AIM QUARTERLY

Quarter 1, Spring 2014
In this Issue

Greetings from AIM XXXVIII

As the first quarter of 2014 comes to a close, the 26 MBA/MSA analysts of AIM XXXVIII have recently completed an intense but rewarding first round of security analysis, under the guidance of Professors Jerry Langley, Bill McDonald, and Frank Reilly.

So far, the year has proven to be interesting to say the least, with Jos. A. Bank (JOSB) in the middle of a hostile takeover by Men's Warehouse (MW), and Google (GOOG) continuing to buy and sell technologies at an unprecedented rate. Over the past twelve months the portfolio has gained $2.38 million for a current value of just over $9.51 million.

During the upcoming month, we are looking forward to second round stock selection, meeting with AIM alumni and industry professionals during our Chicago Trip, and spending a welcomed spring break with friends & family.

"Goodness is the only investment that never fails" – Henry David Thoreau

ECONOMIC OUTLOOK

GDP

According to the Bureau of Economic Analysis, real GDP is estimated to have increased by a 3.2 percent annual rate in the fourth quarter, from the third quarter. Strong growth in exports of 11.4 percent and positive contributions from personal consumption expenditures and private investment were enough to offset a decrease in government spending of 4.9 percent and increase in imports. For fiscal year 2013 GDP grew by 1.9 percent, with increases in consumption, private investment and exports being offset by decreases in government expenditure and increases to imports.

FISCAL POLICY

In February, investors breathed a sigh of relief as the 2014 federal budget and debt ceiling adjustments were passed without incident, signaling that the era of Congressional stand-offs and shut-downs may be behind us. Considered a compromise, the new budget reverses some of the cuts made during sequestration, such as cuts to Headstart and several defense-related agencies, but maintains or increases cuts to other areas, including the IRS, EPA, and Departments of Labor, Housing, and Education. The 2014 fiscal deficit has fallen to $514B, which represents about 3 percent of GDP and is finally in line with historic averages.

MONETARY POLICY

Fed Chairman Janet L. Yellen began her four-year term in February, promising continuity in the FOMC's approach and reiterating support for a highly accommodative monetary policy. Amid signals of economic recovery, the Fed has begun tapering QE by reducing asset purchases by $10 billion in January and an additional $10 billion in February. According to Yellen, additional acceleration will be contingent upon the Fed's outlook for the labor market and inflation, as well as its ongoing assessment of the likely efficacy and costs of such purchases. She also expects the current low Federal Funds rate target range to be maintained.

INFLATION

Inflation has continued to fall short of the Fed's target rate of two percent. However, the Consumer Price Index rose by 0.3 points to 1.5 percent in December, the biggest gain in six months. Despite this good news, improvement in inflation is lagging behind the positive unemployment trend. Low price inflation and lackluster wage growth could suggest that there is more slack in the labor market than the unemployment rate implies. At its January meeting the FOMC stated that the continued purchase of securities should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

CONSUMER SENTIMENT

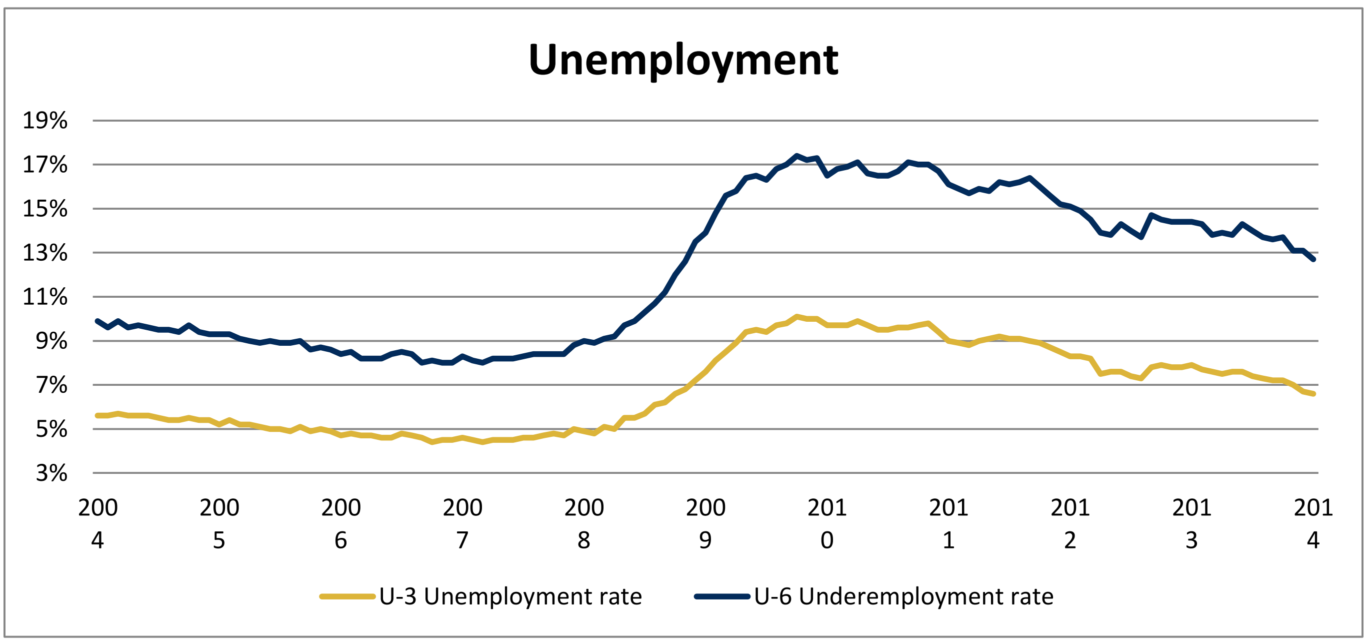
On January 28th the Conference Board reported the results of its January consumer confidence index survey. According to the most recent monthly surveys, the index (1985 = 100) rose to 80.7 in January from 77.5 in December. This is a substantial increase from the last year's numbers of 58.6 in January and 66.7 in December. Consumers also have a more favorable assessment of current business conditions and the job market. Their expectations are positive for business conditions but are mixed regarding the outlook for jobs.

HOUSING

The Fed reported in its January meeting that despite recent slowing in the housing market, strong growth is expected going forward. The benchmark S&P/Case-Shiller 20-City Composite Index has slowed down, ending November with a value of 165.80, slightly under that of October; the index remains 19.7 percent below summer 2006 peaks. However, solid gains over the last year are observable with a 13.7 percent rise through the last twelve months. Mortgage rates remain relatively low with the average on a 30-year mortgage at 4.33 percent, 102 basis points above fall 2012 all-time lows as reported by Freddie Mac. However, interest rates will be driven higher in the future as the Fed continues to taper. The National Association of Realtors reported existing home sales declined 5.1 percent in January to 4.62 million, the lowest level reported since July 2012. Though the decline has greatly been attributed to poor weather throughout most of the country, the metric must be monitored moving forward to ensure this trend does not continue. Total housing inventory increased 2.2 percent from December and now represents a 4.9 month supply at current sales rates. This relative inventory shortage (6 to 6.5 months representing equilibrium between buyers and sellers) can be expected to drive price increases going forward across much of the country.

EMPLOYMENT

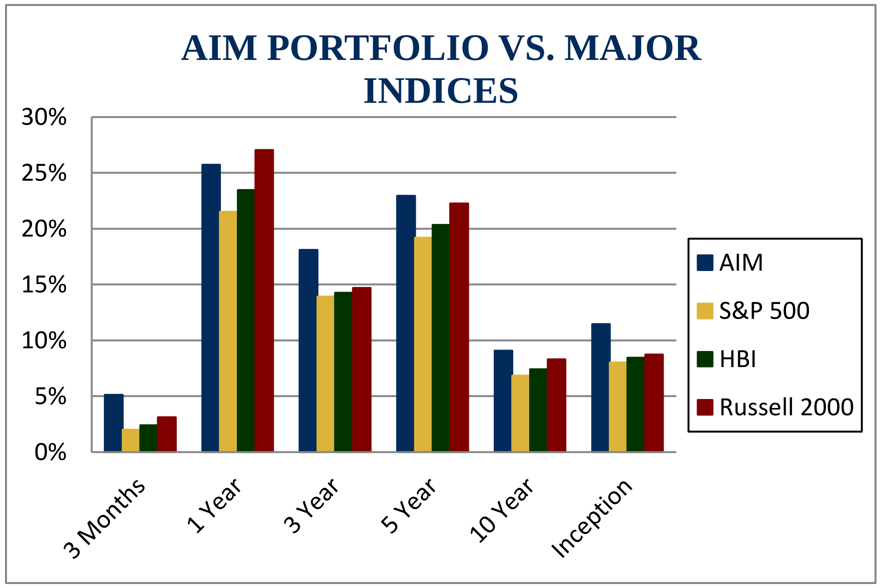
The U.S. Bureau of Labor Statistics reported an expansion of non-farm payrolls by 113,000 in January, well below projections of 178,000. December reports were similarly disappointing with only 75,000 jobs added against a projection of 193,000. This number represented the lowest level of additions since January 2011. February's report will be closely monitored as a third missed forecast would be seen as signaling a negative trend against 2014 expectations. Though the unemployment rate, 6.6 percent as of January, is at its lowest level since October 2008, concern remains surrounding the adequacy of this number as an indicator of overall labor market conditions. The labor force participation rate is currently at 35 year lows and underemployment remains pervasive. The U-6 unemployment rate, capturing those discouraged and underemployed workers, is 12.7 percent and may be a better representation of the current labor market. In its January meeting, the Fed reiterated that a range of labor market statistics will be utilized in determining appropriate action once the committee's benchmark of 6.5 percent unemployment is crossed. The committee noted that assessments of these additional labor market statistics indicate it will be appropriate to maintain the current target for the federal funds rate well beyond the time when 6.5 percent unemployment is met.



PORTFOLIO PERFORMANCE

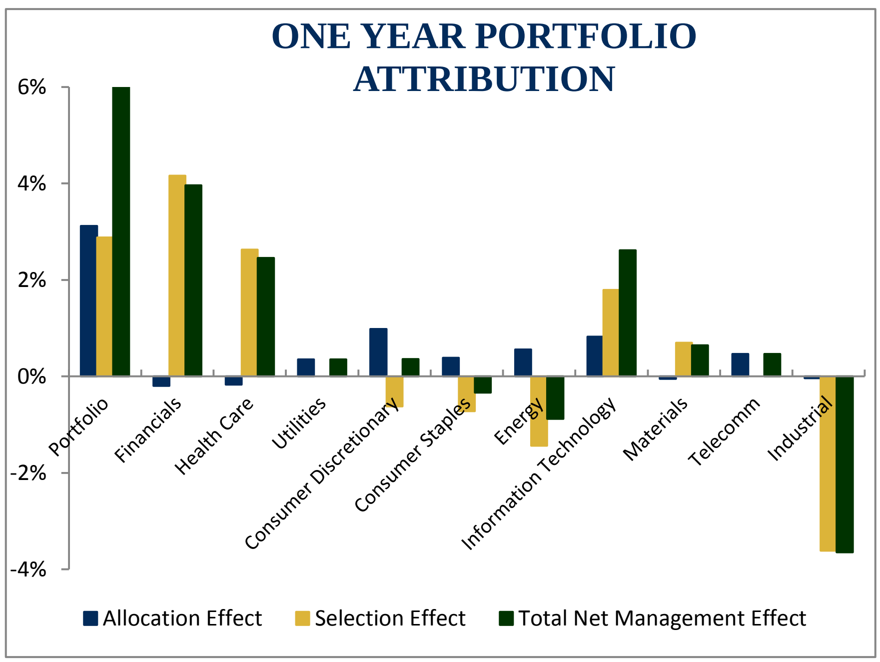
BENCHMARK COMPARISON

The AIM portfolio has continued to outperform its benchmarks: S&P 500, HBI (65 percent S&P 500, 35 percent Russell 2000), and Russell 2000 over its long-term horizon for at least three years. Since inception, the AIM portfolio has outperformed the three benchmarks by two to three percent compounded per annum.



PORTFOLIO ATTRIBUTION ANALYSIS

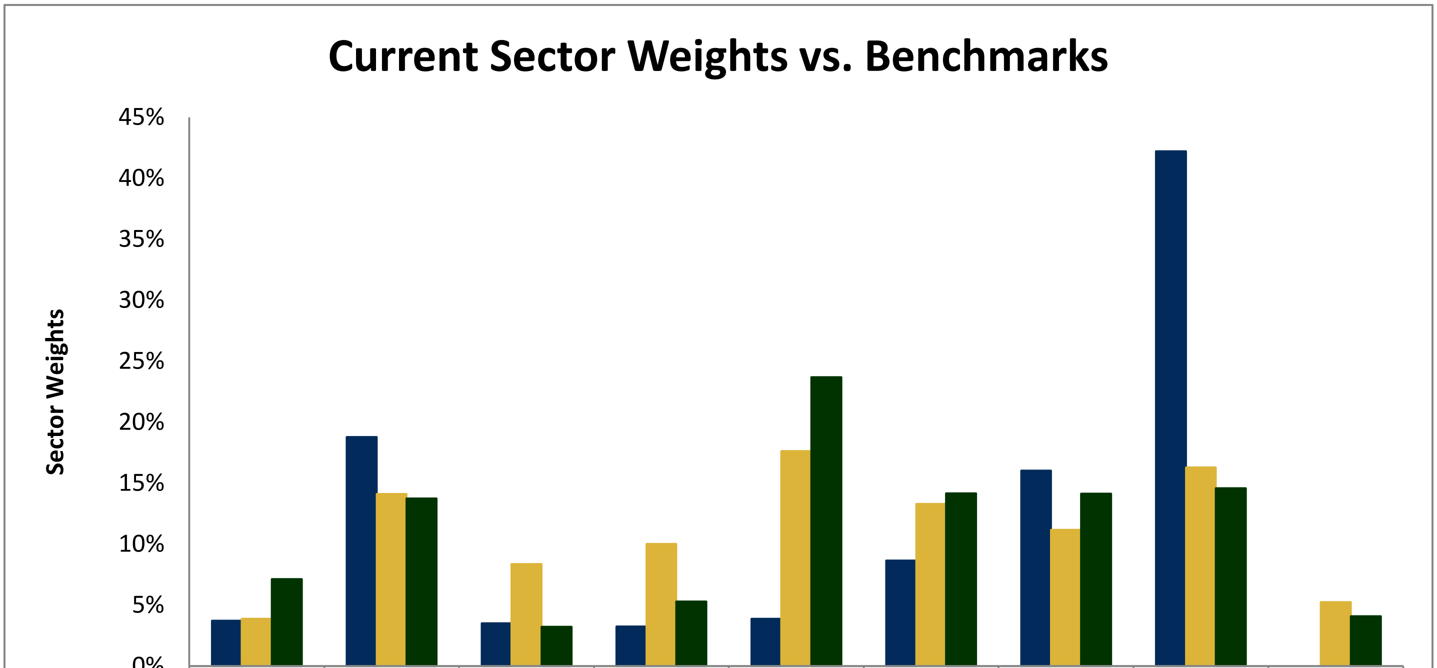
Over the last year, the AIM portfolio has outperformed the market by six percent (management effect), 3.1 percent due to allocation, and 2.9 percent due to selection. The highest return contribution comes from the Financials and Healthcare sectors; however the allocation effect was negative in both, indicating a good selection of stocks. The worst selection effect was in the Industrials sector of negative 3.6 percent. Out of the 10 sectors, the AIM portfolio experienced positive management effect in seven. The AIM portfolio has no investment in Utilities and Telecom, but it experienced a positive effect due to overall underperformance of these sectors.



SECTION ALLOCATION

The AIM portfolio seeks to benchmark the S&P 500 and the Russell 2000. The portfolio focuses on bottom-up stock picking in contrast to top-down allocation, therefore sector allocation between the portfolio and the two benchmarks vary over time.

Currently the portfolio is overweight in Consumer Discretionary, Industrials and Information Technology, and underweight in Materials, Consumer Staples, Energy, Financials Healthcare and Utilities.

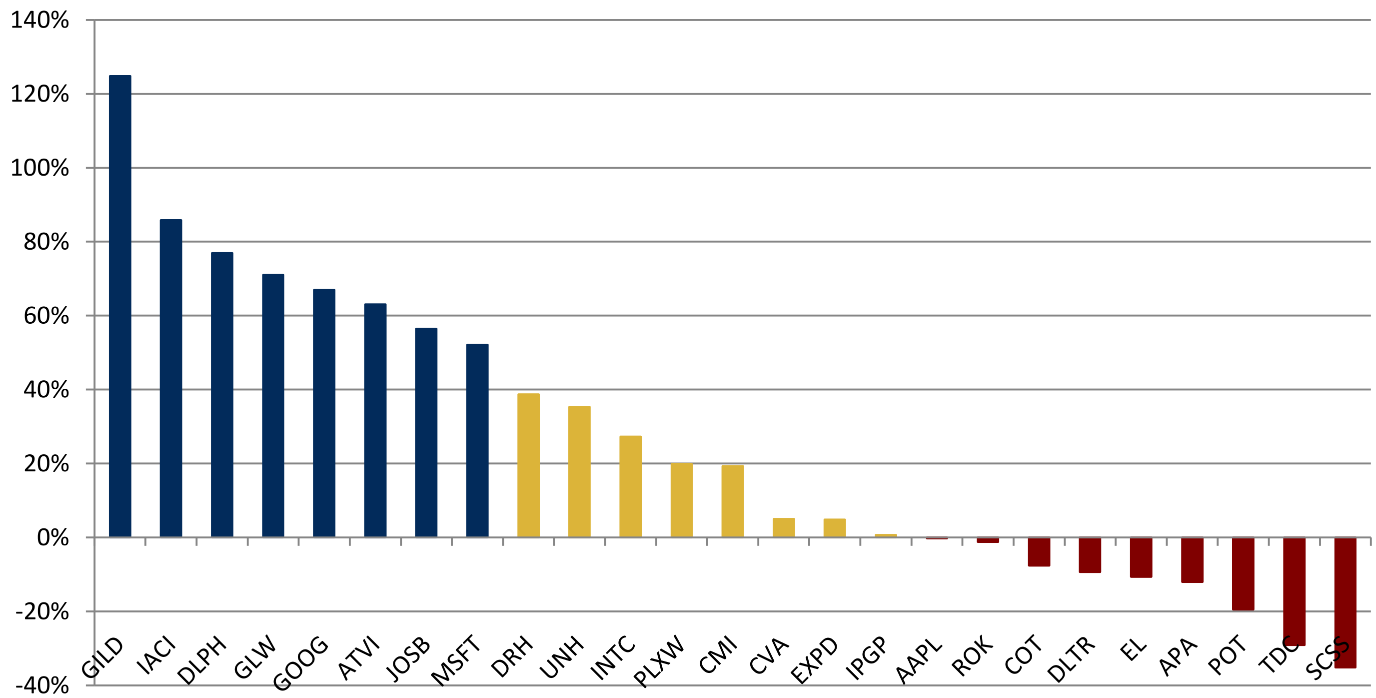


	Materials	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Utilities
AIM	3.7%	18.8%	3.5%	3.3%	3.9%	8.7%	16.0%	42.2%	0.0%
S&P 500	3.9%	14.1%	8.4%	10.0%	17.6%	13.3%	11.2%	16.3%	5.3%
Russell 2000	7.1%	13.7%	3.2%	5.3%	23.7%	14.2%	14.1%	14.6%	4.1%

PORTFOLIO POSITIONS

Over the past year (or the holding period, for stocks held less than one year) ending January 31, 2014, 10 stocks generated returns of greater than 30%, with Gilead Sciences generating a return of 124%. A total of 16 stocks had positive returns. During the same period, nine stocks in the AIM portfolio generated negative returns, with Potash, Teradata and Select Comfort generating negative 20% or worse returns.

ONE YEAR RETURN OF INDIVIDUAL POSITIONS IN THE PORTFOLIO



CURRENT PORTFOLIO COMPOSITION

Holding	Ticker	Shares	Price	Market Value	% of Portfolio
Apple	AAPL	800	$525.25	$420,200	4.42%
Apache Corporation	APA	3,700	$84.56	$312,872	3.29%
Activision Blizzard	ATVI	21,000	$19.72	$414,120	4.35%
Cummins Inc.	CMI	2,700	$142.83	$385,641	4.05%
Cott Corporation	COT	40,700	$8.28	$336,996	3.54%
Covanta Holding Corp.	CVA	23,000	$17.70	$407,100	4.28%
Delphi Automotive	DLPH	7,100	$65.91	$467,961	4.92%
Dollar Tree	DLTR	6,100	$51.97	$317,017	3.33%
DiamondRock Hospitality	DRH	30,500	$12.41	$378,505	3.98%
Estee Lauder Companies	EL	4,700	$67.65	$317,955	3.34%
Expeditors International	EXPD	7,400	$41.58	$307,692	3.23%
Gilead Sciences	GILD	5,500	$82.59	$454,245	4.78%
Corning Incorporated	GLW	22,300	$19.07	$425,261	4.47%
Google	GOOG	400	$1,203.79	$481,516	5.06%
InterActiveCorp	IACI	6,600	$74.36	$490,776	5.16%
Intel	INTC	13,100	$24.42	$319,902	3.36%
IPG Photonics	IPGP	4,600	$66.86	$307,556	3.23%
Jos A. Bank	JOSB	7,200	$55.05	$396,360	4.17%
Microsoft	MSFT	10,100	$37.98	$383,598	4.03%
PotashCorp	POT	10,800	$33.33	$359,964	3.78%
Pixelworks	PXLW	85,800	$5.35	$459,030	4.83%
Rockwell Automation	ROK	3,500	$119.32	$417,620	4.39%
Select Comfort Systems	SCSS	15,000	$17.81	$267,150	2.81%
Teradata	TDC	7,200	$45.58	$328,176	3.45%
UnitedHealth Group	UNH	4,800	$73.81	$354,288	3.72%
Total AIM Portfolio				$9,511,501	100.00%

AIM ALUMNI UPDATES

Todd Borgmann, AIM XXVI

Todd began working at Calumet Specialty Products Partners, a Fortune 600 Independent Refiner, in 2008. Currently, he serves as the Vice President of Business Development, working mostly on mergers and acquisitions. His position also requires managing internal capital expenditure. Todd has held this position for one year and has been a major contributor in many recent company developments. Some examples include breaking ground on the first refinery to be built in the United States in decades and the purchase of Bel-Ray Co. in December 2013.

Erik Keener, AIM XV

Erik started with RR Donnelly in 2003, then moved to Accenture in 2004. In 2008, Erik went to River Road Asset Management to work as an equity analyst, and he has been there ever since. River Road is a young, growing asset management firm that utilizes the "Absolute Value" investment philosophy, which strives to avoid the pitfalls of "Deep Value" and "Relative Value" investing. The firm seeks excellent companies at compelling prices, and is generally risk averse.

AIM XXXVIII CLASS PROFILE

Analyst	Hometown	E-Mail	1st Stock	2nd Stock
Jason Aubuchon	St. Louis, Missouri	jaubucho@nd.edu	DiamondRock Hospitality	Fabrinet
Aaron Backman	Consul, Saskatchewan	abackman@nd.edu	Rockwell Automation	Monsanto
Jessica Bonanno	Orlando, Florida	jbonanno@nd.edu	Covanta Holding Corp.	Hain Celestial Foods
Brennan Clark	South Hadley, Mass.	bclark6@nd.edu	Apple	World Wrestling Entertainment
Andrew DePalma	Ellicott City, Maryland	adepalm3@nd.edu	Teradata	Under Armor
Matthew Dolgin	Buffalo Grove, Illinois	mdolgin@nd.edu	Gilead Sciences	Verifone
Conor Douglass	Glen Ellyn, Illinois	cdougla2@nd.edu	Google	Salesforce.com
Carlos Farah	Guadalajara, Mexico	cfarah@nd.edu	Intel	Amazon
Firas Fasheh	Amman, Jordan	ffasheh@nd.edu	Dollar Tree	Stratasys
Luke Friedman	Geneva, Illinois	lfriedm1@nd.edu	Select Comfort Systems	Live Nation
Prateek Garg	Indore, India	pgarg@nd.edu	Estee Lauder	Yum Brands
Michael Gerbasich	South Bend, Indiana	mgerbasi@nd.edu	Delphi Automotive	Motorola Solutions
Jason Guindon	Escanaba, Michigan	jguindon@nd.edu	Cabot Oil & Gas	U.S. Bancorp
Brent Kitts	Portland, Oregon	bkitts@nd.edu	IPG Photonics	Check Point Software Tech
Michelle Knepel	Monroe, Wisconsin	mknepel@nd.edu	Apache Corporation	Schlumberger
Thomas Laughner	Indianapolis, Indiana	tlaughne@nd.edu	Jos A. Bank	Kinder Morgan Energy Partners
Daniel Leonard	Glen Ellyn, Illinois	dleonar4@nd.edu	Cott Corporation	John Deere
Thomas Maguire	Miami, Florida	tmaguir1@nd.edu	Corning	Backer Hughes Inc.
Matthew Maye	Niskayuna, New York	mmaye@nd.edu	Activision Blizzard	Whole Foods Market, Inc.
Steven Nebbia	Omaha, Nebraska	snebbia@nd.edu	Microsoft	Union Pacific
Rohan Saldanha	Mumbai, India	rsaldanh@nd.edu	Expeditors International	Tesla
Sivella Smith	Knoxville, Tennessee	ksmith55@nd.edu	UnitedHealth Group	Danaher
Curtis Vercruysse	Indianapolis, Indiana	cvercruy@nd.edu	Cummins	Calumet Specialty Products
Peter Vignali	Clifton Park, New York	pvignali@nd.edu	PotashCorp	3D Systems
Patrick Wolohan	Saginaw, Michigan	pwolohan@nd.edu	InterActiveCorp	Lionsgate
Yao Xie	Ji'an, China	yxie2@nd.edu	Pixelworks	InvenSense

“No matter what happened to you in your past, you are not your past, you are the resources and the capabilities you glean from it. And that is the basis for all change.” – Jordan Belfort