
AIM QUARTERLY

Quarter 2, Spring 2015

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Greetings from AIM

As we near the completion of AIM XL, 26 MBA analysts have completed their second round of valuations under the guidance of Professors Jerry Langley and Bill McDonald. Portfolio changes are in the process of being finalized.

AIM XL recently traveled to Chicago, 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

Real GDP increased 2.2% in the fourth quarter of 2014, compared to 5% increase in quarter three. This increase was driven by a 4.4% increase in consumer spending, as well as an increase in intellectual property product spending by businesses. The contributors to growth were offset, however, by a decrease in federal spending on national defense, as well as a strengthening US dollar, which led to lower net exports. The Bureau of Economic Analysis will release its next round of figures on April 29, 2015, but projections are not favorable. Retail sales have struggled in the first quarter of 2015 so far, and home construction and sales numbers also have underperformed expectations. Multi-national companies are hurt by decreased exports, as well as foreign exchange costs, affecting their bottom line.

Housing

The pace of activity in the housing sector remains slow. Housing starts fell 17% in February to 897,000 despite the 30-year mortgage rate remaining below 4%. Sales of new and existing homes increased 1.2%, while pending home sales increased 3.1%. Sluggish demand is primarily due to low expected income, high student debt, and difficulty obtaining mortgage credit. The Mortgage Debt Relief Act is scheduled to end this year. Look for this to be extended as 6 million Americans are still underwater. We remain cautiously optimistic that recent higher rates of household formation, together with low mortgage rates, will enable a faster pace of recovery.

Labor Market

The Bureau of Labor Statistics reported monthly job growth of roughly 126,000 on April 3, 2015, which fell well below the expectation of over 250,000. Year over year growth in wages is now at 2.1%. The current participation rate as of March 2015 is 62.7%, down from 62.8% in February. The unemployment rate is currently at 5.5%, with 8.6 million people unemployed. Of that number, 2.6 million people have been jobless for 27 weeks or more and considered long-term unemployed. Involuntary part-time workers remained at 6.7 million people, in March, little changed from its February level. The labor force seems to be relatively stagnant at the moment; unemployment is at a reasonable level, but the participation rate is not increasing as of yet, and new jobs are being created slower than expected.

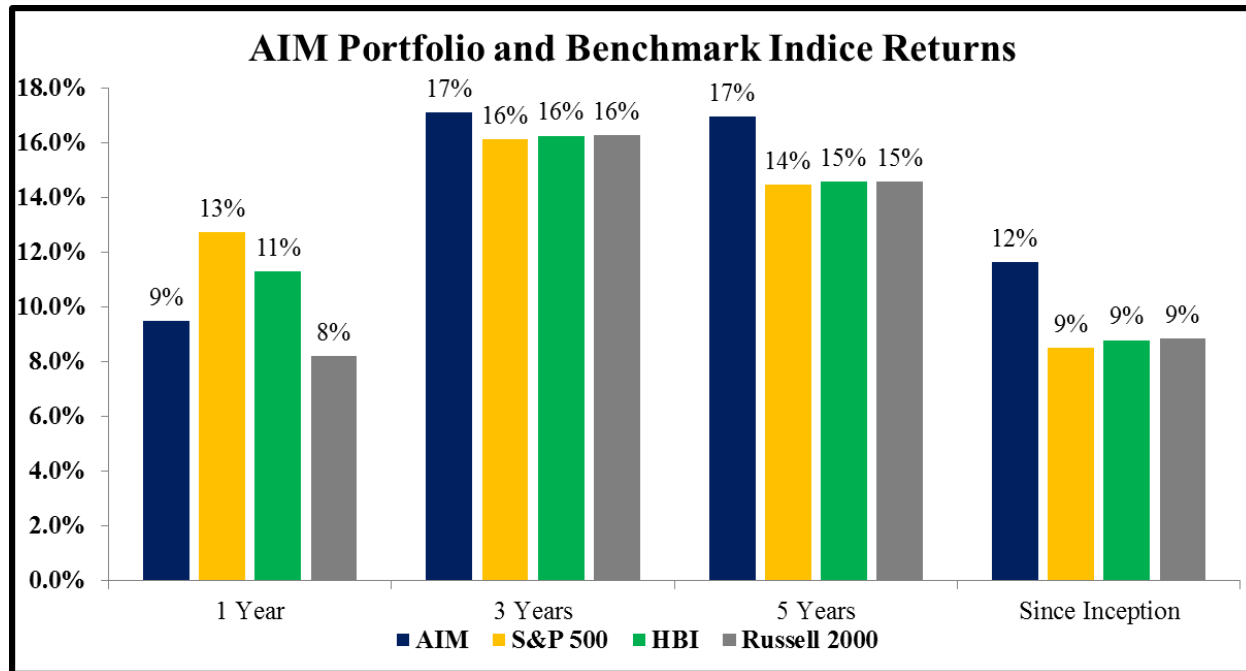
Monetary Policy

At the latest FOMC meeting March, policymakers dropped the word “patience” from their statement. Don’t expect immediate rate hikes though, as Janet Yellen stressed that “economic conditions are not robust enough to increase the federal funds rate”. Sluggish inflation and stagnant wages continue to delay “liftoff”, which has been pushed back “at least two FOMC meetings”. A strong dollar and weak energy prices continue to influence inflation data through the first half of the year. However core CPI did rise 0.2% in February, in line with policymakers’ projections that inflation will move back toward the central banks long-run target of 2%.

Portfolio Performance

Benchmark Comparison

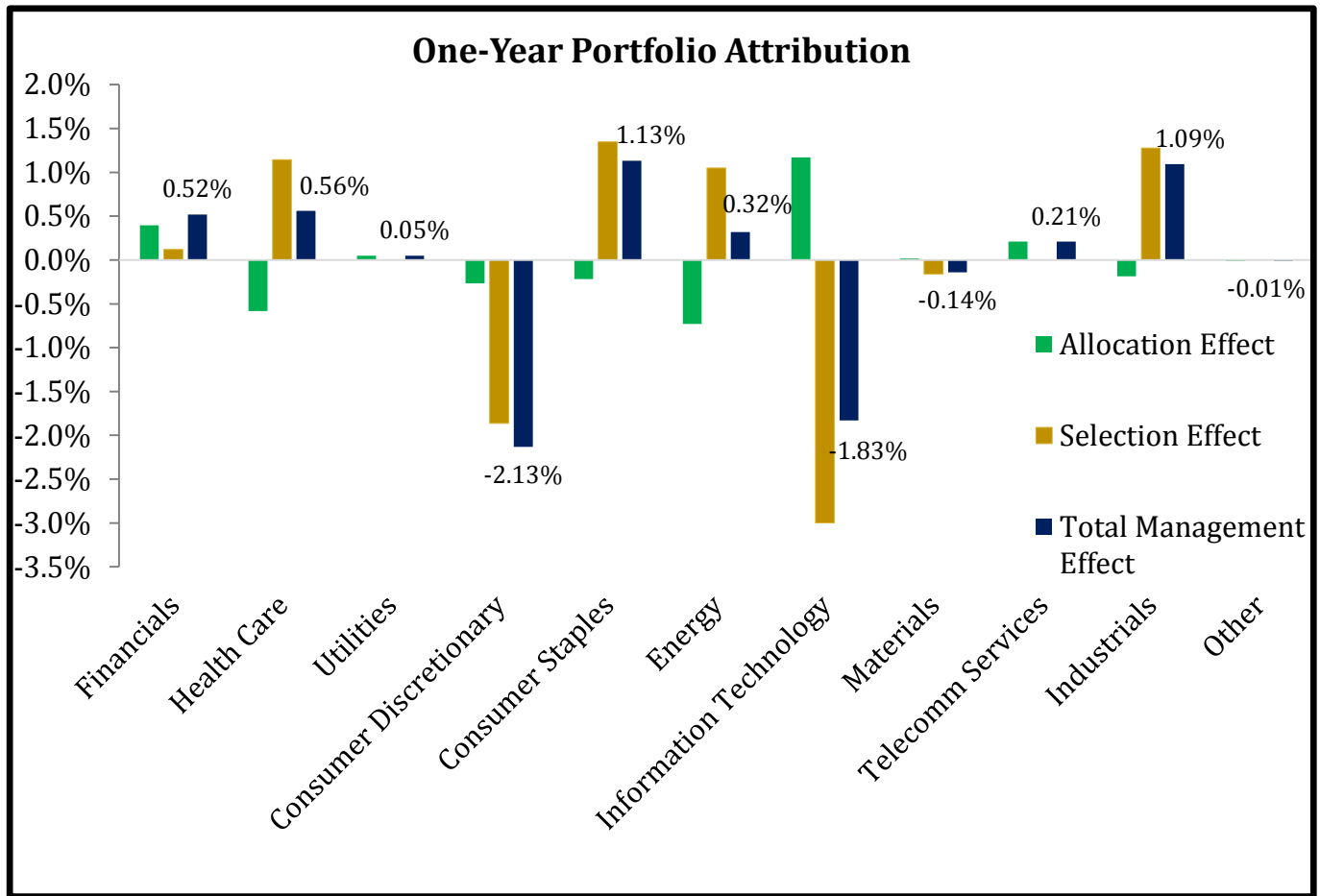
The AIM portfolio has continued to outperform its benchmarks- S&P 500, Russell 2000, and HBI (65% S&P 500, 35% Russell 2000) - over the long-term horizon (3-5 years). However, over the last year the AIM portfolio has underperformed both the S&P 500 and HBI Indices.



(as of 13APR2015)

Portfolio Attribution (see graph on next page)

Over the past year, the AIM portfolio has underperformed the market (S&P 500) by 3.27%. The majority of this underperformance comes from the selection of individual stocks rather than sector allocation. The portfolio’s most problematic sectors have been in the Technology and Consumer Discretionary space, which has a net management effect of -1.83% and -2.13% respectively. However, the portfolio has found success in Industrials and Consumer Staples, which was driven by strong stock selection. Overall, even though the AIM portfolio maintains a positive net management effect in seven of the ten sectors, a large sector weight in Technology along with poor selection in Consumer Discretionary stocks have caused the greatest downturn in performance.



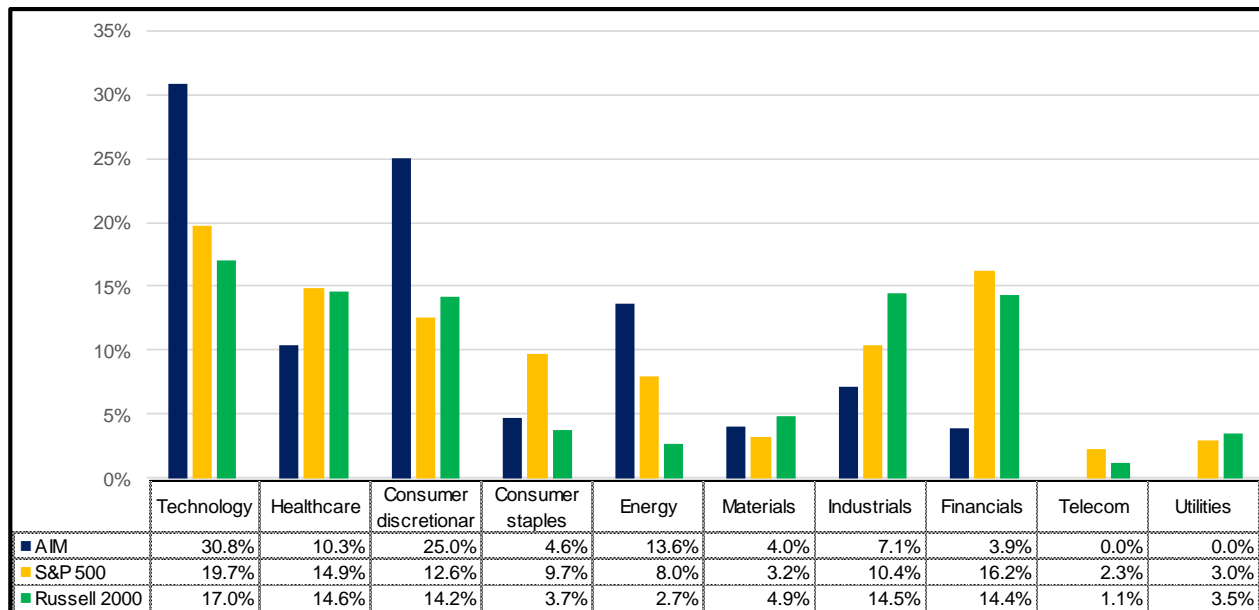
Best & Worst Performers

The AIM portfolio has had some outstanding performers, led by Apple posting a return of 73.43% in the last year, fueled by excitement over numerous product launches including the iPhone 6 and the Apple Watch. Only five stocks in the portfolio generated negative returns, with Seadrill being the worst performer, losing 22.41% since being added to the portfolio last semester.

Top 5 Performers			Bottom 5 Performers		
Company Name	Industry	Return	Company Name	Industry	Return
Apple Inc.	Technology	73.43%	Seadrill*	Energy	-22.41%
Hain Celestial Group	Consumer Staples	58.87%	Schlumberger	Energy	-9.21%
UnitedHealth Group	Healthcare	53.20%	Las Vegas Sands*	Consumer Discretionary	-3.56%
Kinder Morgan	Energy	38.78%	Atwood Oceanics*	Energy	-3.29%
Delphi Automotive	Consumer Discretionary	29.30%	Deere & Company	Industrials	-2.16%

*Positions added to the portfolio in Fall 2014 display the holding period return

Sector Updates



Technology: This sector continues to remain the most heavily weighted in the AIM portfolio, with consumer technology favorites like Apple and Microsoft surviving this round’s culling of the overall portfolio. As security continues to be a growing concern of most consumers, the analysts decided to keep Checkpoint Software in the portfolio. There was also a consensus towards investing in what is likely to be a rapidly evolving automobile market that is going to be increasingly technologically sophisticated and leaning towards self-driving vehicles, which brought on the inclusion of Mobileye into the portfolio.

Energy: One of the most spirited conversations in the portfolio recalibration class, ably chaired by double-Domer Dan Carey, was in the realm of energy. The broad consensus of the analysts was that global oil prices have bottomed out and are likely to only continue rising from here on out. There was some initial suggestion of trimming the energy portfolio, but the final decision was to recalibrate it towards a better risk-adjusted profile to take advantage of the inevitable future spike in oil prices. Hence, both Atwood Oceanics and Seadrill remained in the portfolio, as did Kinder Morgan. Schlumberger was replaced by ExxonMobil, which the analysts felt was a better risk-adjusted play on the energy sector.

Consumer discretionary: There was broad consensus that, as the US economy continues to gather momentum post-recession, the AIM portfolio should have a heavier emphasis on consumer discretionary stocks best poised to take advantage of the likely growth in consumer spending. To that end, the analysts decided to keep Las Vegas Sands in the portfolio and to add Royal Caribbean, IMAX, Gentex, and Mattress Firm.

Key Company Developments



Apple Inc., the information technology company that designs, develops and sells consumer electronics, computer software and personal computers had two key developments over the last quarter. First, Apple announced plans for its first entirely-new product in five years, the Apple Watch. The Apple Watch will come in 38 combinations of watch-face sizes and bands with prices ranging from \$350 to \$17,000. Second, Apple became the first U.S. company to ever close with a market capitalization above \$700 billion. CEO Tim Cook credited Apple's ability to sell its high-end products to Chinese consumers as a huge reason for this valuation.



Check Point Software Technologies, the Tel Aviv, Israel-based Internet and network security provider has announced its plan to buy Israel-based Lagoon Mobile Security. Lagoon Mobile Security's product helps prevent cyber-attacks on mobile phones and has a customer base that includes Samsung, Intel and Dell. Check Point CEO Gil Shwed did not disclose the price of the deal but did say the deal was "in the tens of millions of dollars."



IAC/InterActiveCorp, the media and Internet company comprised of 150 brands and products, has monetized its popular Tinder app. Tinder has gone from free-to-download and free-to-use to now offering services for both paying and non-paying members. Analysts are bullish on this news, with some believing that Tinder by itself could be worth \$1.6 billion, or, roughly 20% of IAC's current market capitalization.



Delphi Automotive, the automotive parts manufacturing company headquartered in Gillingham, Kent, UK, put its self-driving car technology through a nearly 3,400 mile automated test drive from San Francisco to New York in just nine days. This was the longest automated drive in North America to date. The car collected three terabytes of data, or the equivalent of 30% of all the printed material in the Library of Congress, on the trip and Delphi plans to use the information gathered to further improve the technology going forward. The stock was up 4% on the news of the successful cross-country trip.



Seadrill Ltd., the global offshore drilling contractor that provides offshore drilling services, announced on April 8th that over 150 jobs would be cut as a result of BP's notice to cancel its contract with the company. The decision by BP, one of Seadrill's five biggest customers is a huge hit to the company.

Portfolio Composition (4/21/15)

Ticker	Stock	Value of Position	AIM Weight
ATVI	Activision Blizzard Inc.	\$ 480,900	4.33%
AAPL	Apple Inc.	530,287	4.78%
ATW	Atwood Oceanics	383,180	3.45%
CHKP	Check Point Software	535,222	4.82%
CSCO	Cisco Systems	466,125	4.20%
CVA	Covanta Holding Corp.	401,940	3.62%
DLPH	Delphi Automotive	544,375	4.90%
XOM	ExxonMobil	466,824	4.21%
GILD	Gilead Sciences Inc.	540,956	4.87%
GOOGL	Google Inc.	216,416	1.95%
GOOG	Google Inc.	223,663	2.02%
HAIN	Hain Celestial Group	512,148	4.61%
IMAX	IMAX	466,180	4.20%
JAZZ	Jazz Pharmaceuticals	467,500	4.21%
KMI	Kinder Morgan Inc.	434,951	3.92%
LVS	Las Vegas Sands	397,390	3.58%
MA	Mastercard	464,100	4.18%
MFRM	Mattress Firm	471,240	4.25%
MSFT	Microsoft Corp.	426,826	3.85%
MBLY	Mobileye	466,400	4.20%
MON	Monsanto Co.	441,632	3.98%
RCL	Royal Caribbean	468,696	4.22%
SDRL	Seadrill Ltd.	365,110	3.29%
UNP	Union Pacific Corp.	386,640	3.48%
UNH	UnitedHealth Group Inc.	539,672	4.86%
TOTAL AIM*		\$ 11,098,373	100%
<i>(*excludes the 1% held in sector spider and cash balances)</i>			

AIM Alumni Update

Mike Melby (AIM 27)

Mike is currently the portfolio manager at Gate City Capital Management, a micro-cap value focused investment firm he founded in 2014. Before founding Gate City Capital, Mike worked as a research analyst at Crystal Rock Capital Management where he covered the consumer, restaurant, retail, and gaming sectors. Mike previously worked as an Associate at Deutsche Bank Securities in their Debt Capital Markets group and as an Investment Associate at the Notre Dame Investment Office where he focused on natural resources, fixed income, and risk management. He earned an MBA from the University of Chicago Booth and his BBA in Finance from the University of Notre Dame. Mike is a CFA Charter holder and has earned the Financial Risk Manager designation.

Dave McCaffrey (AIM 34)

Dave is currently a Director at FTI Consulting, a global business advisory firm located in Denver, CO. Prior to FTI, Dave spent nearly 8 years at Press Ganey as Director of Business Services in South Bend, and as Corporate Treasurer in Chicago. Dave is a double-Domer, receiving his B.S. in Mechanical Engineering (2000), and his MBA focusing on finance and investments (2007).

Adam Fleck (AIM 31)

Adam is currently the Director of Consumer Equity Research at Morningstar, based in Chicago. He has worked with the Morningstar since graduating from Notre Dame in 2006, holding a variety of positions, ranging from Equity Analyst to Associate Director of Research. Adam is also a CFA Charter holder.

Carl Sibilski (AIM 14)

Carl Sibilski is managing director of Oyster Capital Management, a Chicago-based investment firm that he founded. Prior to this position he was employed by Morningstar, an independent investment research firm. He has been quoted in various publications including: The Wall Street Journal, Barron's, Chicago Tribune, Chicago Sun Times, Associated Press, New York Times, Los Angeles Times and The Washington Post. He has also appeared on several television programs including: PBS Nightly Business Report, CNN Lou Dobb's Moneyline, CBS Nightly News with Dan Rather and CNBC. Carl has a Bachelor of Arts degree in political science from Loyola University Chicago and an MBA from the University of Notre Dame.

Chicago Trip

The AIM XL class, along with several members of the Notre Dame Investment Office, visited Chicago from April 19th to April 20th. On the trip, the group met with various institutions and firms in downtown Chicago to learn about and gain perspectives on what it is like to live and work in Chicago. Highlights of the trip included an alumni dinner hosted by Jerry Langley and Bill McDonald with local alumni (both ND and AIM). The following presents a short summary of the group's visits during the trip.



Venture Capital: The group visited TechStars, a local incubator & venture capital fund located in 1871, a collaborative shared tech space. The group met with Troy Henikoff, Managing Director of Techstars, and Faculty Coach for University of Chicago New Venture Challenge, and learned about the firm's entrepreneurial strategy in the venture space. Henikoff shared his personal experiences working with new ventures for the past 25 years, as well as the right formula to incubate successful start-ups.

Private Equity: Kelly A. Cornelis, Partner at LaSalle Capital, discussed LaSalle's initiatives including the portion of investments that go through SBIC funding. Ms. Cornelis discussed some of the past acquisitions that LaSalle participated in, as well as her own experience working in private equity and with private corporations.

Asset Management: Kimberley Flynn, CFA, head of Nuveen Investments Global Structure Products, discussed the different forms of closed-end-funds within the Nuveen portfolio. Ms. Flynn graduated from Notre Dame in 1999, as well as Harvard Business School in 2004, and holds the designation of CFA. The working lunch was a preview into the many facets of asset management, as well as career advice for students looking to enter into the asset management industry.

Equity Research and Financial Solutions: The group met Jeremy Stempien and Adam Fleck at Morningstar, where they learned about the company's approach to valuation. Adam Fleck discussed the importance of the economic moat as well as Morningstar's star rating system. Adam Fleck is Director of Consumer Equity Research and a graduate of University of Notre Dame, and also a CFA. Jeremy Stempien is Director of Investments, and holds his MBA from University of Notre Dame.

AIM XL Class Profile

Analyst	Email	Hometown	1st Stock	2nd Stock	Program	Summer Internship / Prior Experience	Post-Grad Plans
Ben Budish	bbudish@nd.edu	Short Hills, NJ	Monsanto	Discover Financial	2-year MBA	The Jordan Family Office	Jefferies
Brendan Lesch	blesch@nd.edu	Westport, CT	Google	Netflix	1-year MBA	ND Men's Soccer	Professional Soccer
Cory Albertson	calbert1@nd.edu	Warsaw, IN	Ford	Mattress Firm	2-year MBA	Economic Growth Initiative for Haiti	Investment Management
Daniel Carey	dcarey@nd.edu	Santa Rosa, CA	Microsoft	21 st Century Fox	2-year MBA	21 st Century Fox	21st Century Fox
James Rapuzzi	jrapuzzi@nd.edu	Anchorage, AK	Union Pacific	Columbia Sportswear	2-year MBA	Credit Suisse	Credit Suisse
Jasminka Arnautovic	jarnauto@nd.edu	Ottawa, Canada	Deere & Company	Facebook	2-year MBA	Lazard Middle Market	UBS
Jason Rodrigues	jrodr16@nd.edu	Mangalore, India	Lockheed Martin	Micron Technology	2-year MBA	Smarter Remarketer	Deloitte Consulting
Jiajia Xu	jxu7@nd.edu	Yangzhou, China	Schlumberger	Michael Kors	2-year MBA	E&Y Advisory Services	E&Y Consulting
Jonathan Welch	jwelch1@nd.edu	Virginia Beach, VA	Interactive Corp	ExxonMobil	2-year MBA	ExxonMobil	ExxonMobil
Joseph Yang	jyang4@nd.edu	Los Angeles, CA	Activision Blizzard	Ecolabs	2-year MBA	Ecolabs	TBD
Joshua Rabinovitz	jrabinov@nd.edu	Los Angeles, CA	Checkpoint Software	Cisco Systems	2-year MBA	Cisco Systems	Cisco Systems
Liam Byrne	lbyrne1@nd.edu	Chicago, IL	Las Vegas Sands	FedEx	2-year MBA	Deutsche Bank	Deutsche Bank
Matthew Nealon	mnealon@nd.edu	Scranton, PA	Delphi Automotive	Mobileye	1-year MBA	Deloitte	TBD
Rahul Khobragade	rkhobrag@nd.edu	Mumbai, India	Apple	Mastercard	1-year MBA	Lodha Group	TBD
Rex Redlingshafer	rredling@nd.edu	Fairway, KS	Atwood Oceanics	Gentex	1-year MBA	Lathrop & Gage, LLP	Lathrop & Gage, LLP
Richard Drew	rdrew@nd.edu	Indianapolis, IN	Calumet Specialty	8x8	2-year MBA	Twin Bridge Capital Partners	Alvarez & Marsal Consulting
Robert Malonoski	rmalonos@nd.edu	Phoenixville, PA	Gilead Sciences	Monster Energy	2-year MBA	Deutsche Bank	Deutsche Bank
Ryan Smith	rsmith37@nd.edu	Summit, NJ	Seadrill	IMAX	5-year BBA + MBA	Cross River Partners	TBD
Samuel Pope	spope2@nd.edu	Arlington Heights, IL	Hain Celestial Group	Roundy's Supermarkets	1-year MSA	E&Y Asset Management	Livingstone Partners
Siddhartha Arora	sarora1@nd.edu	Kolkata, India	United Healthcare	Jazz Pharmaceuticals	1-year MBA	UBS	E&Y Transaction Advisory Services
Sloan Smith	asmith18@nd.edu	Concord, NH	Intel	Royal Caribbean	1-year MBA	Northern Trust Hedge Fund Services	Innovest Portfolio Solutions
Syed Farooq Tirmizi	stirmizi@nd.edu	Karachi, Pakistan	Verifone Systems	Kinder Morgan	2-year MBA	Deutsche Bank	Ruane, Cunniff & Goldfarb, Inc.
Vincent Ng	vng@nd.edu	Mississauga, Ontario	Covanta Holdings	Salesforce.com	1-year MBA	Kerburn Rose	Seeking investment analyst position