AIM
Newsletter

Q4 2018

LEGENDARY ADVANTAGE

IN THIS ISSUE

Welcome

As the AIM class XLVII begins to wrap up for the semester, the undergraduate analysts have made final decisions for the portfolio under the guidance of Professors Howard Lanser and Shane Corwin. For the remainder of the semester, the analysts will prepare to present the final portfolio decisions to the AIM Advisory Board. The class believes that many attractive investment opportunities were presented throughout the semester and has faith in the strength of the portfolio going forward.

Guest Speakers

On Wednesday, October 10th, Jim Parsons spoke with the class about his experience in the investment management industry offering valuable advice for the analysts as they look to start their careers. Jim also spoke about the Institute for Global Investing, which he helped start as a way for undergraduates to gain a better understanding of the industry.

On Friday, November 9th, Stephen Santrach came to class and spoke about his career path to Viking Global Investors. He shared valuable insights with the class regarding his screening process and due diligence when approaching an investment. Stephen also offered helpful thoughts regarding public versus private markets after his time working in both private equity and the hedge fund industry.

Investment Objectives

- Outperform S&P 500 | +4.1% (YTD)
- Outperform Russell 2000 | +7.7% (YTD)
- Outperform HBI | +5.3% (YTD)

Investment Policies

- Liquidity (Common Equities)
- 3-5 Year Time Horizon
- Following all Laws and Regulations

Policies and Guidelines

- Target Allocation: 35.0% Small/Mid Cap, 65.0% Large Cap
- Some consideration to match S&P 500 industry composition
- No Single Equity Cap > 10%
- Cash Holding Close to Zero
- Avoid companies violating University ethical standards

Select Portfolio Additions

Boyd Gaming (NYSE: BD) fully operates 29 casinos across 10 states and varying targeted demographics. Boyd operates through three segments: Las Vegas Locals, Downtown Las Vegas, and Midwest & South. BD's "sticky" customer base, size, and capital structure provide a stable opportunity that would prove to be more resilient in the event of an economic downturn. The growth outlook moving forward can be attributed to BD's opportunity to take hold of the sports gambling market, as the political environment is promising and BD maintains a promising arrangement with market-leader Fan Duel. Additionally, Boyd's B Connected mobile platform is well equipped to integrate online sports-gambling into its business model, positioning BD strongly in a rapidly growing industry.

Compass Minerals (NYSE: CMP) is a specialty materials and chemicals company that operates through two segments: Salt and Plant Nutrition. The Salt segment primarily sells highway deicing salt to municipal authorities in North America and the United Kingdom. The Plant Nutrition segment, however, produces sulfate of potash and blended crop nutrient offerings across North America and Brazil. CMP shares have slid over the past three years, notably in October 2018, as mild winters and supply constraints have driven lackluster Salt performance. Despite these headwinds, the market is meaningfully undervaluing CMP's Salt segment compared to its peers, and has presented an opportune investment opportunity for the portfolio.

Darling Ingredients (NYSE: DAR) is a developer and producer of natural ingredients from edible and inedible bio-nutrients. Operating on five continents, DAR collects and transforms all animal by-products into useable products, including animal meats, pet food, and organic fertilizer. Additionally, DAR operates Diamond Green Diesel, the leading producer of renewable diesel and the business's most attractive segment. As carbon intensity (CI) reduction laws continue to increase, DAR benefits from a greater demand for LCFS Credits that fuel producers are legally required to purchase if CI requirements are not met. There is currently a significant deficit in Credits, and this will become even more advantageous to DAR moving forward.


Crown Holdings (NYSE: CCK) is a leading global supplier of beverage, food, and aerosol packaging. Its primary products include steel and aluminum cans, glass bottles, and metal vacuum closures, steel crowns, and caps. Crown sells its products to major customers including Coca-Cola and Proctor & Gamble, with over 78% of its revenue coming from outside the United States. Shares are down ~19% this year due to concerns regarding CCK's ~$4bn acquisition of Transit Packaging Company Signode in December 2017. However, the Signode acquisition diversifies Crown's product offering, provides additional organic growth opportunities, and operates at higher margins with lower capital expenditures than the legacy business. These promising contributions will help drive the well-positioned business moving forward.

Portfolio Performance

Benchmark Comparison

The AIM portfolio is benchmarked against three indices: the S&P 500, the Russell 2000, and the Hank Blended Index (a composition of 35% Russell 2000 and 65% S&P 500). While the AIM portfolio has slightly underperformed both the S&P 500 and HBI over the last five years, the portfolio has outperformed its benchmarks since inception and has significantly outperformed every index YTD. In fact, since inception, the AIM portfolio has outperformed benchmarks by 2.6% on average.
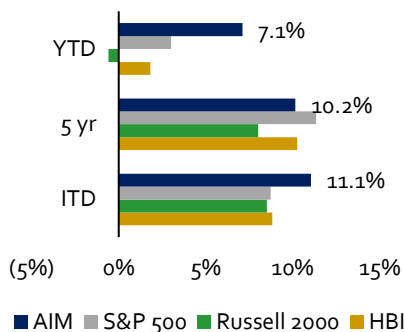
Note: All performance measures are as of 10/31/2018. Current position values are as of 11/29/2018.

Portfolio Allocation

This semester, S&P created the Communications Services sector, which changed the composition of the AIM portfolio. This sector is meant to encompass firms that offer a diverse range of services to connect people. Many of these firms were formerly designated as technology stocks, including Facebook, Google, Activision Blizzard, and Disney.

Due to University investment guidelines, three companies (United Health, Biogen, and Thermo Fisher Scientific) were divested from the AIM portfolio. With these changes, the portfolio is significantly underweight in the Health Care sector.

| Sector	AIM	S&P	Differential
Information Technology	16.7%	20.7%	(4.0%)
Health Care	4.2%	15.0%	(10.8%)
Financials	12.5%	13.6%	(1.1%)
Consumer Discretionary	12.5%	9.8%	2.7%
Consumer Staples	8.3%	7.4%	0.9%
Communication Services	12.5%	10.1%	2.4%
Industrials	16.7%	9.3%	7.4%
Energy	4.2%	5.7%	(1.5%)
Utilities	4.2%	3.1%	1.1%
Real Estate	0.0%	2.8%	(2.8%)
Materials	8.3%	2.6%	5.7%

Sector Attribution

The AIM portfolio has seen a strong net management effect of 3.6% over the past year. This has largely resulted from strong selection effects in Materials (Cleveland Cliffs) and Industrials (Ritchie Bros Auctioneers). However, negative selection in IT and Communication Services has partially offset this positive performance, as the portfolio was not exposed to outperformance in top performing FAANG stocks such as AAPL, AMZN and NFLX.

Net Management Effects YTD
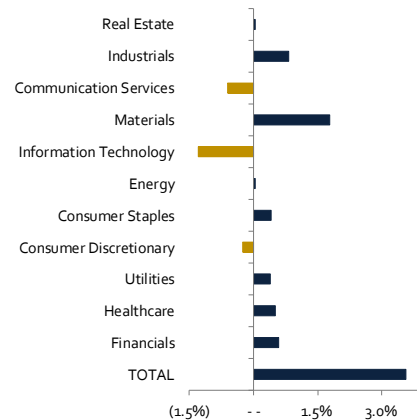
Portfolio Performance YTD
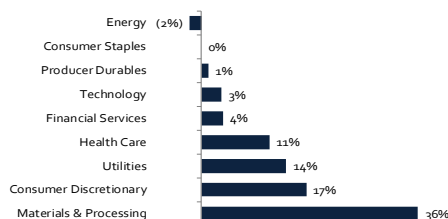
Technical Indicators

The AIM portfolio has generated modest alpha over the past year (0.22% on average relative to the benchmarks). Furthermore, the beta of the portfolio is currently 1.14. However, prior to the recent selloff, it is notable that the portfolio beta was approximately 1.03. Thus, the AIM portfolio was essentially exhibiting the same systematic risk and volatility of the market. The beta of the portfolio over the last five years is 1.07. Similarly, the Sharpe Ratio of 0.20 reflects the robust performance over the last year, as it is higher than the relative benchmarks.

Stock Performance (YTD)

Five Best Performing Stocks	
Cleveland Cliffs	36%
Microsoft	23%
Palo Alto Networks	22%
Ritchie Bros.	15%
Exelon	15%

Five Worst Performing Stocks	
Kraft Heinz	(32%)
Arconic	(25%)
Dollar Tree	(20%)
Trupanion	(19%)
Activision Blizzard	(19%)

Cleveland Cliffs has outperformed YTD due to strong steel fundamentals and the completion of management's strategic initiatives.

Kraft Heinz has underperformed YTD due to slow top-line growth and limited room for efficiency improvements amidst secular headwinds.
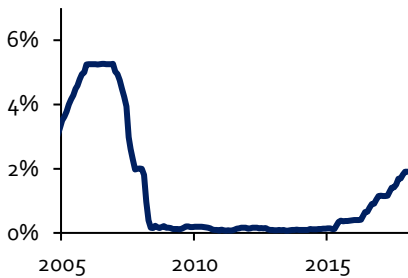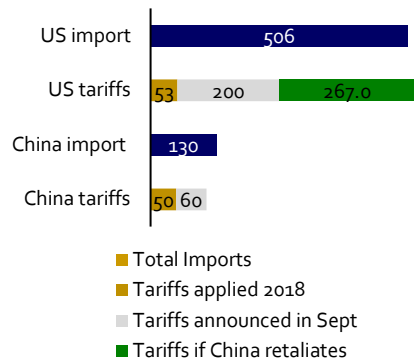
State of the Economy

Interest Rate Hikes

Date	Increase (bp)	Level (%)
Mar. 2017	25	0.75-1.00
Jun. 2017	25	1.00-1.25
Dec. 2017	25	1.25-1.50
Mar. 2018	25	1.50-1.75
Jun. 2018	25	1.75-2.00
Sept. 2018	25	2.00-2.25

Historical Fed Funds Rate

US-China Tariffs & Imports (2018)

- Total Imports
- Tariffs applied 2018
- Tariffs announced in Sept
- Tariffs if China retaliates
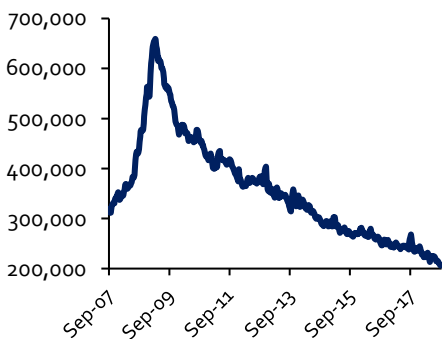
Jobless Claims[1]

Note: [1] 4-week moving average of Initial Jobless Claims as of Oct. 1, 2018

Escalating Trade War

On September 17th, the Trump administration announced its intent to impose $200 billion in additional tariffs on Chinese imports, which is set to escalate from 10% to a 25% tariff rate effective January 1st, 2019. Additionally, President Trump promised to impose another $267 billion in tariffs on Chinese imports, should the Chinese administration retaliate. As China subsequently imposed $60 billion in tariffs on US imports the following day, investors are concerned about the negative impact that an escalating trade war will have on economic growth. Developments in U.S.-China trade talks will be an important topic at the upcoming G20 meeting, hosted by Argentina in late November.

Labor Market Conditions

In October 2018, the unemployment remained at 3.7%, which is the lowest level since December 1969. Notably, average hourly earnings increased by 3.1% year-over-year; this is the best pace in wage growth since 2009, suggesting that firms are competing for scarce employment in a tight labor market. Moreover, average non-farm payroll employment increased by 250,000, above its longer-term trend and indicative of the confidence that businesses have in near term economic performance.

Bonds Yields and Interest Rates

On October 5th, the U.S. 10-year yield jumped to a 7-year high of 3.23% in light of better-than-expected employment numbers. Also, Fed Chairman Powell indicated that monetary policy is "far from neutral", suggesting that economic fundamentals are strong enough to support further rate hikes through 2019. Following its meeting in November, the FOMC maintained its 2-2.25% target range for the federal funds rate. The

Board of Governors stated that core PCE remained near its 2.0% symmetric inflation target. Despite trade pressures and heightened volatility in equity markets through October, the Fed stressed that risks to the economic outlook remain little changed on balance. The final FOMC meeting of 2018 will take place in December, where the Fed is widely expected to increase rates by an additional 25 basis points. Furthermore, in an effort to facilitate open communication of monetary policy, Chairman Powell will be having a press conference after each Fed meeting starting in December. Historically, press conferences have only occurred following a rate hike.

Commodity Prices

Commodity prices broadly rose in October, with energy commodities increasing 1.3% and non-energy commodities rising 1.2%, reflecting robust global consumer demand and business investment. However, in November, investors began to factor in supply-side issues in the oil market. OPEC and its allies recently warned that surging oil output from countries including the US and Russia could leave to substantial oversupply through 2019. Mounting supply concerns have led to oil's largest losing streak since mid-1984.

Crude Oil Prices (WTI)
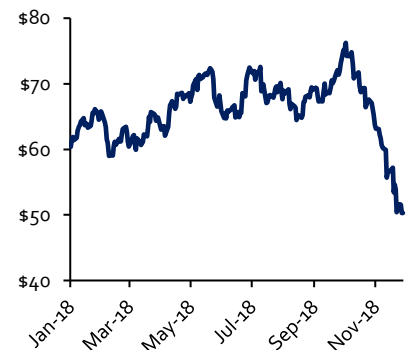
New Portfolio Composition

The intent is to maintain a portfolio that is approximately equally weighted. Note, the two Alphabet stocks (GOOG and GOOGL) are considered singular and have been held in the portfolio since before the class share split. Additionally the portfolio is currently invested in 24 stocks.

Company Name	Ticker	Price per Share (Nov. 29 2018)	Position Value	YTD Performance
A. O. Smith Corp.	AOS	$46.88	$592,469	(26.2%)
Activision Blizzard Inc.	ATVI	$52.68	$558,724	(18.5%)
Alphabet Inc.	GOOG	$1,091.10	$567,416	(0.3%)
Booking Holdings Inc.	BKNG	$1,872.90	$578,726	8.7%
Boyd Gaming Corp.	BYD	$24.90	$578,228	(29.7%)
Comerica Inc.	CMA	$79.12	$535,168	(7.0%)
Compass Minerals International, Inc.	CMP	$49.85	$564,801	(30.9%)
Constellation Brands, Inc.	STZ	$197.06	$583,298	(13.7%)
Crown Holdings, Inc.	CCK	$51.11	$604,018	(14.5%)
Darling Ingredients, Inc.	DAR	$21.88	$629,991	13.0%
Facebook Inc.	FB	$139.31	$545,399	(18.3%)
Intercontinental Exchange Inc.	ICE	$81.13	$622,267	11.7%
Kinder Morgan Inc.	KMI	$16.90	$537,336	(6.3%)
Lockheed Martin Corp.	LMT	$303.57	$551,283	(5.5%)
Micron Technology, Inc.	MU	$37.97	$567,614	(7.5%)
Microsoft Corp.	MSFT	$110.75	$663,393	22.7%
NextEra Energy, Inc.	NEE	$177.16	$577,896	13.2%
Palo Alto Networks Inc.	PANW	$176.48	$574,266	22.0%
Stryker Corp.	SYK	$171.38	$562,126	7.2%
Target Corp.	TGT	$71.18	$515,130	27.4%
Total System Services Inc.	TSS	$87.40	$606,556	11.0%
Trupanion Inc.	TRUP	$28.93	$635,332	(19.0%)
Waste Management Inc.	WM	$92.89	$604,714	5.5%
XPO Logistics, Inc.	XPO	$76.58	$567,917	(13.9%)
Cash			$67,829	
Total AIM Portfolio			**$14,013,164**	

Note: All performance measures are as of 10/31/2018. Current position values are as of 11/29/2018.

AIM Alumni Interview

Kevin Casey
Casey Capital
AIM XII, ND Class of 1992, MBA Class of 2001

What has been your career path since AIM?

Well I was a Math major as an undergraduate, but I wanted to learn more about business in an academic setting which is why I went to Mendoza for business school. After taking AIM, I worked as a sell side analyst for about a year, and then started my own fund. I have been doing this ever since.

What was the most valuable skill that AIM provided you?

I think one of the most valuable skills that AIM provided me was presentation skills. It is not necessarily apparent and a lot of people don't think of the class that way, but it is definitely true. AIM helped me a lot in terms of understanding how important it is to be able to tell a story in investing. AIM also helped me learn that an individual opinion is more often right than the consensus opinion. I was in AIM during the tech bubble, and while consensus said that a lot of these tech stocks were going to bounce back, we were right to want to sell them since a lot of them were very poor companies.

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

It doesn't matter what industry you go into after college, but always be sure to ask a lot of questions and do a lot of research. And something I didn't fully appreciate in college was that what someone is telling you might not necessarily be right. So you have to be willing to ask a lot of questions to a lot of different people to be able to uncover the truth. It is so important to educate yourself by gathering a lot of different opinions.

What were the two stocks you covered while in the AIM class and what was your opinion on them?

I covered NSI (National Services Industry), which was a conglomerate of 4 different companies. I pitched a sell because we thought it would miss earnings the next quarter, and didn't want to be holding it when that occurred. I guess I was right because they did miss the next quarter, but it was a mediocre business overall. Since I pitched it, most of the companies have been sold off: some have done well, some haven't. I also covered Biomet, which is actually a comp for Stryker. I pitched a sell because it was expensive at the time, although it deserved to be that expensive. Frank was actually right to be bullish on the stock, and although he didn't say it directly, his opinion was obvious when he asked me five hard questions in a row about it.

Class XLVII Profile

Analyst	First Stock	Ticker	Second Stock	Ticker	Post-Grad Plans
Ben Bogart	Stryker Corp	SYK	Royal Carribean Cruises Ltd	RCL	Houlihan Lokey
Liam Bryson	Facebook Inc	FB	Salesforce.com Inc	CRM	Golden Gate Capital
Nick Bufalino	Trupanion Inc	TRUP	Starbucks Corp	SBUX	Deutsche Bank
Caleb Chamberlain	Arconic Inc	ARNC	Constellation Brands Inc	STZ	J.P. Morgan
Emmet Coyle	Kinder Morgan Inc	KMI	Crown Holdings Inc	CCK	J.P. Morgan
Ethan Donnelly	Waste Management Inc	WM	NextEra Energy Inc	NEE	J.P. Morgan
Matt Ebertin	Ritchie Bros Auctioneers Inc	RBA	Walmart Inc	WMT	Petsky Prunier
Emily Feczko	Alphabet Inc	GOOG	Target Corp	TGT	Morgan Stanley
Jared Hendrick	Dollar Tree Inc	DLTR	Lear Corp	LEA	J.P. Morgan
Charlie Hughes	Apollo Global Management	APO	Micron Technology Inc	MU	Credit Suisse
Greg Kaniecki	Intercontinental Exchange Inc	ICE	Boyd Gaming Corp	BYD	Houlihan Lokey
Peter Loughran	Microsoft Corp	MSFT	Spotify Technology S.A.	SPOT	TBD
Kevin Marks	Unitedhealth Group Inc	UNH	Darling Ingredients Inc	DAR	Golden Gate Capital
Niko Martinovic	Comerica Inc	CMA	Activision Blizzard Inc	ATVI	Goldman Sachs
John Mullen	The Walt Disney Co	DIS	Brookdale Senior Living Inc	BKD	Credit Suisse
Griffin Over	Total System Services Inc	TSS	A.O. Smith Corp	AOS	Lazard
Chris Page	Cleveland-Cliffs Inc	CLF	McDonald's Corp	MCD	Lincoln International
Zach Prephan	PayPal Holdings Inc	PYPL	GTT Communications Inc	GTT	J.P. Morgan
William Schipke	The Kraft Heinz Co	KHC	Booking Holdings Inc	BKNG	Lord Abbett
Gary Schorr	Biogen	BIIB	XPO Logistics Inc	XPO	Greenhill & Co
Chris Skomra	Exelon Corp	EXC	Compass Minerals International Inc	CMP	Lazard
Francesca Ventura	Lockheed Martin Corp	LMT	Ulta Beauty Inc	ULTA	Goldman Sachs
Richard Xiong	Palo Alto Networks Inc	PANW	Netflix Inc	NFLX	J.P. Morgan