

AIM Quarterly



AIM XXXI

aim.nd.edu

Q4 2010

Conclusion of AIM XXXI

As the end of our time together draws near, the analysts of AIM XXXI remain busy preparing a final presentation for the Advisory Board on December 6th. Final security selection decisions were made on November 22nd, and trades were executed on the following morning. Ultimately, nine of the twenty-seven stocks within the portfolio that the class inherited from AIM XXXI were sold and replaced. Earlier in the month, the class traveled to New York City for a weekend of learning, networking, and leisure. We visited with top investment management firms and learned about an array of career opportunities in financial services, followed by an enjoyable dinner with the AIM alumni. It was a great opportunity to visit with our successful predecessors and to receive valuable career advice. We realize the tremendous value of the AIM alumni network and hope to remain in touch throughout our careers.

We would like to thank Professors Reilly, Langley, and Malpass for all of their hard work and dedication in making AIM XXXI a wholly enriching experience.

Alumni Updates

Jonathon Schroeder (AIM XXV) joined the University of Chicago's Office of Investments in April 2010 as a portfolio analyst. As a member of the Operations Group, he focuses primarily on modeling expected investment returns and monitoring the endowment's liquidity position. Previously, he was a financial analyst in the Industrials Group at Houlihan Lokey in Chicago. Jonathon is currently pursuing his MBA in the evening program at the Booth School of Business.

Patrick Kirkland (AIM XXIX) recently began teaching in the Alliance for Catholic Education (ACE) program. He teaches 6th-8th Grade Math and Social Studies at St. Frances Cabrini Catholic School in Savannah, GA while he simultaneously works to complete his Master's of Education. In addition, Patrick serves as the school's assistant basketball coach. After completing his two years in ACE, he plans to continue working in education, but on the administrative side. Patrick's very noble career goal is to help financially struggling Catholic schools survive.

Anna Davis (AIM XXV) is currently an analyst in the Financial Planning & Analysis group for the National Football League in New York City. Her responsibilities include building and maintaining a league-wide financial model as well as financial modeling and analysis for various league initiatives. Prior to joining the NFL, Anna was an investment banking analyst at Morgan Stanley in the Natural Resources Group.

Profile of AIM XXXI

Analyst	Email	First Stock	Second Stock	Post-Graduate Plans	Location
Brooke, Brian	bbrooke@nd.edu	Sotheby's	Zagg, Inc.	Undecided	Undecided
Clark, Chelsea	cclark12@nd.edu	Abbott Labs	Chiquita Brands Int'l.	The Vanguard Group	Philadelphia
Colianni, Martin	mcoliann@nd.edu	Amazon	Whirlpool Corp.	Whirlpool Corporation	Benton Harbor, MI
Conklin, Kaitlin	kconkli1@nd.edu	Hansen	Dresser-Rand Group Inc.	T. Rowe Price	Baltimore
Corcoran, Matthew	mcorcor3@nd.edu	General Dynamics	Choice Hotels Int'l.	US Federal Government	Washington DC
DeBoer, Tyler	tdeboer@nd.edu	Apple	Canadian National Railway	Credit Suisse	Chicago
Delaney, Matthew	delaney.20@nd.edu	Morningstar	FedEx	Barclays Capital	New York
Fahrenbach, Eric	efahrenb@nd.edu	Newmont Mining	Symmetry Medical	Junior - Seeking Internships	Undecided
Flaherty, John	jflaher2@nd.edu	DaVita	Spectra Energy	Jefferies & Co.	New York
Friel, Thomas	tfriel@nd.edu	Activision-Bizzard	Network Appliances	Macquarie Capital	Chicago
Goode, Nicholas	ngoode@nd.edu	UnitedHealth Group	Hercules Offshore	RW Baird & Co.	Chicago
Haddad, Thomas	thaddad@nd.edu	Gilead Sciences	Cal-Maine Foods, Inc.	Credit Suisse	New York
Hinckley, James	jhinckl2@nd.edu	Paychex	The Greenbrier Companies	General Electric	Norwalk, CT
Idaszak, Joseph	jidaszak@nd.edu	Insituform	J. Crew Group	Junior - Seeking Internships	Undecided
Li, Susan	yli10@nd.edu	NeuStar	Options Express	Undecided	Undecided
Mack, Ryan	rmack@nd.edu	Perrigo	Cisco Systems	Notre Dame Investment Office	South Bend
O'Brien, Kevin	kobrie13@nd.edu	Coca Cola	Potash Corp.	Undecided	Undecided
Pappas, James	jpappas1@nd.edu	Republic Services	Global Payments Inc.	Tudor, Pickering, Holt & Co.	Houston
Patton, Ryan	rpatton2@nd.edu	Google	Astec Industries, Inc.	RW Baird & Co.	Chicago
Roggeveen, Richard	rroggeve@nd.edu	Intl. Game Technology	Urban Outfitters	Lazard Frères & Co.	Chicago
Santrach, Stephen	ssantrac@nd.edu	Diamond Foods	Alaska Air Group	The Blackstone Group	New York
Smith, Jack	jsmith49@nd.edu	Walgreens	Dreamworks Animation	RW Baird & Co.	Undetermined
Straccia, William	wstracci@nd.edu	ComScore	Cree Inc.	Citi	New York
Sturm, Patrick	jsturm@nd.edu	Brandywine Realty Trust	Archer Daniels Midland	Lincoln International	Chicago
Sullivan, Jessica	jsulli10@nd.edu	EcoLab	Royal Caribbean Cruises	General Electric	Norwalk, CT
Weeldreyer, Eric	eweeldre@nd.edu	Alliant Techsystems	Chevron Corp.	Credit Suisse	Chicago
Zumot, James	jzumot@nd.edu	Chubb	Acme Packet Inc.	Citi	New York

New York Trip (November 4th – November 7th)

On Thursday, November 4th, the class flew to New York City for a series of meetings with top investment management firms including S –Squared Technology, Alliance Bernstein, The Blackstone Group, Tegean Capital, Brigade Capital, and Viking Global.

On Friday, we began the day with a presentation by S-Squared Technology. Seymour Goldblatt and his team discussed how they conduct research and leverage their technical expertise into security selection. To conclude their presentation, they held a contest challenging students to list the returns on key technology stocks from March 2000 to present. The winner of the contest, John Flaherty, won an all expenses paid trip to NYC to see a show or sporting event. Afterwards, at Alliance Bernstein, top client relationship and fund managers discussed current asset allocation strategies and issues. The class then convened for lunch at the Blackstone Group, where Sean Klimczak (AIM V) educated us on the inner workings of a private equity firm and provided an example of how his firm executes a transaction. Later in the afternoon, Doug Pardon of Brigade Capital explained how a good hedge fund analyst gathers information on stocks. Lastly, Thomas Maheras of Tegean Capital provided examples of investments that his fund is considering and provided his perspective on the financial crisis.

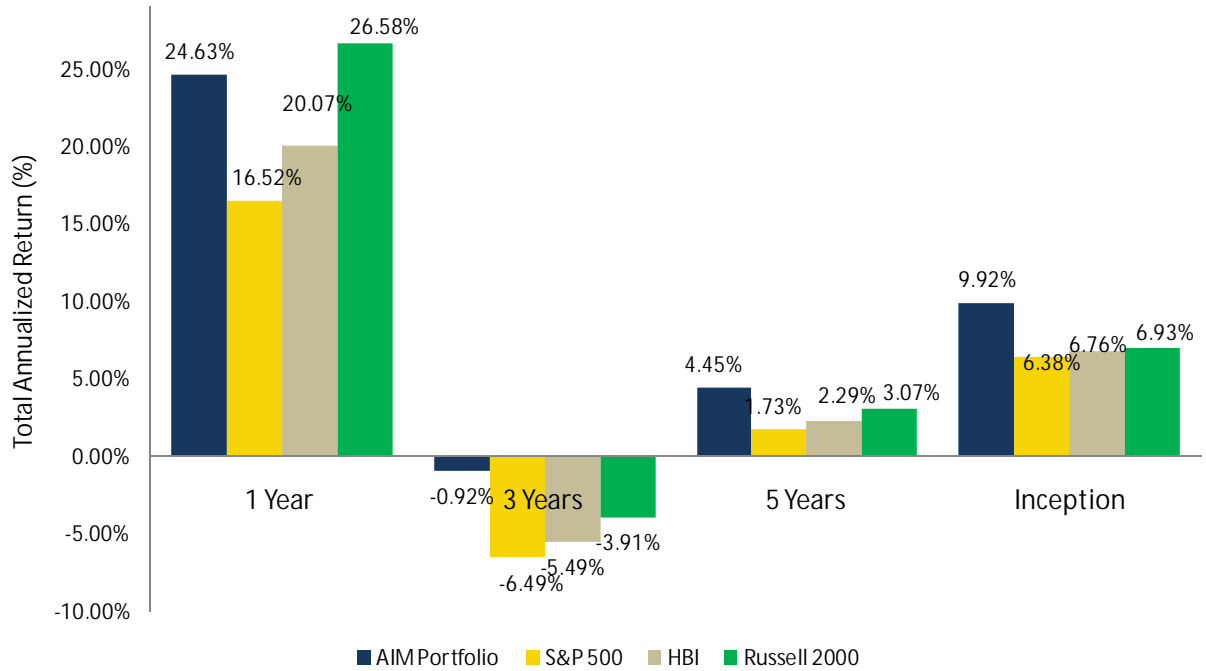
Saturday morning began with a presentation by Jim Parsons of Viking Global, which entailed a case study examining the attractiveness of investing in Coinstar. In the afternoon, the class attended the Radio City Christmas Spectacular and later went to mass at St. Patrick’s Cathedral. In the evening, the class joined local AIM alumni for dinner at the Sheraton in Times Square. The dinner provided an excellent opportunity to network and to receive career advice from those who have gone before us.

The analysts found the trip to be very enjoyable and enlightening. We are very grateful to those involved in making arrangements and hosting us.

Portfolio Performance

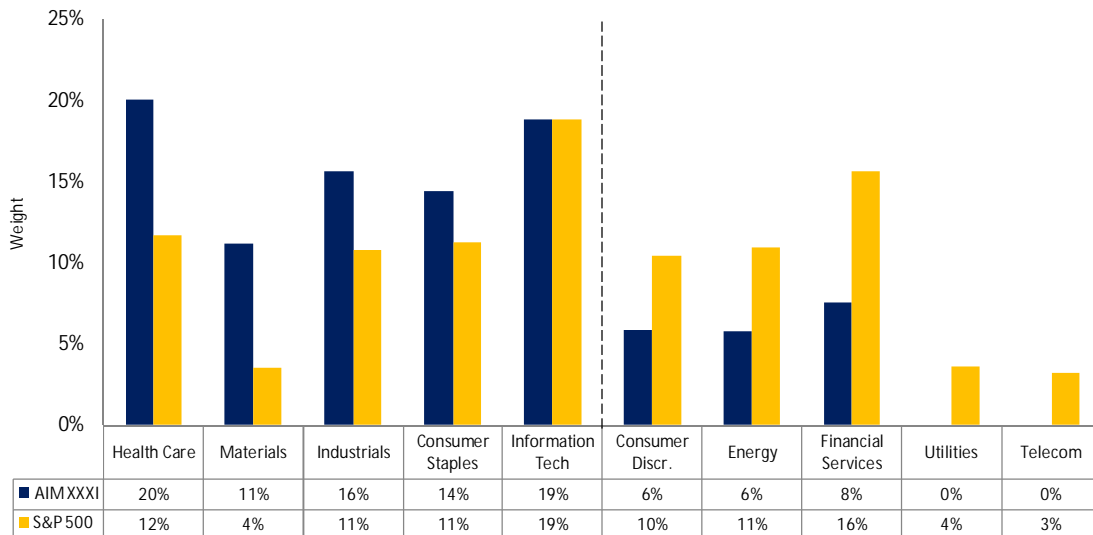
The Applied Investment Management Portfolio has performed at a high level when compared to its benchmarks, the S&P 500, the Russell 2000, and the HBI, a unique blend of the S&P 500 and the Russell 2000 (35% Russell 2000 and 65% S&P 500). Over the past year, the portfolio has returned 24.63% (as compared to 16.52% S&P 500, 26.58% Russell 2000 and 20.07% HBI), and over the past five years the portfolio has returned 4.45% (compared to 1.73% S&P 500, 3.07% Russell 2000 and 2.29% HBI), weathering the financial crisis fairly well.

AIM Portfolio Performance vs. Relevant Indices

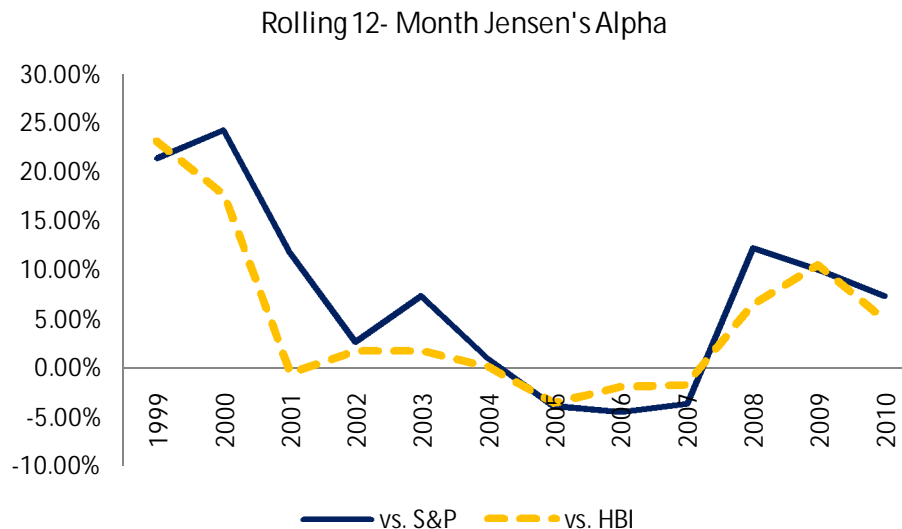


An analysis of the AIM portfolio industry allocation indicates that the portfolio is especially underweight in financials, consumer discretionary, and energy and is completely absent from the utilities and telecom sectors. On the flip side, the portfolio carries a significant overweight in healthcare, materials, and industrials while being slightly overweight in consumer staples. The portfolio is equal-weight in information technology.

Industry Allocation- AIM XXXI vs. S&P 500



Since inception, the portfolio has generated a positive risk-adjusted alpha compared to both the S&P and HBI (3.87% and 3.39% respectively). The past three years, specifically, have generated positive alpha with 2008 being the first year since 2003 that the portfolio outperformed its benchmarks (S&P 500 and the HBI) based upon risk adjusted measures.



*Alpha's are calculated November 30 on a 12-month rolling basis, risk-free rate is based on Citi Group 10-yr US T-bond index

Our Economic Outlook

Quantitative Easing II

The most talked-about piece of economic news over the past month has been the U.S. Federal Reserve's decision to embark on a second round of quantitative easing (QE2). In light of high unemployment (9.6 percent in October) and inflation below informal Fed targets, the Fed decided to recommence purchases of longer term Treasury securities to ease financial conditions and spur economic growth. The Fed will purchase \$75 billion of longer-term Treasury Bills per month, accumulating to a total of \$600 billion through June 2011. QE2 has been met with fierce criticism, both domestically and internationally. We believe that further monetary stimulus by the Federal Reserve is ill advised in the current environment. Long-term consequences of QE2 could include high inflation, impaired U.S. trade relations, and artificial asset bubbles in emerging markets, causing further harm to the global economy and a delayed recovery in the U.S. Improvements in tax, spending and regulatory policies should take precedence over further government stimulus in any effective program for sustained economic growth in the United States.

Employment

Employers added 151,000 jobs in October, but the unemployment rate remained high and steady at 9.6%. The greatest concern is the country's long duration of unemployment. In October, the mean duration of unemployment reached a new high of 33.9 weeks. Workers are staying unemployed for longer, which is causing many participants to drop out of the labor force completely. This phenomenon is evident in the labor force participation rate, which neared a 30-year low of 64.5% in October. We do not foresee any significant short-term improvement in the job market, and we believe that, in the long-term, we will see a new natural rate of unemployment as the economy struggles to add jobs and reach pre-crisis employment levels.

Inflation

Consumer prices rose a less-than-expected 0.2% in October, with the core rate - which excludes food and energy prices - unchanged for the third straight month. The 12-month core inflation rate fell to 0.6% in October from 0.8% in September. This represents the lowest year-over-year core inflation rate in the consumer price index's 53-year history. Including food and energy, the 12-month inflation rate is running at 1.2% which is too low from the Fed's perspective, and lends support to the central bank's latest round of quantitative easing to stimulate. In the short-term, deflation seems to be a more pervasive threat to the health of the U.S. economy than inflation. Still, inflation may be a longer-term concern as the Fed continues to utilize monetary policy tools to promote economic recovery and growth.

Housing

The housing market continues to display pervasive weakness. Despite mortgage rates near historic lows, home prices and sales remain depressed as the market continues to push lower in search of the all important "bottom." Data through September 2010 show that the U.S. National Home Price Index declined 2.0% in the third quarter of 2010 after having risen 4.7% in the second quarter. High unemployment has led to an unprecedented foreclosure crisis, which has put downward pressure on prices because of increased housing inventories. In September 2010, homeowners lost more houses to foreclosure than in any other month. The pressure on banks to modify mortgages has only prolonged the market's slow and steady decline, effectively delaying the market bottom and subsequent recovery. We believe that the housing market will experience a slow recovery once housing prices find a definitive bottom and consumers decide to take advantage of record low mortgage rates and cheap housing prices. This may not occur for quite some time, which leads us to believe that softness in the housing market will continue into 2011. We forecast a further 7 to 10 percent drop in housing prices in 2011.

GDP growth

The U.S. economy grew at a 2.5% annual rate in the third quarter, revised from 2.0%, as companies increased shipments abroad and Americans spent more. Consumer spending increased at an annualized 2.8%, the fastest in nearly four years, while the trade sector was less of a drag on growth than previously expected with exports rising 6.8% (vs. 5% expected).

The Federal Reserve continues to hold interest rates at historically low levels to encourage consumer and business spending. We believe that the Fed will raise rates only after high unemployment has subdued and sustainable economic growth has resumed. Thus, we do not expect the Fed to raise the Fed funds rate until late 2011 at the earliest.

Position Changes

Stocks Added to the Portfolio

Alaska Air Group (ALK) is an airline that primarily services the west coast, Mexico, and Canada with more than 90 destinations and 22 million passengers served per year.

Archer Daniels Midland (ADM) is one of the world's largest processors of agricultural commodities as well as a leading manufacturer of vegetable oil and protein meal, corn sweeteners, flour, and feed ingredients. ADM is also an active in producing ethanol.

Cal-Maine Foods (CALM) is the largest egg producer in the United States. It makes shell eggs, liquid eggs, egg whites, sugar yolk, salt yolk, and dried whole eggs, which are marketed primarily to supermarkets.

Chevron (CVX) is an integrated energy company that participates in exploration, production, and refining operations worldwide.

Cisco Systems (CSCO) is the world's leading supplier of data networking equipment and software.

FedEx (FDX) is the world's largest express delivery firm. It also offers ground and freight services.

Global Payments (GPN) provides electronics payments transaction processing for merchants consumers, financial institutions, independent sales organizations, government agencies, and multi-national corporations. It operates both domestically and in Canada, Europe, Latin America, and Asia Pacific.

J. Crew Group (JCG) is a domestic multichannel specialty retailer of apparel, accessories, and footwear.

Symmetry Medical (SMA) is a healthcare company that designs, develops, and produces medical instruments, cases, and implants.

Stocks Sold from the Portfolio

Brandywine Realty Trust (BDN)
 Diamond Foods (DMND)
 DaVita (DVA)
 Morningstar (MORN)
 NeuStar (NSR)
 Paychex (PAYX)
 Republic Services (RSG)
 comScore (SCOR)
 Walgreen Company (WAG)

Current AIM Portfolio

AIM XXXI Portfolio					
Stock	Ticker	Closing Price (11/29/2010)	Shares Held	Weight	Market Value
Apple	AAPL	\$316.87	1,000	6.10%	\$316,870
Abbott Labs	ABT	\$46.49	4,200	3.76%	\$195,258
Archer Daniels Midland	ADM	\$28.88	6,700	3.72%	\$193,496
Alaska Air Group	ALK	\$55.50	2,800	2.99%	\$155,400
Alliant Tech Systems	ATK	\$73.54	2,100	2.97%	\$154,434
Activision Blizzard	ATVI	\$11.74	17,800	4.02%	\$208,972
Cal-Maine Foods	CALM	\$31.03	6,400	3.82%	\$198,592
Chubb	CB	\$57.08	3,400	3.74%	\$194,072
Cisco Systems	CSCO	\$19.44	13,500	5.05%	\$262,440
Chevron	CVX	\$81.69	3,700	5.82%	\$302,253
EcoLab	ECL	\$48.56	4,000	3.74%	\$194,240
FedEx	FDX	\$91.59	2,300	4.06%	\$210,657
General Dynamics	GD	\$66.31	1,600	2.04%	\$106,096
Gilead Sciences	GILD	\$37.06	5,500	3.92%	\$203,830
Google	GOOG	\$582.11	340	3.81%	\$197,917
Global Payments	GPN	\$41.20	4,900	3.89%	\$201,880
Hansen Natural	HANS	\$53.13	3,000	3.07%	\$159,390
Intl. Game Tech	IGT	\$15.54	12,500	3.74%	\$194,250
Insituform	INSU	\$22.89	8,500	3.75%	\$194,565
J. Crew	JCG	\$43.65	2,500	2.10%	\$109,125
Coca-Cola	KO	\$63.39	3,100	3.78%	\$196,509
Newmont Mining	NEM	\$58.09	3,200	3.58%	\$185,888
Potash	POT	\$143.85	1,400	3.88%	\$201,390
Perrigo	PRGO	\$61.01	3,200	3.76%	\$195,232
Symmetry Medical	SMA	\$8.34	30,500	4.90%	\$254,370
United Health Group	UNH	\$36.59	5,500	3.87%	\$201,245
Cash & Hedge				0.13%	\$6,582
TOTAL				100.00%	\$5,194,953