ALTMAN
INVESTMENT MANAGEMENT

EQUITY STRATEGY FOCUS

JANUARY, 2017

"Demonstrated success is the one outstanding fact which justifies confidence in the outlook for any particular business, and thus the investor will always, as a first test for an industry security, carefully consider the results already obtained."

John Moody - financial analyst and founder of Moody's Investors Service

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

Within the framework of our equity investment strategy, we briefly review below the economic outlook as it relates to our industry focus in portfolios. The recent ISM data, although modestly falling, still leaves the economy pointing to an acceleration in GDP growth in the first quarter. Underlying retail sales have picked up some momentum over the past couple of months. However, the more recent decline in the Markit Services PMI suggests that service sector activity may be settling back from the initial euphoria in January. With little reason to anticipate a sudden slowdown in activity, we expect the index to remain at a fairly healthy level and consistent with an annualized GDP growth approaching 2.5% for the 2017 year.

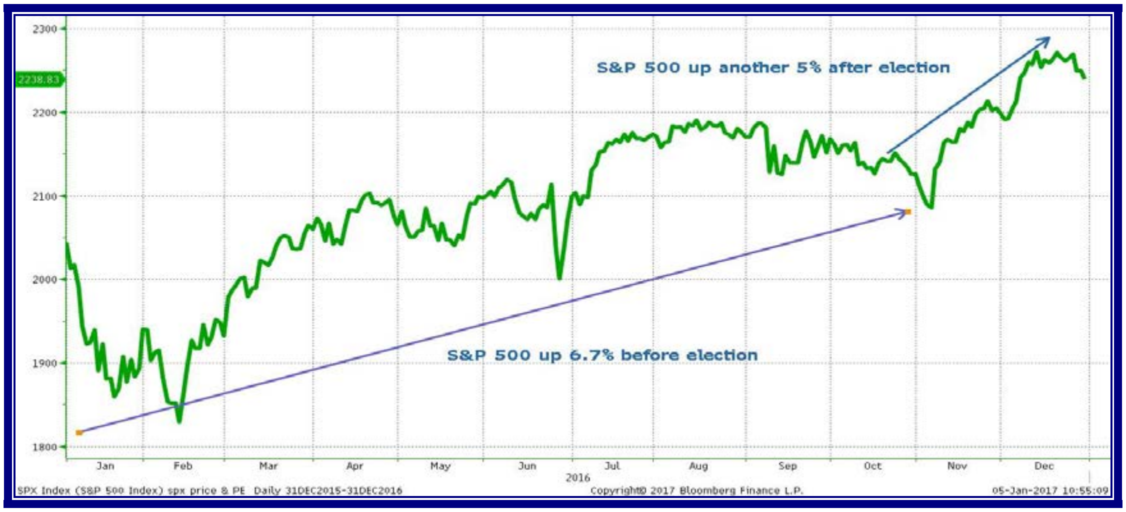
The capacity utilization rate is currently 75.5% and there is room for improvement without immediately raising inflation. Inflation historically rises at a rate above 82.0%. On January 27th, the 4th quarter real GDP will be reported, and we expect a growth rate that confirms the pick-up in the end of the year is sustainable, although below the 3.2% reported in the third quarter. For the first quarter of 2017, we expect growth to be consistent with the 4th quarter of 2.0+% with higher rates as the year progresses. The main impetus to growth will be a pick-up in capital spending as regulations are removed. The recent ISM Manufacturing Index reports are supportive of this forecast, with new orders and business activity improving even while employment growth remains steady at current levels.

At present, producer price inflation is growing 1.6% y/y with consumer price inflation rising 2.1% y/y. Recent price inflation has increased because of rising oil prices, rents and medical expenses. We would expect as the U.S. dollar weakens from current levels, inflation will tend to increase. At present, import prices are rising at a 1.8% rate year over year - and overall, the economy is growing steadily with no imbalances. Our forecast for CPI by year end is 2.0%, generating corporate profits of 10.0% or better.

IN VIEW: The Equity Landscape

The U.S. stock markets rallied during 2016 ending the year up 12% and 17% for the S&P 500 and Dow Jones Industrial Indexes respectively. A significant portion of the rally occurred post Nov 8th elections as the markets anticipated relaxed regulations coupled with corporate and individual tax reforms from the incoming administration. The bull market that began in 2009 is now entering its 9th year. Balance sheets have improved and we believe earnings have troughed, both supportive of positive stock returns for 2017. Markets also appear to be anticipating relaxed regulations and tax relief from the new administration.

Stock Market - 2016 Performance



Source: Bloomberg

OPEC production cuts underscore our continued emphasis on energy stocks. Of course, the sustainability of oil prices depends largely upon how long or how much OPEC members actually stick to their individual commitments. OPEC profits have been under severe pressure in the oil price decline.

Energy Stocks Continue to Trail Overall Market

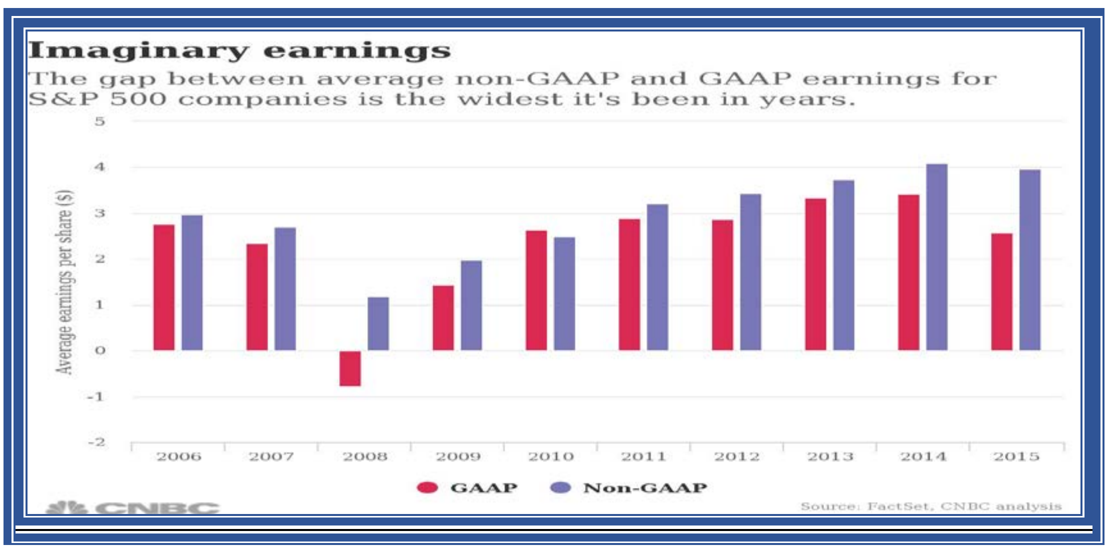
Source: Bloomberg

According to the U.S. Energy Information Administration, OPEC exports are expected to earn less than 40% of what they earned during the peak in 2012. Although they exhibited strong performance in 2016, energy stocks continue to underperform, since oil prices began falling in June 2008. OPEC will meet again at the end of May at which time they are anticipated to cut production again. Another issue impacting oil prices is potential tax reform in terms of a border tax on imports that has been proposed by our new administration. If implemented, U.S. oil prices could climb, narrowing the gap between U.S. WTI and international Brent prices. We await clarity on this initiative before we can make an accurate assessment of its longer-term impact on oil prices.

Generally accepted accounting principles or GAAP accounting was established by the Financial Accounting Standards Board to provide a uniform set of rules in disclosing financial information for analysis. This allows not only for verification by auditors, but for easier comparisons between companies. An alternative method used by companies is adjusted or Proforma earnings that, in its defense, often provides a clearer picture of business operations. Proforma earnings may, for example adjust for restructuring charges or non- cash expenses. But these adjustments are often misleading in that they portray a more optimistic view with the tendency to adjust more often for losses than gains. The rise in stock based compensation is an example of a controversial adjustment in that it is a way for companies to lower expenses and inflate earnings.

A study conducted by CNBC last year shows that during 2015, GAAP earnings were 25% lower than adjusted figures, the largest divergence since the great recession. This "gap" has been widening, signaling caution amongst some analysts and investors. When determining valuations, this poses a problem for investors who may not be fully aware of the meaning or reasoning behind adjustments that are often obscurely masked or confusing. While this unaudited calculation may at times be necessary for clarification purposes relative to one time or extraordinary items, a certain amount of skepticism is warranted.

Use Caution When Analyzing Earnings:
The GAAP Gap is Expanding



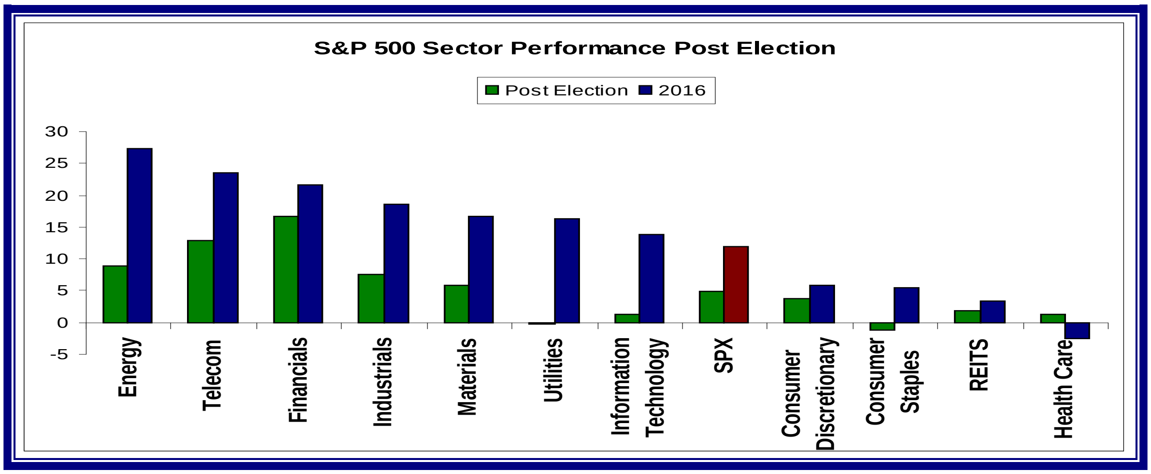
Source: Fact Set and CNBC analysis

A similar study of the largest 50 companies in the S&P 500 was conducted in Q2 2016 by Marketwatch, a Dow Jones company. Marketwatch reported that out of the 50 companies, not only did most companies report non-GAAP earnings, all but 3 of them reported higher adjusted/proforma earnings when compared to GAAP. GE referenced $.02 GAAP earnings from continuing operations as a comparison for the negative $-.01GAAP net eps. While most referred to the adjusted earnings as "adjusted" or "non-GAAP", it was interesting to see Walt Disney's (DIS) categorization as "EPS excluding certain items affecting comparability that adjusted earnings up 4.6%."

CLOSE-UP: Equity Investment Overview

➢ Performance Highlights

The S&P 500 rallied 4.98% since the U.S. election this past November. Financial stocks which were already poised for a rally provided an additional boost by a Republican sweep which gives promise to looser banking regulations. Industrials rose in unison as the Trump victory will likely translate into increased spending on infrastructure. Utilities and Consumer Staples have been on a decline since Election Day.



Source: Bloomberg

Value stocks outperformed growth stocks by 1050 basis points this year. Value stocks generally outperform as profits begin to improve. Energy and Financial stocks are positioned to benefit from this spread as it continues into 2017.

Small caps stocks finished the year up 21.3% as measured by the Russell 2000 Index, compared to a return of 12% for large cap stocks. The risk-on trade in small caps fiercely rallied following the election, led by stock specific positions (as opposed to sector allocations) in Financials, Information Technology, Industrials, and Consumer Discretionary sectors.

Earnings growth of 2. 9% in Q3 was the first positive growth number since early 2015. Earning beats were most prominent in Financial and Technology companies. Revenue growth was up 3% and again it was Financial and Technology shares that registered the most beats. While growth in small cap earnings is stronger, earnings came in only 2% higher than expectations as compared to 5% for large caps. Earnings growth has continued so far into Q4 reports tracking at 5% thus far, with Energy, Financials and Commodities seeing positive earnings revisions. Sales growth is trending near 4% with nearly 85% of companies reporting thus far. The largest earnings beats were seen in Healthcare and Technology, while Staples, Telecommunications and Utilities produced the most misses. Looking ahead however, guidance has been weak resulting in downward earnings revisions this past month, most notably in Materials, Healthcare, and Technology. Lower guidance during Q4 is not uncommon and may be an attempt by management to set a lower bar leaving room for positive surprises.

AIM Composite– 2016 Performance Attribution

	Sector Wgt. as % of Portfolio as of 12/31/2016	Relative Wgt. versus S&P 500 Index	4th QTR Total Return of AIM Composite	4th QTR Total Attribution of AIM Composite	2016 Total Return of AIM Composite	2016 Total Attribution of AIM Composite
AIM Composite			6.3	2.5	17.2	5.3
Consumer Discretionary*	8.4	-3.6	2.3	0.0	-0.5	0.1
Consumer Staples	10.7	1.3	4.5	6.5	18.1	1.4
Energy	12.2	4.6	12.2	4.9	31.7	1.2
Financials	18.5	3.7	26.2	5.0	23.8	0.6
Health Care	13.8	0.2	-4.2	-0.2	-0.2	0.3
Industrials*	9.3	-1.0	3.5	-3.6	20.1	0.3
Information Technology	18.3	-2.5	0.9	-0.3	20.4	1.2
Materials	2.7	-0.1	11.5	6.8	17.5	0.0
REITS	0.0	-2.9	--	4.4	--	0.3
Telecommunication Services	2.4	-0.3	6.0	1.2	29.6	0.1
Utilities	2.2	-1.0	0.4	0.3	24.9	0.2

* Philips Electronics (PHG) is categorized as a consumer discretionary stock in our AIM Core Value Composite, but remains an industrial company within the S&P 500 index. Source: Bloomberg

- **The AIM composite outperformed the S&P 500 index by over 500 basis points during 2016**. For the year, the S&P 500 rallied 11.9% led by the Energy, Telecom, and Financial sectors.
- **Our top 5 contributors to outperformance were** Applied Materials, Regions Financial, Halliburton, Kraft Heinz, and Conagra.
- **The top 5 stocks that detracted from composite performance were** Express Scripts, Cardinal Health, Lowe's, Occidental Petroleum, and Johnson Controls.

Applied Materials had a good solid run this year reporting record EPS of $1.54, up 38% from the prior year. Artificial intelligence and smart vehicles are among the emerging trends that support customer demand. Management sited key drivers such as leading edge foundry in logic, 3D NAND, patterning, and advance display in China. Patterning is a way in which data is transferred to wafers from circuits. AMAT's patterning products help eliminate defects and work to control uniformity. In wafer fabrication and display, management is predicting capital spending to increase this year over last. Growth in TV displays as a result of new "Gen 10" (LCD) capacity is expected to increase as well. Despite the stock's higher valuation after a run up this year of 75%, AMAT remains in the portfolio until we find an alternative investment in the sector. Keep in mind that it still trades at a discount to the market on both a tailing and forward earnings basis.

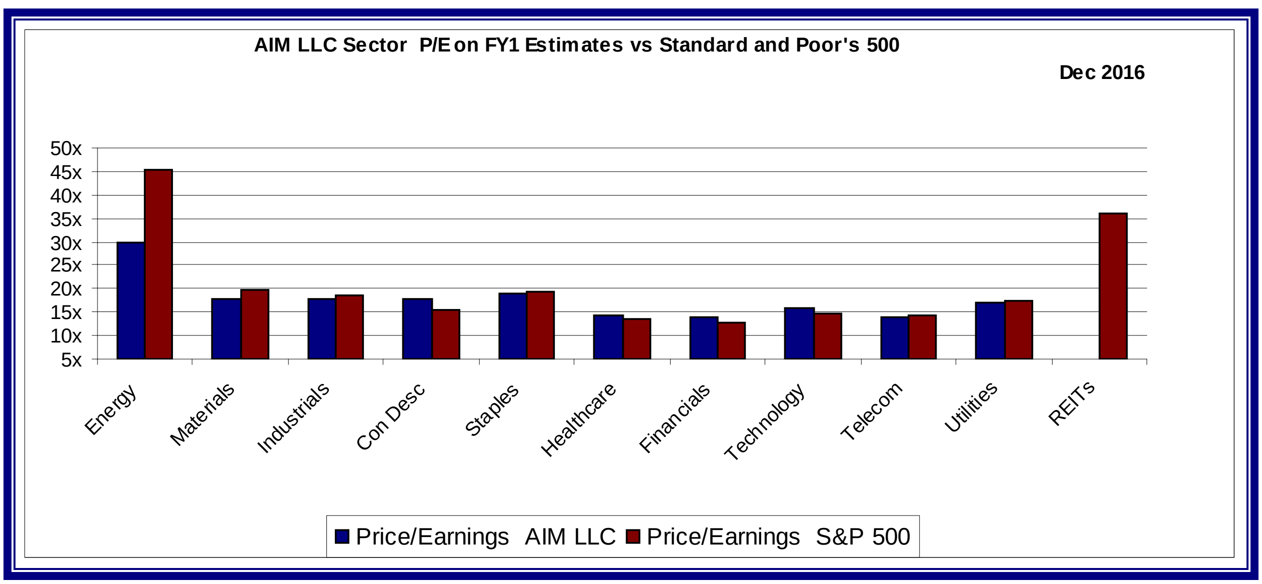
Express Scripts (ESRX) is one of the largest Pharmaceutical Benefits Managers in the United States. A major initiative of ESRX in addition to claims processing, and drug distribution, is to negotiate discounted drug pricing on behalf of its clients. In December, management revised its 2017 guidance of $6.82-7.02, an increase of over 7% from 2016 adjusted diluted EPS. Management believes its success in offering patient access to lower price alternatives, and its ongoing enhancement to distribution and monitoring services, will lead to a better overall client experience and thus strengthen client retention. They also anticipate elevated claims growth as a result of the increase in specialty drug offerings coming to market. Key growth drivers to ESRX's bottom line are supply chain management and specialty and mail services. Health care policy reforms could pose risks to ESRX by way of increasing its costs through PBM transparency demands.

➢ Equity Strategy

With the commencement of unwinding the expansionary policy, we remain positive on financial stocks particularly in banking, both regional and money centers. Although the exact timing of additional Fed rate hikes is unclear, in December they guided towards 3 increases this year, targeting a median rate of 1.357%. Healthcare stocks appear to be ignoring any concerns over a repeal of the Affordable Care Act. Even as the new administration vocalizes its dissatisfaction with rising health costs, including pharmaceuticals, the market seems to be at least postponing the idea of any new legislation in the near term. Valuations in healthcare stocks continue to warrant at least an equal market exposure. Crude oil prices have rebounded off the bottom helping oil stocks. Recent OPEC production cuts, with the possibility of another in May, add additional tailwinds to the sector.

As value investors, we look to find stocks with attractive valuations on both an absolute and/or relative basis. Below is a chart illustrating one of the metrics we monitor, price to earnings on a sector basis. As we have noted in previous commentaries, the oil energy stocks are skewed to the upside on depressed earnings. Real Estate Investment Trusts (REITs) were recently separated from the Financial Sector forming an additional market sector. There are now 11 global industry classification standards (GICS) sectors within the S&P 500 index. Through the latest round of Fed easing, the quest for higher yield stocks has lifted valuations of REITs substantially. While we recognize that not all REITs have the same degree of interest rate sensitivity, their loftier valuations along with our forecast for interest rates is causing us to focus on other areas of the market at this time.

Our Stock Selection Process Enables Us to Tighten Sector Multiples in Over-Weighted Sectors



Source: Bloomberg

Our goal for the composite is to maintain overall valuation characteristics that are below that of the market. Our emphasis on large cap stocks should help mitigate risks associated with market volatility through their managerial leadership, solvency, and transparency. The Beta which currently sits just above the market has provided an additional boost to the portfolio in a rising market.

AIM Composite and S&P 500 Index Characteristics

	AIM LLC	S&P Index
Beta	1.03	1.00
P/B	2.29	2.91
P/E cur	17.00	18.18
P/E FY1	16.36	16.74
P/S TTM	1.58	1.95
Div yield	2.30%	2.11%
P/CF	11.45	11.72
mrt cap wgt	107,853	147,098
EQ wgt	91,355	41,779

Data as of December 31, 2016, Source: Bloomberg

IN SUMMARY:

Certainly, investors are giving the President the benefit of the doubt that many of his proposals associated with economic growth are endorsed by the legislature – and the possibility that the federal deficits and debt will balloon take a back seat to the pro-growth stance. The Trump budget will, as a matter of supply-side orthodoxy, assume that the tax cuts largely pay for themselves by boosting economic growth. In Trump's original economic plan, which included as much as $7 Trillion in stimulus over the next decade, the tax cuts and regulatory roll-backs were assumed to turbo-charge economic growth to the extent that even a stimulus equivalent to 3.5% of GDP didn't add to the budget deficit. The big question is whether the fiscal conservatives in Congress will be willing to hold that position.

Media reports suggest that the Trump budget will include projections that economic growth will be sustained at a 3.0% to 3.5% annual pace over the next few years. This shouldn't come a s a surprise since most New Presidents, whether Republicans or Democrats, always aim high. Keep in mind that the Obama administration did exactly the same and growth fell materially short of the projections. In this case, the Trump projections are presumably based on the assumption that lower taxes and lower regulation will boost the economy's supply side. We are all in favor of lower taxes, but this has already been tried twice before, with the Reagan tax cuts in the early 1980s and the Bush tax cuts in the early 2000s, and there is little evidence that either periods boosted productivity or labor force growth. The upshot is that we are pretty skeptical that tax cuts will pay for themselves. If we are right, then the stimulus will lead to a marked increase in the budget deficit, just as it did after the tax cuts in the 1980s and 2000s.

John Moody, the pioneer of bond ratings, reminds us that the relationship between equities and bonds is always tied to the risk investors are willing to take above the "risk-free" rate of return on Treasuries. The opportunity to own equities at current prices levels is affected by the rate at which earnings are expected to grow. In the current environment of historically low rates, risk premiums associated with stock ownership do not yet look excessive in our judgement.

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