
AIM QUARTERLY

Quarter 4, Fall 2014

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Greetings from AIM

As the fall semester of 2014 comes to a close, 26 undergraduate analysts have completed the second round of valuations under the guidance of Professors Jerry Langley and Frank Reilly. Voting has concluded, and after long debate, a final portfolio of both old and new stocks has been assembled.

AIM XXXIX recently traveled to San Francisco, where analysts were able to meet with a few of the most successful venture capital firms, hedge funds, and private equity firms in the city. A summary of our trip can be found on page 9.

State of the Economy

GDP Growth

GDP in the third quarter of 2014 grew 3.55%, down from 4.59% growth in the second quarter. Net Exports were the largest driver of this growth, with imports falling at their fastest pace since 4Q 2012 and contributing 0.29% to GDP growth compared to -1.77% in the previous quarter. Personal consumption expenditures, nonresidential fixed investment, and government spending (specifically, defense spending) also made positive contributions. We project consumption and business investment to drive growth in GDP moving forward, with smaller improvements in net exports and government spending. Given these expectations, we forecast GDP growth to rise to 3.6% in the fourth quarter of 2014 and 4.1% in 2015.

Housing

In the third quarter of 2014, Residential Fixed Investment contributed 0.06% to GDP growth, down from 0.27% in the second quarter. Housing starts rose 6% in September 2014 to 1.02 million, up from a 14.4% decline in August 2014, but still well below the historical average of 1.50 million. Higher supply and prices of houses for sale continued to reflect slow growth in the housing market. We project low growth (2-3%) in the short-term due to rising prices and income uncertainties that constrain demand. In the long-term, we expect housing to grow 3-4%, as a low mortgage rate environment and greater willingness from consumers to take on mortgage debt stimulates demand.

Labor Market

The changes in the labor market since September have been very minimal. In October 2014, the unemployment rate was 5.8%, down from 5.9% in September. The number of unemployed persons declined to 9.0 million and long term unemployed stayed flat at 2.9 million. While the numbers have not significantly improved, the Fed is optimistic about the labor market. The main areas of concern beyond the unemployment rate are stagnant wages and little change in the number of involuntary part-time workers. Moving forward, we expect the unemployment rate to decline to 6.0% by the end of 2014, with a long run rate between 5.2% and 5.5%.

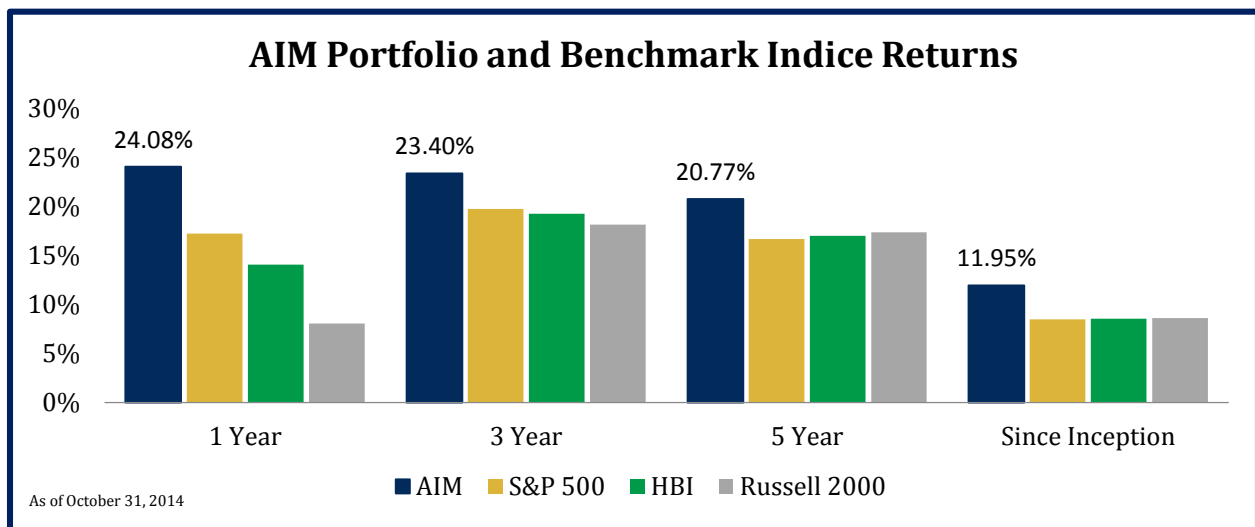
Monetary Policy

At the October FOMC meeting, the Fed announced its decision to halt monthly asset purchases, ending QE 3 for the foreseeable future. The statement did note however, that “The current formulation of the Committee’s forward guidance clearly indicated that the Committee’s policy decisions were conditional on its ongoing assessment of realized and expected progress toward its objective of maximum employment and 2% inflation.” With this in mind we expect near term interest rates to remain low for the rest of the year, but believe that rates will begin moving higher in mid-2015. We further believe this shift will have little effect on longer term rates.

Portfolio Performance

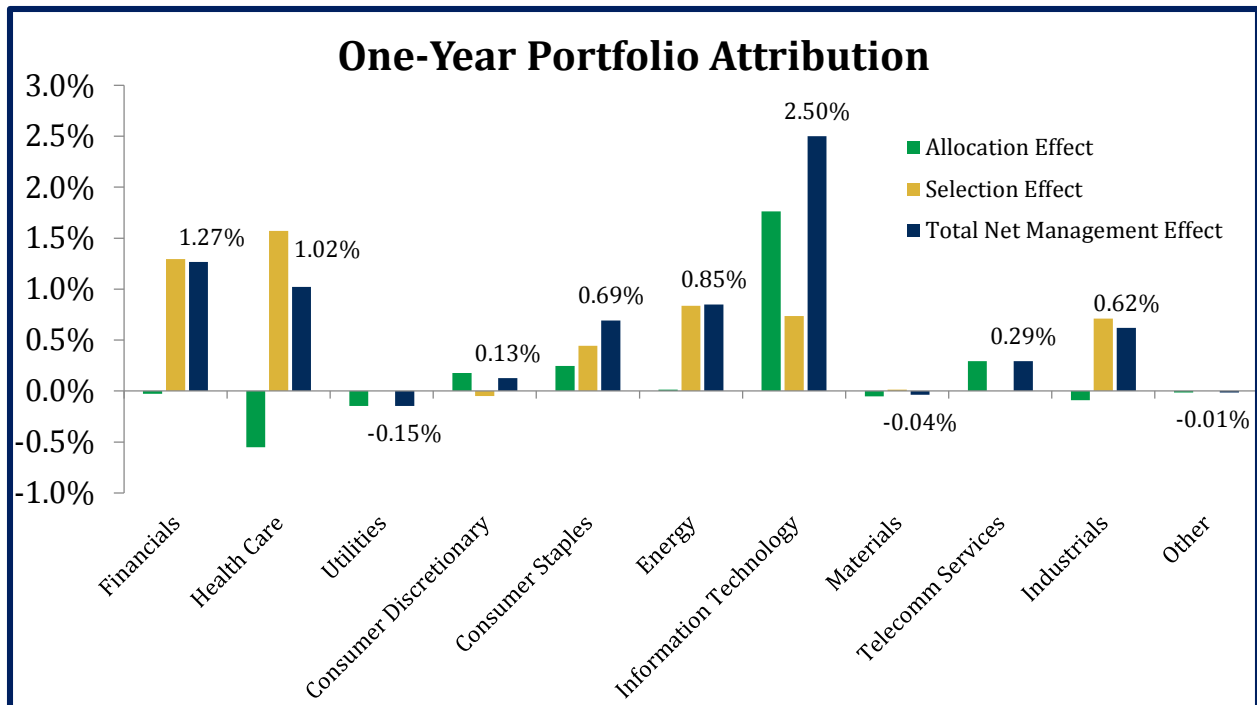
Benchmark Comparison

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 24.08% return in the past year and an 11.95% annualized return since inception in January, 1996.



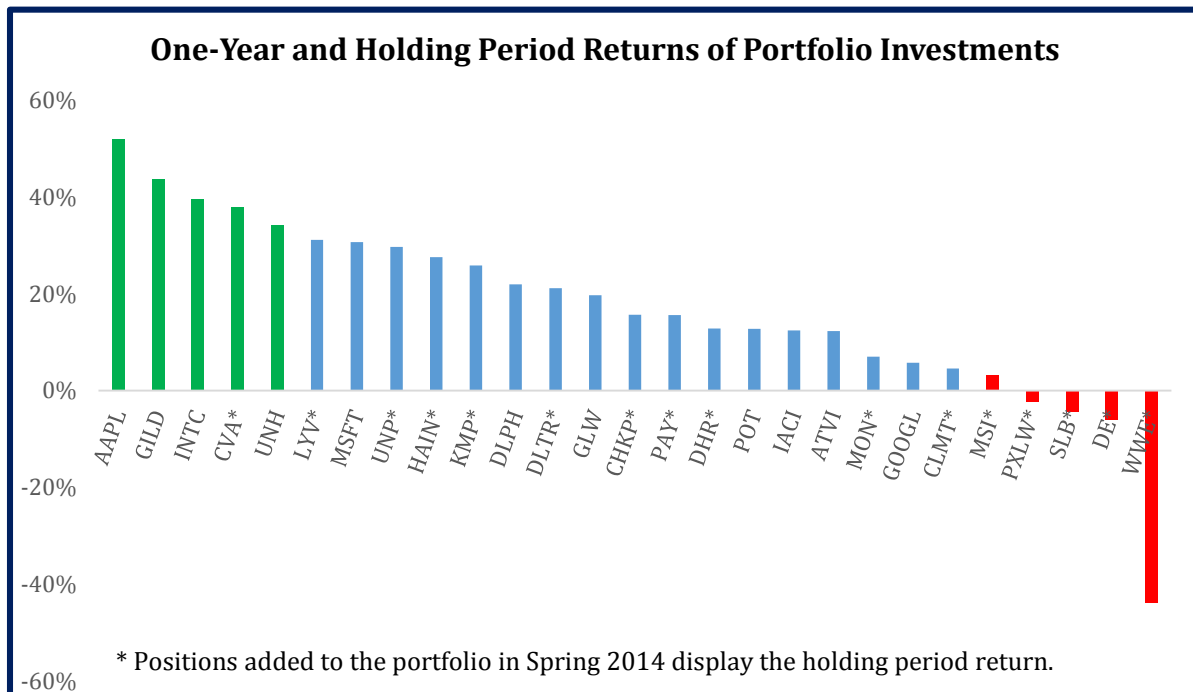
Portfolio Attribution (see graph on next page)

Over the past year, the AIM portfolio has outperformed the market (S&P 500) by 6.81%. The bulk of this outperformance results from the selection of individual stocks rather than sector allocation. The portfolio's largest contributor of performance has been the technology space, driven by the sector's allocation effect coupled with having the greatest sector weight in the portfolio. The portfolio's most problematic sector has been utilities, which had a net management effect of -0.15%. Overall, the portfolio had a net management effect of 6.81%, illustrating the success of recent analysts' decisions. Further, the AIM portfolio maintains a positive net management effect in eight of the ten sectors, with only marginal underperformance in the remaining sectors.

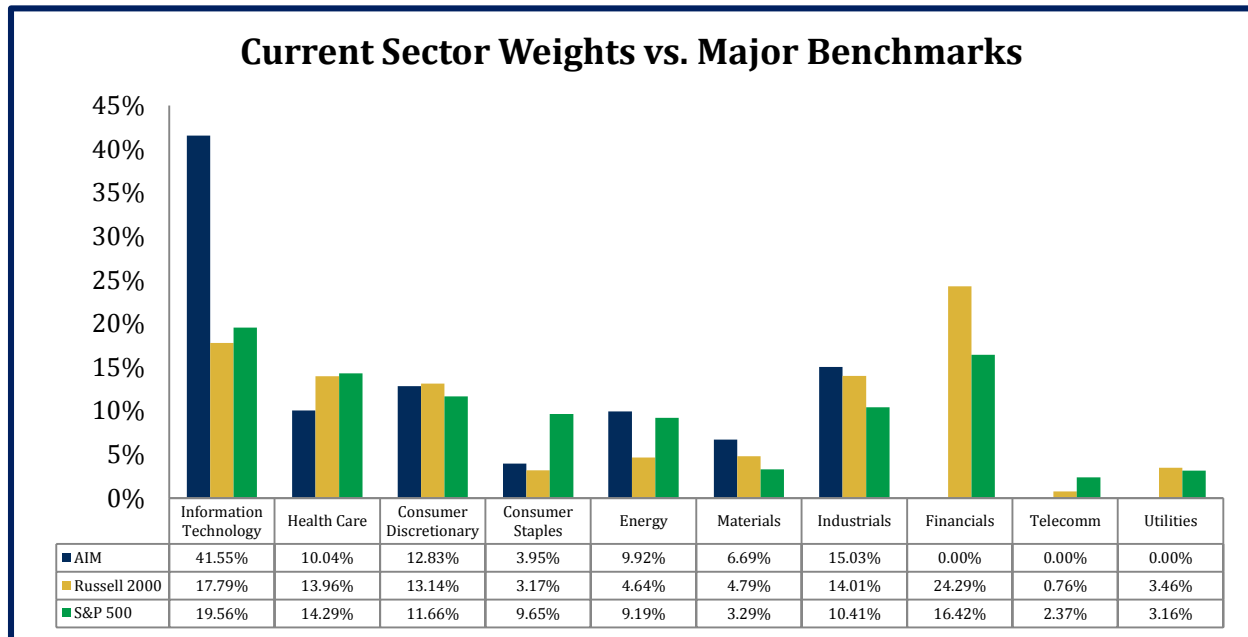


Best & Worst Performers

The AIM portfolio has had some outstanding performers, led by Apple posting a return of 51.99% in the last year, fueled by excitement over numerous product launches including the iPhone 6. Only four stocks in the portfolio generated negative returns, with WWE being the worst performer, losing 43.86% since being added to the portfolio last semester.



Sector Updates



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 13.9% YTD compared to SPY's 10.7% 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, Facebook, and Microsoft 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 a 22.4% gain YTD. 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 underperformed this year, declining 0.43% YTD as weak oil prices and global demand concerns weight on the sector. At the same time, AIM portfolio energy positions have outperformed the broader sector, returning more than 10% this year.

Key Company Developments



Pixelworks, the provider of video and pixel processing semiconductors and software, in addition to digital displays and projection devices, has been the biggest story that has failed to materialize for the portfolio. The stock experienced a large run-up on speculation of a product relationship with Apple in the first half of 2014, but when the announcement failed to materialize speculators dumped the stock *en masse*. The stock is down 33% since September 8, 2014.



Gilead Sciences, the research-based biopharmaceutical company that aims to discover, develop, and commercialize innovative medicines in areas of unmet medical needs, had its Harvoni drug approved by the FDA on October 10, 2014. Harvoni is the first once-daily, single tablet regimen for the treatment of genotype 1 chronic HCV. Harvoni's efficacy has been established with a treatment duration of 8, 12 or 24 weeks depending on prior treatment history, cirrhosis status and baseline viral load. Trial studies with more than 800 participants achieved sustained virologic response (HCV undetectable) rates of 94 – 99%. Harvoni also received marketing authorization from the European Commission on November 18, 2014 for the treatment of Genotype 1 and Genotype 4 HCV. The stock is flat since October demonstrating the market's anticipated success for the drug.



Monsanto, the American multinational agrochemical and agricultural biotechnology corporation that focuses on herbicide and crop efficiency was facing legislative headwinds in western states looking to ban genetically modified organisms (GMO). The legislation regarding GMO labeling failed to pass in Colorado and Oregon in early November. However, a referendum in Maui County of Hawaii banning the cultivation of GMO's narrowly passed despite strong lobbying efforts by Monsanto and other food and chemical companies. This is potentially worrying as the seed giant does significant of research and testing in the area due to the warm weather allowing for multiple crop cycles each year, expediting the R&D process. Monsanto and Dow Chemical filed a lawsuit in Hawaii federal court asking to invalidate the measure, deeming the law "legally flawed". Despite the news, the stock has not traded down.



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 an increase of 19% in earnings in Q3 2014 driven by growth in shipments of intermodal shipping containers, industrial products, and agricultural goods. Coal in fact, was the only sector that did not experience growth in the third quarter. In a parallel development leading up to the earnings announcement, there were major merger rumors between Canadian Pacific and CSX, but when the deal fell apart, Union Pacific was a potential target for Canadian Pacific or a merger partner for CSX. Since mid-October, these rumors have been discredited. Union Pacific is trading up 16% over the past three months and 46% YTD.

Portfolio Composition (12/02/14)

Ticker	Stock	Value of Position	AIM Weight
ATVI	Activision Blizzard Inc.	\$ 454,650	4.18%
AAPL	Apple Inc.	564,918	5.20%
ATW	Atwood Oceanics	369,035	3.39%
CLMT	Calumet Specialty Products	419,200	3.86%
CHKP	Check Point Software	488,986	4.50%
CVA	Covanta Holding Corp.	451,260	4.15%
DE	Deere & Co.	467,748	4.30%
DLPH	Delphi Automotive	474,175	4.36%
F	Ford Motor Co.	456,170	4.20%
GILD	Gilead Sciences Inc.	551,760	5.08%
GOOG	Google Inc.	447,201	4.11%
HAIN	Hain Celestial Group	441,558	4.06%
IACI	IAC/InteractiveCorp	424,320	3.90%
INTC	Intel Corp.	487,975	4.49%
KMI	Kinder Morgan Inc.	459,582	4.23%
LVS	Las Vegas Sands	445,830	4.10%
LMT	Lockheed Martin	450,166	4.14%
MSFT	Microsoft Corp.	482,881	4.44%
MON	Monsanto Co.	443,667	4.08%
SLB	Schlumberger Ltd.	429,750	3.95%
SDRL	Seadrill Ltd.	351,600	3.23%
UNP	Union Pacific Corp.	420,372	3.87%
UNH	UnitedHealth Group Inc.	473,424	4.35%
PAY	Verifone Systems Inc.	374,430	3.44%
TOTAL AIM		\$ 10,830,657	100%

AIM Alumni Update

Will Ho

Will founded AlephPoint Capital, a healthcare fund applying data technologies to its fundamental processes in 2014. Previously he launched New Leaf Venture Partners' public market efforts in 2010. He has held senior positions on a derivatives desk at ICAP plc, as an equity research analyst covering biotechnology at Bank of America, and at Piper Jaffray covering biotechnology and life-sciences tools. Earlier, Will held an operational role at CuraGen Corporation, and was an associate in healthcare investment banking at SG Cowen. He holds an MBA from the University of Notre Dame and a BS in Biochemistry from McMaster University in Canada.

Stephanie Walsh

Stephanie is currently a Senior Vice President at Sankaty Advisors. She recently relocated to the London office, where she is working as a Portfolio Manager of Sankaty's European CLO business. Previously at Sankaty, Stephanie was an industry research team member in the Energy and Utility sectors. Earlier in her career, she was an analyst in the Bank Debt Portfolio Group at Goldman Sachs. Stephanie received a BBA in Finance from the University of Notre Dame.

Brad Buser

Brad is currently a Senior Vice President at Insight Equity, an operationally-intensive middle market private equity firm based in Dallas that he joined after business school. The team at Insight includes multiple Notre Dame graduates. He previously worked as an Associate at Wind Point Partners, a Chicago-based middle market private equity firm, in the industrials, construction services, and healthcare sectors. Earlier, after graduating from Notre Dame in 2003, he was an Associate at the Boston Consulting Group in Chicago. Brad holds an MBA from Harvard Business School, a BBA in Finance from the University of Notre Dame, and is a CFA Charterholder and a CPA. While at HBS, he interned as a Summer Associate on the private equity team at The Blackstone Group in New York.



San Francisco Trip

The AIM XXXIX class, along with several members of the Notre Dame Investment Office, visited San Francisco from November 5th to November 9th. On the trip, the group met with



various institutions and firms in the Bay Area to learn about and gain perspectives on what it is like to live and work in Silicon Valley. Highlights of the trip included an alumni dinner hosted by Scott Malpass with local alumni (both ND and AIM), as well as the escape from the frozen permacloud of South Bend to beautiful warmth and sunlight. The trip was a success despite the fact that ND fell short against ASU over the weekend, although the group was able to mourn the loss together over pizza during a collective game watch. The following presents a short summary of the group's visits throughout the trip.

Stanford Graduate School of Business: The group spent time at the Stanford Graduate School of Business learning about the structure and admission process of the MBA program. Students were interested in the university's dual graduate programs, and the visit ended with a tour of the school.

Venture Capital: The group had lunch with members of Accel Partners, including general partner Ryan Sweeney ('99, AIM VII), and learned about the firm's entrepreneurial strategy in the venture space. Tim Connors ('89), founder and managing partner of PivotNorth Capital, also shared his approach to early-stage investing, as well as his unique experience in the tech startup universe.

Private Equity: Dave Thomas ('03, AIM XV), principal at Golden Gate Capital, discussed the company's consulting foundation as well as current developments in the private equity space. David George ('06, AIM XXI), VP at General Atlantic, described the firm's atypical fund structure focused on long-term investing in growth companies.

Investment Banking: Ryan Nolan ('01), VP at Goldman Sachs, detailed the IPO process and covered current trends in the technology sector, including mobile messaging and payment services.

Hedge Funds: The group met Bill Duhamel at Route One Investment Company, where they learned about the company's global long-short investment strategy that focuses on taking advantage of price dislocation in developed and high-growth markets alike. Matt Kinsella ('05, AIM XIX), managing director at Maverick Capital, discussed his role in overseeing public software investment and made a compelling stock pitch (Adobe Systems) to the group.

Technology: The group visited Matt Garrat at the office of Salesforce.com and learned about how Salesforce Ventures has positioned the company as a major player in the rapidly growing SaaS environment.

AIM XXXIX Class Profile

Analyst	Email	Hometown	1st Stock	2nd Stock	Summer Internship	Post-Grad Plans
Alessandro DiSanto	adisanto@nd.edu	Harrisburg, PA	Activision Blizzard	The Boston Beer Company	Goldman Sachs IBD	Goldman Sachs IBD
Alex Kroeger	kroeger.8@nd.edu	Cincinnati, OH	Motorola Solutions	PNC Financial Services Group	New York Fed Research	New York Fed Research
Alex Pacelli	apacelli@nd.edu	Arlington Heights, IL	Monsanto	Buffalo Wild Wings	Prudential Financial	Undecided
Alisha Anderson	aander20@nd.edu	Eden Prairie, MN	Check Point Software	New Oriental Education & Tech. Group	Research - Trade Policy	Undecided
Allison Fachetti	afachett@nd.edu	Needham, MA	Covanta Holding Corp.	Dunkin' Brands	J.P. Morgan - Private Bank	Undecided
Andrew Kimball	akimbal1@nd.edu	White Bear Lake, MN	IAC/InterActiveCorp	Domino's Pizza	Barclays IBD	Undecided
Blake Nelson	bnelson4@nd.edu	Minnnetonka, MN	Dollar Tree	3D Systems	Citi	Citi
Brianna Leon	bleon@nd.edu	Grayslake, IL	Calumet Specialty Products	Marriott International	P&G	Deloitte Consulting
Chris Federighi	cfederig@nd.edu	Cary, IL	VeriFone Systems	Ford Motor Co.	Grosvenor Capital Management	Citi
Collin Ebert	cebert@nd.edu	Huron, OH	Microsoft Corporation	Seadrill	Allen & Company	Allen & Company
Dan Groom	dgroom@nd.edu	Naples, FL	Intel	Coach	Morgan Stanley IBD	Morgan Stanley IBD
Eric Tommarello	etommare@nd.edu	Baldwinsville, NY	Pixelworks, Inc.	Atwood Oceanics	Leonard Green & Partners	Leonard Green & Partners
Evan Escobedo	eescobe1@nd.edu	Aurora, CO	Union Pacific Corp.	Molson Coors Brewing Co	Deutsche Bank	Deutsche Bank
Jack Smith	jsmith66@nd.edu	Summit, NJ	Corning	Lockheed Martin	Goldman Sachs IBD	Goldman Sachs IBD
Jeremy Dancu	jdancu1@nd.edu	Tinley Park, IL	Schlumberger	Entravision Communication	Goldman Sachs IBD	Goldman Sachs IBD
John Plantemoli	jplantem@nd.edu	Chatham, NJ	Apple Inc.	Foot Locker	Sandler O'Neill + Partners, L.P.	Sandler O'Neill + Partners, L.P.
Justin Dancu	jdancu@nd.edu	Tinley Park, IL	Danaher	Las Vegas Sands	Sankaty Advisors	Sankaty Advisors
Justin Vogt	javogt2@nd.edu	Breese, IL	Deere & Co.	Tesla	Sankaty Advisors	Sankaty Advisors
Maggie Wilmoth	mwilmout@nd.edu	Billings, MT	Kinder Morgan Energy Partners	Keurig Green Mountain	William Blair	William Blair
Morgan Brennan	mbrenna9@nd.edu	Madison, CT	Google	IMAX	Prudential Capital Group	Prudential Capital Group
Patrick O'Hara	rohara2@nd.edu	Ponte Vedra Beach, FL	Live Nation Entertainment, Inc.	Gilead Sciences Inc.	XMS Capital Partners	XMS Capital Partners
Rob Haddad	rhaddad@nd.edu	Clark, NJ	UnitedHealth Group	SeaWorld	The Blackstone Group PE	Perella Weinberg
Ryan Newell	rnewell1@nd.edu	Winnetka, IL	WWE	Under Armour	J.P. Morgan IBD	J.P. Morgan IBD
Shannon Brady	sbrady7@nd.edu	San Juan Capistrano, CA	PotashCorp	Urban Outfitters	Morgan Stanley IBD	Morgan Stanley IBD
Suzanne Fitzpatrick	sfitzpa3@nd.edu	Darien, CT	Hain Celestial Group	Whole Foods	BAML IBD	BAML IBD
Tyler Wingo	twingo@nd.edu	Fairfax, VA	Delphi Automotive	Vitamin Shoppe	Morgan Stanley IBD	Morgan Stanley IBD