AIM QUARTERLY NEWSLETTER

GREETINGS FROM AIM

As the first quarter comes to a close, 22 MBA analysts have completed our first round of valuations of existing holdings under the guidance of Professors Jerry Langley and Bill McDonald.

In the coming weeks, we will select stocks to pit against the current holdings and perform a second round of valuations. The recent market downturn, fueled by uncertainty in China and falling oil prices, makes it an exciting time to be selecting viable options to strengthen our current positions.

CHICAGO TRIP

The AIM XLII class visited Chicago from February 11th to February 12th. While in Chicago, the analysts gained exposure and insights into various investment vehicles. Highlights of the trip included an alumni dinner hosted by the investment office with local AIM alumni at Maggiano's. The analysts even got a surprise encounter with musician Fred Durst in the hotel lobby.

The following presents a short summary of the class' visit throughout the trip.

VENTURE CAPITAL

The analysts began their day at Techstars, a global ecosystem that helps entrepreneurs build great businesses, where they were joined by Managing Director Brian Luerssen. The meeting focused on the company's ability to accelerate startup growth. Sam Yagan, co-founder of SparkNotes, and OkCupid, stopped by to greet the AIM class as well.

PRIVATE EQUITY

DJ Lipke ('04, AIM XVII), Vice President at Prairie Capital, discussed their firm's investment approach. He discussed recent acquisitions made by Prairie and presented an acquisition case study.

ASSET MANAGEMENT

The analysts met with the team from Jones Lang LaSalle that manages Notre Dame's building in Chicago, The Railway Exchange, 224 S. Michigan Ave. The JLL team explained the leasing process and the renovations that are being made to attract tenets. In addition, the analysts were able to get a tour of the Notre Dame EMBA location which is housed in the building.

HEDGE FUND

The analysts met with Mike Melby ('03, AIM XV) of Gate City Capital Management, where they learned about the fund's micro-cap strategy. Mr. Melby's focus on in depth fundamental research and discovery has allowed him to outpace the S&P500 since 2011.

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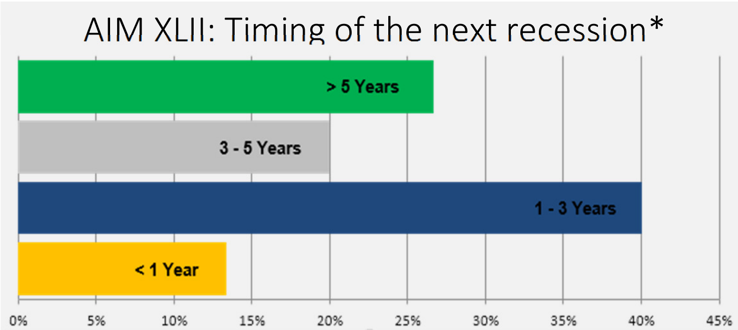
Should We Fear a Recession?

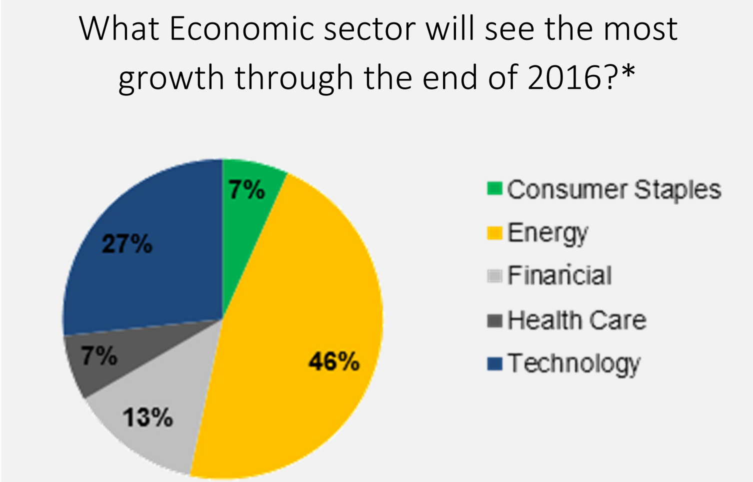
Real GDP was around 2% for the 6th consecutive year in the United States (2.4% in 2015, and a 1.8% CAGR since 2000). Forecasts in the coming year are again around 2% but there is a growing talk of a recession. The WSJ Economists Survey said the odds of a recession in the next 12 months have climbed to 21%, double the level a year ago.



Based on responses of current AIM students

Will FED Raise Rates Again?

In December 2015, for the first time in seven years, the Fed raised its target funds rate from 0-0.25% to 0.25-0.5%. There are still thoughts the Fed will not raise rates again in 2016. 10 Year Treasury bonds are yeilding around 1.75%, and the uncertainty surrounding the potential future rate increases may lead to an increase in market volatility. The dollar continues to be strong against other currencies and this has led to low US exports. We will see if this changes in the coming year but overall we expect exporting companies to suffer in the coming year and consumer-facing U.S. centric stocks to outperform.

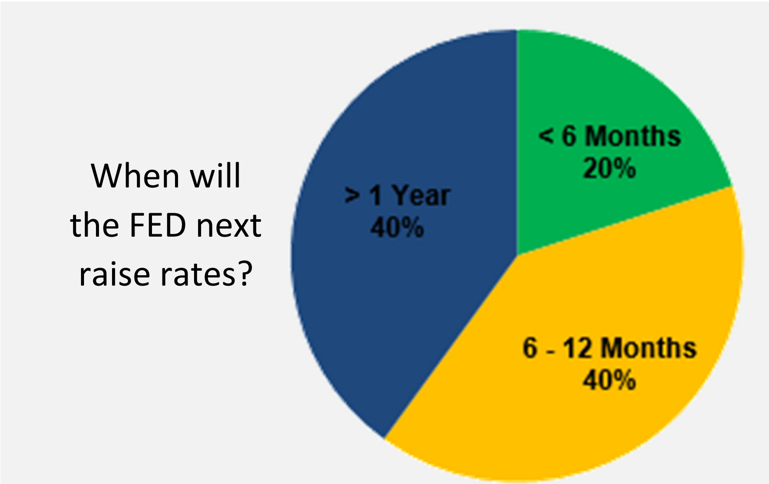


Based on responses of current AIM students

Employment Appears Healthy

Unemployment in January hit an 8-year low as employers added 151,000 jobs. The unemployment rate fell to 4.9% on the announcement, and the U-6 Unemployment rate (which adds discouraged and part-time workers) fell to 9.9%. Labor Force Participation rate is still at only 62.7% (pre-recession levels were around 67%). Additionally, wages were up 2.5% for the year in 2015 and are on a positive trend. The U.S. Retail and food - services sales increased 3.4% YoY in January, which is seen as a positive sign. Economists hope that lower energy prices and rising wages will lead to increased personal consumption and inflation in the coming year. The core consumer price index growth in the twelve months through January was 2.2%, the highest since June 2012 and is slightly above the FEDs 2% target. Lastly, housing starts were up 10.8% in 2015. This was the strongest year of construction since 2007, but there were disappointing numbers in January. The January number for housing starts was down 3.8% from a year ago, and most blame this on the bad January weather.

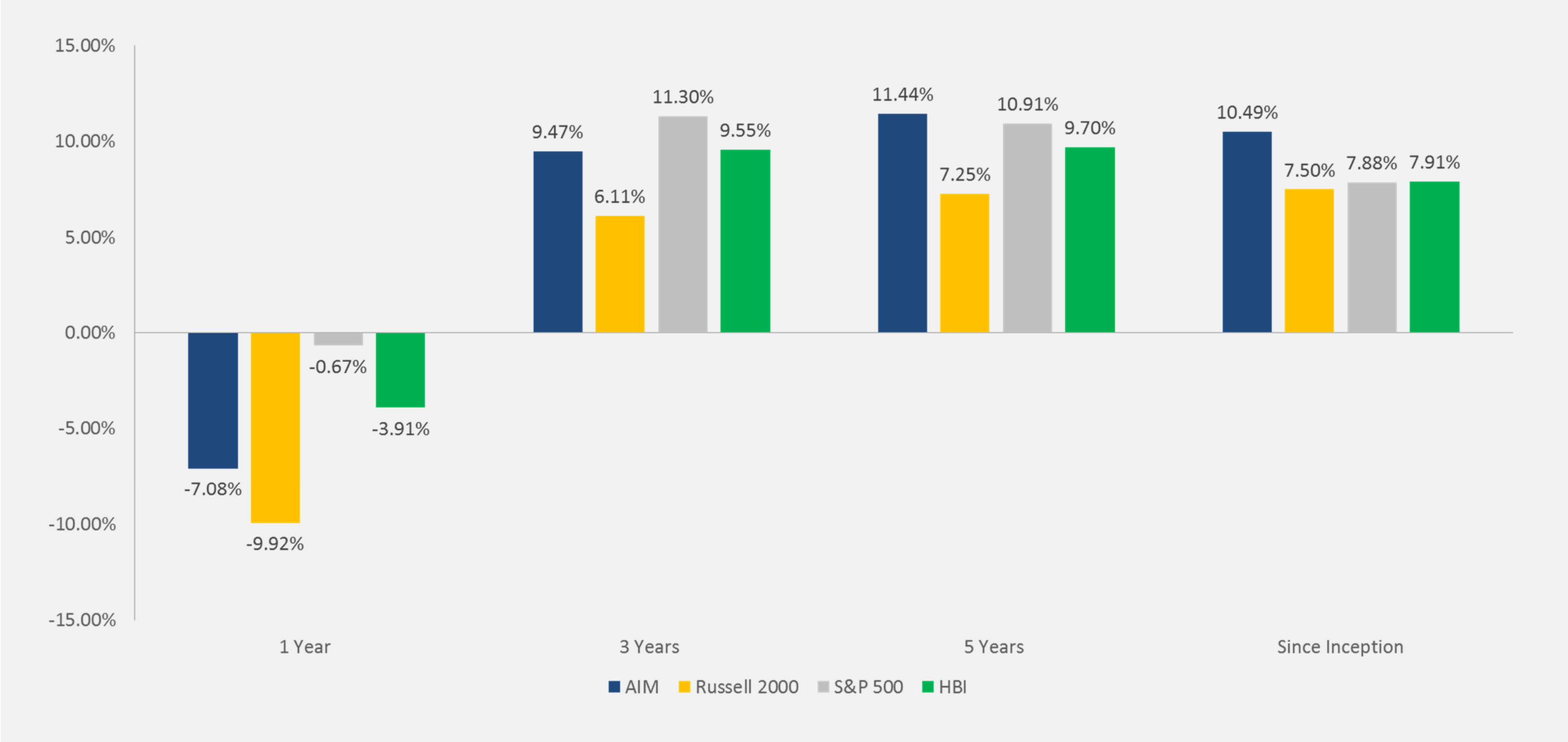
AIM XLII's Sentiment on Funds Rate*



Based on responses of current AIM students

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 (five years and more). On the three-year horizon, the AIM portfolio outperformed the S&P 500 but underperformed Russell 2000 and HBI. In addition, over the last year the AIM portfolio has underperformed the S&P 500 and the HBI while outperforming the Russell 2000.



PORTFOLIO ATTRIBUTION

Over the past year, the AIM portfolio has underperformed the market (S&P 500) by 6.41%. A large part of this underperformance is a result of an over-weight position in poor performing sectors such as Consumer Discretionary, Consumer Staples, and Energy. The portfolio's most problematic sector has been Energy, which had a net management effect of -1.3%, punished by the low price of oil. In addition, both Consumer Discretionary and Consumer Staples sectors performed poorly due to the weak economy and low consumption demand. However, the Information Technology sector continued its strong returns and had a net management effect of 5.92%.

PORTFOLIO ATTRIBUTION

BEST & WORST PERFORMERS

In the past year, the majority of stocks in the AIM portfolio are down due to the weak economy and the consistently low price of oil. Several stocks generated poor returns, most notably Kinder Morgan, Mobileye, and Union Pacific, which have been negatively impacted by low oil prices and weakened demand from developing countries. These losses have been partially offset by several outstanding performers, led by Activision Blizzard, which has posted a return of 73.94%. Additionally, Microsoft, United Health, Spirit Airlines*, and Facebook* contributed considerable returns.

Top 5 Performers

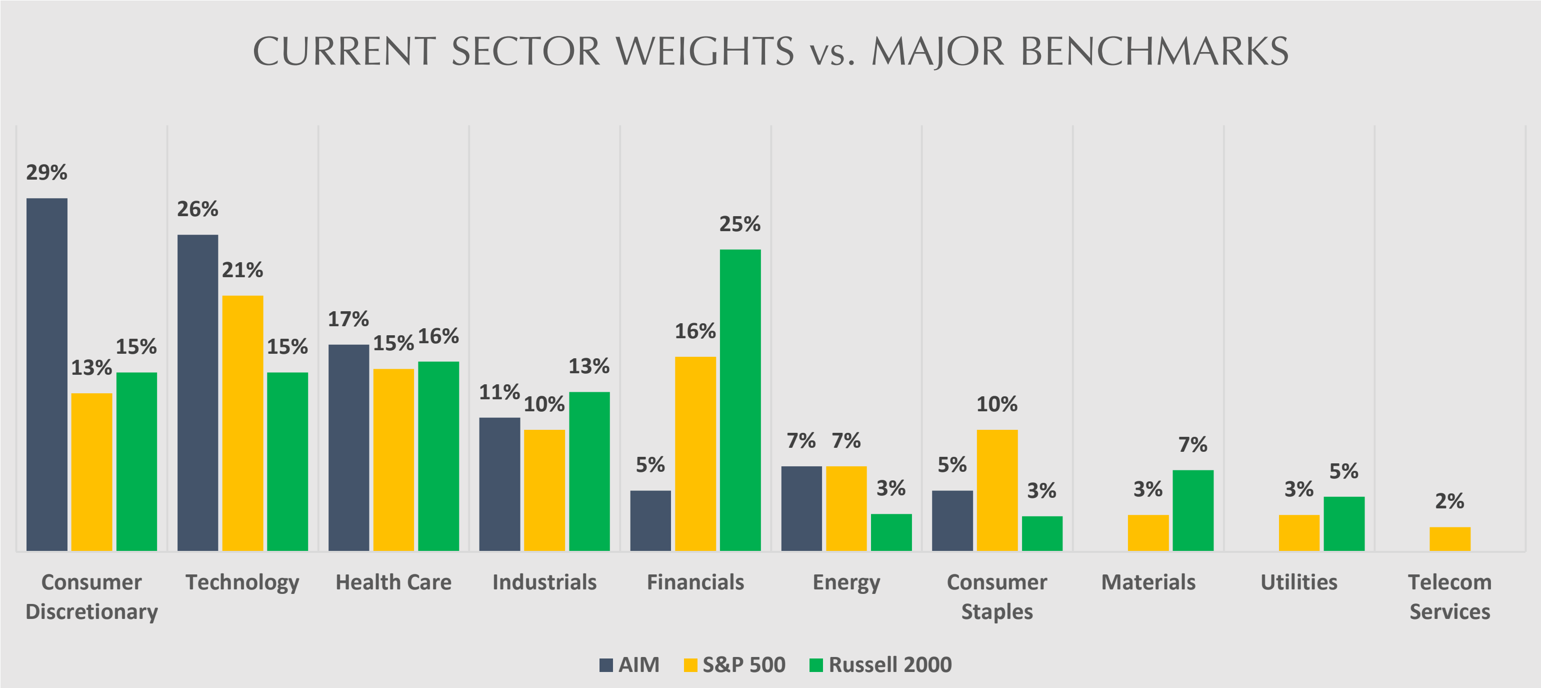
Company Name	Industry	Return
Activision	Consumer Discretionary	**73.94%**
Microsoft	Technology	**21.98%**
United Health	Healthcare	**16.03%**
Spirit Airlines*	Technology	**13.68%**
Facebook*	Consumer Discretionary	**7.65%**

Bottom 5 Performers

Company Name	Industry	Return
Kinder Morgan	Consumer Discretionary	**-58.43%**
Mobileye*	Energy	**-39.52%**
Union Pacific	Consumer Discretionary	**-37.98%**
Hain Celestial	Health Care	**-35.96%**
Covanta	Health Care	**-31.64%**

Returns TTM as of January 31, 2016
*Holding Period Return

SECTOR UPDATES



ENERGY

Oil prices continued their slide, falling below $30 per barrel for the first time in over a decade. Prices remain approximately 70% below their 2014 peak. Concerns over pricing and supply caused Saudi Arabia and Russia to make an unusual commitment to maintaining short-term production at January levels. Henry Hub spot prices for natural gas also finished the year down nearly 30%. The current AIM portfolio has exposure to commodity prices in its Kinder Morgan, Covanta, and ExxonMobil positons, all of which have traded down.

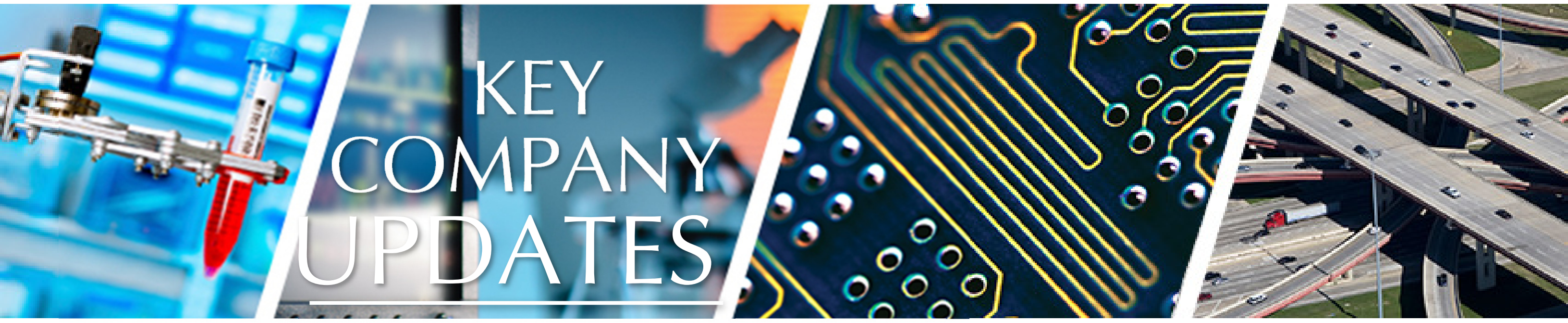
CONSUMER

Holiday spending data was mixed, especially given the unseasonably warm winter. Overall spending grew at levels consistent with the 2014 holiday season, but only after stronger online sales offset weakened physical traffic. Results were unevenly distributed across retailers. Best Buy showed muted overall results, but was slightly stronger than expected, particularly in online sales. TJX is expected to report soon. Consumer stocks represent the largest portion of the current AIM portfolio.

TECHNOLOGY

The current AIM portfolio still has an outsized allocation in the technology sector. Google and Facebook both reported strong fourth quarter earnings. There is growing anticipation around performance at the newly restructured Google, and for Facebook's position in the mobile advertising space. Facebook was a top performing stock for 2015, and Activision Blizzard has been one of the best performing positions in the portfolio since its 2007 inception.

KEY COMPANY UPDATES



Much to the delight of nerds everywhere, the newest installment in the *Star Wars* franchise opened in December to great fanfare. It is on pace to finish as one of the most successful movies in history. Current box office receipts have exceeded $2B - $900M domestically, with another $1.1B abroad. Traction in China has been slightly slower than hoped, and some pundits have expressed concern over Disney's exposure to big franchises with long lead times between releases. Separately, the company's plans for ESPN remain a key development to watch.

Activision has been buoyed by the growing popularity of its *Call of Duty* franchise. The newest release hit stores in November, and has been well received. Blizzard expects to release its first unique title in over a decade this spring. Its prior games (*World of Warcraft*, *Diablo*) have been rampant successes with a large cult following, and expectations for the upcoming release – *Overwatch* – are high. The movie adaption of *World of Warcraft* opens domestically in June.

Kinder Morgan's share price has suffered over the past few months as oil prices have continued to fall. The company cut its dividend in December for the first time, and has made some reductions in capital spending. Shares climbed steeply, however, after a recent year-end disclosure showed that Berkshire Hathaway opened a $400M stake at the end of 2015.

Facebook's year-end earnings outperformed the most optimistic of analyst expectations. Both advertising revenues and the growth in the active user base exceeded the consensus forecast. The company currently has approximately 1.59B monthly active users. Mobile advertising sales also represents approximately 80% of total revenue. Expectations are that the company will continue to grow its mobile presence and also dedicate continued effort to integrating some recent projects, including the 2014 acquisition of Oculus VR.

TICKER	STOCK	VALUE of POSITION	AIM WEIGHT
ATM	AMERICAN TOWER CORP	$367,500	3.85%
ATVI	ACTIVISION BLIZZARD INC	$346,560	3.63%
BBY	BEST BUY CO INC	$421,275	4.42%
CHKP	CHECK POINT SOFTWARE TECHNOLOGY	$441,921	4.63%
CVA	COVANTA HOLDING CORP	$312,000	3.27%
DIS	WALT DISNEY CO/THE	$333,095	3.49%
DLPH	DELPHI AUTOMOTIVE PLC	$339,924	3.57%
EVHC	ENVISION HEALTHCARE HOLDINGS I	$322,630	3.38%
FAST	FASTENAL CO	$467,880	4.91%
FB	FACEBOOK INC	$403,533	4.23%
GILD	GILEAD SCIENCES INC	$427,152	4.48%
GOOG	ALPHABET INC	$437,086	4.58%
HAIN	HAIN CELESTIAL GROUP INC/THE	$413,380	4.34%
JAZZ	JAZZ PHARMACEUTICALS PLC	$304,100	3.19%
KMI	KINDER MORGAN INC/DE	$322,288	3.38%
MA	MASTERCARD INC	$447,408	4.69%
MBLY	MOBILEYE NV	$283,800	2.98%
MSFT	MICROSOFT CORP	$469,710	4.93%
ORLY	O'REILLY AUTOMOTIVE INC	$380,115	3.99%
SAVE	SPIRIT AIRLINES INC	$532,950	5.59%
TJX	TJX COS INC/THE	$436,821	4.58%
UNH	UNITED HEALTH GROUP INC COM	$540,270	5.67%
UNP	UNION PACIFIC CORP	$346,104	3.63%
XOM	EXXON MOBIL CORP	$436,985	4.58%
TOTAL AIM PORTFOLIO*		**$9,534,487**	**100%**

*As of Date 2/18/2016, excludes the $4,292 (0.04% of total) held in Vanguard Financials ETF

AIM ALUMNI

GARRETT BUSCH

Garrett is currently the CEO and Proprietor for Trinitas Cellars, a winery in Napa Valley, and has been running it since 2010. Although the world of premium wine is challenging the sales have more than doubled during his tenure.

In December 2015 they launched the 'Notre Dame Wine Academy' and became the first officially licensed Notre Dame wine. Garrett is married to another Notre Dame grad, Betsy Busch, who is the CFO of Trinitas.

LEIGH MADERIA

Leigh is a Co-Founder and Partner at Blue Forest Conservation, a boutique deal development and asset management firm dedicated to leveraging financial innovation to develop sustainable solutions to environmental challenges.

Prior to founding Blue Forest, Leigh researched energy investment opportunities in the equity and fixed income markets at Hotchkis and Wiley Capital Management, worked as an analyst at the shareholder activism firm Relational Investors, and was an investment banking analyst for Credit Suisse. Leigh recently earned an MBA from UC Berkeley and is a CFA charter holder.

DAN CAREY

Dan is currently working as an Associate in Corporate Development with 21st Century Fox, the global media conglomerate, currently headquartered in New York.

He began his career in the National Football League's Junior Rotational program before settling into a full-time role in Customer Marketing & Sales where he managed a portfolio of the NFL's consumer packaged goods partners.

In 2013 he was named by Forbes to its 30 Under 30 list in sports. Dan is a proud double-Domer, having received his B.A. in Political Science (2006), and his MBA in 2015 with a concentration in Corporate Finance.

ALUMNI COLUMN

Over the last quarter century, there has been a massive rotation of assets from active investment management into passive or index investing. This rotation has resulted in a proliferation of passive investment vehicles including exchange traded funds ("ETF's) designed to replicate the performance of an underlying index. The internet of things has taken this to another level, as online robo-advisors now provide investors with an automated selection of index fund products according to an individual's age, income, and risk aversion. However, not all investors are comfortable with the growing popularity of index investing. Recently, several prominent investors have expressed concerns regarding the potential pitfalls of ETFs (and as an extension to passive or index investing) especially regarding the liquidity of certain fixed-income ETFs. While I share this concern regarding the liquidity of many passive investment vehicles, in this article I provide a more academic critique of index investing. Specifically, I believe the rotation of assets into passive investment strategies could result in a much harder landing in the event of a sizeable market correction.

Before proceeding, it is important to note that passive strategies have historically outperformed active management and also provide investors with numerous benefits including low fees, portfolio diversification, and even intra-day liquidity. That being said, I would note that most indices (including the S&P 500, Russell 2000, and the MSCI All Country World) are market-weighted indices where each company's weight in the index is approximately proportional to the size of the company as measured by its market capitalization. Thus, the largest companies also have the largest weights in the index. This construction methodology is consistent with modern portfolio theory and should extend beyond equities to include all global assets such as bonds, commodities, and real estate. The issue I raise is that this methodology assumes all assets are correctly priced at all times.

If for whatever reason, one company is overvalued in the marketplace, the company will also command an outsized allocation within the index. Should investors rotate additional capital into the index, the problem is compounded as new money is invested in companies that are already overvalued. This process resembles a momentum-based investment strategy popular with many technical investors (where winning positions are added to and losing positions are exited) but is an investment approach generally shunned by contrarian-minded value investors. Should a correction take place and the overvalued company decline in value, the investor is left with larger losses than would otherwise be the case given the company's outsized allocation within the index. This scenario played out during the tech bubble crash in 2000 and the financial crisis in 2008 (technology and financials both comprised outsized portions of the S&P 500 prior to the subsequent downturns), and active managers outperformed index funds during both periods.

While active management does have numerous drawbacks including increased trading costs, higher management fees, and the potential fallibility of human portfolio managers, the massive rotation of assets into passive or index strategies increases the risk that a market correction would have a larger negative impact on passive investment strategies. This risk is likely compounded following an unprecedented period of global monetary easing that has resulted in extended valuations across numerous asset classes. For these reasons, I believe that a consistent fundamental value-oriented investment process is likely to outperform formula-based index investing over both the short- and long-term. If the reader does decide to invest in passive investment strategies, I suggest to not blindly allocate capital to asset classes according to pre-defined formulas. Instead, understand and gain comfort with both the liquidity and valuation metrics of the underlying companies that comprise the index before putting your own capital at risk.

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Mr. Melby graduated from Notre Dame in 2003 and was a member of AIM XV. He is the founder and portfolio manager of Gate City Capital Management, LLC.

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