



Q2' 2019

In This Issue

Welcome

As AIM class XLVIII approaches the end of the semester, 6 undergraduate and 14 graduate analysts have voted from 40 stocks to select 25 for the next class. Under the guidance of Professors Shane Corwin and Bill McDonald, analysts have performed due diligence on the 25 inherited stocks and 15 potential new additions. Out of the 25 stocks in the new portfolio, 17 are existing stocks, while 8 are new additions. On April 29th, analysts presented their findings and discoveries to the advisory board.

Investment Objectives

→ **Primary:** Outperform the S&P 500 while maintaining purchasing power of the principal over the long term | +15.8% (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 | +17.0%(YTD)

→ **Secondary:** Outperform HBI (the Hank Blended Index – 65% S&P 500 + 35% Russell 2000) | +16.2% (YTD)



Investment Policies & Guidelines

→3-5 Year Time Horizon (Long-Term, given that we are managing a portion of an endowment)

→Invest in U.S. common equities

→Target to match the industry 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.

Recent Campus News

Page 2

AIM Analyst Chicago Trip

Page 3

Portfolio Performance

Page 4

Economic Update

Page 7

AIM Interviews

Page 8

Updated Portfolio Composition

Page 11

Class Profile

Page 12





Campus News

Notre Dame Appoints Martijn Cremers as Dean of Mendoza



University of Notre Dame President Rev. John I. Jenkins, C.S.C. announced that K.J. Martijn Cremers has been appointed Martin J. Gillen Dean of the Mendoza College of Business, effective July 1. Cremers, the Bernard J. Hank Professor of Finance, has been a member of the Notre Dame faculty since 2012 and has been acting as interim dean of the college since July. An expert in the empirical aspects of investing and corporate governance, Cremers has been published in the *Journal of Finance*, *Review of Financial Studies*, *Journal of Financial Economics*, *Stanford Law Review* and *Northwestern Law Review*. Cremers' study titled "How Active is Your Fund Manager? A New Measure that Predicts Performance," which was published in the *Review of Financial Studies*, introduced a new measure of active management called "Active Share," which is based on a comparison of the holdings of a fund with those of its benchmark. Since the study's publication, Active Share has been widely adopted in the financial industry and has been incorporated into several discussions of the AIM portfolio.

Notre Dame Hosts Inaugural Women's Investing Summit

On March 22, the Notre Dame Institute for Global Investing hosted the Women's Investing Summit, an all-day event aimed at cultivating an informed, active, supportive community of female financial professionals. The Women's Investing Summit was conceived from the officers of multiple student-run Notre Dame organizations that share a desire to unite the diverse talents of their respective group members and address the needs of the female investment community. The event featured female executive panelists from a broad set of firms such as Goldman Sachs, The Carlyle Group, Lone Pine Capital, Golden Gate Capital, William Blair, Longview Asset Management, Girls Who Invest, and many more. Topics covered by the panelists included (1) Maximizing Returns – Investment Opportunities Today, (2) Asset Allocation – Portfolio Weightings for Today's Market, (3) Investment Industry Trends in a Global World, (4) Buy Side Insights - Navigating the Nuances of PE and Real Estate. The morning keynote address was a comprehensive market outlook provided by Katie Koch, Global Head of Client Portfolio Management and Business Strategy at Goldman Sachs. A unique luncheon address titled "Investing in Yourself - Managing a Career for Personal Success" was provided by Kate Sullivan, Emmy Award Winning Journalist and host of *To Dine For with Kate Sullivan*. The eventful day closed out with a keynote address from Cathy Saunders, Global Head of Client Engagement at Putnam Investments, titled "Creating Your Own Bull Market - Investing, Leadership and Lessons Learned" and closing remarks provided by our very own Professor Shane Corwin.



AIM Analyst Chicago Trip

Thursday, March 28th – Friday, March 29th



Notre Dame hosted the second AIM student meeting at the University's Railway exchange building this semester. The AIM class first met with Jeff Hojnacki, a Managing Director at **Magnetar Capital**. Magnetar Capital is a hedge fund based in Evanston, IL. The firm was founded by Alec Litowitz (formerly of Citadel) and Ross Laser (formerly of Glenwood Capital Partners). Currently, Magnetar has \$13.2 billion AUM deployed across a variety of strategies. Jeff walked the class through some of the firm's single strategy vehicles as well as those related to merger arbitrage that have been deployed in the past. The discussion also focused specifically on the firm's investment interests within the Energy and Healthcare space and touched on the current views of portfolio managers regarding returns in these sectors.

Second, on the trip was **Gate City Capital Management**. The class met with Mike Melby the founder and portfolio manager for Gate City Capital. He discussed how his strategy focuses on constructing a concentrated portfolio of undervalued micro-cap companies for his investors. As he has done in presentations prior, Mike started with a stock picking exercise. He initially selected a stock utilizing a newspaper and dart board and then asked each student to select a stock that he or she believes will outperform over the next 12-months. Mike presented two case studies to the students related to current fund holdings and his belief on why they are currently undervalued by the market. He also discussed his approach to visiting the management of potential investments throughout the United States and the value that this brings to his decision-making process. Mike focused on the competitive advantage of investing in deep value micro-cap stocks and the benefits of a concentrated portfolio approach.

Harris Associates hosted the AIM students at their office on Wacker Drive for a working lunch. The meeting was hosted by Alex Fitch, Director of U.S. Research. Harris Associates was founded in 1976 and focuses on value investing. The firm seeks out companies that they believe are trading at significant discounts to underlying value. These businesses must offer significant profit potential and be run by managers who think and act like owners. Currently, the firm manages \$107 billion for a wide range of clients. Alex gave an overview of Harris Associates' unique perspective on what it means to be a value investor and the process that the firm goes through when selecting an investment. He also went around the room and asked each student about the stock they were covering and gave insight regarding his views. Alex also covered how some traditional measures of company value such as P/E multiples can sometimes be misunderstood and utilized a current investment as an example.

The final presentation was given by Brad Couri at **CFI Partner's** offices on Wacker Drive. CFI Partners is a credit-focused investment management firm founded in 2005. The firm was founded by Brad Couri and Levoyd Robinson, who build out the fundamental business platform together at Citadel. The CFI team has actively allocated to the leveraged loan space for over 20 years and currently manages over \$2.1 billion in client assets. Brad gave the students an overview of his career path and how he initially became a credit investor. He also provided career advice to the students and highlighted some of his beliefs about conducting business. The presentation also covered how the leveraged loan market works and some of the strategies that are currently being deployed by CFI partners. Another highlight of the presentation was a discussion of the strategic partnership that CFI has with the Academy Group, a Chicago based philanthropic entity. The Academy Group currently owns a minority interest in CFI and focuses on serving the youth of underprivileged communities in the Chicago area. Brad focused on how with success it is imperative to give back and make a difference in other people's lives.

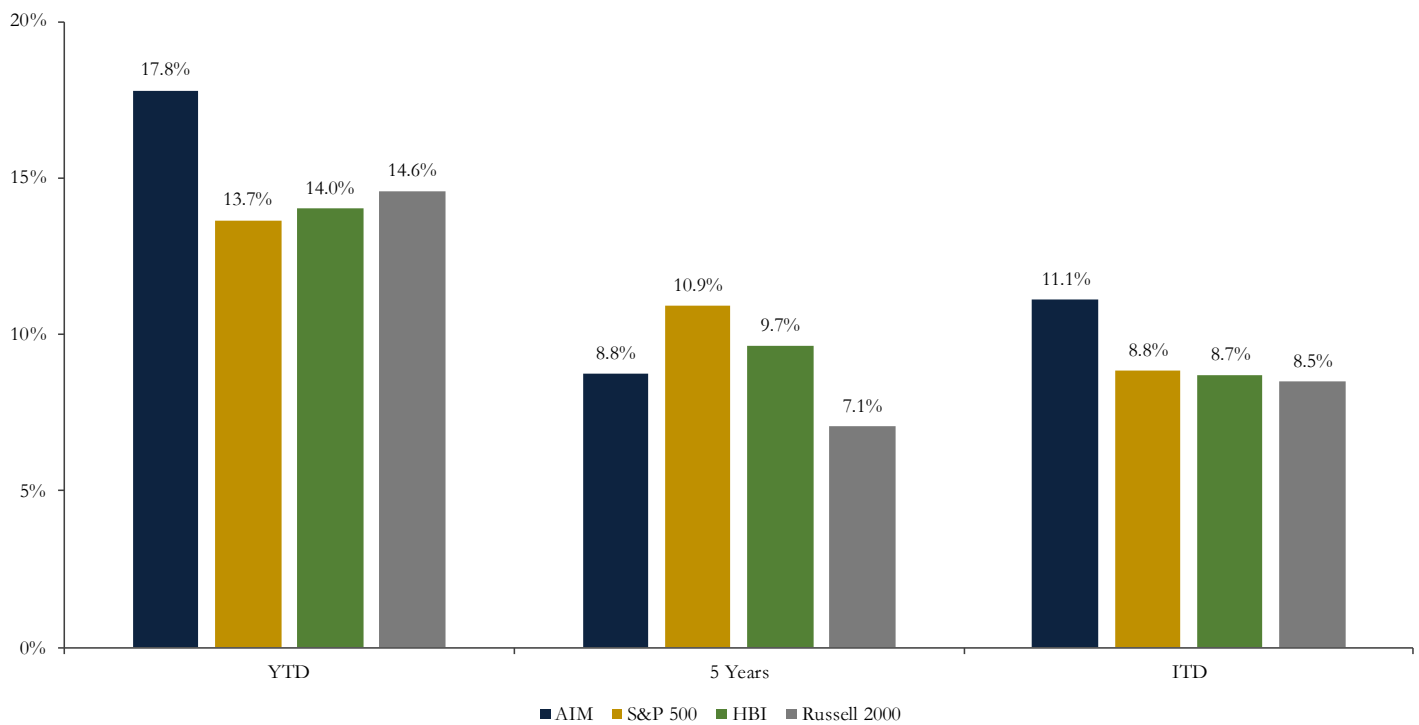


HARRIS ASSOCIATES



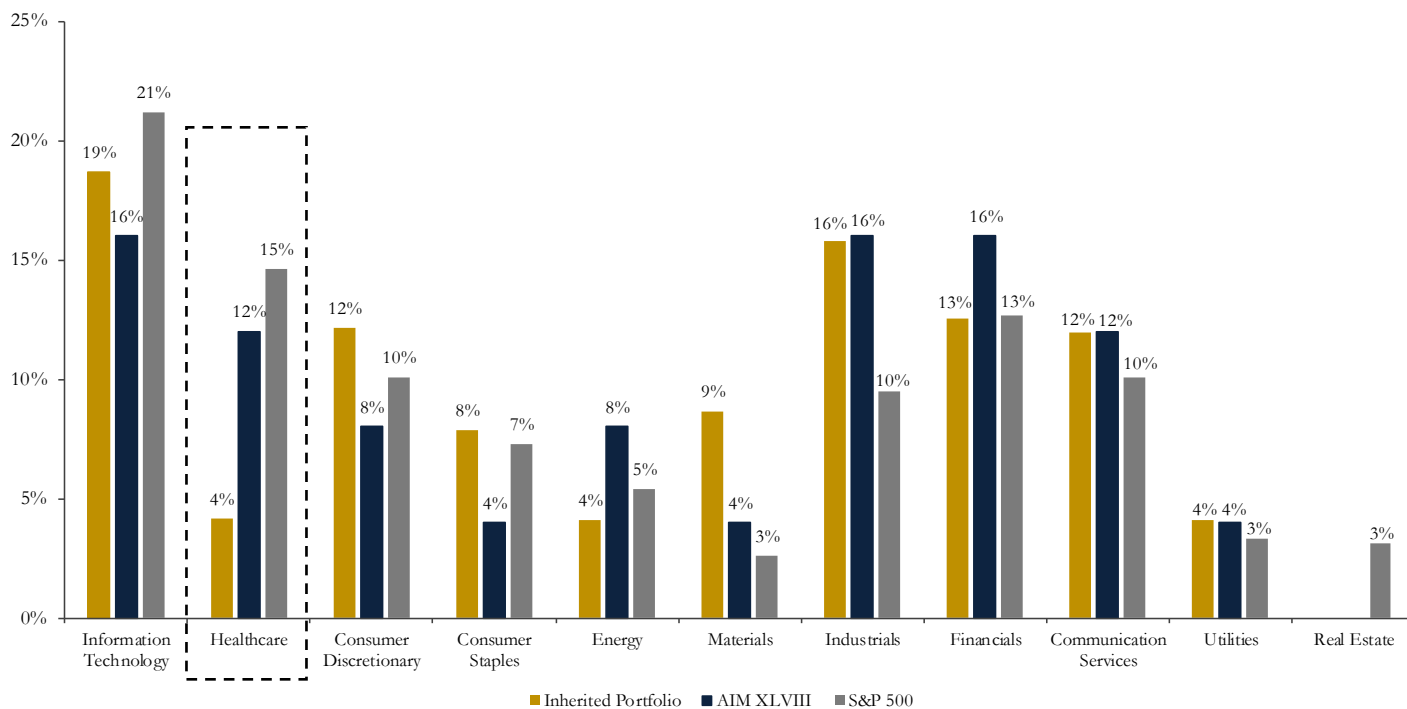


Benchmark Comparison



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). As of 3/31 2019, the AIM portfolio has underperformed the S&P 500 and HBI Indices over the past five years. However, the portfolio outperformed all three benchmarks year-to-date as well as since inception.

Sector Allocation



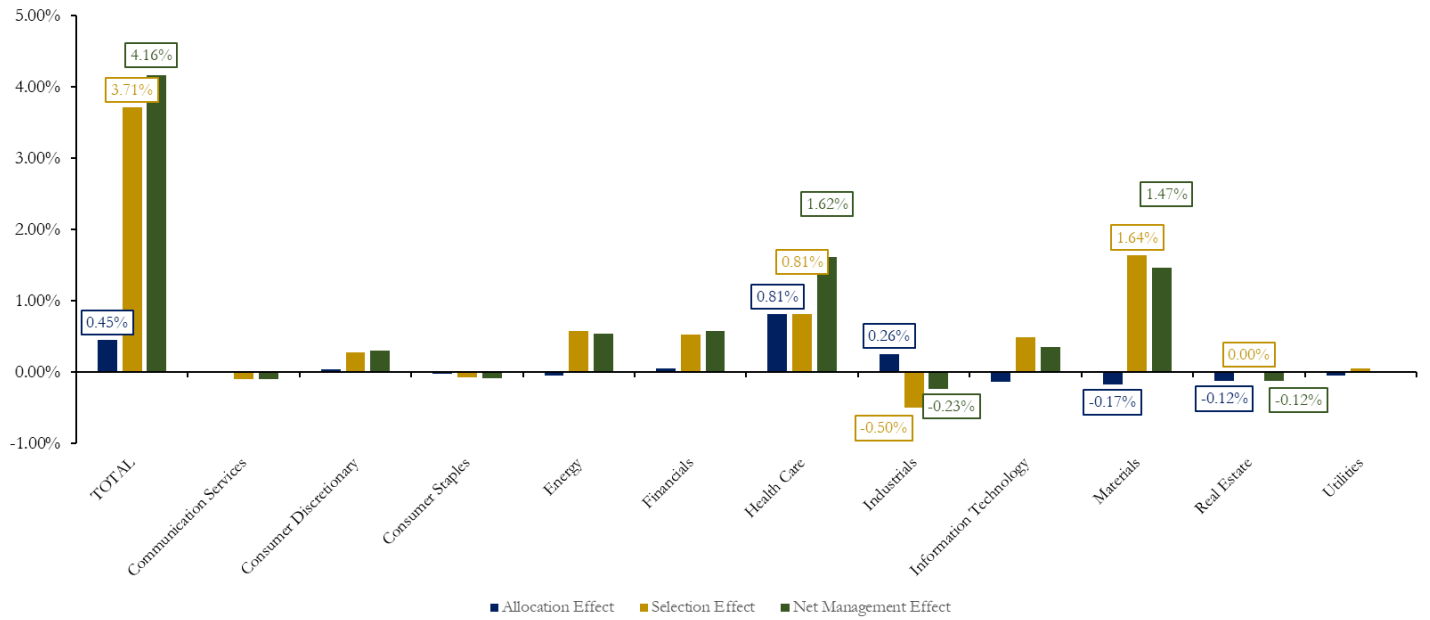
The inherited AIM portfolio is relatively underweight the following sectors compared to the S&P 500: Healthcare, Real Estate, Information Technology, Energy, and Financials. The portfolio is relatively overweight in the Industrials, Materials, Consumer Discretionary, Communication Services, Utilities, and Consumer Staples sectors. In particular, we have identified an underweight to Healthcare and an overweight to Materials and Industrials as primary sector reallocation opportunities. Although matching the S&P composition is a target rather than a mandate, the class has considered stocks in certain sectors in round two to better balance the portfolio.

Best and Worst Performers

	Portfolio Company	Industry Classification	YTD Performance
Winners	Boyd Gaming (NYSE: BD)	Consumer Discretionary	39.0%
	Trupanion (NASDAQ: TRUP)	Financials	39.0%
	Compass Minerals (NSE: CMP)	Materials	38.8%
	Crown Holdings (NYSE: CCK)	Materials	37.6%
	Pal Alto Networks (NYSE: PANW)	Technology	35.5%
Losers	Activision Blizzard (NASDAQ: ATVI)	Consumer Discretionary	(2.7%)
	Intercontinental Exchange (NYSE: ICE)	Financials	4.4%
	Booking Holdings (NASDAQ: BKNG)	Consumer Discretionary	7.2%
	XPO Logistics (NYSE: XPO)	Industrials	9.4%
	NextEra Energy (NYSE: NEE)	Utilities	12.6%

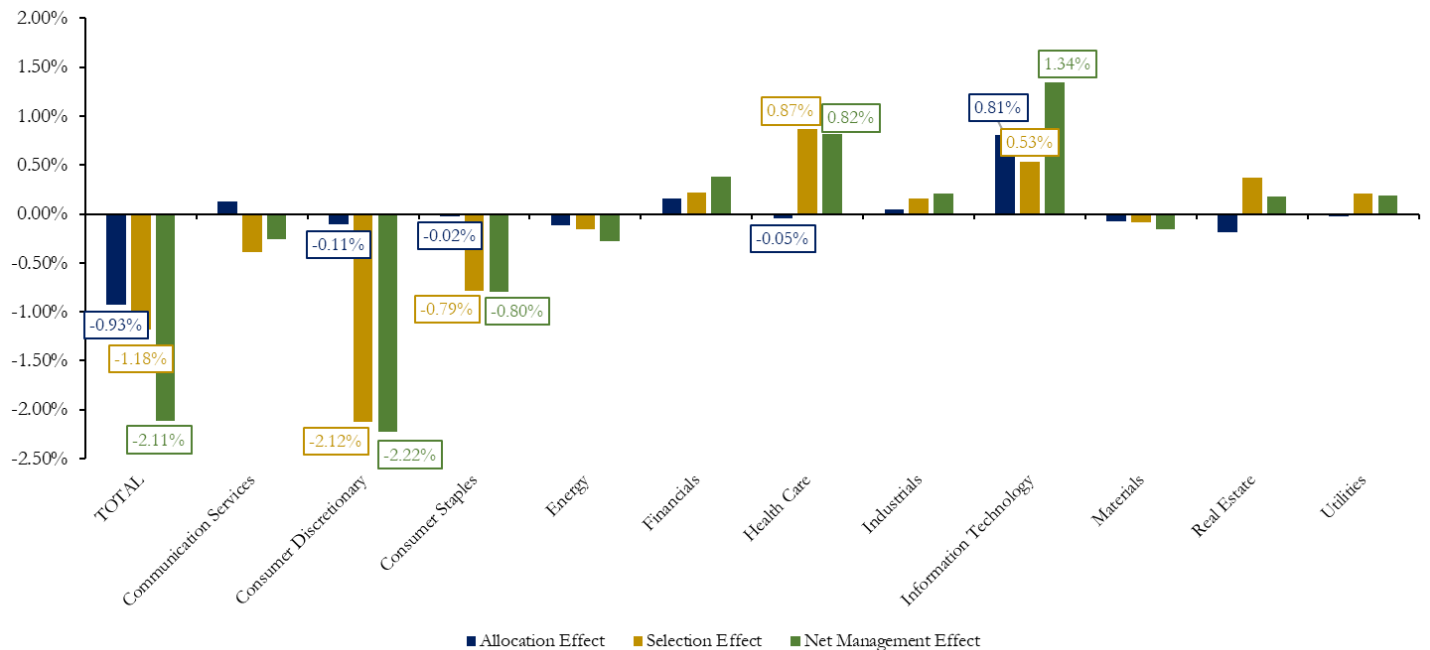
Strong performance in selected materials investments strongly contributed to portfolio returns. However, trailing consumer discretionary holdings have pulled returns down to only slightly outperform the benchmark.

YTD Attribution Analysis



On a YTD-basis, the AIM portfolio saw a positive net management effect of 4.16%, largely driven by the selection effect. Healthcare and materials have led performance, while industrials and real estate have lagged.

Five-Year Attribution Analysis



Conversely, the prior five-year net management effect has been negative particularly due to selection effects within the Consumer Discretionary and Consumer Staples sector. Information technology has seen positive net management effects and Healthcare has benefitted from positive selection effects.

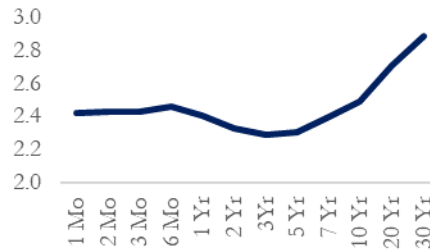


Macroeconomic Indicators

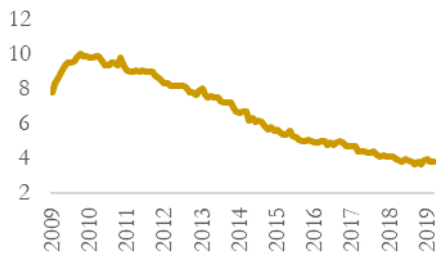
Interest Rate Hikes

Date	Increase (bp)	Level (%)
Mar-17	25	0.75 - 1.00
Jun-17	25	1.00 - 1.25
Dec-17	25	1.25 - 1.50
Mar-18	25	1.50 - 1.75
Jun-18	25	1.75 - 2.00
Sep-18	25	2.00 - 2.25
Dec-18	25	2.25 - 2.50
Mar-19	0	2.25 - 2.50

Yield Curve



Unemployment Rate



Crude Oil Prices (WTI)



Tariffs

So far, the U.S. has already levied tariffs on US\$250 billion worth of Chinese products and has threatened tariffs on US\$267 billion more. China, for its part, has set tariffs on US\$110 billion worth of US goods, and is threatening qualitative measures that would affect U.S. businesses operating in China. On April 4th, Trump met with Liu He and said the two sides will know “over the next four weeks” whether they can strike a deal.

Unemployment

The Federal Reserve left interest rates unchanged and dialed back projections for further rate hikes in 2019, as inflation remains tame and economic growth slows. The U.S. central bank voted unanimously to maintain its benchmark interest rate in a range of 2.25 percent to 2.5 percent, a widely expected move after officials stressed that they would be “patient” and “flexible” before deciding to adjust borrowing costs again. The Fed provided clarity on balance sheet normalization, first slowing the pace of asset reduction, and then concluding reduction by end of September, aiming to hold mostly Treasuries. Fed projections showed real GDP growth slowing and inflation at or below its 2% target, yet Chairman Powell was positive about the health of the U.S. economy. Still, the FOMC indicated zero rate hikes in 2019, and one in 2020, striking a decidedly dovish tone. Investors have dramatically downgraded their view on economic growth over the course of 2019. This has seen the U.S. 10-year yield fall from over 2.74% in December 2018 to 2.45% in March 2019, dramatically flattening the yield curve to the point of having inverted.

Commodity Prices

Commodity prices are showing positive growth in 2019, with the Dow Jones Commodity Index growing 8.79% YTD. Oil prices are up 38.42%, though the price of a barrel of WTI oil remains far below the four-year high of \$76.40/b obtained on October 3, 2018. The inherited portfolio held Kinder Morgan as the only stock in the energy sector, which remains in the portfolio. AIM XLVIII considered two additional energy companies, Exxon Mobil Corp. and Diamondback Energy, Inc., and voted to add the latter to the portfolio.

AIM INTERVIEWS

For this quarter’s newsletter, we thought it would be interesting to interview Scott Malpass and a recent graduate, to juxtapose their different perspectives. Mr. Malpass is the CIO of Notre Dame’s endowment and vice president of the university. Mr. Malpass founded AIM in 1995, along with Professors John-Afflex-Graves and Frank Reilly. Tommy Palmerton graduated in May of 2018 and was part of AIM XLV. Tommy currently works as an analyst for Bain Capital Credit where he covers the industrial and aerospace and defense industries.



Scott Malpass



Tommy Palmerton

Scott Malpass

Why did you start AIM?

At the time Frank Reilly, John Affleck-Graves and I were serving as faculty advisors to a few different investment clubs on campus who were managing money. We noticed they were not doing rigorous enough research, and we thought that we could build a course that would have the structure to teach the discipline associated with successful money management. We were all passionate about training the students properly and I think AIM has been a huge success. There have been numerous AIM reunions on campus and annual AIM dinners with alumni from the class. It's the only class I've ever seen that has a reunion.

What has been the biggest change you have seen in the AIM class since inception?

Students are a lot better prepared for the AIM course because of the curriculum in the business school and the internship experience that a lot of students have now. I also think following the stock market has become more popular and therefore students have been hearing a lot more about companies and the research required to be a good asset manager.

What is something you would like to see changed about the AIM class?

Not necessarily changed, but one thing that could be added to the course would be a more in-depth review of portfolio construction techniques.

Very few if any university CIOs make time to work with students/teach. Can you talk about why you do and what your team has learned from working with the AIM class?

The investment team here is comprised entirely of ND alumni who believe broadly in the mission of the university. Father Sorin talked about how he wanted Notre Dame to be a force for good in the world. We like to volunteer our time – help students build confidence and serve as mentors, and working with the AIM class is an easy way to do this. I also think it contributes to the virtuous cycle of ND alumni helping students who will later do the same.

In the second half of the course we are required to pitch a stock. If you had to pitch a stock in the AIM portfolio right now, which would you pick? - If not an individual stock which sector?

I think the most attractive sectors are the ones with the most innovation. I think Biotech is particularly interesting and might even exceed the growth that we have seen from the tech stocks lately.

What do you think is the most valuable concept or piece of learning students take away from AIM?

Students learn and appreciate the rigor of stock analysis. Research is very hard – you need to roll up your sleeves. I think students learn to be disciplined and thorough.

We met with some of Notre Dame's investment partners on our trip and one of our takeaways was the incredible amount of due diligence that is performed. It almost seemed like there was no way to learn everything about an investment. When you are looking at an investment, is there a point at which you can get comfortable while knowing it might not be possible to know everything?

Well you'll know everything public but beyond that, that's where the discipline comes in. You need to have confidence in your "pillars," the company's competitive advantage, its economic moat, the quality of management, etc., and you must be comfortable with those pillars.

Tommy Palmerton

What is the most valuable thing you took away from AIM?

Presentation skills and concision. Part of my job entails presenting to an investment committee with just my boss, so it is important to be able to concisely state your thesis and synthesize what could be weeks of work to 15 pages. Another valuable skill I took away was attention to detail. While I had always followed stocks and read research reports, I had never done so with the level of diligence I did in AIM.

As a follow-up, how have the skills you developed in AIM as a public equity investor transferred over to your role as an analyst in credit investing?

From a top-down approach, analyzing industries and businesses is actually pretty similar. We're looking for high quality companies with strong cash flows. Developing the macro thesis and the company thesis is virtually identical. The only part of that differs is the security analysis portion of the thesis.

If you had to pitch a stock for the AIM portfolio right now, which sector would you look into?

The goal of the AIM portfolio is to generate alpha, and the best places to find alpha are sectors where people are scared. Both healthcare and retail are spaces that have been beaten up – healthcare from the threat of regulation and retail from Amazon. I would look into those two sectors.

We met with some of Notre Dame's investment partners on our AIM trip and one of our takeaways was the incredible amount of due diligence that is performed. It seemed like there was no way to learn everything about an investment. When you are looking at an investment, is there a point at which you can get comfortable while knowing it might not be possible to know everything?

There is no way you can do everything. It'd definitely hard, since there is always more out there to learn and more news. It's good to frame your thesis on the key risks and positives, of which you should only have a handful. Before finalizing your thesis, it's important to check all your sources. Make sure you've talked to everyone possible, whether that be through doing expert calls or stepping into the shoes of the consumer. From there, it's determining if the key positives outweigh the key risks, and if so, what price compensates you for that differential. Understand that certain investments will fail, but you should be confident in your thesis. At the same time, be wary of overconfidence and thesis creep.

What would you recommend to current students that would like to pursue a career in investing straight out of undergrad?

Don't get hung up on the asset class right out of school. The biggest piece is to make you're learning to think like an investor. Learn how to develop the macro piece and the company piece of your thesis. While the security analysis part does take time, it can be developed later in your career.

What is something you would like to see changed about AIM?

A greater level of debate. We do get that towards the end when we vote, but during regular class, the Q&A often gets cut off. In investment committee, the Q&A is often more informative on the portfolio managers' decisions than the presentation. It'd be good to give students more exposure to questions on the spot.

Is there anything you miss about AIM?

I miss the group of people. It was a lot of really smart people that represented the values of Notre Dame.

What piece of advice would you recommend to future AIM students?

Go into the class with the intention to learn. While working hard to make your materials look nice is important, the focus should be on learning about the business. Don't make the class a competition, but don't be afraid to push your fellow students.

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 25 stocks.

Company Name	Ticker	Price ¹	Position Value	Portfolio Weight
ABIOMED, Inc.	ABMD	\$260.27	\$635,840	4.1%
A. O. Smith Corporation	AOS	\$50.30	\$542,385	3.5%
Alphabet Inc	GOOGL	\$1,170.78	\$209,570	1.4%
Alphabet Inc	GOOG	\$1,166.27	\$396,532	2.6%
Booking Holdings, Inc.	BKNG	\$1,751.63	\$541,254	3.5%
Catepillar Inc.	CAT	\$131.95	\$577,017	3.8%
Comerica Incorporated	CMA	\$75.87	\$513,185	3.3%
Constellation Brands, Inc.	STZ	\$207.19	\$613,282	4.0%
Crown Holdings, Inc.	CCK	\$59.03	\$697,617	4.6%
CVS Health Corporation	CVS	\$55.74	\$663,919	4.3%
Diamondback Energy, Inc.	FANG	\$105.93	\$620,449	4.0%
Dollar General Corporation	DG	\$122.28	\$620,449	4.0%
EchoStar Corporation	SATS	\$41.19	\$647,507	4.2%
Facebook, Inc.	FB	\$189.54	\$647,469	4.2%
Intercontinental Exchange, Inc.	ICE	\$80.41	\$616,745	4.0%
InterDigital, Inc.	IDCC	\$69.79	\$633,484	4.1%
Kinder Morgan, Inc.	KMI	\$19.67	\$625,408	4.1%
Micron Technology, Inc.	MU	\$39.75	\$594,223	3.9%
Microsoft Corporation	MSFT	\$125.51	\$619,643	4.0%
NextEra Energy, Inc.	NEE	\$187.88	\$612,865	4.0%
Palo Alto Networks, Inc.	PANW	\$238.50	\$617,000	4.0%
Stryker Corporation	SYK	\$188.05	\$616,804	4.0%
The Blackstone Group L.P.	BX	\$39.09	\$634,509	4.1%
Trupanion, Inc.	TRUP	\$31.69	\$581,448	3.8%
Waste Management, Inc.	WM	\$104.82	\$682,378	4.5%
XPO Logistics, Inc.	XPO	\$62.68	\$533,783	3.5%
Cash			\$30,626	0.2%
Total AIM Portfolio			\$15,630,264	100%

¹Reflects prices as of May 8th, 2019

Class Profile

AIM XLVIII—Q2' 19 Newsletter

University of Notre Dame, Mendoza College of Business

Analyst	Second Round Stock	Ticker	Sector	Market Cap	Future Employment/ Internship
Lorenzo Beer	InterDigital, Inc.	IDCC	Communication Services	Mid-Cap	Goldman Sachs
Chris Boyd	Dollar General Corp.	DG	Consumer Discretionary	Large-Cap	AEA Investors, Ottawa Avenue Private Capital
Sam Chen	EchoStar Corp.	SATS	Information Technology	Mid-Cap	Houlihan Lokey
Ellie Daum	ABIOMED, Inc.	ABMD	Healthcare	Large-Cap	Barclays
Sean Dedrick	Constellation Brands, Inc.	STZ	Consumer Staples	Large-Cap	Bank of America
Elena DeVoe	Activision Blizzard, Inc.	ATVI	Consumer Staples	Large-Cap	Guggenheim Partners
Andrew Engvall	Caterpillar Inc..	CAT	Industrials	Large-Cap	Santander Bank
Louie Filipiak	HCA Healthcare, Inc.	HCA	Healthcare	Large-Cap	University of Toledo, College of Medicine
Brett Hartig	Diamondback Energy, Inc.	FANG	Energy	Large-Cap	Simmons & Company
James Hughes	Restaurant Brands International, Inc.	QSR	Consumer Discretionary	Large-Cap	IBM
Donald Lee	Cooper-Standard Holdings, Inc.	CPS	Consumer Discretionary	Small-Cap	Shinhan Bank
Erin Martinez	The Blackstone Group LP	BX	Financial Services	Large-Cap	JP Morgan
Ryan Payne	Intuitive Surgical, Inc.	ISRG	Healthcare	Large-Cap	UBS
Wyatt Perry	Exxon Mobil Corp.	XOM	Energy	Large-Cap	ExxonMobil
Josh Scoresby	Acushnet Holdings Corp.	GOLF	Consumer Discretionary	Small-Cap	UBS
Yi Sun	East West Bancorp	EWBC	Financial Services	Mid-Cap	Undecided
Agustin Taussig	NextEra Energy, Inc.	NEE	Utilities	Large-Cap	JP Morgan
Jacobo Tefel Urcuyo	Proto Labs, Inc.	PRLB	Industrials	Mid-Cap	Fogel Group
James Timko	CVS Health Corporation	CVS	Healthcare	Large-Cap	SVB Leerink
Shannon Walsh	Trupanion Inc.	TRUP	Financial Services	Small-Cap	R.W. Baird