



# QUARTERLY NEWSLETTER



## GREETINGS FROM AIM

As AIM XLIII approaches the end of the semester, 27 undergraduate analysts conclude valuation reports on potential additions to the AIM portfolio under the guidance of Professors Bill McDonald and Shane Corwin.

Over the next month, the class will vote to rebalance the portfolio, present our recommendations to the advisory board, and enact the recommended trades. The Trump presidency, particularly its regulatory implications on the financial and healthcare industries, will be of great importance when considering the selection of stocks.

Next quarter, the rebalanced portfolio will be passed on to the AIM XLIV MBA class.

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# STATE OF THE ECONOMY

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## Third Quarter GDP

The U.S. economy expanded at a seasonally adjusted annual rate of 2.9% in the third quarter of 2016, up from 1.4% in the second quarter. Consumer spending slowed to a 2.1% annual growth rate from the second quarter robust 4.3% reading. Business spending rose modestly for the second consecutive quarter, with fixed nonresidential investment advancing at a 1.2% pace and contributing 0.15 percentage points to the GDP growth rate. Inventories offered a tailwind for third-quarter growth, with change in private stockpiles contributing 0.61 percentage points to the quarter's 2.9% growth rate. The main growth comes from a 10% increase in foreign trade as a result of the summer surge in soybean exports. The housing sector remained a soft spot in the third quarter, as residential fixed investment declined for the second straight quarter.

## Trump Presidency

After a 750 point overnight drop in the Dow futures following Trump's victory over Clinton, US shares staged a comeback, led by banks and healthcare stocks as investors bet on the prospect of less regulation under a Trump administration. Meanwhile, U.S. bond yields rose higher across the board, as people continue to eye an upward inflation trend following the election of Donald Trump. The yield on the benchmark 10-year Treasury note is 15 bps higher at 2.27%, while the 30-year Treasury bond yield is over 3% for the first time since January. Going forward, market forecasts anticipate higher GDP growth, higher inflation and higher interest rates.

## Commodity Market

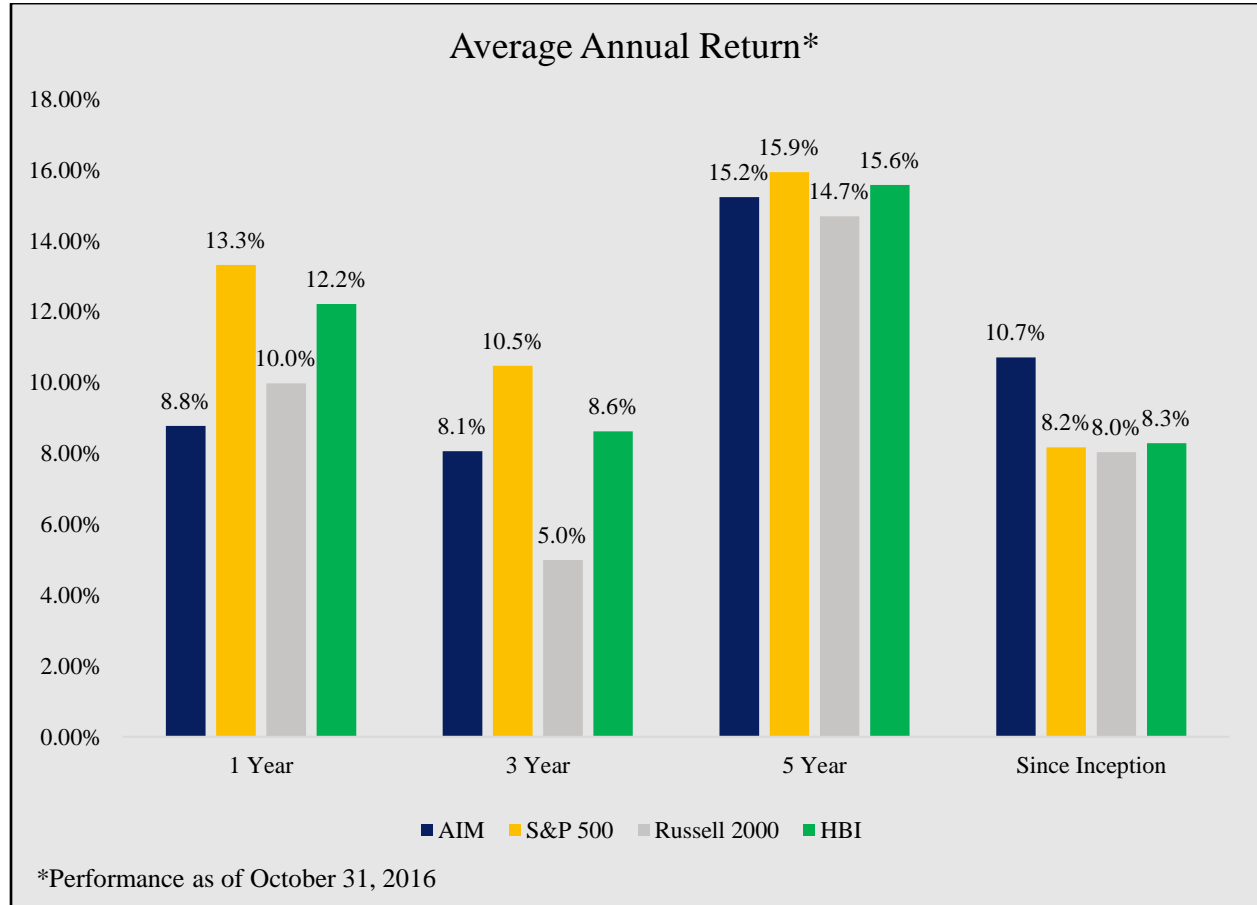
U.S. oil prices lost 11% in the past four weeks, as the data showed U.S. inventories rising and U.S producers putting more rigs back to work. The prices continued falling as the dollar rallied, a move that makes oil more expensive for foreign buyers. The biggest factor in oil's retreat is growing skepticism that members of the Organization of the Petroleum Exporting Countries (OPEC) can reach a deal to cut output at their Nov. 30 meeting.

Since the election of Mr. Trump, copper prices rallied on the hopes that Trump would unleash billions of dollar in infrastructure spending, which could lift demand for metals used for building and manufacturing. Despite these hopes, market prices have since fallen, slowing the Trump rally.

# PORTFOLIO PERFORMANCE

## Benchmarked Comparison

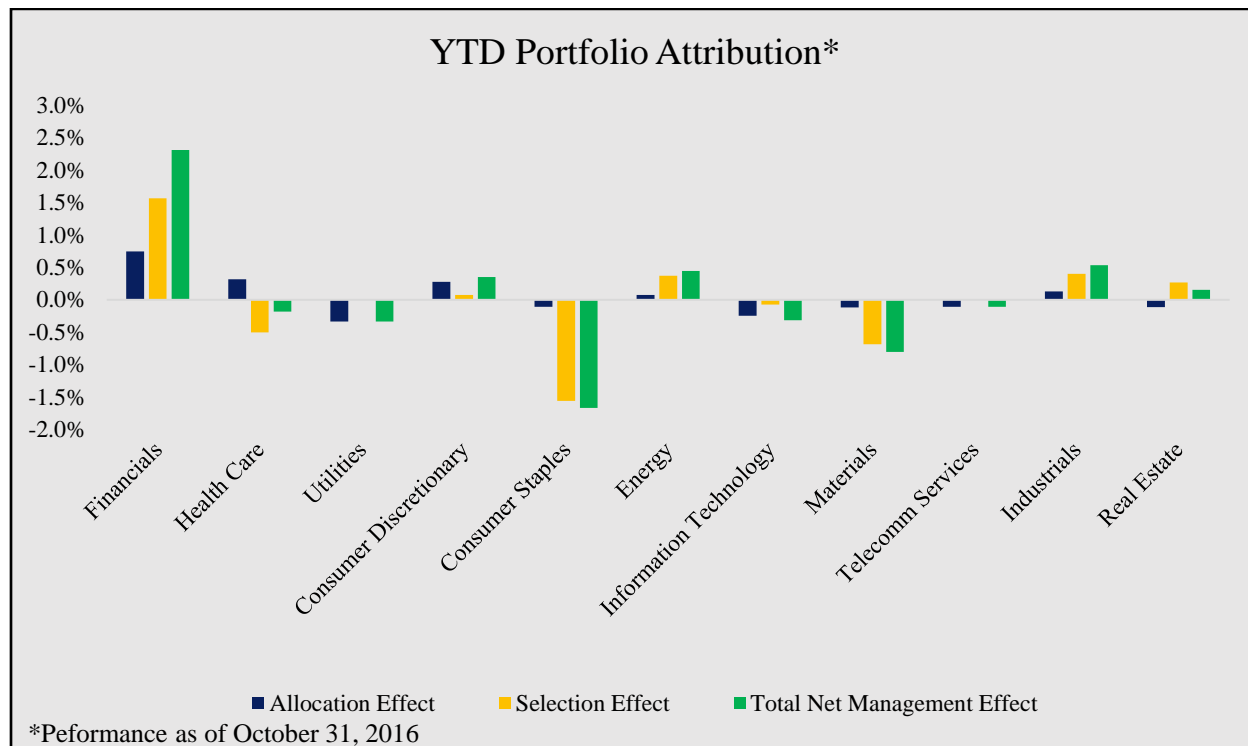
The AIM portfolio has historically outperformed its benchmarks - S&P 500, Russell 2000, and HBI (65% S&P 500, 35% Russell 2000). However, over more recent time periods the AIM portfolio has only met or underperformed against its benchmarks, underperforming all three indices in the past year.



## Portfolio Attribution

Over the past year, the AIM portfolio has underperformed the market (S&P 500) by 1.5%. A large part of this underperformance is a result of poor selection in consumer staples and materials stocks. Both consumer staples stocks have underperformed, as Hain Celestial continues to delay their annual filing due to a potential accounting scandal and Sprouts Farmers Market's recent quarterly results indicated slowing same store sales growth. Financials was the most impactful industry for the portfolio with a positive 1.6% net management effect. The AIM portfolio benefited from being underweight in the underperforming financial sector in addition to a strong selection of financials stocks like Marketaxess, one of the AIM portfolio's top performers. This positive net management effect has diminished though, as

the positive Financials performance since the election results is not incorporated due to the latest performance data being month end of October 2016.



## Best and Worst Performers

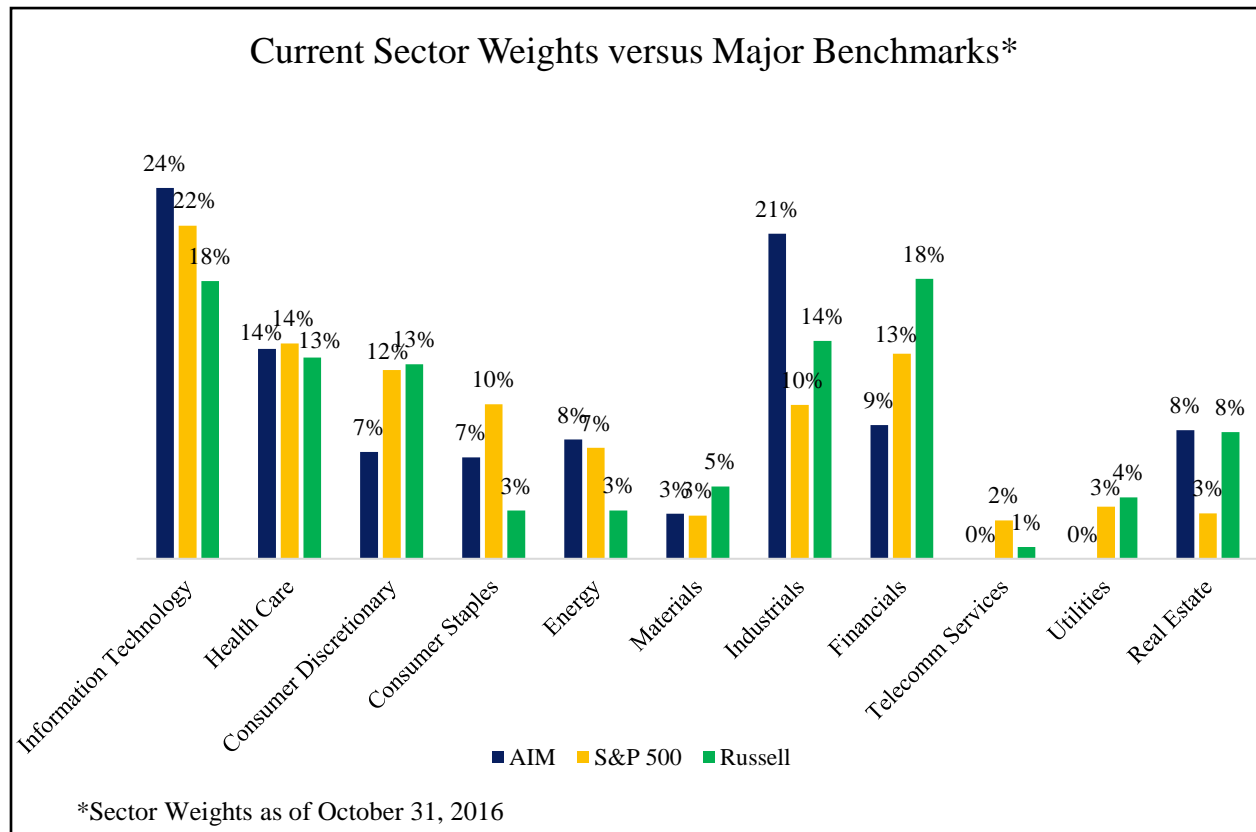
In the past year, the AIM portfolio has experienced outstanding performance in several of its holdings, particularly Activision Blizzard and Microsoft, which have each returned over 30%. Hain Celestial has performed poorly due to continued delays in its 10-K filing, now three months late. Gilead Sciences and Jazz Pharmaceuticals struggled going into the Presidential Election due to fears of government pressure on specialty pharma pricing as well as long-term growth concerns due to looming patent expirations on both companies' marquee products. Both stocks initially climbed post-election, but they have declined back to pre-election prices due to revamped long-term growth concerns after several significant late-stage drug failures in the industry.

Top 5 Performers			Bottom 5 Performers		
Company Name	Industry	Return	Company Name	Industry	Return
Activision Blizzard	Technology	40.3%	Hain Celestial	Consumer Staples	(27.7%)
Microsoft	Technology	39.1%	Gilead Sciences	Healthcare	(23.5%)
Alphabet	Technology	24.1%	Kinder Morgan	Energy	(22.5%)
UnitedHealth	Healthcare	23.5%	Sprouts Farmers Market*	Consumer Staples	(21.1%)
Marketaxess*	Financials	23.2%	Jazz Pharmaceuticals	Healthcare	(17.6%)

Returns TTM as of October 31, 2016

\*Holding Period Return

# SECTOR UPDATE



## Technology

Technology is the most heavily-weighted sector in the AIM portfolio at 24% of portfolio allocation. Having gained 4.6% over the past three months, the tech sector was the best performing sector in the S&P. The sector has recently been defined by increasing belief in the future of artificial intelligence, new competition for the iPhone from Google’s Pixel, and the increasing buzz around the recent filing of future tech IPO Snap Company. However, the sector has struggled since Trump’s election, as analysts fear repercussions for technology companies’ strong support of Hilary Clinton.

## Financials

Financials is the most underweight sector in the AIM portfolio, with only an 8% allocation. The portfolio has benefited from this underweighting year-to-date, as the industry has underperformed. However, since Trump was elected, the industry has been a top performer as anticipation grows for a potential repeal of Dodd-Frank and a rising-rate environment.

## Healthcare

Healthcare has been the worst performing sector over the past three months, declining 10% versus 1.7% for the S&P 500. Like financials, however, healthcare has rebounded significantly due to the unexpected Trump victory and Republican control of both houses of Congress. The upcoming Trump presidency is expected to result in government healthcare spending cuts and a repeal of the Affordable Care Act, shifting the Healthcare market dramatically. The Healthcare rebound is led by pharmaceuticals, as the decreased expectation of a legal action against drug pricing practices is expected to improve margins of pharmaceutical companies such as Jazz and Gilead.

## PORTFOLIO COMPOSITION

Stock	Ticker	Position Value	AIM Weight
Activision Blizzard	ATVI	\$455,400	4.16%
Align Technology*	ALGN	\$476,700	4.35%
American Tower	AMT	\$445,410	4.07%
Digital Realty REIT*	DLR	\$457,650	4.18%
Equifax	EFX	\$386,597	3.53%
Exxon Mobile	XOM	\$455,270	4.16%
Facebook	FB	\$471,393	4.30%
Gilead Sciences	GILF	\$359,376	3.28%
Google	GOOG	\$478,692	4.37%
Hanesbrands*	HBI	\$499,590	4.56%
Herman Miller	MLHR	\$408,680	3.73%
Infinera Corp*	INFN	\$468,050	4.27%
Intel*	INTC	\$461,630	4.21%
Kinder Morgan	KMI	\$385,521	3.52%
MarketAxess	MKTX	\$508,232	4.64%
Microsoft	MSFT	\$549,810	5.02%
Mosaic Co*	MOS	\$492,300	4.49%
Nvidia*	NVDA	\$470,550	4.29%
Rockwell Collins*	COL	\$463,100	4.23%
Total Systems Services*	TSS	\$460,980	4.21%
Under Armour*	UA	\$451,965	4.13%
Verisign*	VRSN	\$480,780	4.39%
Verisk Analytics*	VRSK	\$479,655	4.38%
Wabco	WAB	\$389,014	3.55%
<b>Total AIM Portfolio</b>		<b>\$10,956,345</b>	<b>100%</b>

\*Indicates new additions to the portfolio

## STOCK UPDATES

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Buffalo Wild Wings had fallen hard from its once high-flying share price of \$172 to close to \$130 just three weeks ago. However, perhaps bolstered by B-Dubs' suggested adherence to the franchising and capital structure advice of activist investor Marcato Capital, the stock has jumped 25% in that period and is still on the rise. While upside may still exist, B-Dubs seems to now be too expensive at its current price and as such I am recommending a pass. Buffalo Wild Wings is covered by **Jimmy Mangan**.



Infinera is a vertically integrated company in the optical transport networking industry. The company has best-in-class products (customers call it the "iPhone" of the industry) and a strong management team. The industry, however, has been less than desirable due to wide fluctuations in customer spend and inventory. The industry is quickly consolidating, alleviating some of the industry volatility. Moreover, the company is currently undergoing a technological upgrade (similar to Apple releasing a new version of the iPhone). As a result, sales have been weak, producing a low stock price. Thus, INFN is an undervalued long-term opportunity. Infinera is covered by **Grant Ebenger**.



CoreCivic, formerly known as Corrections Corporation of America, (this sentence has way too many commas – it needs to be rewritten) is one of two leading private providers of government solutions including managing, owning, operating, consulting, and leasing private prisons, residential centers, detention centers, and halfway houses for state government, federal government, US Marshals, and Immigration Customs Enforcement. The stock price dropped nearly 50% following a decision in August to begin transitioning away from federal private prisons, but has risen by nearly 50% since the Trump election. CoreCivic is covered by **Conor Colpoys**.



First Solar is facing significant industry headwinds, as a global supply glut has sent the price of solar panels down by 30% YTD. This drastic change in market environment has forced First Solar to reevaluate its short-term strategy in the face of declining margins and potentially unprofitable contracts. The stock has also fallen with the election of Donald Trump, as his attitude towards renewable energy is viewed less favorably than Hillary Clinton's. First Solar is covered by **Ben Rosso**.



Over the summer, Envision Healthcare announced a merger of equals with AmSurg Corp. (AMSG), which provides outsourced physician and ambulatory surgery services. They recently finalized the board of the combined company and scheduled the shareholder vote for November 28, 2016. If the vote goes through, the deal is expected to close by year-end. Envision is covered by **Savanna Dinkel**.

## SAN FRANCISCO TRIP

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The AIM XLIII class visited San Francisco from November 9<sup>th</sup> through 13<sup>th</sup>. While in the Bay Area, the analysts gained exposure to the full innovative ecosystem of Silicon Valley and its surrounding area. Highlights of the trip included attending the San Francisco Wall Street Alumni dinner Thursday, November 10<sup>th</sup>, and the AIM Alumni dinner on Friday. The class visited a variety of firms spanning from emerging markets public investing to venture capitalist and start-up companies and their

portfolio companies. The following presents a short summary of the insightful visits throughout the trip.

**Stanford Graduate School of Business:** The analysts spent a morning in Palo Alto at the Stanford Graduate School of Business listening to the school's admission pitch. The analysts also toured the campus seeing the new residence halls and classrooms.

**Technology:** The analysts were hosted at Uber's San Francisco office by Ben O'Neill ('14, AIM XXXVII). The company provided the analysts insight into the complicated nature of a successful startup.

**Venture Capital:** The class met with Saar Gur, general partner at CRV, who shared his strategy within early stage venture capital, and introduced the group to Jack Conte, the CEO and founder of one of his current investments, Patreon. Phin Barnes also shared his approach to venture capital at First Round Capital and introduced the class to Adam Pisoni, the successful co-founder of Yammer and Abl Schools.

**Private Equity:** Dave Thomas ('03, AIM XV), principal at Golden Gate Capital, walked the group through the history of private equity and some of Golden Gate's most successful investments. Later in the trip, David George ('06, AIM XXI), VP at General Atlantic, provided the class with a different perspective on Uber, and highlighted the value, growth potential, and risk of the company from an investors perspective.

**Hedge Funds:** The analysts visited Bob Peck, MD of FPR Partners, where he explained his long term public equities investment strategy that focuses on a small number of public companies, and also stressed the importance of strong management to the class. Next, the class visited WestBridge Capital, a firm that primarily invests in public and private companies within India, where Samir Chadha discussed the risks/rewards of investing in an emerging market and the difference between his private and public investments. To conclude the trip, Matt Kinsella ('05, AIM XIX), MD at Maverick Capital, compared his experiences working within Mavericks traditional operations and their venture capital arm.



# AIM XLIII CLASS PROFILE

Analyst	Email	Hometown	1st Stock	2nd Stock	Summer Internship	Post-Grad Plans
David Arney	darney2@nd.edu	Cleveland, OH	MarketAxess Holdings	Applied Materials*	Northwestern Mutual	Undecided
James Burke	jburke22@nd.edu	Long Island, NY	United Healthcare Group	Constellation Brands*	Deutsche Bank	Deutsche Bank
Conor Colpoys	ccolpoys@nd.edu	Erie, PA	Herman Miller	CoreCivic*	Houlihan Lokey	Houlihan Lokey
J.J. del Rosario	jdelrosa@nd.edu	St. Louis, MO	Microsoft Corporation	LendingClub*	Citigroup	Undecided
Savanna Dinkel	sdinkel@nd.edu	Flower Mound, TX	Envision Healthcare	Digital Realty REIT*	J.P. Morgan	VMG Health
Grant Ebenger	gebenger@nd.edu	Fort Lauderdale, FL	O'Reilly Automotive	Infinera Corp*	PJT Partners	PJT Partners
Ben Fouch	bfouch@nd.edu	Brownsburg, IN	Westinghouse Air Brake Tech	Activision Blizzard	PWC	Booz Allen Hamilton
Peter Fox	pfox2@nd.edu	Grosse Pointe Farms, MI	Kinder Morgan	Intel Corp*	Credit Suisse	Jupiter Peak Capital
Jimmy Ganas	jganas@nd.edu	Palatine, IL	Check Point Software Tech	Endo International*	Goldman Sachs	Morgan Stanley
Bryan Hall	bhall5@nd.edu	Pittsburgh, PA	Hain Celestial Group	Tempur Sealy*	Moelis & Company	Lazard Freres
Neil Jones	njones8@nd.edu	Cincinnati, OH	Sherwin-Williams Company	Kraft Heinz*	Deloitte	Deloitte
Conor Kinasz	ckinasz@nd.edu	Des Plaines, IL	Alphabet	Costco*	Citigroup	Citigroup
Anthony LaGuardia	alaguard@nd.edu	Seattle, WA	Union Pacific Corporation	Alaska Air*	Washington Family Ranch	ND Investment Office
Joe Lanzel	jlanzel@nd.edu	Foxboro, MA	Exxon Mobil Corporation	Under Armour*	Morgan Stanley	Morgan Stanley
Chris Leitten	cleitten@nd.edu	Birmingham, AL	Gilead Sciences	Verisk Analytics*	DBO Partners	DBO Partners
Brooke Li	tli5@nd.edu	Wuxi, China	Equifax	Mosaic Co*	Goldman Sachs	Goldman Sachs
Colin Lillibridge	clillibr@nd.edu	Geneva, IL	Knoll	Align Technology*	McKinsey & Company	McKinsey & Company
Jimmy Mangan	jmangan@nd.edu	Winnetka, IL	McDonald's	Buffalo Wild Wings*	Goldman Sachs	Goldman Sachs
Jack Markwalter	jmarkwal@nd.edu	Atlanta, GA	Newmont Mining *	Nvidia*	PJT Partners	Third Lake Capital
Nate Marti	nmarti@nd.edu	Mount Vernon, IA	Total System Services *	Rockwell Collins*	Bain Capital	Undecided
Cam Perna	cperna@nd.edu	Rochester, NY	Jazz Pharmaceuticals	Dunkin Brands Group*	Blackstone	DBO Partners
Jesse Plante	jplante@nd.edu	Floral Park, NY	American Tower Corporation	Nike*	Goldman Sachs	Undecided
Ben Rosso	rrosso@nd.edu	Raleigh, NC	Facebook	First Solar*	Mosaic Capital Partners	Undecided
Ryan Seymour	rseymour@nd.edu	Winnetka, IL	Whitestone REIT	Hospital Corp of America*	Houlihan Lokey	Houlihan Lokey
Theo Sholly	rsholly@nd.edu	Knoxville, TN	Covanta Holding Corp	VeriSign*	Sorin Capital	FT Partners
Taryn Stamper	tstamper@nd.edu	Spokane, WA	Hannon Armstrong	Hanesbrands*	BP	Bain Consulting
Jamie Sullivan	jsulli21@nd.edu	Tampa, FL	Sprouts Farmers Market	Priceline*	Golden Gate Capital	Leonard Green & Partners

\*Stocks not included in the original portfolio

# MENDOZA UPDATE

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## **Notre Dame Institute for Global Investing**

This past year, the Mendoza College of Business announced the launch of the Notre Dame Institute for Global Investing, led by Managing Director Kevin Burke and Faculty Director Shane

Corwin. The NDIGI seeks to be the preeminent university-based investment management research and education program worldwide. To do this the Institute will enhance an already strong finance curriculum, by building upon existing courses such as Applied Investment Management and Global Portfolio Management. For example, International Portfolio Management Practicum will be offered to students beginning in spring 2017. This course will offer a small group of students the chance to travel to London for an intensive week of hands-on interaction and case study with a leading investment management firm. The learning objectives of the course include gaining a real-world perspective on investment management, understanding investing from a European vantage point, and contributing investment solutions in a collaborative setting. Another new course, Emerging Markets Investing, will provide students in the London Study Abroad program with both the conceptual framework and practical knowledge necessary to understand emerging economies, taking into account critical characteristics and historical experiences. The course will combine lectures that introduce core topics with case studies that emphasize practical application.

The Notre Dame Institute for Global Investing will leverage its key partnerships with the Mendoza College of Business, the University of Notre Dame Investment Office and the Notre Dame Alumni network to provide the best possible education in global investment. These strategic partnerships will create enriching internship opportunities for our students and high-quality job placements for our graduates. Additionally, NDIGI will establish a world class mentorship program which will enable students to partner with like-minded professionals throughout the industry. These long-term mentorships will allow students to gain unique insights, shaping them into the most highly qualified and ethical investment management candidates.



“The Notre Dame Institute for Global Investing’s mission is to leverage Notre Dame’s current strengths to train and shape tomorrow’s investment leaders within the unique traditions of Notre Dame’s Catholic mission and global presence.” – Kevin Burke (Managing Director)

# AIM ALUMNI UPDATES

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## **Christopher Phillips (AIM XXIX)**

Christopher is currently the VP of Home Improvement Lending at Mosaic, a company he joined in October. Previously, he served as the VP of Finance and Corporate Development at SoFi where he was responsible for FP&A, treasury and liquidity management, investor relations, and corporate development.

## **Ryan Mack, CFA (AIM XXXI)**

Ryan is an Investment Associate at the University of Notre Dame Investment Office, where he works as part of the multi-strategy team. Ryan previously served as a Managing Director and Associate at Richmond Holdings in Dallas, Texas. He began his career as an Investment Analyst at Notre Dame.

## **Tom McMackin (AIM XXXIII)**

Tom is currently an MBA Candidate at Harvard Business School. Previously, he worked as a private equity analyst at The Blackstone Group. As a member of AIM, Tom covered Tessera (TSRA) and Overseas Shipholding (OSG).