



AIM Newsletter

Q3 2018

LEGENDARY ADVANTAGE

IN THIS ISSUE

Welcome

As the AIM class XLVII approaches the midpoint of the semester, 23 undergraduate analysts have completed their first-round 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.

Guest Speakers

On Friday, September 7th, Professor Kristen Collett-Schmitt of the Mendoza College of Business gave the AIM class a macroeconomics lecture. Based on her lecture, analysts will closely monitor the escalating trade war and the deepening strain between the US and China as the class moves towards the final portfolio decisions at the end of the semester.

On Wednesday, September 26th, Scott Malpass of the University of Notre Dame Investment Office met with the AIM class and talked about his experience and insights in investment management after working for the university for three decades. Scott provided advice about how to understand risk as an investor and how we can take advantage of market overreactions.

On Friday, September 28th, Bill Duhamel, the co-founder of Route One Investment Company, visited the University of Notre Dame and presented to the AIM class about Route One's investment strategy, with a focus on international portfolio management in Russia, India, China. He had interesting insights into their primary research and how investors develop the conviction to make decisions independent from the consensus.

Investment Objectives

- Outperform S&P 500 | +6.4% (YTD)
- Outperform Russell 2000 | +5.4% (YTD)
- Outperform HBI | +6.0% (YTD)
- Maintain Principal | + \$2.2 mm (YTD)

Investment Policies

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

Policies and Guidelines

- Target to match the composition of the S&P 500
- No Single Equity Cap > 10%
- Cash Holding Close to Zero

AIM Analyst NYC Trip

Page 2

Portfolio Update

Page 3

State of the Economy

Page 4

Sector Updates

Page 4

Portfolio Composition

Page 5

Alumni/NDIGI Update

Page 6

Class Profile

Page 7



AIM Analyst Trip to NYC

Thursday, October 4th – Sunday, October 7th

The AIM XLVII class travelled to New York to meet with several of Notre Dame's investment partners to learn about their investment strategies for their portfolios. The following is a summary of the firms the analysts visited on the trip.



The first meeting of the trip was with Firefly Value Partners, a long/short equity hedge fund. AIM Students met with Ryan Heslop and Ariel Warszawski who co-founded the firm in 2007. Firefly is known for being incredibly successful in shorting equity positions to zero. Ryan and Ariel walked AIM students through a case study on one of the current short positions of the firm.



The next meeting was with Spruce House Capital, a long-only equity investment partnership. Students met with Zach Sternberg and Ben Stein who co-founded the firm in 2005 out of their University of Pennsylvania dorm room. Spruce House is unique in that it holds a concentrated number of positions and holds these positions for three to five years or longer. Zach and Ben provided AIM students with insights into the importance of primary discovery.



Aterian Investments partners is a middle market private equity firm focused on turn-around and distressed investments. AIM students met with Brandon Bethea, a principal at the firm who has spearheaded many investments since its inception in 2009. Brandon discussed a case study in which Aterian used a unique capital structure paired with strong operational improvements in order to drive long-term value creation.



Solus Alternative Asset Management is a distressed credit hedge fund with \$5.9 billion in assets under management. The AIM class met with CJ Lanktree, who is a graduate of both Notre Dame as well as the AIM class. CJ discussed the process of investing in distressed credit and what the firm looks for when examining investment opportunities. He also touched on how Solus evaluates different special situations to identify investment opportunities with regards to realizing return on their investments when there are many layers within the corporate capital structure.



The final meeting on the first day of the trip was with Paxos, a financial technology company that is the world's first blockchain-powered trust. Paxos was founded by Notre Dame graduate Chad Cascarilla in 2012. AIM students met with Emil Woods, who is a founding partner of Liberty City Ventures who also sits on the board of Paxos. Emil educated the AIM class on the vast world of blockchain and cryptocurrency, while discussing the impact that he thinks this technology will have on the economy going forward.

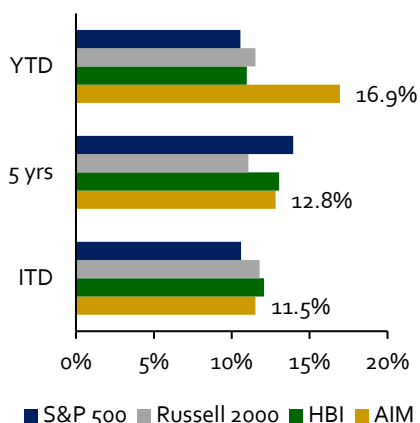


The final meeting of the trip was with Axar Capital, a special situations credit and equity alternative asset manager. Axar capital typically holds 15-25 positions within the equity and credit markets with 70% of investments being in the credit space. The AIM class met with Ty DeBoer, a Notre Dame and AIM Grad. Tyler walked AIM students through a case study on the valuation of a credit investment the firm made within thin the midstream and upstream oil industries.

Portfolio Performance

Benchmark Comparison

The AIM portfolio is benchmarked with 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). Although the AIM portfolio has underperformed against the benchmarks over the last five years, the portfolio has experienced strong performance year-to-date. In fact, on a relative basis, the AIM portfolio has outperformed the benchmarks by 5.9% on average, year-to-date.



Portfolio Attribution

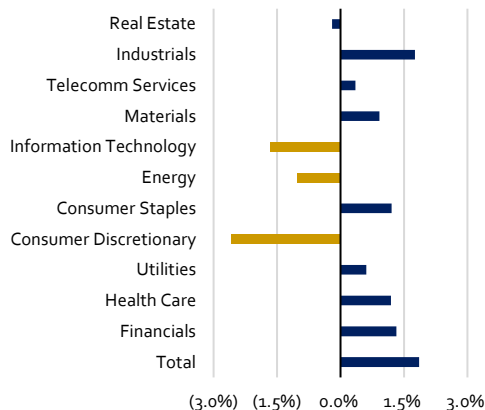
The current AIM portfolio is relatively underweight the following sectors compared to the S&P 500: consumer discretionary, consumer staples, energy, healthcare, technology, and real estate. During the beginning of this semester, three healthcare stocks were sold from the AIM portfolio (Biogen, Thermo Fisher, United Health) due to conflicts with Notre Dame’s investment policies (See “Healthcare Update”). Furthermore, the class decided to avoid REITs due to their various complexities. Although matching the S&P composition is a target rather than a mandate, the class is targeting selecting stocks in certain sectors in round two to better balance the portfolio.

	AIM	S&P 500	Differential
Financial Services	19.8%	13.7%	6.1%
Consumer Services	15.3%	9.9%	5.4%
Industrials	15.2%	9.9%	5.3%
Materials & Processing	5.5%	2.5%	3.0%
Utilities	3.8%	2.9%	0.9%
Real Estate	0.0%	2.6%	(2.6%)
Energy	3.4%	6.2%	(2.8%)
Consumer Staples	3.4%	6.8%	(3.4%)
Consumer Discretionary	3.0%	10.0%	(7.0%)
Technology	13.3%	20.5%	(7.2%)
Healthcare	3.7%	15.1%	(11.4%)
S&P 500	13.2%	0.0%	13.2%
Cash	0.0%	0.0%	0.0%

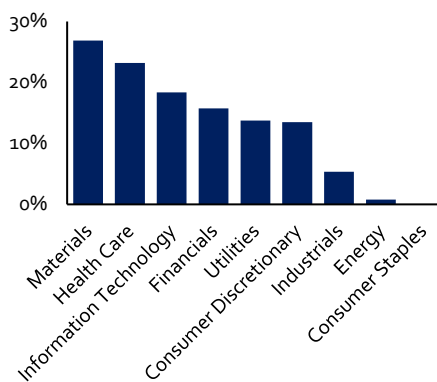
Sector Updates

The net management effect has increased significantly this year. At 1.9% for the portfolio, the current net management effect is almost three percentage points higher than it was five years ago, when the effect was only (0.9%).

Net Management Effects



Portfolio Performance YTD



Technical Indicators

Although the AIM portfolio has struggled to generate alpha in the past (5 – yr down (0.14%)), this past year the portfolio returned a positive alpha of 0.11%. Furthermore, the beta of the portfolio is at a five-year low of 1.01. Thus, the AIM portfolio is essentially exhibiting the same systematic risk and volatility of the market. This is noticeably lower than the beta of the portfolio over the last five years, which has averaged 1.07. Similarly, both the Sharpe ratio and the Treynor ratio reflect the robust performance over the last year, as they are both at five-year highs for the portfolio.

Stock Performance (YTD)

Five Best Performing Stocks

Cleveland Cliffs	69%
Palo Alto Networks	58%
Microsoft	34%
Thermo Fisher Scientific	28%
Activision	27%

Five Worst Performing Stocks

Kraft Heinz	(27%)
Dollar Tree	(21%)
Arconic	(16%)
Facebook	(8%)
Kinder Morgan	0%

Healthcare Update

During September, the AIM portfolio was forced to sell three healthcare stocks: Biogen, Thermo Fisher, and United Health Group. These stocks failed to pass a recent University investment screen and were now judged to be operating in a manner that conflicted with the teachings of the Catholic Church. The proceeds from the sale were used to purchase shares in the SPY ETF and will be re-deployed in the second round.

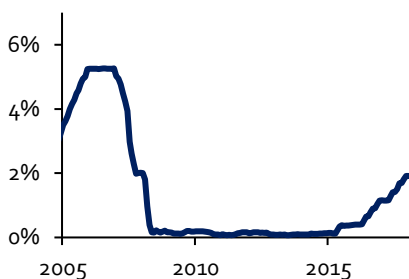
MACROECONOMIC INDICATORS

State of the Economy

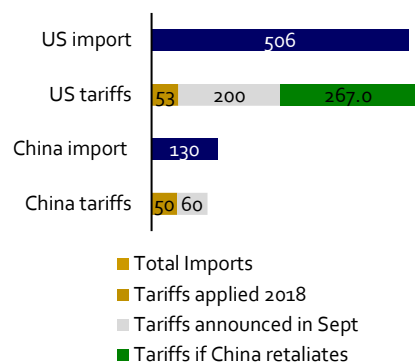
Interest Rate Hikes

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

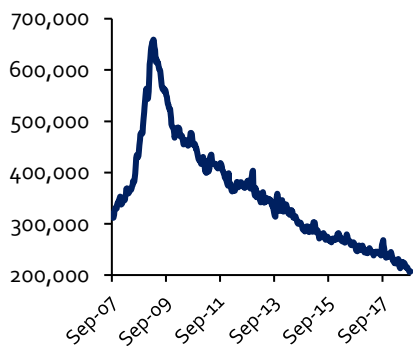
Historical Fed Funds Rate



US-China Tariffs & Imports (2018)



Jobless Claims¹



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

Escalating Trade War

On September 17th, President Trump announced \$200 billion in additional tariffs on Chinese imports, starting at a tariff rate of 10 percent before climbing to 25 percent on January 1st, 2019. Furthermore, President Trump also promised to impose another \$267 billion in tariffs on China, should the Chinese administration retaliate to the US new trade policy. As China responded with \$60 billion in tariffs on US imports the following day, economists in both countries warned about the significant negative impact that the prolonged trade war have on the world's two largest economies.

Unemployment

The Bureau of Labor released the September unemployment rate which fell to 3.7%, the lowest since December 1969. The initial jobless claims also fell to a seasonally adjusted 201,000 in mid-September, which is also the lowest level in 49 years. Employers added 134,000 jobs to payrolls, a record 96th straight month of gains. Wages rose 2.8% from a year earlier, a modest but still important relative increase.

Bonds Yields and Interest Rates

With these strong economic indicators, the fixed income market saw the largest increase in bond yields as 10-year treasury yield rose to 3.23% on Oct. 5th, the highest level since May 2011. This surge in yields was largely attributed to the expectation of continued short-term interest rate hikes by the Fed looking forward.

As widely anticipated, the Fed raised interest rate to a range of 2% to 2.25% after the September meeting, amid low unemployment, optimal inflation around

the 2 percent pace and strong overall economic growth. The Fed Chair Jerome H. Powell emphasized that the rate hike was not intended to get in the way of continued growth, citing the economist's growth prediction this year that could top 3%. As for future rate hike expectations, it is highly likely to see the fourth rate hike this year in December, with the Fed signaling three rate increases in 2019 and one in 2020.

Commodity Prices

Commodity prices have continued to strengthen after hitting bottom in January of 2016. This is mainly due to steadily growing demand, agreed production cuts from major oil exporters, and stabilizing U.S. oil production. In particular, the portfolio's investment in Kinder Morgan is poised to benefit nicely from these macroeconomic tailwinds, as they own the largest pipeline in North America. While general portfolio exposure to the energy and utilities industries is low, a number of students have expressed interest in pitching such stocks for the second half of the semester.

Crude Oil Prices (WTI)



Portfolio Composition

The intent is to maintain a portfolio that has 25 equally-weighted positions. Note, the two Alphabet stocks (GOOG and GOOGL) are considered singular and have been held in the portfolio since before the share split. Additionally, the portfolio is currently invested in 22 stocks due to the recent sell-off in healthcare stocks.

Company Name	Ticker	Price per Share (Oct. 9, 2018)	Position Value	Portfolio Weight
Apollo Global Management	APO	\$32.85	\$622,377	4.1%
Arconic Inc	ARNC	\$22.84	\$558,792	3.7%
Activision Blizzard Inc	ATVI	\$77.64	\$683,144	4.5%
Cleveland-Cliffs Inc	CLF	\$12.26	\$876,680	5.8%
Comerica Inc	CMA	\$91.92	\$508,695	3.4%
The Walt Disney Co	DIS	\$116.89	\$606,785	4.0%
Dollar Tree Inc	DLTR	\$82.86	\$449,249	3.0%
Exelon Corp	EXC	\$44.02	\$594,135	3.9%
Facebook Inc	FB	\$157.90	\$478,040	3.2%
Alphabet Inc - Class C	GOOG	\$1,138.82	\$390,650	2.6%
Alphabet Inc - Class A	GOOGL	\$1,145.17	\$196,506	1.3%
Intercontinental Exchange Inc	ICE	\$76.04	\$578,165	3.8%
The Kraft Heinz Co	KHC	\$56.07	\$530,658	3.5%
Kinder Morgan Inc	KMI	\$18.57	\$531,186	3.5%
Lockheed Martin Corp	LMT	\$347.31	\$561,638	3.7%
Microsoft Corp	MSFT	\$112.26	\$714,983	4.7%
Palo Alto Networks Inc	PANW	\$212.32	\$673,245	4.4%
Paypal Holdings Inc	PYPL	\$80.03	\$525,992	3.5%
Ritchie Bros Auctioneers Inc	RBA	\$34.84	\$671,110	4.4%
Stryker Corp	SYK	\$176.08	\$574,000	3.8%
Trupanion Inc	TRUP	\$30.37	\$510,380	3.4%
Total System Services Inc	TSS	\$95.31	\$658,814	4.3%
Waste Management Inc	WM	\$91.27	\$591,629	3.9%
S&P 500 Index	SPY	\$287.40	\$2,014,740	13.3%
Cash			\$63,017	0.4%
Total AIM Portfolio			\$15,164,607	100.0%

NDIGI Interview



Erin Bellissimo
Managing Director
Notre Dame Institute for Global Investing

Previously, you ran Columbia's value investing program. What made you switch to Notre Dame?

There is something special about the unique combination of Notre Dame's strong academics and the high-integrity approach that ND emphasizes at the undergraduate level, which I believe is becoming increasingly important. The University also has a long-term view and partnership environment that is attractive. I was on the human capital side of the hedge fund industry, where I was fortunate enough to get to know the team at ND's Investment Office, and learn about the opportunity to join the undergraduate learning and development experience.

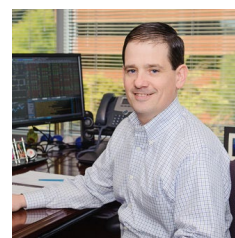
How do you see the Notre Dame Institute for Global Investing growing in the next few years and what is your long-term vision for the program?

Over the next few years, we hope to become more collaborative with the faculty and create more experiential learning opportunities in the classroom. We are also hoping to integrate more diversity into the field, whether that is through programs like Girls Who Invest, or introducing more non-finance and non-business majors to investing classes. Long-term, we would love to have more opportunities for our students to learn in different environments, similar to the study abroad programs in California or Washington D.C. Whether it be domestic or abroad, we hope to get our students more exposure to the professional environment to aid in their development and discernment.

Do you have any advice for seniors starting their professional careers after graduation?

You should have a strong self-awareness of who you are, what you are good at, and what you enjoy doing. It is imperative that you find work that excites you and you find interesting; it is easy to follow the path that your peers take, but if you're able to find opportunities that you are passionate about you will have a more successful and enjoyable career.

Alumni Interview



Dominic Marshall
Senior Portfolio Manager at Pacific Ridge Capital Partners
AIM VI, MBA Class of 1998

What has been your career path since AIM?

Through a few different ownership structures, I have been with the same great small team of investors who manages long-only, small- and micro-cap assets primarily on behalf of institutional clients. I co-founded the current firm, Pacific Ridge Capital Partners, in 2010. We manage roughly \$400 million in assets between our Micro Cap Value and Small Cap Value strategies, for which I serve as co-Senior Portfolio Manager for both. Performance in our Micro Cap Value strategy has been particularly strong, up 17.8% (annualized gross-of-fees) on a trailing 10-year basis (going back to a predecessor firm) through 3Q18, compared to 10.1% for the Russell Microcap Value Index over the same time period.

What is your best piece of advice given your career experience?

Two small ones: a) if you want to be in investment management, get involved in the CFA program ASAP; and b) try to start your career with a job (or two or three) that gives you as broad of exposure as possible into the area(s) of Investments you think you might be interested in pursuing (try not to specialize too soon).

What current stock within the AIM portfolio is the most intriguing to you and why?

What strikes me is that I only noticed one stock with a market capitalization below \$1 billion (TRUP – which on the surface appears to have a lofty valuation), and maybe only a few below even \$10 billion. What excites me as an investor is finding smaller companies that are misunderstood and undervalued, and with the potential to lead to outsized returns. I'd challenge the current group of AIM analysts to find a few of those to sprinkle into the portfolio.

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

I inherited Medtronic (MDT). I recall being lukewarm on it, and the stock went sideways for most of the next decade. Then I think I found a small-cap temporary staffing company as my second stock, but the name escapes me. I believe it was acquired somewhere along the way.

Class XLVII Profile

AIM Newsletter

University of Notre Dame, Mendoza College of Business

Analyst	First Stock	Ticker	Sector	Market Cap	Internship
Ben Bogart	Stryker Corp	SYK	Health Care	Large Cap	Houlihan Lokey
Liam Bryson	Facebook Inc	FB	Technology	Large Cap	Golden Gate Capital
Nick Bufalino	Trupanion Inc	TRUP	Financial Services	Small Cap	Deutsche Bank
Caleb Chamberlain	Arconic Inc	ARNC	Producer Durables (Industrials)	Large Cap	JP Morgan
Emmet Coyle	Kinder Morgan Inc	KMI	Energy	Large Cap	JP Morgan
Ethan Donnelly	Waste Management Inc	WM	Producer Durables (Industrials)	Large Cap	JP Morgan
Matt Ebertin	Ritchie Bros Auctioneers Inc	RBA	Producer Durables (Industrials)	Mid Cap	Petsky Prunier
Emily Feczko	Alphabet Inc	GOOG	Technology	Large Cap	Morgan Stanley
Jared Hendrick	Dollar Tree Inc	DLTR	Consumer Discretionary	Large Cap	JP Morgan
Charlie Hughes	Apollo Global Management	APO	Financial Services	Large Cap	Credit Suisse
Greg Kaniecki	Intercontinental Exchange Inc	ICE	Financial Services	Large Cap	Houlihan Lokey
Peter Loughran	Microsoft Corp	MSFT	Technology	Large Cap	Brown Advisory
Kevin Marks	Unitedhealth Group Inc	UNH	Health Care	Large Cap	Golden Gate Capital
Niko Martinovic	Comerica Inc	CMA	Financial Services	Large Cap	Goldman Sachs
John Mullen	The Walt Disney Co	DIS	Consumer Discretionary	Large Cap	Credit Suisse
Griffin Over	Total System Services Inc	TSS	Financial Services	Large Cap	Greentech Capital Advisors
Chris Page	Cleveland-Cliffs Inc	CLF	Materials & Processing	Mid Cap	Lincoln International
Zach Prephan	Paypal Holdings Inc	PYPL	Financial Services	Large Cap	JP Morgan
William Schipke	The Kraft Heinz Co	KHC	Consumer Staples	Large Cap	GCM Grosvenor
Gary Schorr	Biogen	BIIB	Health Care	Large Cap	Blackstone
Chris Skomra	Exelon Corp	EXC	Utilities	Large Cap	Lazard
Francesca Ventura	Lockheed Martin Corp	LMT	Producer Durables (Industrials)	Large Cap	Goldman Sachs
Richard Xiong	Palo Alto Networks Inc	PANW	Technology	Large Cap	JP Morgan