AIM QUARTERLY

Quarter 3, Fall 2014

Greetings from AIM

As the third quarter of 2014 comes to a close, 26 undergraduate analysts have completed our first round of valuation of existing holdings under the guidance of Professors Jerry Langley and Frank Reilly.

During the fourth quarter of 2014, we look forward to the second round of valuations and meeting with AIM alumni and industry professionals during our San Francisco trip from November 5 – 9.

State of the Economy

GDP Growth

While experiencing a 2.1% drop in Q1, US GDP rebounded in Q2 to +4.2%. This reversal was driven by strong net exports, strengthening real personal disposable income, and buyoyed by increasing but still below-average government spending and business investment. Moving forward, we expect business investment and consumption to continue to improve and little to no improvement for government spending and net exports. It is important to recognize that even such improvenments, however, are still below long-term averages. Therefore, looking forward to the YE 2014 and 2015, we forecast GDP growth to drop to 2.2% for 2014 and 2.9% for 2015.

Housing

In August 2014, new home sales rose by 18%, yet there was also a 37.1% decline in multifamily productions for a total 14.4% decline in housing starts. More generally, there was also a rising supply of houses for sale amidst higher housing prices. In the short-term, a quick return to pre-crisis levels remains unlikely so we expect low growth (2-3%) given constrained household formation, rising prices, and the current interest rate environment. In the long-term, we expect to see increasing growth (4-5%) as demographic trends turn and consumers become more comfortable with taking on increased mortgage debt.

Labor Market

In August 2014, the unemployment rate was 6.1%, down from 6.2% in July. The number of unemployed persons declined to 9.6 persons and long-term unemployed declined to 3.0 million. However, underutilization of labor remains a key concern; there was minimal change in the number of involuntary part-time workers and discouraged workers. Moving forward, we expect the unemployment rate to decrease to 6.0% for the remainder of 2014 and remain at this level through 2015.

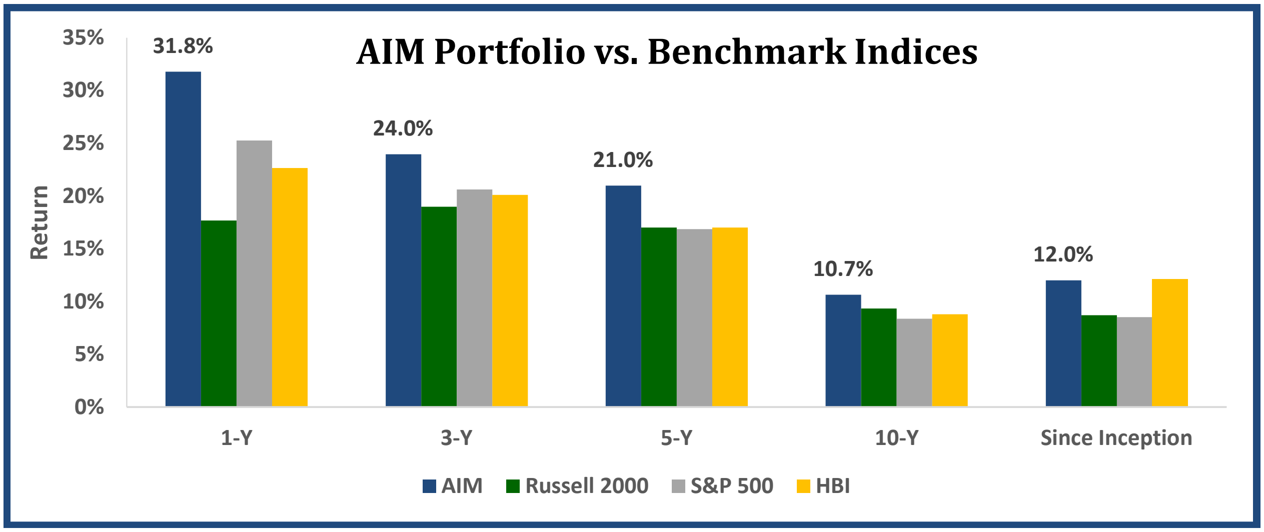
Monetary Policy

At the September FOMC meeting, the Fed announced the decision to reduce asset purchase to $15B/month and announced their expectations to end QE3 at the October meeting. They also noted that "It likely will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends." With this guidance in mind, we expect QE to end in October 2014 and short-term interest rates to remain low. In 2015, we expect interest rates to increase by mid-year.

Portfolio Performance

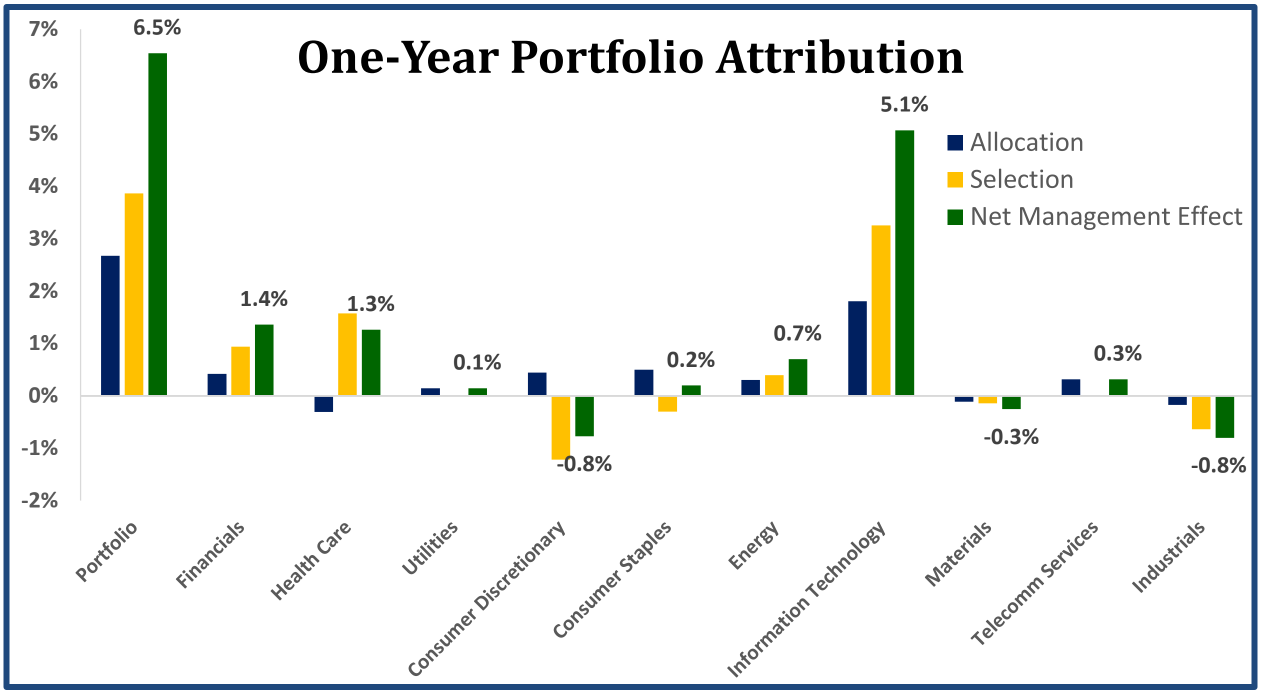
Benchmark Comparison

The AIM portfolio has continued to outperform its benchmarks: S&P 500, Russell 2000, and HBI (65% S&P 500, 35% Russell 2000), both over the long-term horizon (3-5 years) and over the past year. The portfolio has generated a 31.8% return in the past year and a 12% annualized return since inception in January, 1996.



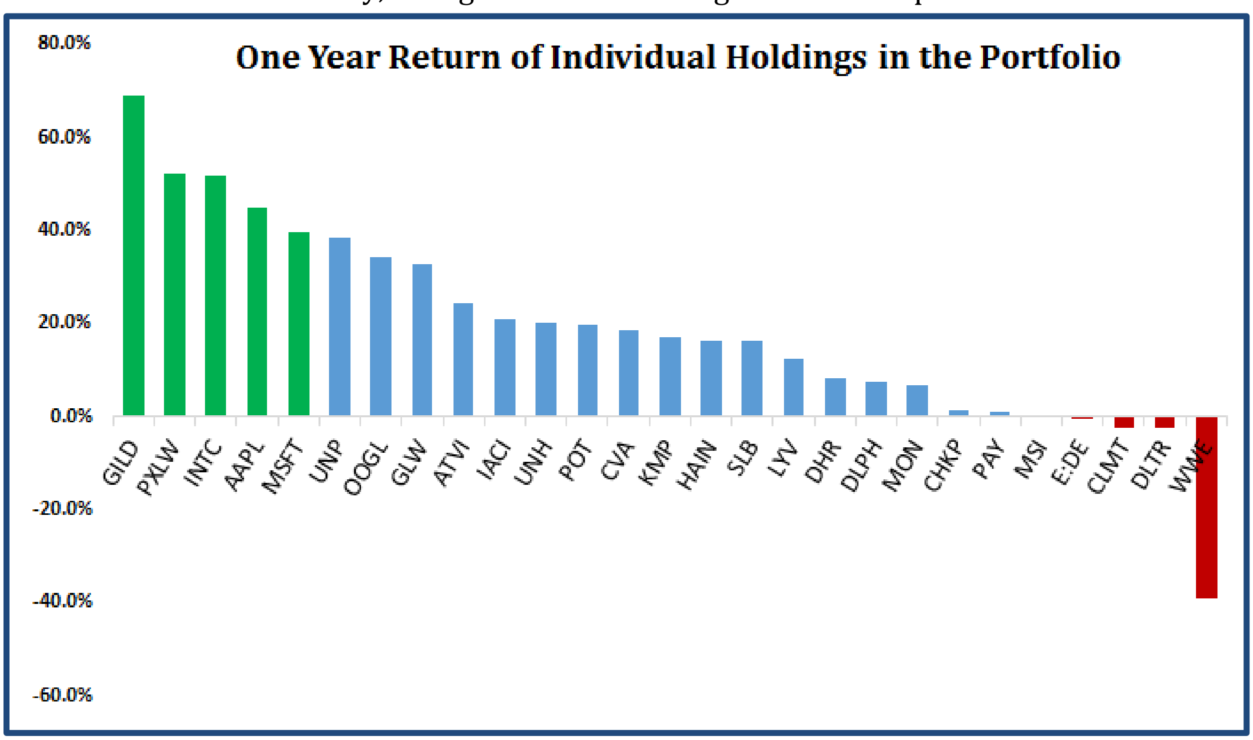
Portfolio Attribution

Over the past year, the AIM portfolio has outperformed the market by 6.5%. The bulk of this outperformance results from the selection of individual names rather than sector allocation. The portfolio's largest contributor of performance has been the technology space, driven by the selection effect. This sector also holds the greatest weight in the portfolio. The portfolio's most problematic sectors have been consumer discretionary and industrials, which have each seen a net management effect of -0.8%. Overall, the portfolio has a net management effect of 6.5%, illustrating the success of recent analysts' decisions. Further, the AIM portfolio maintains a positive net management effect in seven of the ten sectors, with the other three just below zero.

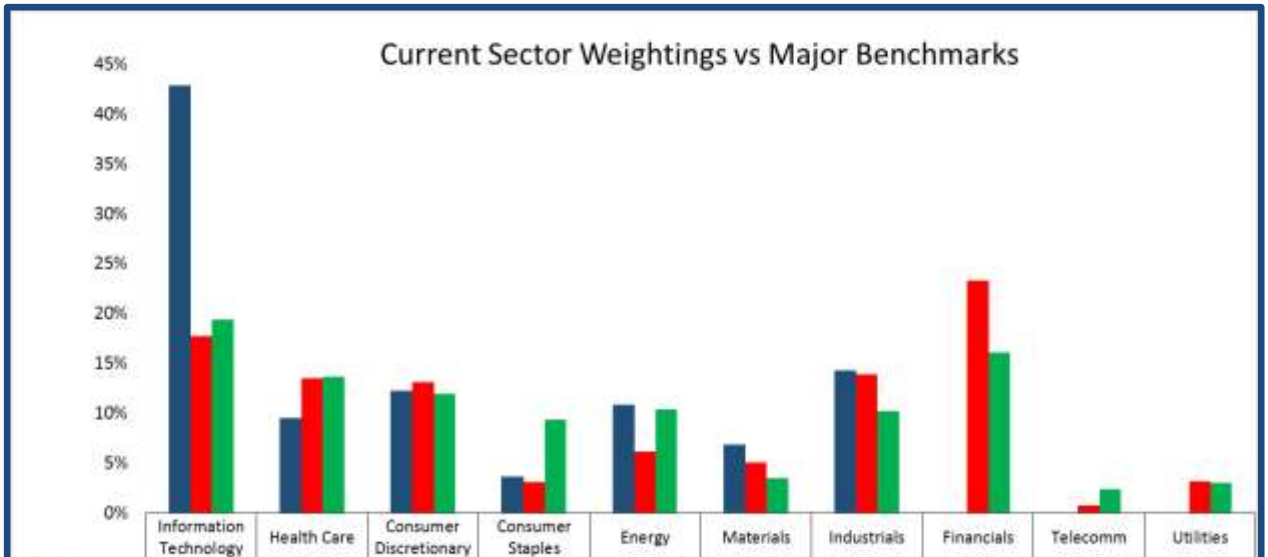


Best & Worst Performers

The AIM portfolio has had some outstanding performers, led by Gilead Sciences posting a return of 70.6% in the last year, as its Hepatitis C blockbuster, Sovaldi, realizes record sales. Only four stocks in the portfolio generated negative returns, with WWE being the only stock to suffer substantially, losing 37.2% since being added to the portfolio last semester.



Sector Updates



	Information Technology	Health Care	Consumer Discretionary	Consumer Staples	Energy	Materials	Industrials	Financials	Telecomm	Utilities
AIM	42.83%	9.47%	12.22%	3.60%	10.81%	6.83%	14.26%	0.00%	0.00%	0.00%
Russell 2000	17.77%	13.52%	13.12%	3.14%	6.17%	5.10%	13.92%	23.27%	0.77%	3.22%
S&P 500	19.36%	13.66%	11.91%	9.40%	10.41%	3.50%	10.24%	16.13%	2.39%	3.01%

Technology: This sector represents the portfolio's most overweight industry. Top holdings consist of Apple, Activision Blizzard, Google and Microsoft. On a broader level, the sector has outperformed the market, returning over 23% compared to SPX's 16.5% return. Despite widespread concern over valuation and a potential bubble, the industry has benefited from market leading growth. Another major performance driver remains the acceleration in tech M&A. Industry leaders like Apple and Facebook have been eager to consolidate innovative firms, and this will continue to be a major theme in the technology space moving forward.

Healthcare: The portfolio continues to remain underweight in healthcare equities, with Gilead and Universal Healthcare standing as the lone positions. However, the sector continues to lead the market higher, posting an annual return of almost 25%. Although volatile, biotech has driven much of this growth as investors chased higher returning names. Going forward, healthcare is well positioned to take advantage of the country's aging demography and improved treatment technology.

Energy: The AIM portfolio also maintains a sizeable concentration in the energy sector. Top energy holdings include Schlumberger and Kinder Morgan Energy Partners. The shale gas revolution and increased crude oil production continue to drive growth across the industry. Improved drilling techniques, such as hydraulic fracturing and horizontal drilling, remain key growth drivers. However, the sector has only returned 8.6% over the past year, with the space down almost 10% since July 2014. Softening oil prices, amid inventory and global demand concerns, continue to weigh on the sector.

Key Company Developments

Activision Blizzard, a developer and publisher of online, PC, video game console and mobile games, with franchises such as *Call of Duty* and *World of Warcraft*, released one of the most anticipated video games of all time*, Destiny. Destiny* had $500 million of revenue on its first day of sales and is expected to generate $1 billion by the end of the holiday season. However, initial expectations for the game were even greater, and as of September 30, the stock has traded down over 11% since *Destiny's* release in early September.

Apple, the designer and manufacturer of market mobile communication and media devices, personal computers and portable digital music players, recently released the iPhone 6. Apple also revealed Apple Pay on the iPhone 6 devices, Apple's entrance into the digital mobile payment business. It also unveiled a smartwatch called the Apple Watch, Apple's first wearable product, and its upcoming release is highly anticipated. Notably, another AIM company, **Corning Inc.,** the producer of Gorilla Glass, was not selected to produce the Apple Watch's screen, as Apple selected a competing product, Sapphire glass.

Dollar Tree, an operator of discount variety stores in the United States and Canada that offers merchandise at a fixed price of $1.00, is in a bidding war with Dollar General for Family Dollar. The three companies are the nation's three biggest dollar retail chains. In early September, Family Dollar urged shareholders to vote against Dollar General's $9.1 billion all-cash tender offer. Instead, Family Dollar is sticking with the $8.5 billion cash-and-stock offer from Dollar Tree, which it agreed to in late July. Dollar General did not make a counter offer until Dollar Tree made its initial offer.

Kinder Morgan Energy Partners operates as a midstream energy company in North America, operating 80,000 miles of pipelines and 180 terminals that transport natural gas, refined petroleum products, crude oil, carbon dioxide and more. On August 10, Kinder Morgan, Inc. announced that it will acquire all of the outstanding equity securities of its subsidiaries, which are Kinder Morgan Energy Partners, Kinder Morgan Management and El Paso Pipeline Partners. This will end Kinder Morgan Energy Partners's structure as a Master Limited Partnership, and will open up the firm to more growth and a lower cost of capital.

WWE is a media and entertainment company, engaged in the sports entertainment business worldwide. In mid-May, WWE announced a new multi-year deal with NBCUniversal; however, the terms of the deal were disappointing, as management did not negotiate the expected increase in domestic TV rights fees. Furthermore, the WWE Network gained only 500,000 subscribers in Q1, a major disappointment, and these results caused WWE's stock to fall nearly 50%. As of September 30, WWE is trading at $13.77 a share, which is still at a significant discount to its 52 week high of $31.98.

Portfolio Composition (09/25/14)

Ticker	Stock	Value of Position	AIM Weight
APPL	Apple, Inc.	$ 564,200	5.45%
ATVI	Activision Blizzard	446,250	4.31%
CHKP	Check Point Software Tech	348,800	3.37%
CLMT	Calumet Specialty Products	335,280	3.24%
CVA	Covanta Holding Corp	487,600	4.71%
DE	Deere & Co	306,471	2.96%
DHR	Danaher	341,595	3.30%
DLPH	Delphi Automotive	352,715	3.41%
DLTR	Dollar Tree	340,014	3.28%
GILD	Gilead Sciences	596,090	5.76%
GLW	Corning, Inc.	347,725	3.36%
GOOG	Google	406,979	3.93%
HAIN	Hain Celestial Foods	396,669	3.83%
IACI	Interactive Corp.	395,880	3.82%
INTC	Intel	448,806	4.34%
KMP	Kinder Morgan Energy Partners	411,480	3.97%
LYV	Live Nation	394,460	3.81%
MON	Monsanto	339,210	3.28%
MSFT	Microsoft	468,741	4.53%
MSI	Motorola Solutions	317,100	3.06%
PAY	Verifone	369,390	3.57%
POT	PotashCorp	379,188	3.66%
PXLW	Pixelworks, Inc.	377,208	3.64%
SLB	Schlumberger	241,418	3.30%
UNH	United Health Group	415,680	4.02%
UNP	Union Pacific	195,444	1.89%
WWE	World Wrestling Entertainment	226,880	2.19%
TOTAL AIM		**$ 10,350,973**	**100%**

AIM Alumni Update

Kevin Casey

After graduating from Notre Dame, Kevin Casey joined the sell-side, covering small-cap stocks as an equity research analyst. Following this position, Kevin went to Weiss, Peck, and Greer Investments, now part of Robeco. Here, Kevin worked on the firm's small cap portfolio as a generalist. In 2002, Kevin founded his own small-cap focused hedge fund, Casey Capital. He graduated from Notre Dame in 1992 and returned to get his MBA degree in 1997.

Rich Murphy

After working two years in commercial banking for Chase Manhattan, Rich Murphy graduated from Notre Dame's MBA program in 1998. Rich then joined the investment bank Furman, Selz. Following a short tenure there, Rich moved to SunAmerica Asset Management. He worked three years as an analyst, helping manage their $800MM growth and income fund. Then, in 2002, Rich started Cross River Partners, a long/short equity hedge fund focused on micro-cap value stocks. Cross River continues to grow, with the team recently hiring a Notre Dame undergrad.

AIM XXXIX Class Profile

Analyst	Email	Hometown	1st Stock	Summer Internship	Post-Grad Plans
Alessandro DiSanto	adisanto@nd.edu	Harrisburg, PA	Activision Blizzard	Goldman Sachs IBD	Goldman Sachs IBD
Alex Kroeger	kroeger.8@nd.edu	Cincinnati, OH	Motorola Solutions	New York Fed Research	New York Fed Research
Alex Pacelli	apacelli@nd.edu	Arlington Heights, IL	Monsanto	Prudential Financial	Undecided
Alisha Anderson	aander20@nd.edu	Eden Prairie, MN	Check Point Software	Research - Trade Policy	Undecided
Allison Fachetti	afachett@nd.edu	Needham, MA	Covanta Holding Corp.	J.P. Morgan - Private Bank	Undecided
Andrew Kimball	akimbal1@nd.edu	White Bear Lake, MN	IAC/InterActiveCorp	Barclays IBD	Undecided
Blake Nelson	bnelson4@nd.edu	Minnetonka, MN	Dollar Tree	Citi	Citi
Brianna Leon	bleon@nd.edu	Grayslake, IL	Calumet Specialty Products	P&G	Undecided
Chris Federighi	cfederig@nd.edu	Cary, IL	VeriFone Systems	Grosvenor Capital Management	Undecided
Collin Ebert	cebert@nd.edu	Huron, OH	Microsoft Corporation	Allen & Company	Allen & Company
Dan Groom	dgroom@nd.edu	Naples, FL	Intel	Morgan Stanley IBD	Morgan Stanley IBD
Eric Tommarello	etommare@nd.edu	Baldwinsville, NY	Pixelworks, Inc.	Leonard Green & Partners	Leonard Green & Partners
Evan Escobedo	eescobe1@nd.edu	Aurora, CO	Union Pacific Corp.	Deutsche Bank	Deutsche Bank
Jack Smith	jsmith66@nd.edu	Summit, NJ	Corning	Goldman Sachs IBD	Goldman Sachs IBD
Jeremy Dancu	jdancu1@nd.edu	Tinley Park, IL	Schlumberger	Goldman Sachs IBD	Goldman Sachs IBD
John Plantemoli	jplantem@nd.edu	Chatham, NJ	Apple Inc.	Sandler O'Neill + Partners, L.P.	Sandler O'Neill + Partners, L.P.
Justin Dancu	jdancu@nd.edu	Tinley Park, IL	Danaher	Sankaty Advisors	Sankaty Advisors
Justin Vogt	jvogt2@nd.edu	Breese, IL	Deere & Co.	Sankaty Advisors	Sankaty Advisors
Maggie Wilmouth	mwilmout@nd.edu	Billings, MT	Kinder Morgan Energy Partners	William Blair	William Blair
Morgan Brennan	mbrenna9@nd.edu	Madison, CT	Google	Prudential Capital Group	Undecided
Patrick O'Hara	rohara2@nd.edu	Ponte Vedra Beach, FL	Live Nation Entertainment, Inc.	XMS Capital Partners	XMS Capital Partners
Rob Haddad	rhaddad@nd.edu	Clark, NJ	UnitedHealth Group	The Blackstone Group PE	Undecided
Ryan Newell	rnewell1@nd.edu	Winnetka, IL	WWE	IBD	J.P. Morgan IBD
Shannon Brady	sbrady7@nd.edu	San Juan Capistrano, CA	PotashCorp	Morgan Stanley IBD	Morgan Stanley IBD
Suzanne Fitzpatrick	sfitzpa3@nd.edu	Darien, CT	Hain Celestial Group	BAML IBD	BAML IBD
Tyler Wingo	twingo@nd.edu	Fairfax,VA	Delphi Automotive	Morgan Stanley IBD	Morgan Stanley IBD