



AIM

QUARTERLY NEWSLETTER

GREETINGS FROM AIM

As AIM XLV approaches the midpoint of the semester, 27 undergraduate analysts conclude valuation reports on existing portfolio holdings under the guidance of Professors Howard Lanser and Shane Corwin.

In the coming weeks, analysts will research prospective additions to the portfolio and perform a second round of valuations. Geopolitical turmoil around the world, as well as a new domestic legislative agenda, introduce heightened portfolio-wide and security-specific risks and are worthy of significant consideration as portfolio decisions are made in the next month.

Guest Speakers

On Friday, September 22, the AIM class had the opportunity meet with John Mirshekari, an AIM alum and portfolio manager at Fidelity Investments covering companies across the Industrials space. John shared his insights on sourcing new investment ideas and offered a number of thoughts on ways to identify unrealized value.

On Wednesday, September 27, Scott Malpass and Rick Buhrman of the Notre Dame Investment Office met with the class to present their perspectives on developing a competitive edge as an investor and the Notre Dame Endowment Model. Scott and Rick also offered career advice as the class begins a transition into the working world.

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State of the Economy

Trump's America

Over the nine months since his inauguration, President Trump released tangible details on his planned tax reform policies. The tax cuts call for a new corporate tax rate of 20%, intended to serve as an incentive for companies to bring jobs back to the U.S. In addition, the system will feature a repatriation tax holiday, perhaps at a rate as low as 10%. While promising on paper, these tax cuts could prove difficult to reconcile with Trump's planned infrastructure boom, even if the emphasis on public-private partnerships comes to fruition.

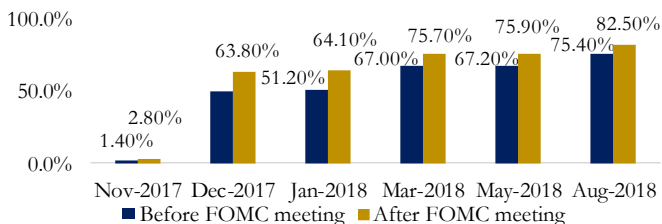
U.S. Labor Market

A key driver behind the Fed's increasingly hawkish economic outlook has been the steady strength of the domestic labor market. Currently at 4.4%, the unemployment rate is expected to continue downwards on the way to 4.1% in 2019. One potential headwind in the labor market is the trend of a rising minimum wage, with 29 states currently requiring higher than the \$7.25 federal minimum. Amidst calls for a \$15 min. federal wage, many economists have predicted that this increase would be detrimental to low wage employees.

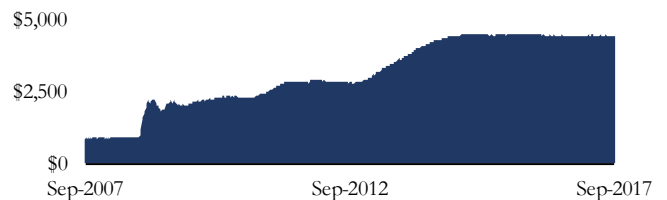
U.S. Central Bank Policy

Following the Fed's September policy meeting, the benchmark interest rate was left unchanged at a range of 1% to 1.25%. Nevertheless, Chair Janet Yellen still managed to make headlines as she outlined plans for a balance sheet wind down. Currently standing at \$4.5 trillion, the Fed's assets will initially decrease by \$10 billion in October with monthly reductions reaching a maximum of \$50 billion over time. Looking ahead, investors are pricing in a 60% chance for one more rate hike in 2017. However, a pervasive weak inflation outlook could lead the Fed to delay future hikes, as the 2% inflation target is not expected to be reached until 2019.

Expectations for Future Rate Hikes



Fed Balance Sheet (\$ in millions)



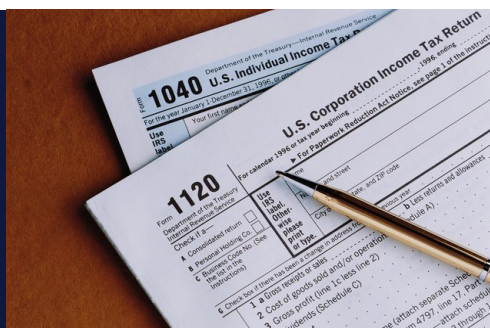
Select Potential Impacts on the AIM Portfolio

- AECOM stands to benefit from Trump's planned infrastructure policies – 40% of company revenues come from U.S. federal, state, and local government contracts
- Calavo growers, which distributes 16% of all avocados grown in Mexico, and Under Armour, which manufactures 100% of its products in Asia, would be affected by changes in U.S. trade policy
- Priceline, with a majority of revenues from international bookings, is vulnerable to forex swings



Geopolitical Tensions and Nuclear Threat

North Korea's launch of a ballistic missile over Japan on August 28th prompted international denouncement, with President Trump leading the way. After the implementation of sanctions by the UN, North Korea launched a second missile over Japan and conducted its sixth nuclear test. As a display of force, Trump authorized military aircraft to fly over the North Korean coast. North Korea interpreted this as a declaration of war. Throughout the crisis, the market has remained relatively calm, with most market reactions remaining short lived and the VIX hovering at all time lows. This story should offer some tailwinds for the defense sector as rising tensions will support increased defense spending.



Trump Tax Plan

The Trump Administration released its tax plan in late September to some critical backlash from the Democrats. The plan reduces the number of tax brackets to just three. This reflects a slight hike from the lowest bracket of 10% under the current tax system and a cut from 39.6% to 35% for the top bracket. In addition to the three brackets, the plan will double the standard deduction which should prevent tax increases for this lowest bracket despite the rate hike from 10% to 12%.

For big businesses, the plan would cut corporate tax rates from the current top rate of 35% down to 20%, just below the average of major developed countries. Most small businesses, which currently pay taxes at the personal tax rate, would also get a tax cut to a proposed rate of 25%. The Trump administration claims that this tax overhaul will yield economic growth of 3% or more, well above the recent ~2%. However, most economists and analysts only project a modest boost to economic growth of between 2.1% and 2.25%.

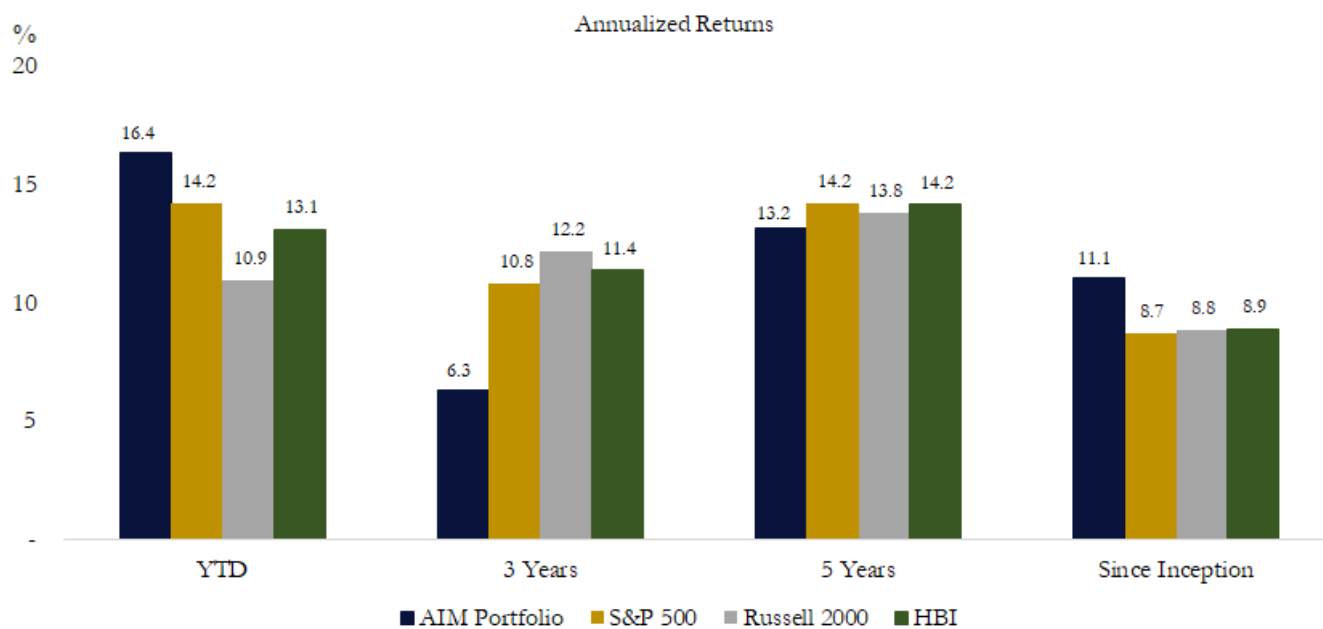
Lastly, Trump has previously talked about a repatriation holiday that would allow for companies with large offshore earnings to bring back cash at a heavily reduced rate. The current repatriation tax rate of 35% would be reduced to 10% allowing for companies like Alphabet and Priceline to bring back extremely high cash balances. This repatriation holiday is expected to unlock funds for use toward reinvestment, stock repurchases and increased dividend payments.

Importantly, the proposed tax bill is also expected to add over \$7 trillion to the national debt balance over the next decade. On September 8th, President Trump signed a bill increasing the debt ceiling into December, and the balance of debt reached over \$20 trillion shortly thereafter. However, legislative progress toward ultimate implementation of a tax plan has been slow and hindered by frequent debate along party lines. For the AIM portfolio, the lower corporate tax rates and a possible repatriation holiday offer the potential for increased shareholder returns, especially from multinational corporations with large cash assets.



BENCHMARK COMPARISON

The AIM portfolio has outperformed its relevant benchmarks – the S&P 500, Russell 2000 and Hank Blended Index (HBI, 65% S&P, 35% Russell 2000) by an average of 225 bps since inception. Results over the past three and five years have reflected the challenges of security selection and benchmarking given strong returns in the broader equity markets, although YTD results indicate an improvement in relative portfolio performance.



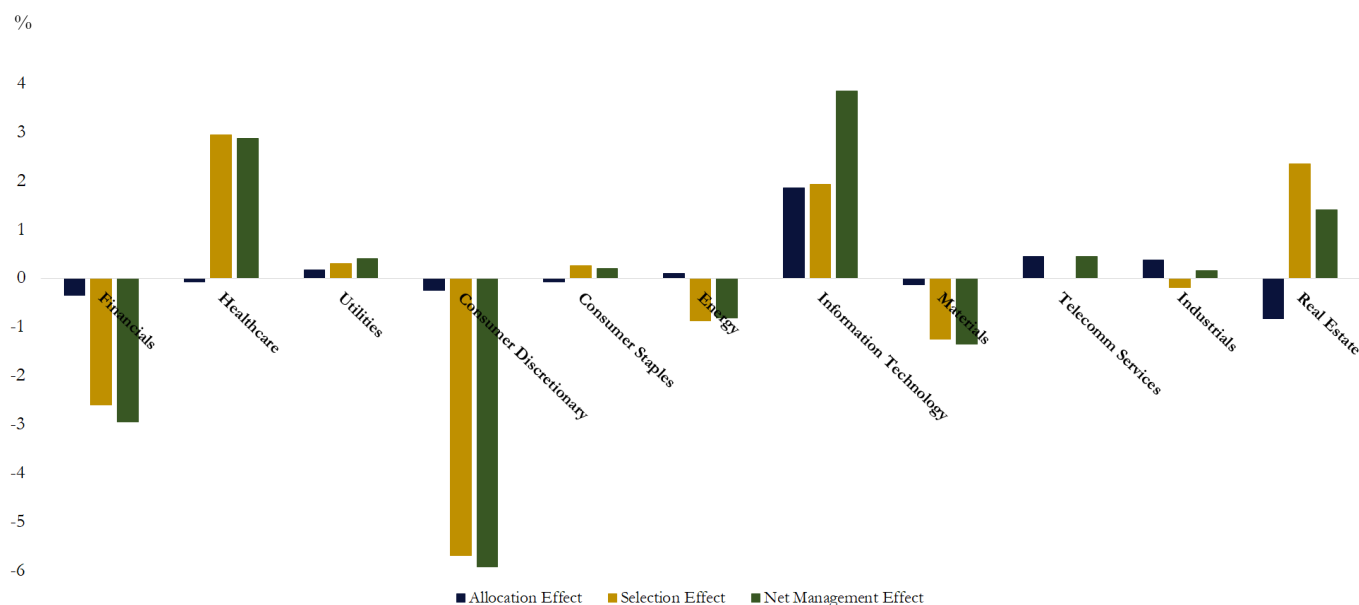
*Performance as of September 30, 2017

PORTFOLIO ATTRIBUTION

On a trailing one year basis, the AIM portfolio underperformed the market (S&P 500) by 300 bps. A large portion of this is attributable to poor stock selection in the Consumer Discretionary, Materials and Financials sectors. In particular, AIM portfolio stocks in the Consumer Discretionary sector have returned -30.0% on a trailing one year basis, leading to a -5.83% impact on the portfolio and reflecting significant disruption in the retail space. However, the portfolio has seen strong performance from its investments in Information Technology and Health Care, which exhibited trailing one year net management effects of 3.8% and 2.9%, respectively.

PORTFOLIO ATTRIBUTION

AIM Portfolio Attribution Analysis (Trailing One Year)



*Data as of October 8, 2017

BEST & WORST PERFORMERS

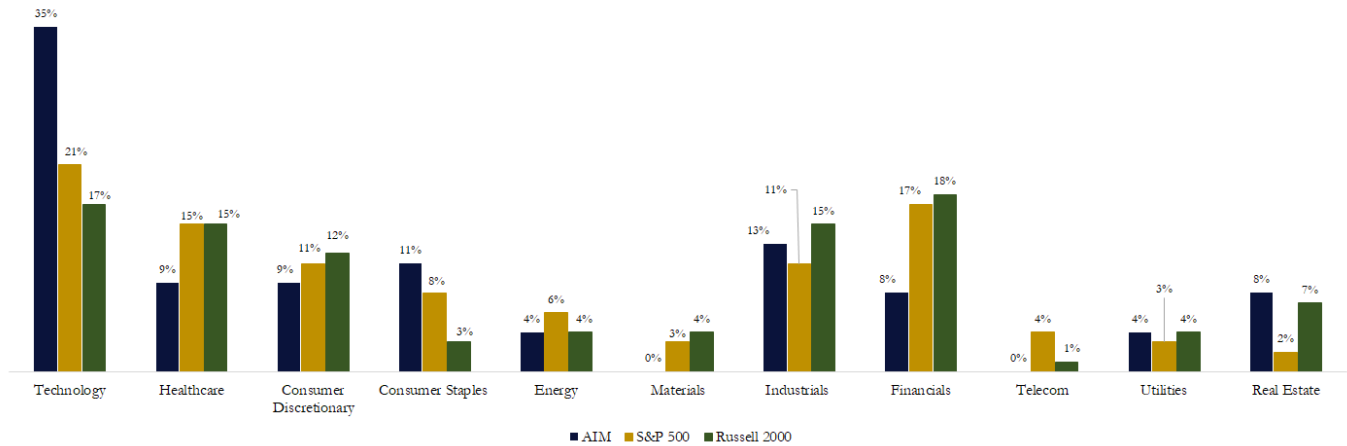
In the past year, the AIM portfolio has experienced outstanding performance in several of its holdings, particularly Royal Caribbean and Rockwell Collins, which have each returned over 50%. The portfolio has also seen some poor performances, particularly from Francesca's Holdings and Under Armour, which have each lost over 50%. Francesca's performance reflects decreasing same store sales, which have been hurt by increased online competition. Under Armour has had difficulties competing with well establish brands such as Nike and Adidas.

Top 5 Performers		
Company Name	Industry	Return
Royal Caribbean Cruises	Consumer Discretionary	67%
Rockwell Collins	Industrials	60%
Activision Blizzard	Technology	44%
Total System Services	Technology	41%
Analog Devices	Technology	36%

Bottom 5 Performers		
Company Name	Industry	Return
Francesca's Holdings	Consumer Discretionary	-55%
Under Armour	Consumer Discretionary	-53%
The Kroger	Consumer Staples	-29%
Kinder Morgan	Energy	-12%
CVS Health	Consumer Staples	-11%

Returns TTM as of October 8, 2017

Current Sector Weights versus Major Benchmarks



TECHNOLOGY

At 35%, Technology is the most heavily-weighted sector in the AIM portfolio. Having gained 9.7% over the past three months, the tech sector outperformed the S&P 500 considerably in Q3. Much of the gain is attributed to the semiconductor industry; however, few tech stocks were down at all over the past three months. The sector has also been driven by online payment systems, data storage and management systems, and increased security needs.

HEALTHCARE

The Healthcare sector has continued to perform well with a return of 5.1% on a trailing one year basis. The AIM portfolio is weighted 9% in this sector compared to 15% in the S&P 500 and the Russell 2000. Gilead and Thermo Fisher Scientific outperformed with trailing one year returns of 19.4% and 8.9%, respectively.

CONSUMER STAPLES

Consumer Staples is the lowest performing sector over the past three months, as well as the only sector to have a negative return over this period. Of the three Consumer Staples stocks in the portfolio, Kroger (-10.5%) and CVS (-1.6%) had negative returns, while Calavo Growers boasted a return of 8.2% on a trailing three month basis. The "Amazon effect" continues to be a concern in this sector and should be monitored with regards to AIM's consumer staples and consumer discretionary stocks.



KEY COMPANY UPDATES

francesca's

The specialty retailer has been battered from many fronts this quarter. Fundamentally, comparable sales continued to fall and the traditionally strong back-to-school season was challenging for the company. Moreover, the company's headquarters and sole distribution center are located in Houston, Texas, and took a heavy hit from Hurricane Harvey; merchandise movement was stalled for weeks which will inevitably impact revenues. However, the upcoming holiday season presents management with an opportunity to make up for lost progress.



In August the biotech company announced that it is buying cell therapy leader Kite Pharma for \$11.9 billion, roughly a 30% premium to its pre-target value. The acquisition will expand Gilead into the lucrative oncology space where Kite boasts 14 drugs in the pipeline and one pending FDA approval before the end of the year. The deal strategically positions the company for long-term growth as progress toward successful cancer treatment continues. As such, the market reacted favorably for both companies after the announcement.



The mature aerospace industry has been active in M&A with Rockwell Collins at the middle of several deals. Less than a year after Rockwell Collins paid \$8.3 billion for B/E Aerospace, a manufacturer of seats and other interior plane parts to add to its line of cockpit and cabin solutions, United Technologies offered \$23 billion in equity for Rockwell Collins. The combined company would provide products for nearly every piece of a plane, raising flags for both customers and anti-trust regulators. As such, the market is pricing the deal skeptically; Rockwell Collins's stock continues to trade below the \$140 price per share offered by United Technologies.



Stock	Ticker	Position Value	Portfolio Weight
AECOM	ACM	\$ 505,498.40	3.95%
Analog Devices, Inc.	ADI	521,785.60	4.08%
American Tower Corp.	AMT	494,530.40	3.87%
Activision Blizzard Inc.	ATVI	557,832.00	4.36%
Rockwell Collins Inc.	COL	590,255.40	4.62%
Calavo Growers Inc.	CVGW	533,324.00	4.17%
CVS Health Corp.	CVS	457,158.20	3.58%
Digital Realty Trust Inc.	DLR	480,947.60	3.76%
Exelon Corp.	EXC	514,890.00	4.03%
Facebook Inc.	FB	515,188.80	4.03%
Francesca's Holdings Corp.	FRAN	219,995.40	1.72%
Gilead Sciences Inc.	GILD	568,771.20	4.45%
Alphabet Inc. (CL-C)	GOOG	324,111.80	2.53%
Alphabet Inc. (CL-A)	GOOG	164,469.90	1.29%
Intercontinental Exchange	ICE	531,761.10	4.16%
Kinder Morgan Inc.	KMI	431,087.00	3.37%
Kroger	KR	318,761.20	2.49%
MarketAxess Holdings Inc.	MKTX	447,753.90	3.50%
Herman Miller Inc.	MLHR	506,620.00	3.96%
Microsoft Corp.	MSFT	498,394.80	3.90%
Palo Alto Networks Inc.	PANW	618,888.00	4.84%
The Priceline Group Inc.	PCLN	464,367.50	3.63%
Royal Caribbean Cruises Lt	RCL	509,833.60	3.99%
Synchrony Financial	SYF	522,253.20	4.08%
Thermo Fisher Scientific Ir	TMO	532,481.20	4.16%
Total System Services Inc.	TSS	532,347.20	4.16%
Under Armour Inc.	UAA	340,300.00	2.66%
Cash Balance		83,108.63	0.65%
Total AIM Portfolio		\$ 12,786,716.03	100.00%



AIM XLV had the opportunity to catch up with AIM Alumnus Mr. Eric Tommarello (AIM XXXIX). Below are the highlights:

Name: Eric Tommarello

Current Role and Firm: Associate at Butterfly Private Equity

AIM Class: XXXIX (Fall 2014)

What has been your career path since AIM?

After graduating in 2015, I moved to Los Angeles and joined Leonard Green & Partners, a private equity firm, as an Analyst. I had a phenomenal experience at Leonard Green, working on a variety of healthcare and consumer retail transactions. Having grown up in the small town of Baldwinsville, NY, it was also very exciting for me to move to Los Angeles; I've quite enjoyed being able to explore Southern California. A few months back, I jumped at the opportunity to join Butterfly Private Equity, a first-time fund based in Beverly Hills that is focused on investments in the food industry. It has been an exciting few months as we continue to build and grow the firm.

What would you say would be the most valuable thing AIM provided you?

Humility. The stock that I successfully pitched during AIM was Atwood Oceanics, an off-shore driller with 13 rigs/drillships. I was more or less trying to make a play on oil as prices had declined from \$100 per barrel to \$70 per barrel and "couldn't go much lower" (in my mind). As was tradition, we made the trades in the week leading up to Thanksgiving and added Atwood to the portfolio at ~\$37 per share. On Thanksgiving, Saudi Arabia announced that it would not be cutting production and oil prices (and stocks) plummeted when trading resumed. By the end of the year (2014), Atwood had traded down ~25% to ~\$28 per share. Of course, Atwood's share price continued to decline in 2015 and beyond, and the Company was recently acquired by EnSCO at a value equivalent to \$10.72 per share. I had also owned the stock personally for a time, so it was very much a lesson in humility for me as an investor. Oops.

What has been the most valuable professional lesson you've learned since graduation?

The #1 lesson I've learned is that private equity is a business of relationships. Raising capital requires relationships with limited partners and deploying capital requires relationships across the corporate world. All along the way it helps to have relationships with bankers, accountants, lawyers, etc. The list goes on and on, and you won't enjoy the journey without strong relationships with friends and family. Thus, relationships are always a top priority for me.

What were the stocks you covered? What was your opinion on them?

In addition to Atwood, I covered a company by the name of Pixelworks. They design and produce semiconductors that are used in projectors. At the time, there were rumors that Pixelworks was working with Apple and might become a supplier for the iPhone. The stock had doubled from ~\$3 to ~\$6 accordingly. Fortunately, we made the right call to sell the stock and capture the gains; it was subsequently revealed that Pixelworks was not to become an iPhone supplier, and the share price declined to as low as \$1.30 per share. That makes up for Atwood, right?

AIM XLV Class Profile

Analyst	Email	Hometown	1st Stock	Ticker	Summer Internship	Post-Grad Plans
Rudy Bernard	rbernar1@nd.edu	Grosse Point, MI	Rockwell Collins	COL	Credit Suisse	Credit Suisse
Ryan Brickner	rbrickne@nd.edu	Newtown, CT	American Tower	AMT	Dimensional Fund Advisors	Undecided
Jon Carr	jcarr2@nd.edu	Rockville, MD	Analog Devices	ADI	BAML	ND Investment Office
Tyler Christian	tchrist2@nd.edu	Western Springs, IL	Alphabet	GOOG	Morgan Stanley	Morgan Stanley
Colleen Coen	ccoen@nd.edu	Albany, OR	Thermo Fisher Scientific	TMO	Goldman Sachs	Goldman Sachs
Jaclyn Daily	jdaily2@nd.edu	Newtown, CT	Herman Miller	MLHR	BAML	Goldman Sachs
Will DuFour	wdufour@nd.edu	Wellesley, MA	Palo Alto Networks	PANW	JP Morgan	BAML
Joe Farley	jfarley1@nd.edu	Woodbridge, NJ	Gilead Sciences	GILD	BMO	BMO
Nikhil Garg	ngarg3@nd.edu	Chantilly, VA	Royal Carribean	RCL	Bain Capital Credit	Bain Capital Credit
Tyler Harris	tharris6@nd.edu	Palatine, IL	Exelon	EXC	Kingdom Ridge Capital	McKinsey & Company
Colin Humble	chumble@nd.edu	Marietta, GA	Mohawk Industries Inc.*	MHK	Morgan Stanley	Bain & Co
Brian Johnson	bjohns19@nd.edu	Park Ridge, IL	Microsoft	MSFT	Grupo Bimbo	Undecided
Alarisse Lam	alam4@nd.edu	San Diego, CA	AECOM	ACM	BAML	BAML
Will Lederer	wlederer@nd.edu	Deerfield, IL	Total System Services	TSS	JP Morgan	Blackstone
Alyssa Loffredo	aloffred@nd.edu	Wayne, NJ	Activision Blizzard	ATVI	Credit Suisse	Credit Suisse
Ryan Lynch	rlynch3@nd.edu	Bethesda, MD	CVS	CVS	Bain Capital Credit	Undecided
Parker Mathes	jmathes1@nd.edu	Dunwoody, GA	Francesca's	FRAN	GSO Blackstone	Goldman Sachs
Stephanie Mellert	smellert@nd.edu	Greenwich, CT	Lockheed Martin*	LMT	Rothschild & Co.	Rothschild & Co.
Tommy Palmerton	tpalmert@nd.edu	Mount Kisco, NY	Under Armor	UAA	Bain Capital Credit	Bain Capital Credit
Harry Parker	hparker@nd.edu	London, England	Priceline	PCLN	CitiGroup Trading	Goldman Sachs
Jennifer Prosser	jprosse1@nd.edu	Oakhill, VA	MarketAxess	MKTX	Goldman Sachs	Goldman Sachs
Nick Rice	nrice@nd.edu	Grayslake, IL	Calavo Growers	CVGW	Credit Suisse	Credit Suisse
Lauren Schmidt	lschmid6@nd.edu	Effingham, Illinois	ICE	ICE	Kayne Anderson	Kayne Anderson
Tatiana Vdovina	tvdovina@nd.edu	Moscow, Russia	Digital Realty REIT	DLR	Louis Dreyfus Company	Undecided
Jacob Vila	jvila@nd.edu	Tampa, FL	Synchrony Financial	SYF	BMO	BMO
Thomas Walsh	twalsh4@nd.edu	Valparaiso, IN	Kroger	KR	GCM Grosvenor	GCM Grosvenor
Danny Willet	dwillett@nd.edu	Newport Beach, CA	Kinder Morgan	KMI	Lazard	Lazard

*Not in current AIM portfolio