 15% jump in fourth-quarter profit, a net rise to \$1.44 billion on sales of \$17 billion in 2014.



Gilead Sciences, the research-based biopharmaceutical company that aims to discover, develop, and commercialize innovative medicines in areas of unmet medical needs, saw its 2014 revenue increase 122% to \$24.9 billion. Revenue was driven mainly by their Hepatitis C drugs, Sovaldi and Harvoni, which accounted for 50% of revenue. Gilead announced a \$0.43 dividend per quarter, which will commence in second-quarter. Due to the high prices of their HCV treatments, the company is increasing 2015 discounts to 46%, up from their 2014 discounts of 22%. The company currently has six exclusive agreements with pharmacy benefit managers for their HCV treatments, compared to their biggest competitor AbbVie, who only has one exclusive agreement. The stock is up 8.8% year-to-date.



IAC/InterActiveCorp, Barry Diller's holding company of websites and dating apps such as Tinder has recently made headlines for being among the next group of technology firms to pursue a breakup. IAC saw fourth-quarter revenue rise 15% on broad revenue growth across the company's digital businesses. IAC's Match Group, which includes the dating site Match.com, reported revenue of \$241.5 million, an increase of 15%. The segment benefited from 4% growth in subscribers for its dating businesses, along with contributions from its acquisition of test-prep service The Princeton Review and from FriendScout24. IAC's search and applications unit, its biggest, registered 9% growth in revenue to \$407.8 million mostly on strong growth at About.com and other sites.



Union Pacific, the railroad operating franchise with 32,400 miles of track in 23 states in the western two-thirds of the United States, announced Chief Operating Officer Lance M. Fritz as the railroad company's chief executive, succeeding Jack Koraleski, whose retirement will start nearly two years later than planned. The Omaha, Nebraska-based railroad saw a 22% increase in fourth-quarter earnings, reflecting volume increases in all six of its business groups. The situation at the ports began to really hurt it during the quarter. However, Mr. Koraleski recently publicized that congestion at West Coast ports is hurting the railroad's first-quarter volumes and the railroad is making preparations in case a labor dispute results in the ports shutting down.

## Portfolio Composition (02/28/15)

Ticker	Stock	Value of Position	AIM Weight
ATVI	Activision Blizzard Inc.	\$489,720	4.65%
AAPL	Apple Inc.	610,185	5.80%
ATW	Atwood Oceanics	356,615	3.39%
CLMT	Calumet Specialty Products	445,440	4.23%
CHKP	Check Point Software	528,074	5.02%
CVA	Covanta Holding Corp.	390,060	3.70%
DE	Deere & Co.	489,240	4.65%
DLPH	Delphi Automotive	512,460	4.87%
F	Ford Motor Co.	473,860	4.50%
GILD	Gilead Sciences Inc.	569,415	5.41%
GOOGL	Google Inc.	225,052	2.14%
GOOG	Google Inc.	234,528	2.23%
HAIN	Hain Celestial Group	487,734	4.63%
IACI	IAC/InterActiveCorp	438,230	4.16%
INTC	Intel Corp.	435,575	4.14%
KMI	Kinder Morgan Inc.	410,715	3.90%
LVS	Las Vegas Sands	398,300	3.78%
LMT	Lockheed Martin	470,118	4.46%
MSFT	Microsoft Corp.	442,885	4.21%
MON	Monsanto Co.	445,591	4.23%
SLB	Schlumberger Ltd.	420,800	4.00%
SDRL	Seadrill Ltd.	276,480	2.63%
UNP	Union Pacific Corp.	432,936	4.11%
UNH	UnitedHealth Group Inc.	545,424	5.18%
<b>TOTAL AIM*</b>		<b>\$ 10,529,437</b>	<b>100%</b>
<i>(* excludes the 0.08% held in sector spider and cash balances)</i>			

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# AIM Alumni Update

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## **Brent D'Amico (AIM 19)**

Brent is currently a Senior Analyst at Pacific Grove Capital, a hedge fund focused on investing in small- to mid-cap businesses. Brent is focused on the Industrials sector and is based out of San Francisco. He previously worked as a Principal at Varna Capital, a New York City based long/short value strategy hedge fund. Earlier, after graduating from Notre Dame in 2005 as a varsity tennis player, he was an Analyst at Morgan Stanley and Highline Capital Management. Brent holds an MBA from Wharton Business School and a BBA in Finance from the University of Notre Dame. While at Wharton, he interned as a Summer Analyst at MSD Capital, an investment firm formed to exclusively manage the capital of Michael Dell and his family.

## **Joe Goldrick (AIM 17)**

Joe is currently a Principal at Adams Street Partners, a global private equity investment management firm. Based out of Chicago, Joe is on the Secondary Investments Team and is responsible for sourcing and executing secondary transactions. He previously worked as an Analyst at Robert W. Baird and served as Associate Board Vice Chairperson for Scholarship Chicago. Joe holds an MBA from the Booth School of Business and is a 2004 graduate of the University of Notre Dame, with a BBA in Finance and Political Science.

## **Lauren Godlasky (AIM 25)**

Lauren is currently Director of Client Relations at Gotham Asset Management, a New York City based equity management firm that offers domestic and international value investing strategies. She previously worked at Goldman Sachs in Client Portfolio Management, Quantitative Investment Strategies. Prior to graduating from Notre Dame in 2008 she interned with PwC and GE Healthcare. Lauren holds a BBA in Finance and Accounting from the University of Notre Dame.

## **Eric Larsson (AIM 26)**

Eric is currently working in New York City as a Software Group Finance Manager for IBM. Prior to working at IBM, Eric was a Financial Analyst at Digitas and a Senior Financial Analyst at J. Walter Thompson Worldwide. Eric received his MBA from the University of Notre Dame in 2008.



# AIM XL Class Profile

Analyst	Email	Hometown	1st Stock	Program	Summer Internship /	Post-Grad Plans
Cory Albertson	<a href="mailto:calbert1@nd.edu">calbert1@nd.edu</a>	Warsaw, IN	Ford	2-year MBA	Economic Growth Initiative for Haiti	Investment Management
Jasminka Arnautovic	<a href="mailto:jarnauto@nd.edu">jarnauto@nd.edu</a>	Ottawa, Canada	Deere & Company	2-year MBA	Lazard Middle Market	UBS
Siddhartha Aurora	<a href="mailto:sarora1@nd.edu">sarora1@nd.edu</a>	Kolkata, India	United Healthcare	1-year MBA	UBS	E&Y Transaction Advisory Services
Ben Budish	<a href="mailto:bbudish@nd.edu">bbudish@nd.edu</a>	Short Hills, NJ	Monsanto	2-year MBA	The Jordan Family Office	Jefferies
Liam Byrne	<a href="mailto:lbyrne1@nd.edu">lbyrne1@nd.edu</a>	Chicago, IL	Las Vegas Sands	2-year MBA	Deutsche Bank	Deutsche Bank
Daniel Carey	<a href="mailto:dcarey@nd.edu">dcarey@nd.edu</a>	Santa Rosa, CA	Microsoft	2-year MBA	21st Century Fox	21st Century Fox
Richard Drew	<a href="mailto:rdrew@nd.edu">rdrew@nd.edu</a>	Indianapolis, IN	Calumet Specialty Products	2-year MBA	Twin Bridge Capital Partners	Alvarez & Marshal Consulting
Rahul Khobragade	<a href="mailto:rkhobrag@nd.edu">rkhobrag@nd.edu</a>	Mumbai, India	Apple	1-year MBA	Lodha Group	TBD
Brendan Lesch	<a href="mailto:blesch@nd.edu">blesch@nd.edu</a>	Westport, CT	Google	1-year MBA	ND Men's Soccer	Pursuing Professional Soccer Career
Robert Malonoski	<a href="mailto:rmalonos@nd.edu">rmalonos@nd.edu</a>	Phoenixville, PA	Gilead Sciences	2-year MBA	Deutsche Bank	Deutsche Bank
Matthew Nealon	<a href="mailto:mnealon@nd.edu">mnealon@nd.edu</a>	Scranton, PA	Delphi Automotive	1-year MBA	Deloitte	TBD
Vincent Ng	<a href="mailto:vng@nd.edu">vng@nd.edu</a>	Mississauga, Ontario	Covanta Holdings	1-year MBA	Kerburn Rose	Seeking investment analyst position
Samuel Pope	<a href="mailto:spope2@nd.edu">spope2@nd.edu</a>	Arlington Heights, IL	Hain Celestial Group	1-year MSA	E&Y Asset Management	Livingstone Partners
Joshua Rabinovitz	<a href="mailto:jabinov@nd.edu">jabinov@nd.edu</a>	Los Angeles, CA	Checkpoint Software	2-year MBA	Cisco Systems	Cisco Systems
James Rapuzzi	<a href="mailto:jrapuzzi@nd.edu">jrapuzzi@nd.edu</a>	Anchorage, AK	Union Pacific	2-year MBA	Credit Suisse	Credit Suisse
Rex Redlingshafer	<a href="mailto:rredling@nd.edu">rredling@nd.edu</a>	Fairway, KS	Atwood Oceanics	1-year MBA	Lathrop & Gage, LLP	Lathrop & Gage, LLP
Jason Rodrigues	<a href="mailto:jrodri16@nd.edu">jrodri16@nd.edu</a>	Mangalore, India	Lockheed Martin	2-year MBA	Smarter Remarketer	Deloitte Consulting
Sloan Smith	<a href="mailto:asmith18@nd.edu">asmith18@nd.edu</a>	Concord, NH	Intel	1-year MBA	Northern Trust Hedge Fund	Innovest Portfolio Solutions
Ryan Smith	<a href="mailto:rsmith37@nd.edu">rsmith37@nd.edu</a>	Summit, NJ	Seadrill	5-year BBA + MBA	Cross River Partners	TBD
Syed Farooq Tirmizi	<a href="mailto:stirmizi@nd.edu">stirmizi@nd.edu</a>	Karachi, Pakistan	Verifone Systems	2-year MBA	Deutsche Bank	Starting own investment management firm
Jonathan Welch	<a href="mailto:jwelch1@nd.edu">jwelch1@nd.edu</a>	Virginia Beach, VA	Interactive Corp	2-year MBA	ExxonMobil	ExxonMobil
Jiajia Xu	<a href="mailto:jxu7@nd.edu">jxu7@nd.edu</a>	Yangzhou, China	Schlumberger	2-year MBA	E&Y Advisory Services	E&Y Consulting
Joseph Yang	<a href="mailto:jyang4@nd.edu">jyang4@nd.edu</a>	Los Angeles, CA	Activision Blizzard	2-year MBA	Ecolab	TBD