



QUARTERLY NEWSLETTER

Applied Investment Management

1st Quarter, March 2017

Greeting from AIM

AIM XLIV continues to have a busy yet productive semester. Analysts recently completed valuation reports and are swiftly moving into Round 2 with new stock selections.

Professors Hemler and Lanser are leading their first AIM class and are quickly adjusting to the pace. (You can read about each of them in this issue of the Newsletter.)

Once Analysts return from Break, a lot of activities will commence. Analysts will choose a second stock and will also travel to Chicago to meet with various firms. After that, the semester will conclude with Final Board Presentations.

“We don’t have to be smarter than the rest. We have to be more disciplined than the rest.”

- Warren Buffet



Winter arrives in March to the Golden Dome

In This Issue

- [State of the Economy - 2](#)
- [Portfolio Performance - 4](#)
- [Sector Updates - 5](#)
- [Portfolio Composition – 6](#)
- [Stock Updates - 7](#)
- [AIM Class Profile - 8-9](#)
- [New professors –10](#)



Markets react positively on the less than expected raise in interest rates

Global Economic Outlook

Both the MSCI World Index and the MSCI China index have been up over the last quarter indicating projected growth in developed markets. Global GDP growth has remained stable over the last 5 years posing annual numbers between 2.5 – 3.0%; with the majority captured by China, India, and the United States. After the November Elections, the IMF increased growth projection targets in the United States; while lowering anticipated growth Brazil, Mexico, and China.

Projections in Europe have been extremely conservative (1.0-1.5%) due to Brexit negotiations set to being in this quarter and unconventional election trends in the EU Powers. The largest risks cited in the global economic outlook centers around uncertainty in the Chinese Economy stemming from excessive credit growth, stagnation in developed economies, declining trade projections, and instabilities that exist in the currency markets. Even in these uncertain global economic times, analysts project potential growth in both renewable energy and in oil production, government stimulus and tax cuts, rising demand for traditional commodities, and continued growth in many developing economies.



Might the bubble burst?

State of the Economy

Increased performance

The United States' GDP continued at a consistent annual growth rate of 1.9% in the fourth quarter of 2016 with Real GDP Growth coming in at 3.5%. The cited reasons for this include increases in personal spending, private inventory investment, gains in residential housing, and local government spending. The Federal Reserve continues to indicate that they will interest raise rates throughout 2017 if growth rates continue but will adapt to both domestic and international policies if the economy begins to falter.

Cautiously hawkish

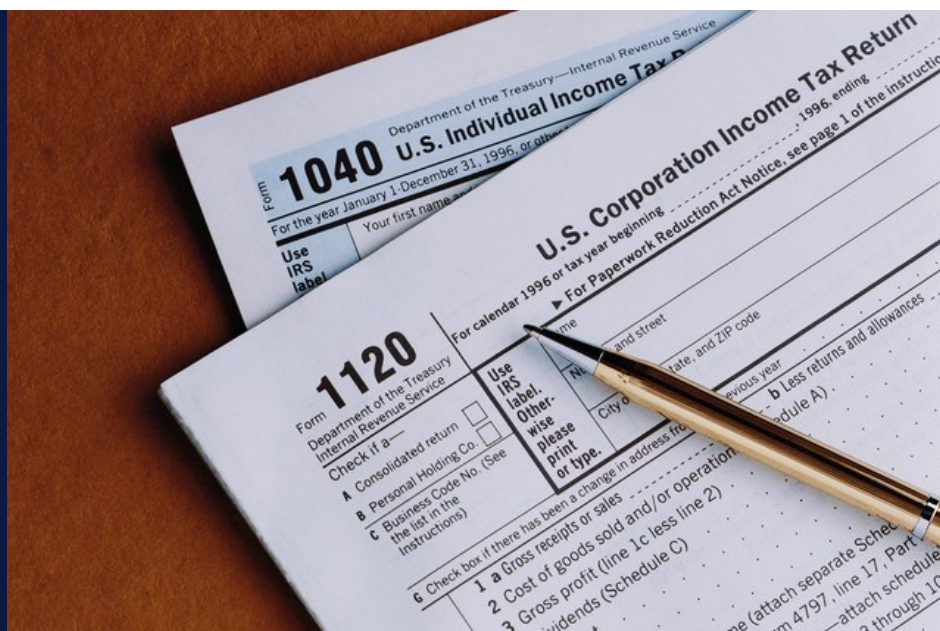
Federal Reserve officials voted nearly unanimously to raise the key interest rate for overnight lending by a quarter point, from a range of 0.5% to 0.75% to a range of 0.75% to 1% and inflation remains below the FED's targeted 2% rate. The stated (4.8%) and seasonally adjusted real unemployment rates (9.4%) are both at the lowest point they have been at since the Global Financial Crisis. Consumer sentiment (95.7) has slightly declined in the first two months of 2017, though remains relatively high. Average hourly earnings increased from \$25.37 in January 2016 to \$26.00 in January 2017 (+2.4% YoY). Shiller analysis highlights the largest gap between the Real S&P Stock Price Composite Index and Real S&P Composite Earnings; indicating investors are very bullish on long term growth projections in the American Markets.

Thus, the government reported data, market projections, and views of the Federal Reserve indicate the United States domestic economy is growing at a consistent pace.

[Return to Index](#)

Taxes are in everyone's mind

Significant reductions in the corporate tax rate (down to 15%) may free up capital as major American corporations pull cash from overseas subsidiaries, back into the United States. However, the Congressional Budget Office projections that the Trump Agenda will increase the U.S. Deficit by nearly \$10 trillion over the next decade appear to be the biggest hurdle as new legislation is debated.



Less Taxes, More Capital

Trump Presidency

American Stock Prices have reacted extremely favorably since the election of Donald Trump on November 7th. The S&P 500 is up 11.8% in this four-month period. Financial intuitions have greatly benefited from campaign pledges targeted at minimizing regulation with banking stocks rising by over 30%. The energy, materials, and industrial sectors have also gained significant market strength driven by promises of a \$1 trillion stimulus package. The open dialogue between Trump and the media have driven broadcasting and publishing company's stock prices up by 20% since the inauguration. Healthcare stocks have shown significant volatility due to the unknown future direction of the American Health Markets; and the President and Republican Congress continue to draft a new legislation and push to repeal the Affordable Care Act.

Companies in the consumer goods sector, especially ones with significant overseas manufacturing bases, have lost market value with increasing discussions of protectionist policies; though the Congress has shown very little appetite to pass new tariff legislation. Much of the hesitation stems from the fact that 37% of all revenue for Russell 3000 companies comes from overseas markets. While the U.S. posted a \$347m trade deficit with China; significant amounts of Chinese Capital flowed into the domestic markets as educated investors gravitated towards stable markets. Over the last three years, the Chinese Government exhausted \$1 Trillion in national reserves. This paired with the continued stability of the Euro, has caused the Dollar to remained strong in the currency markets.

[Return to Index](#)

Investing and Performing in a Bull Run

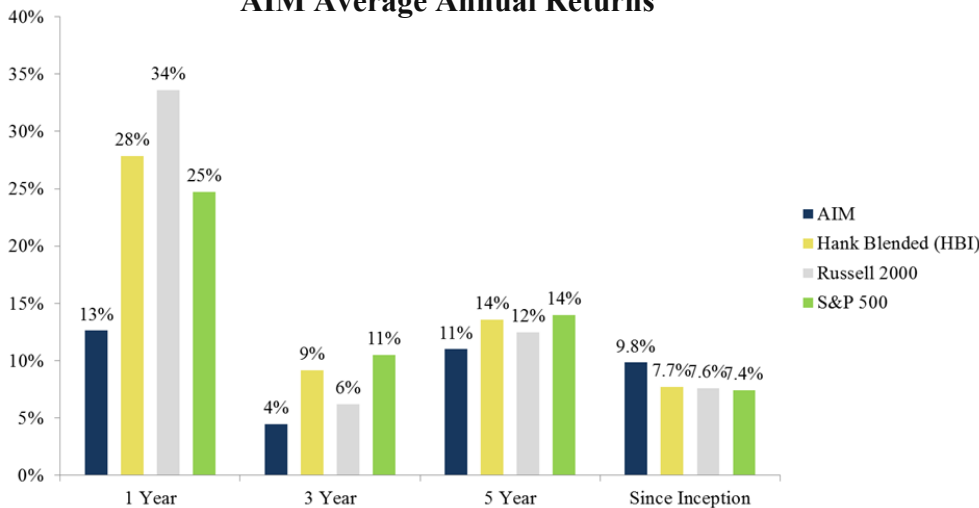
Balancing Risk and Reward



Portfolio Performance

While the market has continued its upward climb, with the Dow crossing the 21,000 mark for the first time, the AIM portfolio has lagged behind, held back by Under Armor and Herman Miller. The portfolio has gained only 13% year on year, compared to 34% for the Russell 2000 and 25% for the S&P 500.

AIM Average Annual Returns



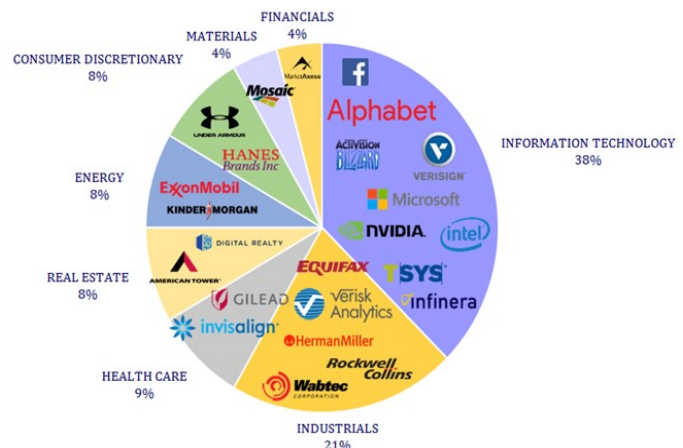
Performing through time

While the portfolio also underperformed its benchmarks over the 3 year and 5 year horizons, it is still **beating both** benchmarks handily since inception.

Sector Allocation

Information Technology remains the focused sector in the AIM portfolio, accounting for nearly 40% of the portfolio, compared to 21% in the S&P 500.

Consumer Staples and Financials remain the most underrepresented sectors; with no consumer staple stocks in the AIM portfolio.



[Return to Index](#)

Sector Update

Winners and missed opportunities

Technology

Information Technology, the most overweighed sector in the AIM portfolio, has continued to perform well, gaining 27% year over year. Snap Inc's IPO was the latest large tech company to go public, raising \$3.4 billion and signaled an increased willingness for large privately held startups, known as unicorns, to go public. The IT sector in general continues to grow as smart phones remain ubiquitous and functions and storage continue to move to the cloud.



Finance

The AIM portfolio is underweighted in finance, and missed the large run-up occurring in those stocks as the market reacted to the potential that the Trump administration would roll back Obama era regulations such as Dodd-Frank. The AIM portfolio doesn't have any traditional banking stocks, which may benefit the most from changes in regulation.

Portfolio Composition

Stock	Ticker	Position Value	AIM Weight
Activision Blizzard, Inc.	ATVI	\$561,960	5.03%
Align Technology, Inc.	ALGN	\$497,664	4.46%
Alphabet Inc.	GOOGL	\$525,698	4.71%
American Tower Corporation	AMT	\$482,832	4.33%
Digital Realty Trust, Inc.	DLR	\$536,260	4.80%
Equifax Inc.	EFX	\$429,751	3.85%
Exxon Mobil Corporation	XOM	\$439,635	3.94%
Facebook, Inc.	FB	\$534,066	4.78%
Gilead Sciences Inc.	GILD	\$337,824	3.03%
Hanesbrands Inc.	HBI	\$379,435	3.40%
Herman Miller, Inc.	MLHR	\$361,991	3.24%
Infinera Corporation	INFN	\$570,280	5.11%
Intel Corporation	INTC	\$448,250	4.02%
Kinder Morgan, Inc.	KMI	\$392,277	3.51%
MarketAxess Holdings Inc.	MKTX	\$588,515	5.27%
Microsoft Corporation	MSFT	\$575,100	5.15%
NVIDIA Corporation	NVDA	\$482,307	4.32%
Rockwell Collins, Inc.	COL	\$475,325	4.26%
The Mosaic Company	MOS	\$498,383	4.46%
Total System Services, Inc.	TSS	\$477,500	4.28%
Under Armour, Inc.	UAA	\$288,312	2.58%
VeriSign, Inc.	VRSN	\$461,725	4.14%
Verisk Analytics, Inc.	VRSK	\$451,440	4.04%
Westinghouse Air Brake Technologies Corporation	WAB	\$366,451	3.28%
Total AIM Portfolio		\$11,162,981	100%

[Return to Index](#)



Stock Updates

Without question the biggest event impacting the portfolio in the past six months is the election of Donald Trump and his first quarter in office. While the market is yet to understand many of the actualities of his presidency, the reaction to his initial policies has impacted the consumer discretionary, financial and energy sectors of the portfolio

Under Armour



This past December the fund invested in Under Armour (NYSE: UA), the newest major competitor in the speciality fitness and sports apparel sector. UA is based in the United States but 100% of their production takes place overseas. In an industry full of stiff competition from giants like Nike and Adidas, UA revenues could be significantly hampered by any tariffs targeting imported goods manufactured abroad for the American consumer. Since December the AIM ownership shares of Under Armour have seen a 26% drop in value - the most significant drop of any stock currently held in the portfolio

Infinera



Beyond the political climate, the portfolio is currently long on many technology securities with the most significant gains posting from small niche firms in the sector. AIM holds several major firms such as Google, Microsoft and Facebook - all of which performed above the S & P benchmark over the last quarter. However, the leading performer of the entire fund was Infinera (NASDAQ: INFN), gaining 33% since December 2016. The firm specializes in proprietary hardware and software essential for high-capacity internet networks, a growing need domestically and abroad.

MarketAxess Holdings



Also among top 3 performers was MarketAxess Holdings (NASDAQ: MKTX) which posted an 18% gain since last December. MarketAxess Holdings develops and operates an online fixed income trading platform which holds competitive advantages as the largest secondary online market for fixed income securities.

[Return to Index](#)

Class Profile

Analyst	Email	Hometown	1 st Stock	Summer Internship	Post-Grad Plans
Sarah Aruhan	xaruhan@nd.edu	Inner Mongolia, China	Verisk Analytics	Sintokogio Inc.	Undecided
Sylvia Banda	sylvia.a.banda.8@nd.edu	Carmel, Indiana	Activision Blizzard	Dimensional Fund Advisors	Undecided
Andy Burrow	andrew.s.burrow.7@nd.edu	North Lawrence, OH	Westinghouse Air Brake Tech	N/A (1-Year MBA)	Undecided
Samuel Chitrit	schitrit@nd.edu	San Antonio, TX	Alphabet	N/A (1-Year MBA)	PricewaterhouseCoopers
Jason Davis	jason.b.davis.361@nd.edu	Kennewick, WA	Exxon Mobil	Allstate Insurance	M&T Bank
Graham Gardner	ggardne2@nd.edu	Rochester, NY	Intel Corp	Exeter PG	Exeter PG
Bhavuk Ghai	bghai@nd.edu	Patiala, India	MarketAxess Holdings	Dana Investment Advisors	Undecided
Sean Hanley	shanley2@nd.edu	Chicago, IL	American Tower Corporation	IBM	Undecided
Dylan Koehler	dkoehle1@nd.edu	Lakeville, Connecticut	Hanesbrands	Globalfoundries	Globalfoundries
Conor Larkin	conor.d.larkin.27@nd.edu	Buffalo, NY	Align Technology	RBC Capital Markets	RBC Capital Markets
Meng Li	mli10@nd.edu	Hebei, China	Nvidia	Michigan Minority Supplier Development Council	NXP Semiconductor

Class Profile

Analyst	Email	Hometown	1 st Stock	Summer Internship	Post-Grad Plans
Silei Li	si-lei.li.268@nd.edu	Guangzhou, China	Gilead Sciences	Accenture	KPMG
Garrett Logan	garrett.m.logan.23@nd.edu	Boston MA	Digital Realty Trust	Keybank Capital Markets	Guggenheim Insurance Services
Elizabeth Lynch	elynch5@nd.edu	Grosse Pointe Farms, Michigan	Kinder Morgan	Whirlpool	Whirlpool
Andrew Roehl	aroehl@nd.edu	Greenville, SC	VeriSign	Bank of America	Bank of America
Elizabeth Sadler	elizabeth.a.sadler.12@nd.edu	Hingham, MA	Mosaic Co	Deutsche Bank	Deutsche Bank
Karissa Schuchardt	kschucha@nd.edu	Sheboygan, WI	Herman Miller	Cisco Systems	AT&T
Jessie Sun	jsun7@nd.edu	Jiangsu, China	Equifax	Single Point Capital	Undecided
Fernando Turrent	fturrent@nd.edu	Mexico City, Mexico	Under Armour	Santander Investment Services	Amazon
Patrick Veltman	pveltman@nd.edu	Richmond, VA	Total System Services	RBC Capital Markets	RBC Capital Markets
Nancy Xia	qxial@nd.edu	Fujian, China	Microsoft Corporation	Citadel Securities	Undecided
Ross Zimmerman	ross.b.zimmerman.32@nd.edu	Utica, Michigan	Rockwell Collins	N/A (1-Year MBA)	Whirlpool

New Talent in the Classroom

Professor Introduction

Professors Mike Helmer and Howard Lanser have begun teaching the MBA section of the AIM course. Here is a biography for each:

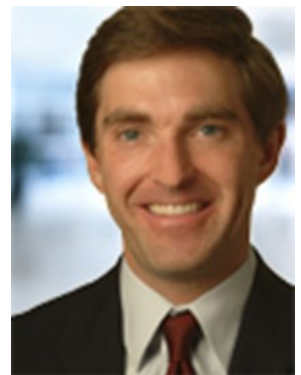
Mike Hemler



Michael L. Hemler is Associate Professor of Finance at the University of Notre Dame. He has received an MBA and PhD in Finance from the University of Chicago and a PhD in Mathematics from Washington University in St. Louis. His research area is investments with an emphasis on financial derivatives. He has published in the *Journal of Finance*, *Journal of Financial Economics*, *Journal of Financial and Quantitative Analysis*, and the *Journal of Futures Markets*. A former Kaneb Teaching Fellow, he currently teaches derivatives, financial management, and applied investment management classes in the Mendoza College of Business.

Howard Lanser

Howard Lanser is a Managing Director in Baird's Mergers & Acquisitions group. He heads the firm's Debt Advisory Group and also serves as a senior M&A execution specialist. Howard has over 19 years of experience originating and executing financing and M&A advisory assignments in a diverse range of industry sectors including industrial, consumer products, for-profit education, corporate training, human capital services, and healthcare services. His clients have ranged from public multinational corporations to private, growth-oriented middle-market firms.



Prior to Baird, Howard was an Associate in the investment banking departments of Credit Suisse First Boston and Merrill Lynch and a Financial Analyst at Morgan Stanley. Howard received an M.B.A. with honors from The University of Chicago Graduate School of Business. He also graduated Phi Beta Kappa and summa cum laude from the University of Notre Dame where he received a B.A. in history and German.

[Return to Index](#)