



LEGENDARY ADVANTAGE

AIM Newsletter

Q1 2019

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Welcome

As the AIM class XLVIII approaches the midpoint of the semester, 6 undergraduate and 14 graduate analysts have completed their first-round valuation reports on existing portfolio holdings under the guidance of Professor Shane Corwin and the assistance of Bill MacDonald. In the coming weeks, analysts will research prospective additions to the portfolio and perform a second round of valuations.

Guest Speakers

On Friday, January 18th Kristen Collett-Schmitt of the Mendoza College of Business gave the AIM class a lecture about the macroeconomic environment. Based on her lecture, analysts will closely monitor the ongoing trade war and discussions between the US and China and keep tabs on the Federal Reserve's outlook regarding raising interest rates as the class moves towards the final portfolio decisions at the end of the semester.

Investment Objectives

- **Primary:** Outperform the S&P 500 while maintaining purchasing power of the principal over the long term | +11.2% (YTD)
- **Primary:** Make well researched buying and selling decisions; contributing to the growth of the portfolio's value for the use of future classes

- **Secondary:** Outperform the Russell 2000 | +16.5% (YTD)
- **Secondary:** Outperform HBI (the Hank Blended Index – 65% S&P 500 + 35% Russell 2000) | +13.1% (YTD)
- Maintain Principal | + \$2.2 mm (YTD)

Investment Policies

- Liquidity (Common Equities traded on major U.S. Exchanges)
- 3-5 Year Time Horizon (Long-Term, given that we are managing a portion of an endowment)
- Following all Laws and Regulations (Investing with the care, skill, prudence, diligence, under the circumstances then prevailing)

Policies and Guidelines

- Target to match the composition of the S&P 500
- 35% in Small & Mid-Cap Stocks; 65% in Large Cap Stocks
- No Single Equity Cap > 10%
- Cash Holding Close to Zero
- Portfolio will not invest in any company whose values are inimical with those of the University of Notre Dame or in the stocks of companies related to abortifacients, birth control, or tobacco

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What Else Around Mendoza?

Structures of Debt

Katie DellaMaria, Portfolio Manager, Fixed Income
BMO Global Asset Management



On February 5th, Katie DellaMaria spoke to Mendoza students about managing fixed income portfolios. During her talk, Katie gave a high-level overview of debt, from basic fundamentals to more abstract theories about debt portfolio management. She also spoke about her journey in the financial industry, starting at JP Morgan and moving to Nuveen Investments and PIMCO. Katie provided interesting perspective being a woman in a very male-dominated area of the financial industry. She is also a CFA holder and spoke to the audience on the benefits of obtaining the certification. Katie is a great example of the diversity in industry expertise and perspective that Notre Dame is able to bring back to Mendoza.

Fireside Chat Featuring Jimmy Dunne

Senior Managing Principal, Sandler O'Neill and Partners



On January 29th, Mr. Dunne offered his perspective on life, business, and leadership to a full house in Jordan

Auditorium. Mr. Dunne covered the thrill of how he and his partners secured their first major advisory transaction for the firm and their clients, then held nothing back when talking about what the moments were like surrounding the 9/11 tragedy that impacted Sandler O'Neill and the rest of the world. He offered his opinion to students about striving for the highest excellence and embracing the mistakes that come along the way. Although most of the night featured stories of building a highly successful firm, dealing with seemingly insurmountable adversity, discussing financial markets, and dishing out career advice to students, Mr. Dunne's stories with the game of golf became an audience favorite, none more than the 2018 Golf Channel interview between Mr. Dunne and Mike Tirico.

What's Next?

Women's Investing Summit

Date: March 22nd (All Day)

Life of a Hedge Fund

Date: April 9th

A Polar Vortex and Campus Shutdown

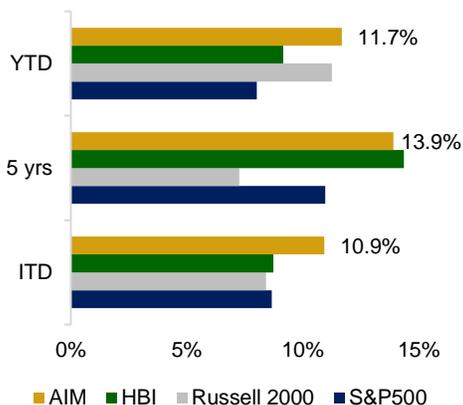


In a very rare occurrence, the Notre Dame campus was closed for a day and a half while temperatures in the area plummeted close to -50° (including wind chill), advancing the city's winter status from the usual permacloud into a genuine frozen tundra. The air temperature of -20° actually set a daily record low on Wednesday, the 31st of January. This was only 2° shy of the all-time -22° ever recorded for the campus. Well prepared, students were able to hunker down in their homes, most likely taking the unusual day off to study.

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). Over the last five years, the AIM portfolio has outperformed the Russell 2000 Index and underperformed the S&P500 and HBI Indices. Year-to-date as well as since inception, the portfolio has experienced strong performance and outperformed all three benchmarks.



Portfolio Attribution

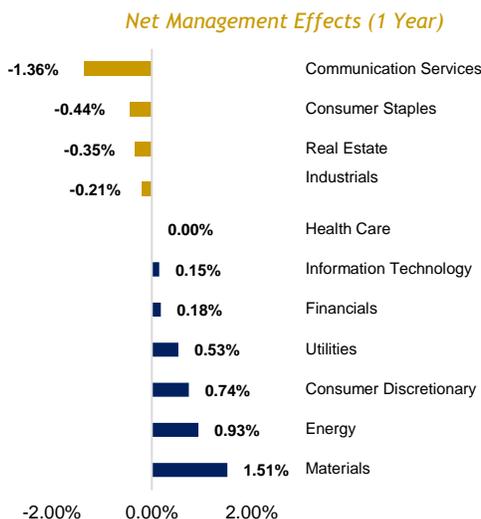
The current AIM portfolio is relatively underweight the following sectors compared to the S&P 500: Information Technology, Healthcare, Energy, and Financials. In addition, the portfolio is relatively overweight in the Materials and Industrials sectors. Although matching the S&P composition is a target rather than a mandate, the class partially focuses on selecting stocks in certain sectors in round two to better balance the portfolio. In particular, we have identified an underweight to Healthcare and an overweight to Materials and Industrials as primary sector reallocation opportunities.

Sector	# of Round 2 Stocks
Consumer Cyclical	4
Healthcare	4
Financial Services	3
Communication Services	2
Industrials	2
Energy	2
Technology	1
Consumer Staples	1
Utilities	1

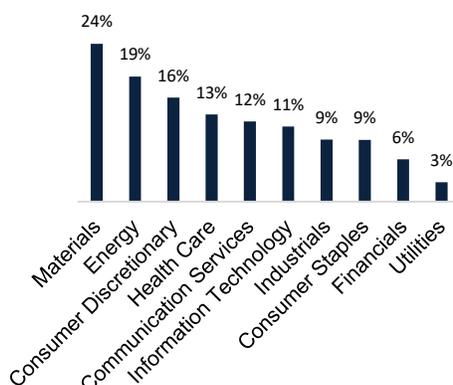
	AIM	S&P 500	Differential
Technology	17.8%	20.1%	(2.2%)
Industrials	15.9%	9.2%	6.7%
Financials	12.6%	13.3%	(0.6%)
Communication Services	12.2%	10.1%	2.0%
Consumer Discretionary	11.7%	9.9%	1.8%
Consumer Staples	8.1%	7.4%	0.7%
Materials	7.6%	2.7%	4.8%
Utilities	4.4%	3.3%	1.1%
Health Care	4.0%	15.5%	(11.4%)
Energy	3.8%	5.3%	(1.4%)
Real Estate	-	2.9%	(2.9%)

Sector Updates

The net management effect has continued to increase over the past year. YTD the net management effect has been 3.67%. Over the past one year and five years the effect has been 2.11% and (1.90%), respectively.



Portfolio Performance YTD



Technical Indicators

Over the past five years, the AIM portfolio's beta has increased from 0.94 in January 2014 to 1.12 in January 2019. Despite this increase in systematic risk, the AIM portfolio's alpha has decreased from 0.36% in January 2014 to -0.23% in January 2019. Over the past year, the AIM portfolio's Sharpe Ratio is -0.01, while the S&P 500's Share Ratio is -0.06. However, when looking over the long term (past five years), the AIM portfolio's Sharpe Ratio is 0.19 while the S&P 500's Share Ratio is 0.27.

Stock Performance (YTD)

Five Best Performing Stocks	
Boyd Gaming	+45%
Crown Holdings	+33%
Compass Minerals	+30%
Micron Technology	+30%
Palo Alto Networks	+27%

Five Worst Performing Stocks	
XPO Logistics	-11%
Activision Blizzard	-10%
Intercontinental Exchange	+0%
Constellation Brands	+2%
Alphabet Inc.	+6%

Active Share Analysis

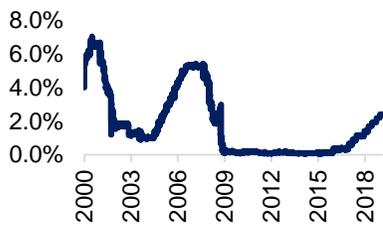
Upon review of the portfolio, we have identified that the AIM portfolio has higher Active Share versus the HBI index. The Active Share is 92.82%, and the very high percentage represents little overlap with the portfolio benchmark. The total overlap of the AIM portfolio with the HBI is 7.18%. The shares with most overlap to the benchmark weighting for AIM vs. the HBI include Facebook (4.6% vs 1.2%), Google (4.1% vs 1.8%) and Microsoft (4.5% vs 2.3%). For active managers, a high active share (low overlap with the benchmark) is expected, as the goal of active management is to find stocks that will outperform the market. Holding mostly stocks that are included in the benchmark will cause our portfolio performance to follow the market, rather than beat it.

State of the Economy

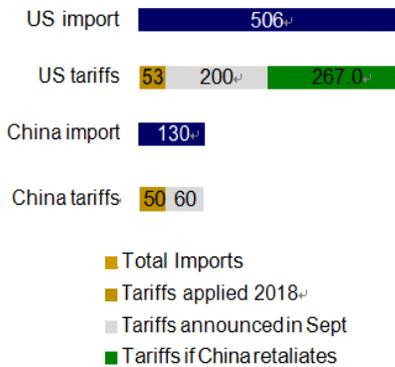
Interest Rate Hikes

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
Dec. 2018	25	2.25-2.50

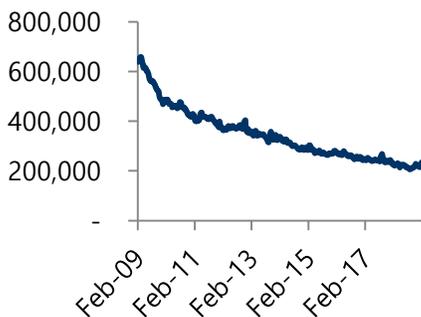
Historical Fed Funds Rate



US-China Tariffs/Imports (2018)



Jobless Claims¹



Note: 14-week moving average of Initial Jobless Claims as of Feb. 16, 2019

Extended Tariff-Hike Deadline

On February 24th, President Trump tweeted that the U.S. has made “substantial” progress in trade talks with China, and therefore will delay a tariff rate increase to 25% on \$200 billion worth of Chinese goods. On February 25th, President Trump tweeted that the “trade deal (and more) is in advanced stages,” increasing the odds of a trade deal; however, it is yet to be seen how much of the structural issues, such as intellectual property, technology transfer, and government subsidies, will be dealt with and be enforceable.

Unemployment

The Bureau of Labor released the January unemployment rate which slightly increased to 4.0%. The initial jobless claims in February fell to a seasonally adjusted 235,750, which is still very low compared to historical periods. In January, employers added 150,574 jobs to payrolls, a record 100th straight month of gains. Wages rose 4.2% from the year-earlier period, indicating continued strong labor market conditions.

Bonds Yields and Interest Rates

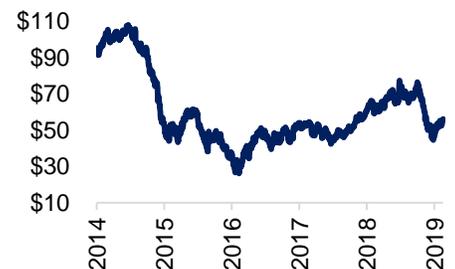
After Jerome Powell’s seemingly dovish comments regarding monetary policy on Feb. 26th, treasury prices rose and yields were pushed lower, with the 10-year Treasury note yield falling to 2.646% and the 30-year Treasury bond yield falling to 3.020%. Powell stated, “While we view current economic conditions as healthy and the economic outlook as favorable, over the past few months we have seen some crosscurrents and conflicting signals.”

Fed minutes showed that many risks the central bank had identified in the recent past are materializing, which signals that the next move in interest rates is probably down, not up. The fed is expected to exercise caution going forward, and it is not anticipated that we’ll see any rate hikes in the near future. The most recent hike came on December 19, 2018 when the FOMC voted to raise the target range for the fed funds rate to 2.25% - 2.50%.

Commodity Prices

Commodity prices have shown positive growth in 2019, with the Dow Jones Commodity Index growing 6.99% YTD. Additionally, oil prices are up 20.82% YTD, however the price of a barrel of WTI oil remains far below the four-year high of \$76.40/b obtained on October 3, 2018. In the past few weeks, oil futures have steadied on signs that OPEC plans to maintain production cuts despite Trump’s claim that oil prices are too high. The portfolio continues to hold Kinder Morgan as the only stock in the energy sector, however two additional energy companies (Exxon Mobil Corp. and Diamondback Energy, Inc.) will be pitched in the coming weeks.

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. The portfolio is currently invested in 24 stocks and is still looking for the right opportunity to gain more exposure within the healthcare industry after selling three positions during 2018.

Company Name	Ticker	Price per Share (2/26/2019)	Position Value	Portfolio Weight
A. O. Smith Corporation	AOS	\$52.92	\$668,803	4.60%
Activision Blizzard Inc	ATVI	\$42.18	\$447,361	3.10%
Alphabet Inc	GOOGL	\$1,125.97	\$201,549	1.40%
Alphabet Inc	GOOG	\$1,119.08	\$380,487	2.60%
Booking Holdings Inc	BKNG	\$1,911.58	\$590,678	4.00%
Boyd Gaming Corp	BYD	\$31.17	\$723,830	5.00%
Comerica Inc	CMA	\$86.57	\$585,559	4.00%
Compass Minerals International, Inc.	CMP	\$53.34	\$604,342	4.10%
Constellation Brands, Inc.	STZ	\$169.55	\$501,868	3.40%
Crown Holdings, Inc.	CCK	\$54.80	\$647,626	4.40%
Darling Ingredients Inc.	DAR	\$21.74	\$625,960	4.30%
Facebook Inc	FB	\$165.61	\$648,363	4.40%
Intercontinental Exchange Inc.	ICE	\$75.39	\$578,241	4.00%
Kinder Morgan Inc	KMI	\$19.24	\$611,736	4.20%
Lockheed Martin Corp	LMT	\$306.95	\$557,421	3.80%
Micron Technology, Inc.	MU	\$43.00	\$642,807	4.40%
Microsoft Corp	MSFT	\$112.61	\$674,534	4.60%
NextEra Energy, Inc.	NEE	\$188.83	\$615,963	4.20%
Palo Alto Networks Inc	PANW	\$234.72	\$763,779	5.20%
Stryker Corp	SYK	\$185.62	\$608,834	4.20%
Target Corp	TGT	\$72.54	\$524,972	3.60%
Total System Services Inc	TSS	\$93.55	\$649,237	4.40%
Trupanion Inc	TRUP	\$29.68	\$651,802	4.50%
Waste Management Inc	WM	\$99.29	\$646,378	4.40%
XPO Logistics, Inc.	XPO	\$50.26	\$372,728	2.60%
Cash			\$67,829	0.50%
Total AIM Portfolio			\$14,592,689	100%

Class XLVII Profile

AIM Newsletter
University of Notre Dame, Mendoza College of Business

Analyst	First Round Stock	Ticker	Sector	Market Cap	Future Employment/Internship
Lorenzo Beer	Target Corp.	TGT	Consumer Discretionary	Large-Cap	Goldman Sachs
Chris Boyd	Compass Mineral International, Inc.	CMP	Materials	Small-Cap	AEA Investors, Ottawa Avenue Private Capital
Sam Chen	Booking Holdings Inc.	BKNG	Consumer Discretionary	Large-Cap	Houlihan Lockey
Ellie Daum	Palo Alto Networks Inc.	PANW	Information Technology	Large-Cap	Barclays
Sean Dedrick	Boyd Gaming Corp.	BYD	Consumer Discretionary	Mid-Cap	Bank of America
Elena DeVoe	Stryker Corp.	SYK	Health Care	Large-Cap	Guggenheim Partners
Andrew Engvall	Crown Holdings, Inc.	CCK	Materials	Mid-Cap	Undecided
Louie Filipiak	A.O. Smith Corporation	AOS	Industrials	Mid-Cap	University of Toledo College of Medicine
Brett Hartig	Kinder Morgan Inc.	KMI	Energy	Large-Cap	Simmons & Company
James Hughes	Intercontinental Exchange Inc.	ICE	Financials	Large-Cap	IBM
Donald Lee	Darling Ingredients Inc.	DAR	Consumer Staples	Mid-Cap	Undecided
Erin Martinez	Total System Services Inc.	TSS	Information Technology	Large-Cap	JP Morgan
Ryan Payne	Facebook Inc.	FB	Communication Services	Large-Cap	UBS
Wyatt Perry	Lockheed Martin Corp.	LMT	Industrials	Large-Cap	ExxonMobil
Josh Scoresby	Micron Technology, Inc.	MU	Information Technology	Large-Cap	UBS
Yi Sun	Comerica Inc.	CMA	Financials	Large-Cap	Undecided
Agustin Taussig	Alphabet Inc.	GOOG	Communication Services	Large-Cap	JP Morgan
Jacobo Tefel Urcuyo	Microsoft Corp.	MSFT	Information Technology	Large-Cap	Fogel Group
James Timko	Waste Management Inc.	WM	Industrials	Large-Cap	SVB Leerink
Shannon Walsh	XPO Logistics, Inc.	XPO	Industrials	Large-Cap	R.W. Baird