
AIM QUARTERLY

Quarter 3, Fall 2015

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Greetings from AIM

As the third quarter of 2015 comes to a close, 25 undergraduate analysts have completed our first round of valuation of existing holdings under the guidance of Professors Jerry Langley and Bill McDonald.

During the fourth quarter of 2015, 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 – 8.

State of the Economy

GDP Growth

Real GDP increase was revised upward to 3.9% on an annual basis in the 2nd Quarter of 2015, driven by positive contributions from consumer spending. Spending on services, durables, and non-durables all rose across the board, with notably increases in health care and food service spending. This increase in spending is also influenced by decreases in housing and utilities spending, specifically the result of lower oil, gas, and electricity prices from the commodities price downturn thus far this year. Prices of goods and services purchased by US residents also increased 1.5%, compared to the 1.6% decrease in the previous quarter. Furthermore, exports increased while imports decreased, offsetting contributions to GDP growth. Government spending also increased in the 2nd Quarter, driven by increases in investments on structures on a state and local level and decreases in defense spending on a federal level.

Housing

US housing starts fell in August, with declines in both single-family and apartment-building construction. In August, housing starts fell 3% on a seasonally adjusted basis to 1.126 million, below the expected 2.5% decrease to 1.18 million. However, this August drop does not necessarily represent a weakness in the housing market, as June and July saw developers rushing to begin construction before the expiration of an affordable housing tax credit, and in forecasting future housing starts, applications for building permits rose 3.5% to 1.17 million. Nonetheless, economic factors have made it more difficult to afford a home, with relatively flat wages and housing prices increasing, outweighing the benefits of low interest rates and overall job growth.

Labor Market

The Bureau of Labor Statistics reported a monthly job growth of 142,000 in September, with average monthly gains of 198,000 in 2015. This number represents a slight increase from the August revised gains of 136,000, and a drop from the 260,000 average monthly gains in 2014. Furthermore, although the unemployment rate remains unchanged from 5.1%, the participation rate did decrease from 62.6% in the previous 3 months to 62.4%, suggesting that although the unemployment rate has shown signs of improvement in 2015 (decreasing 0.8% over the year), this may be the result of fewer people actively looking for work than more people achieving full time work. In 2014, private payrolls have also increased 2.2% total to \$25.09 following a 9-cent gain in August. Labor markets overall seem stagnant, with job growth lagging behind its previous growth in 2014.

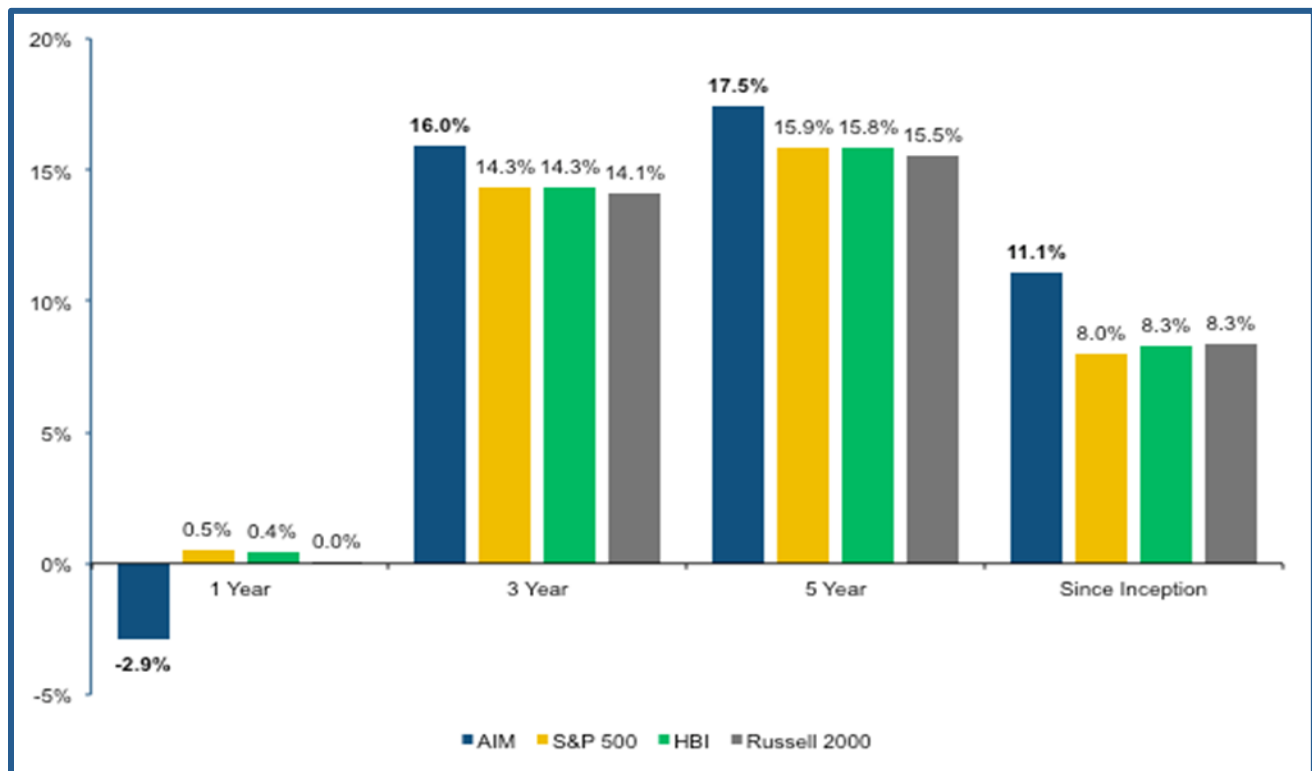
Monetary Policy

At the latest FOMC meeting in September, the Federal Reserve opted not to increase interest rates although there remains strong speculation of an increase before the end of the year. Interest rates have remained near zero for the past three years and there was much speculation among investors of a rate hike this past meeting. Influencing this decision not to increase the federal funds rate were signs of slowing global growth and sluggish inflation, attributed to concerns over China's economy and future growth prospects, which may restrain economic activity and put downward pressure on inflation in the near term. A strong US dollar and volatile energy prices continue to influence inflation data, although core PCE prices, which excludes energy prices and food increased 1.25% over the year and core CPI increased 1.75%, suggesting monetary policy is close to achieving its 2% target inflation.

Portfolio Performance

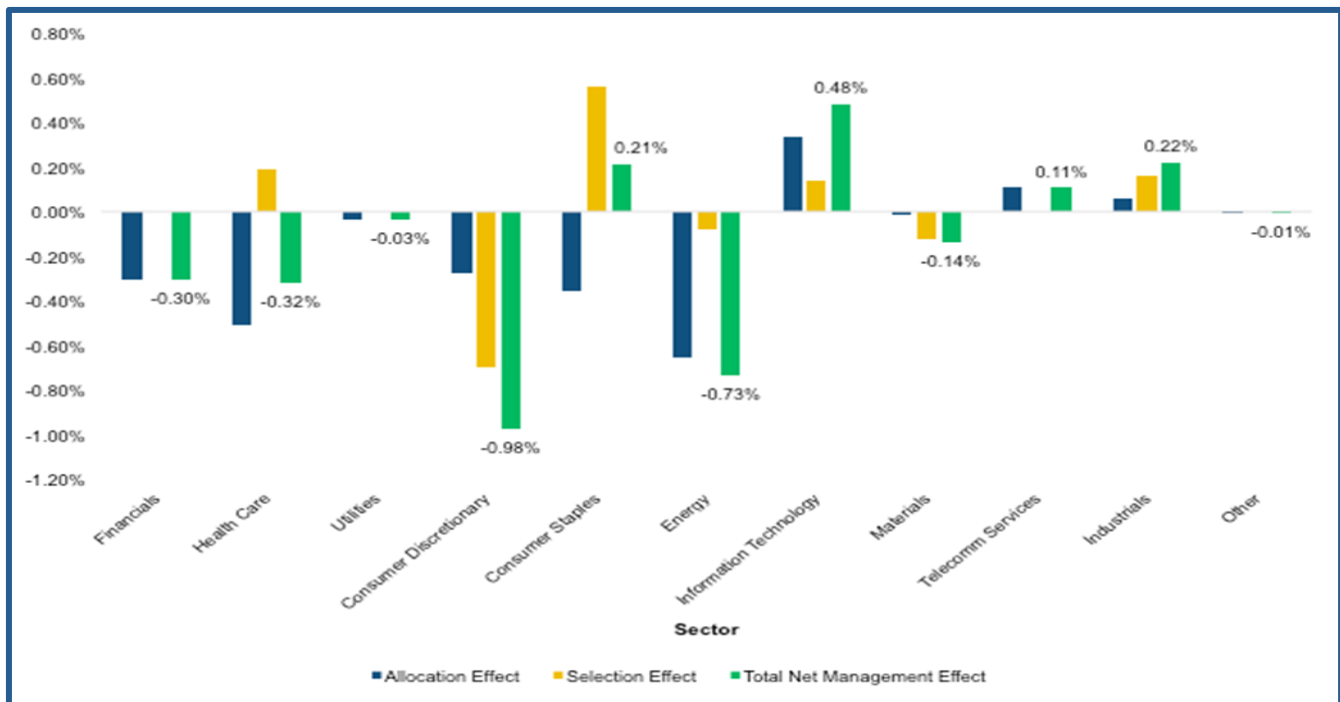
Benchmark Comparison

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, over the last year the AIM portfolio has underperformed both the S&P 500 and HBI Indices considerably.



Portfolio Attribution (see top of next page)

Over the past year, the AIM portfolio has underperformed the market (S&P 500) by 3.4%. A large part of this underperformance is the result of an over-weight in poor performing sectors. Specifically, the overconcentration in both Consumer Discretionary, which has not lived up to expectations due to sputtering consumer confidence, and Energy, which has been punished consistently for the low price of oil, are driving poor portfolio performance. It is worth pointing out that selection of stocks chosen out of Consumer Discretionary has been particularly damaging to the value of the portfolio. On a more positive note, the AIM portfolio has invested more capital into Technology, a sector that has over performed over the last twelve months, than the S&P 500, driving a positive 0.48% net management effect to chip away at some of the portfolio's weaknesses.



As of September 2015

Best & Worst Performers

The AIM portfolio has had some outstanding performers, led by Gilead Sciences posting a return of 70.6% in the past 12 months, 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 in the spring semester of this year. The AIM portfolio has had several outstanding performers, led by UnitedHealth Group, which has posted a return of 35.88% over the past 12 months amidst a flurry of M&A activity and growth in the healthcare industry. Several stocks in the portfolio are down, most notably Atwood Oceanics and Sadrill Limited, which are offshore drilling contractors that have been negatively impacted by low oil prices. The majority of stocks in the portfolio are down in the last twelve months, but have been partially offset by outperformers, such as UnitedHealth Group, Hain Celestial, and Activision Blizzard.

Top 5 Performers		
Company Name	Industry	Return
United Healthcare	Healthcare	35.88%
Hain Celestial	Consumer Services	23.75%
Activision Blizzard	Technology	22.80%
Mobileye**	Consumer Discretionary	21.65%
Apple	Technology	12.17%

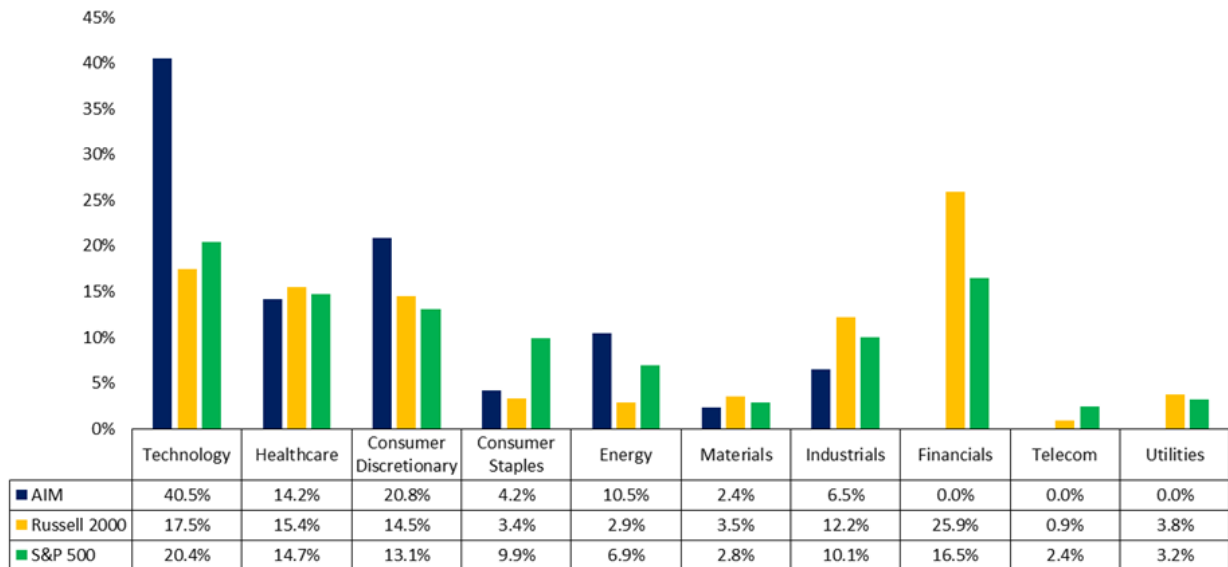
Bottom 5 Performers		
Company Name	Industry	Return
Union Pacific	Producer Durables	-16.81%
Monsanto*	Materials & Processing	-18.98%
Las Vegas Sands*	Consumer Discretionary	-27.57%
Atwood Oceanics*	Energy	-49.70%
Sadrill*	Energy	-58.74%

*Returns as of November 24, 2014

**Returns as of April 16, 2015

Sector Updates

Current Sector Weights vs. Major Benchmarks



Consumer Discretionary: In the spring of this year, AIM XL moved more assets into Consumer Discretionary stocks due to our under-weighting in the sector and consensus on post-recession momentum driving growth. Economic indicators underpinning consumer spending support this sector's growth. Consumer confidence is approaching pre-recession levels and consumer spending is expected to drive GDP growth for the remainder of 2015. Disposable income and real wages have also seen growth. The one caveat to this is that declining oil prices have not increased discretionary spending as much as anticipated.

Technology: The technology sector has remained as the portfolio's most heavily weighted and best performing sector. The top performing positions in technology stocks for the past twelve months were Activision Blizzard and Apple, both of which were among the top five performers in the portfolio. The analysts maintain a positive outlook on the technology industry, with particular attention to the impact that the internet of things and increasing shift towards the cloud will have in the near future.

Energy: AIM XL made the decision to maintain an overweight position in the energy sector due to their belief that oil prices had bottomed out and would begin to rise. The current positions in the sector include ExxonMobil, SeaDrill, Atwood Oceanics and Kinder Morgan. The sharp decline of oil prices over the summer lead to energy continuing to be the portfolio's worst performing sector. Seadrill and Atwood Oceanics have been the worst two performers in the portfolio since their addition in November of last year, declining 59% and 50%, respectively. One of the priorities of the analysts this semester will be to assess our current positions in energy companies and arrive at a consensus for the optimal level of exposure to the sector going forward.

Key Company Developments



Google announced on August 10, 2015 that it would restructure its operations under a new holding company, Alphabet. The goal of the reorganization is to provide more transparency for the company and separate the firm's various business segments such as Life Science, Google Ventures, and Driverless Cars from its traditional online advertising. Wall Street is estimating that the stock price should rise above \$800 by the end of 2016. Larry Page will be the CEO of Alphabet while Sundar Pichai will take over the traditional Google segment.



IMAX Corporation, which operates as an entertainment technology company specializing in motion picture technologies and presentations worldwide, raised US\$276 million in a Hong Kong initial public offering on October 8, 2015. The company aims to use the proceeds to expand in China, one of its biggest growth markets.



Mattress Firm is the largest specialty mattress retailer in the United States with roughly 2,220 stores nationwide. The company executed a number of acquisitions in late 2014 to grow the firm, most notably with the acquisition of the west coast brand Sleep Train. However, the September 2015 announcement of Q2 earnings of \$.67 underwhelmed investors who were expecting close to \$.71. The company announced a moratorium on acquisitions through the end of 2015 as well as a lowering of its company guided earnings forecasts. The stock has suffered considerably and has been trading close to its 52 week low.

MONSANTO



Monsanto Company announced plans to accelerate its share repurchase agreements of \$3 billion of the company's common stock. This is part of Monsanto's larger \$10 billion share repurchase authorization plan announced in June 2014. According to the terms of the plan, Monsanto will repurchase about 28 million shares according to current market prices. Monsanto plans to complete the accelerated share repurchase agreement over the course of the next six months using both cash on hand and commercial paper.



Apple, the designer and manufacturer of market mobile communication and media devices, personal computers and portable digital music players, recently released a new iteration of the iPhone announcing record sales for both the 6s and 6s Plus. In addition to the iPhone update, Apple also released the Apple Watch, expanded its iPad lineup, and revamped its Mac offerings. Apple also continued to push its new mobile payment platform, Apple Pay across the iPhone, iPad, and Apple Watch platforms.

Portfolio Composition (10/11/15)

Ticker	Stock	Value of Position	AIM Weight
ATVI	Activision Blizzard	\$673,470	6.55%
AAPL	Apple	465,174	4.52%
ATW	Atwood Oceanics	198,605	1.93%
CHKP	Checkpoint Software	502,711	4.89%
CSCO	Cisco Systems	460,515	4.48%
CVA	Covanta Holdings	321,480	3.12%
DLPH	Delphi Automotive	532,285	5.17%
XOM	Exxon Mobil	420,237	4.08%
GILD	Gilead Sciences	523,380	5.09%
GOOG	Google	270,316	2.63%
GOOGL	Google	268,496	2.61%
HAIN	Hain Celestial	422,136	4.10%
IMAX	IMAX	474,500	4.61%
JAZZ	Jazz Pharma	333,500	3.24%
KMI	Kinder Morgan	323,985	3.15%
LVS	Las Vegas Sands	328,930	3.20%
MA	Mastercard	498,420	4.84%
MFRM	Mattress Firm	303,170	2.95%
MSFT	Microsoft	475,811	4.62%
MBLY	Mobileye	492,700	4.79%
MON	Monsanto	331,890	3.23%
RCL	Royal Caribbean	545,809	5.30%
SDRL	Seadrill Ltd	223,880	2.18%
UNP	Union Pacific Corporation	349,344	3.40%
UNH	UnitedHealth Group	548,642	5.33%
TOTAL AIM PORTFOLIO*		\$ 10,289,386	100%

*Excludes the 1% held in sector spider and cash balances

AIM Alumni Update

Peter Austin (AIM 30) Peter is currently a director in the Commercial Finance division of L'Oréal in its New York City office. Prior to L'Oréal, Peter worked at Toys R Us, where he held a variety of positions in divisions ranging from Corporate Treasury to Capital Management.

Andrew Charnesky (AIM 35) Andrew is currently an associate for Bain Capital, a private equity firm based in Boston. He is responsible for understanding key business issues in order to help inform the firm's decision of whether or not to buy a particular company. Prior to Bain Capital, he was a business analyst at McKinsey for 2 years after graduating in 2013.

Alex VanderLinde (AIM 35) Alex is currently an investment professional for Permira Advisers in its New York City office. Permira is a global investment firm with 14 offices worldwide that recently raised a fund of approximately \$6 billion. Prior to Permira, he was an M&A investment banking analyst at Greenhill for two years in Chicago, where he worked on deals across all industries.



AIM XLI Class Profile

Analyst	Email	Hometown	1st Stock	Summer Internship	Post-Grad Plans
Thomas Aichele	taichele@nd.edu	Arlington Heights, IL	Delphi Automotive	Citi	Citi
Andy Cheung	acheung1@nd.edu	Bloomfield, NJ	Jazz Pharma	Citi	Citi
Michael Cyrocki	mcyrocki@nd.edu	Troy, MI	Royal Caribbean	Credit Suisse	Credit Suisse
Kirsten Dodds	kdodds@nd.edu	Wayne, NJ	Las Vegas Sands	J.P. Morgan	J.P. Morgan
Brandon Faresich	bfaresic@nd.edu	Denville, NJ	Atwood Oceanics	BAML	BAML
Andrew Fausone	afausone@nd.edu	Wilmette, IL	Union Pacific Corporation	J.P. Morgan	J.P. Morgan
Cavan Finigan	cfinigan@nd.edu	Milton, MA	Apple	Summit Partners	Goldman Sachs
Quinn Fredrickson	qfredric@nd.edu	Cincinnati, OH	Seadrill Ltd	GE	Undecided
Samuel Gerstemeier	sgerstem@nd.edu	Roanoke, VA	Mattress Firm	Healthscape Advisors	Centra Health
Thomas Gordon	tgordon3@nd.edu	Glenview, IL	Microsoft	DBO Partners	DBO Partners
Lilian Ho	kho1@nd.edu	Hong Kong	Monsanto	Goldman Sachs	Goldman Sachs
Andrew Jensen	ajensen1@nd.edu	Wheeling, IL	Mastercard	CDG Group	Undecided
Joseph Kelly	jkelly26@nd.edu	Toledo, OH	UnitedHealth Group	Cardinal Health	Notre Dame Investment Office
Mariel Kennedy	mkenne11@nd.edu	Watchung, NJ	Hain Celestial	Barclays	Undecided
James Li	yli17@nd.edu	Annandale, NJ	Gilead Sciences	Catterton	Undecided
June Liang	xliang1@nd.edu	Shenzhen, China	Kinder Morgan	BAML	BAML
Daniel Lipka	dlipka@nd.edu	Arlington Heights, IL	Activision Blizzard	KVK Credit Strategies	BMO Capital Markets
Jacob Lippe	jlippe@nd.edu	Dyer, IN	Exxon Mobil	J.P. Morgan	Bain & Company
Robert Luttrell	rluttrell@nd.edu	Chappaqua, NY	Cisco Systems	CCMP Capital	CCMP Capital
Timothy Maguire	tmaguire@nd.edu	Finksburg, MD	Mobileye	Twin Bridge Capital	Undecided
Paul Mascarenhas	pmascare@nd.edu	Fairfield, CT	Google	Goldman Sachs	Goldman Sachs
Megan O'Brien	mobrie24@nd.edu	Cincinnati, OH	Checkpoint Software	PwC	Bain & Co.
Stephen Schafer	sschafer@nd.edu	Edgewood, KY	IMAX	Goldman Sachs	Goldman Sachs
Kevin Unger	kunger@nd.edu	Willmar, MN	Harman International*	Morgan Stanley	Morgan Stanley
Brian Willis	bwillis1@nd.edu	Rutherford, NJ	Covanta Holdings	Deutsche Bank	Deutsche Bank

*Not currently in the portfolio