EQUITY STRATEGY FOCUS

JULY, 2016

IN FOCUS:

We have prepared this update in an effort to provide our clients with a macro overview of our current investment program. Our focus includes:

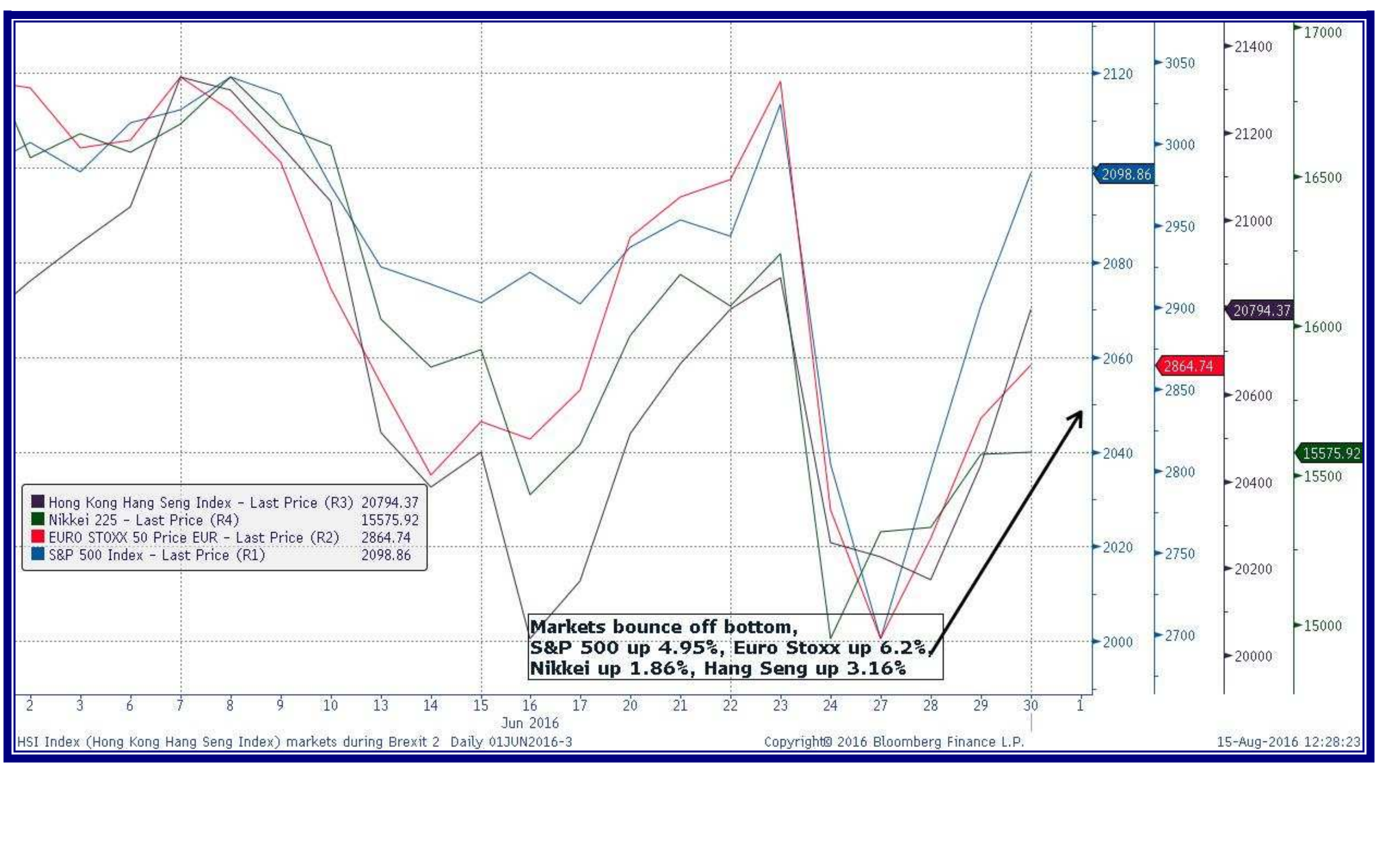
- Repercussions of Brexit
- Sector Winners and Losers
- Market Valuation Perspective

IN BRIEF: A Look at the U.S. Economy

The outcome of the June 23rd Brexit referendum took markets off guard when the United Kingdom voted to separate from the European Union. This decision was not anticipated and stock markets around the world sold off abruptly over the two subsequent trading days. The S&P 500 index sold off -5.34%, along with the Euro Stoxx, Nikkei and Hang Seng, down -11.2%, -5.7% and -3.07 respectively. However by June 30th, these markets had already regained a significant portion of their losses.

Leading World Markets Bounce off Bottom two days after Brexit Decision

Exhibit I



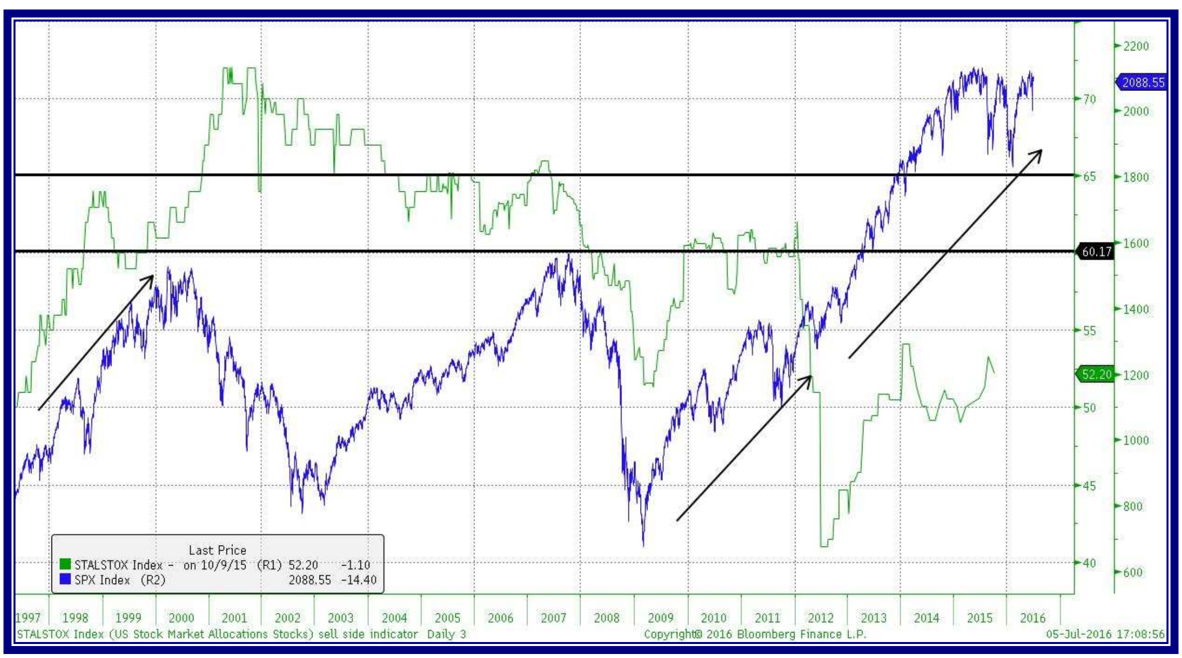
One worry is the impact on British trade which generates about 45% of its export revenue from the EU. Exiting the EU means renegotiations and possibly less favorable trade contracts for the U.K. Negotiations are expected to be tough since the EU wants to avoid enticing other countries to follow suit. Britain may also experience a decline in investment from countries such as Japan and the United States who in recent years have used Britain as an EU base station for their business investment and infrastructure.

Reduced foreign investment, at least while trade negotiations are underway, coupled with declining export revenues could squeeze one of the world's largest economies and pressure global growth. As we stated previously in our June Brief Market Insights, while there is the potential that the U.K. shock could be shrugged off by the rest of the world, a European-wide political and economic shock would be felt globally. All eyes will be on how Europe progresses from this point on. The GDP of the U.K. is 2.3% of world GDP and should have limited near term consequences on our overall economy. However, markets are subject to near term volatility as uncertainties surrounding the Brexit process persist in the coming months.

The sell side consensus indicator is currently in bullish territory. The statistic is based upon the average equity allocation of Wall Street strategists. Currently it is trading below its average range of 60-65% (the green line). As you can see from the chart below, most often when the indicator is below 60%, it is a contrarian indicator for the stock market, with one exception being the beginning of the 2008 financial crisis.

Bullish Signal apparent in Contrarian Sell Side Indicator

Exhibit II



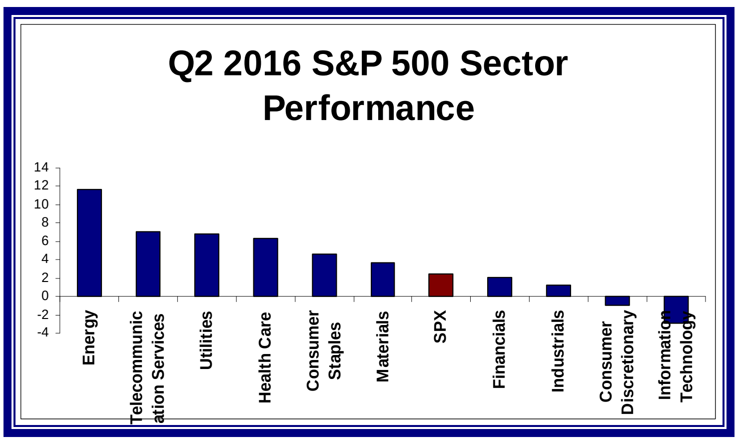
Our major benchmarks are trading near all-time highs, indicating the U.S. markets are anticipating an earnings rebound. There are those who believe that in an environment with negative earnings growth inflating market valuations, it is best to wait on the sidelines for a possible market correction. On the other hand, there are investors like us who recognize those segments of the market that remain undervalued, for example Financials and Energy, which we have written about at length in prior commentaries. Additionally, market timing is a strategy that we believe to be counterproductive. For instance, a recent study conducted by Bank of America shows that if an investor had missed the 10 best performing days in the last decade, their price performance (as represented by the S&P 500) would have been reduced by close to 70%.

Market volatility can be expected in the months ahead, with uncertainty surrounding U.S. elections and Fed activity. However, as we mentioned in our recent Brief Market Insights, rather than react to fluctuations in stock prices that are dominated by position-adjustments and recalibrating expectations, we believe it is far better to wait for investment opportunities that reveal themselves during these periods of uncertainty.

CLOSE-UP: Equity Investment Overview

➢ Benchmark Performance Highlights

Exhibit III



	2nd QTR Total Return	YTD Total Return
	2.46	3.8
Consumer Disc	-0.95	0.7
Consumer Staples	4.61	10.4
Energy	11.74	16.2
Financials	2.11	-3.1
Health Care	6.29	0.6
Industrials	1.24	6.4
Information Tech	-2.86	-0.3
Materials	3.7	7.5
Telecom Services	7.06	24.8
Utilities	6.82	23.5

- Q2 performance was led by Energy shares which outpaced the overall market by over 900 bps. The defensive sectors, Telecom, Utilities, Healthcare, Consumer Staples and Basic Materials, also came in ahead of the overall market.
- Investors fled to the safety of defensive sectors, in the wake of the Brexit decision, which brought uncertainties surrounding its implementation to the surface.
- Financial stocks disappointed with the realization of Brexit and its potential impact on global growth. The timing of a Fed interest rate hike was once again pushed back, and it now may not be until December that it begins to unwind.
- In Consumer Discretionary, the only industry to post positive returns was retailing, specifically, Amazon, Ulta Cosmetics, and Dollar General. Within Industrials, transportation stocks weighed on sector performance.
- Year to date, the U.K. FTSE shaved -4% and the tech heavy NASDAQ pulled back -2.7%.
- Small and large cap value stocks maintained their lead over their growth counterparts. For the year, large cap value stocks outpaced growth by nearly 500 bps.
- Of the once high flying FANG stocks, Facebook is the only stock that has gains this year. Netflix, Apple, and Alphabet A shares are all negative for the year.

AIM Performance Highlights

Exhibit IV

	Sector Wgt. as % of Portfolio as of 6/30/2016	Relative Wgt. versus S&P 500 Index	2nd QTR Total Return of AIM Composite	2nd QTR Total Attribution of AIM Composite	YTD Total Return of AIM Composite	YTD Total Attribution of AIM Composite
AIM Composite			7.9	5.4	8.0	4.2
Consumer Discretionary	9.3	-3.0	3.3	0.7	6.5	0.7
Consumer Staples	11.6	1.0	12.8	0.9	13.7	0.4
Energy	11.5	4.1	18.1	1.0	19.0	0.5
Financials	14.8	-0.9	3.0	0.2	-8.8	-0.9
Health Care	15.6	0.9	16.3	0.5	10.5	0.5
Industrials	9.7	-0.5	5.6	0.2	14.9	0.7
Information Technology	18.2	-1.6	1.1	0.9	6.9	1.5
Materials	2.5	-0.3	3.3	0.0	-0.7	-0.2
Telecommunication Services	2.6	-0.3	11.4	0.1	28.8	0.0
Utilities	2.6	-1.0	8.7	0.0	32.9	0.0

- Our AIM Core Value equity composite beat the S&P 500 benchmark by 540 bps in Q2, and 420 points in the first half, as investors shied away from crowded momentum plays in favor of high quality, low volatility stocks.
- Our overweight in Energy shares had the most contribution to our out-performance in Q2 as the price of oil rose from $41 to $49.
- The top performing stocks attributing to out-performance in Q2 were Applied Materials, Northrop Grumman, Johnson Controls, Halliburton, and Archer Daniels.
- Bottom performing stocks offsetting some of our out-performance in Q2 were Cardinal Health, MetLife, Philips Electronics, Emerson Electric and Microsoft.
- For the first half of the year, stock selection within the Technology sector boosted returns with Applied Materials, Oracle, Accenture and Cisco up 29.6%, 12.9%, 9.5%, and 7.5% respectively. Stock selection within Industrials (Northrop Grumman and Honeywell), along with stock selection in Consumer Discretionary (Lowes and Johnson Controls), was also additive.

Equity Strategy

Exhibit V

Valuation Metrics on a Sector Level (as of 6/30/2016)

	Energy	Materials	Industrials	Con Desc	Staples	Healthcare	Fincl	Tech	Telecom	Utilities
# holdings	37	27	67	87	36	57	86	68	5	28
Beta	1.26	1.01	1.04	1.00	0.63	0.88	1.02	1.18	0.68	0.42
P/B	1.88	3.53	4.06	4.82	5.03	3.75	1.27	4.03	3.11	2.04
TTM P/E	25.01	17.93	17.36	19.84	23.00	20.64	14.74	19.17	16.32	19.68
P/E cur	34.51	17.79	16.76	18.13	22.07	16.07	14.07	16.73	14.84	18.98
P/E FY1	24.07	15.46	15.39	16.13	20.11	14.53	12.70	15.14	14.22	18.34
P/S TTM	1.62	1.58	1.58	1.46	1.42	1.74	2.13	3.40	1.64	2.11
Div yield	2.67%	2.26%	2.34%	1.62%	2.54%	1.71%	2.33%	1.70%	4.25%	3.29%
P/CF	10.52	10.63	11.79	12.30	16.07	15.25	7.18	12.73	6.38	7.54

Source: Bloomberg and Altman Research

Financial stocks offer the most value on both an earnings and cash flow basis. We remain slightly underweight this sector, which is the second largest in the benchmark S&P 500. The collapse in Energy earnings has of course artificially inflated multiples, so in this case it makes sense to focus on cash flows and book values.

Exhibit VI

Multiples expanded 1.8% as analysts reined in FY1 earnings expectations

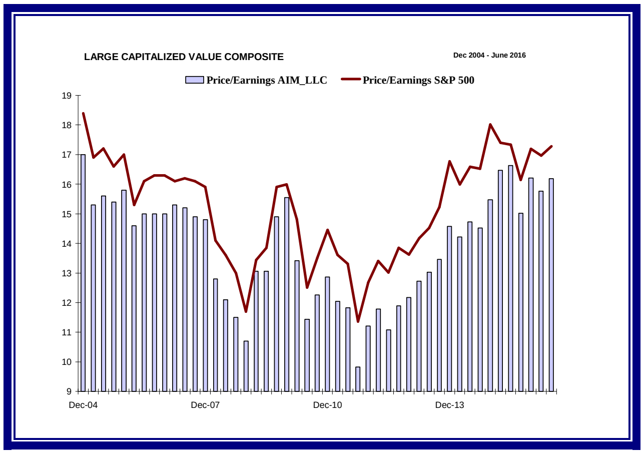
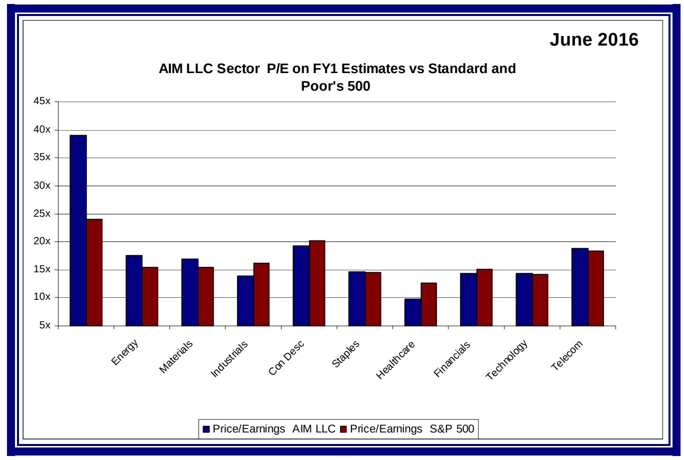


Exhibit VII

Energy stock multiples remain elevated with continued weakness in earnings



Our firm composite is made up of approximately 38 individual companies, spanning across 10 market sectors and over 20 industries. We are primarily value-focused, with over 60% of our portfolio in relative value plays as categorized by the S&P Value Index. This index categorizes stocks based upon ratios of book value, earnings, and price to sales. In addition to the value stocks, the remainder of our composite holdings qualifies as growth at a reasonable price or GARP. Our proprietary multi-factor point screen enables us to quantify opportunities based upon various fundamentals - not only on an absolute, but relative basis. This allows us to identify temporary inefficiencies in the market place that we believe are causing a stock or industry to trade below its intrinsic value.

IN SUMMARY:

Stock market valuations, although elevated, do not appear extreme. Looking at the earnings yield for the S&P 500 benchmark, we observe that the level has reverted back through its median. However, its level remains higher than prior periods of extreme market valuations. Similarly, on a relative basis, the market appears to continue to offer value when compared to the 10 year Treasury note.

Therefore, we continue to believe stock selection is of the utmost importance as we patiently await further improvement in the state of the economy.