

Applied Investment Management XXIII Advisory Board Presentation

Discussion Materials

04 December 2006



Agenda

- Section 1: Portfolio Investment Objectives and Guidelines
- Section 2: Economic Environment
- Section 3: Security Analysis
- Section 4: Portfolio Performance Evaluation
- Section 5: Other Activates
- Section 6: Conclusion



Section 1

Portfolio Investment Objectives and Guidelines



Course Overview

Actively engaged in hands-on portfolio management
from the asset allocation decision to individual stock
selection and finally to portfolio performance
evaluation



Legacy Portfolio

- Each stock in the portfolio is assigned to an analyst in May
- Each class begins with updates on newsworthy company items
- Reports are delivered throughout the first half of the semester
- Portfolio decisions are held at semester's end
 - Exceptions made in some cases



Second Stocks

- Analysts choose a stock that may be a good fit for the portfolio according to their preference
- Analysts provide updates on newsworthy items for these companies in addition to first stock responsibilities
- Reports are due at the end of October and during November



Portfolio Decisions

- Analysts discuss the reasonableness of each other's assumptions after each analyst's presentation
- Analysts make recommendations, and the class debates the merits of each stock
- Portfolio decisions consist of an up-or-down majority vote
- This process took place November 21st



Investment Philosophy

- Portfolio is part of University's endowment
 - Fiduciary relationship
 - Prudent person rule
- Primary objectives
 - Outperform S&P 500
 - Grow value of portfolio for future classes
- Long-term focus (3-5 years)
- Constant monitoring of performance
 - Daily reports on company news



Investment Philosophy

- Investment universe
 - U.S. equities
 - Traded on major exchanges
 - Companies' values must align with those of the University

- Portfolio construction
 - Benchmarks
 - S&P 500 (Primary)
 - Russell 2000 and Russell 1000 (Secondary)
 - Sector weighting should approximate benchmark
 - No position may exceed 10% of portfolio



Additional Information

- We are stock pickers
- We are long-term investors
- We are a long-only portfolio
- We maintain a small cash position
- We do not focus on the value vs. growth decision
- We are not day traders
- We do not hold short positions
- We do not maintain margin positions
- We do not hedge
- We do not trade ADRs



Market Capitalization Profile

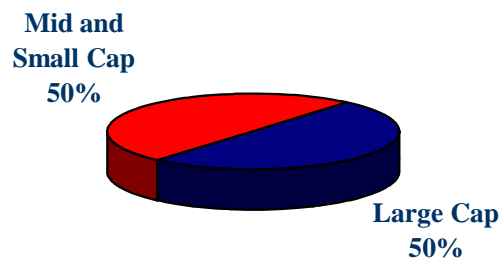
- Target guideline allocations
 - 65% Large Cap (>\$5 billion in market capitalization)
 - 35% Middle (\$1 to \$5 billion) and Small Cap (<\$1 billion)
 - +/- 10% boundary
 - Allocations at portfolio managers' discretion
- Rationale
 - Offers opportunity to achieve diversification in the portfolio while maintaining an acceptable risk level



Portfolio Investment Objectives and Guidelines

Market Capitalization Profile

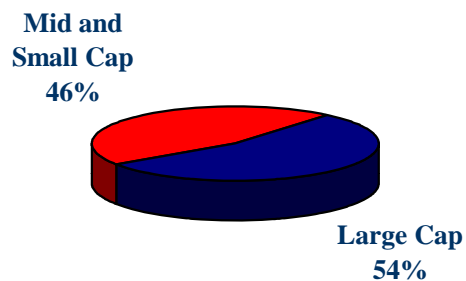
AIM XXI Portfolio as of 11/28/05



Mid and Small Cap Stocks as of 11/28/05

- AMCOL International
- Cheesecake Factory
- Citi Trends
- Edwards Lifesciences
- Headwaters
- International Speedway
- Ixia
- Multi Fineline Electronics
- Petsmart
- Sanderson Farms
- Spartan Motors
- Univision Communications
- Waters Corporation

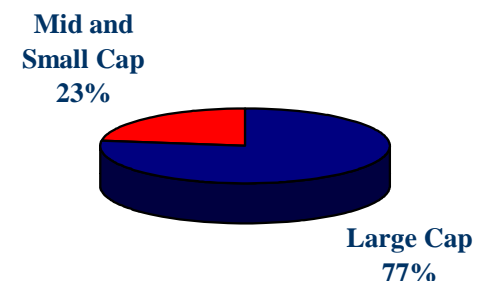
AIM XXII Portfolio as of 4/24/06



Mid and Small Cap Stocks as of 4/24/06

- Bluegreen
- Citi Trends
- Headwaters
- Ixia
- International Speedway
- Headwaters
- Herman Miller
- Petsmart
- Quiksilver
- Sanderson Farms
- Standard Parking
- Tupperware Brands
- Websense

AIM XXIII Portfolio as of 11/24/06



Mid and Small Cap Stocks as of 11/24/06

- Cabelas
- Getty Images
- Ixia
- Petsmart
- Sothebys
- Tupperware Brands



Section 2

Economic Environment



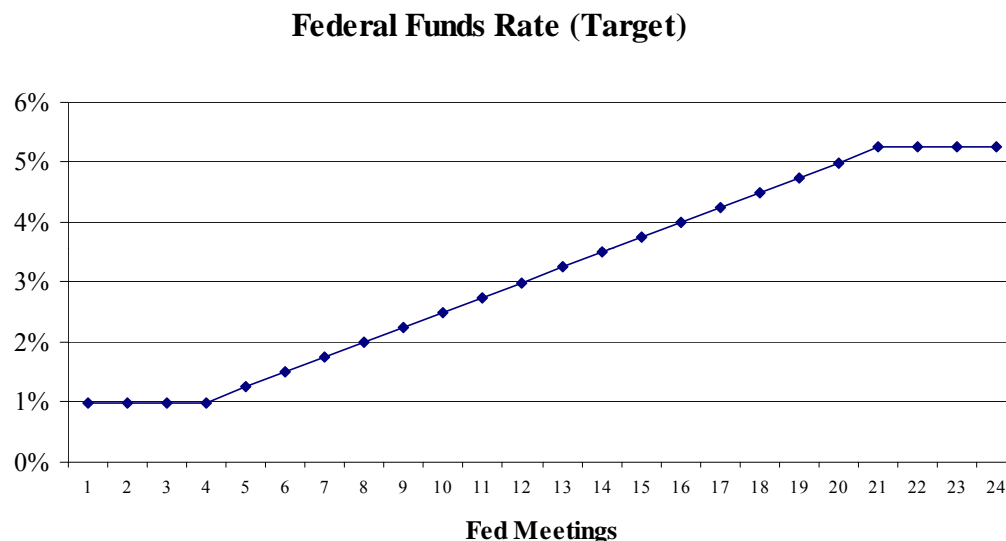
Economic Report Outline

- Domestic economic analysis
 - Central issue: Federal Reserve position on interest rates
 - Analysis of inflationary economic indicators
 - Inflationary measures
 - Energy
 - Labor market
 - Analysis of economic growth
 - Housing
 - Trade deficit/international influences
 - GDP
- Potential impact on portfolio



Interest Rates: Recent Trends

- Fed Funds Rate: 5.25%
 - Inflationary pressures
 - 2 years of rate hikes
 - Economic growth
 - Housing market
 - Energy



- Economic uncertainty
 - Inflationary pressures not yet in Fed’s comfort zone
 - Future decisions based on incoming economic data



The Fed's Top Priority: Inflation

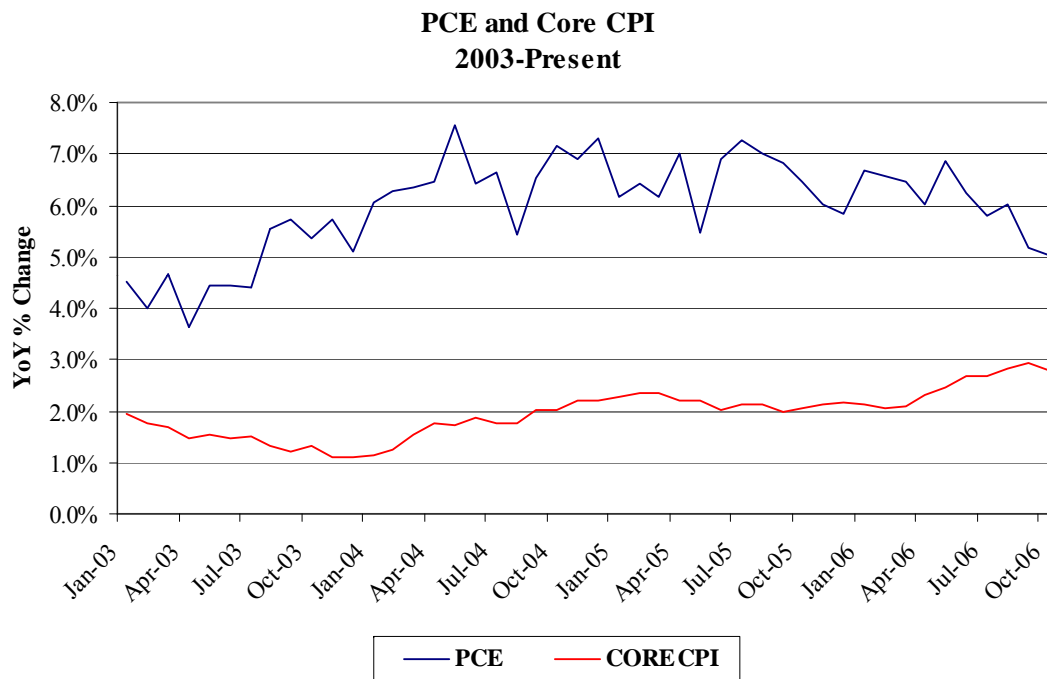
“All members agreed that the risks to achieving the anticipated reduction in inflation remained of greatest concern.”

Notes from Federal Reserve Board Committee On Open Market Operations Meetings of October 24-25, 2006.



Inflation Measures

- Inflation driven to “uncomfortably high” levels by higher
 - Energy prices
 - Materials prices and wages
 - Shelter costs
- Moderately offset recently by falling energy prices



Source: St. Louis Fed



Inflation: Leading Indicators

Unit Labor Costs Since 2003 - Present



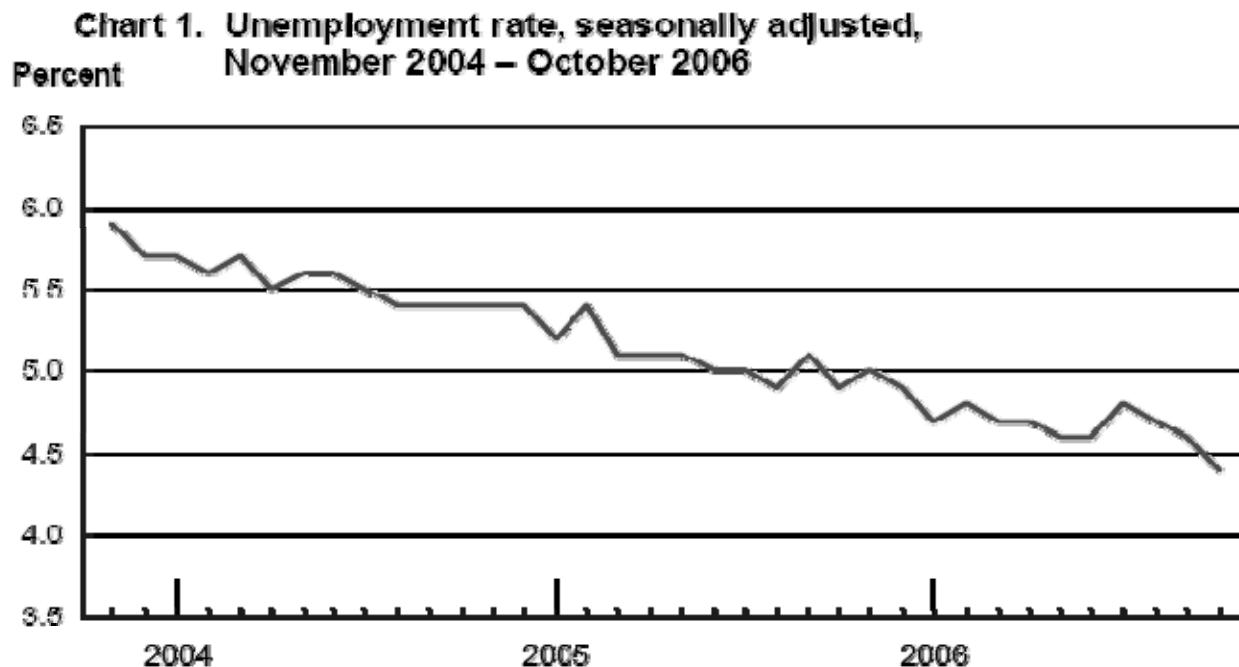
Source: St. Louis Fed

- Unit Labor Costs rising
 - Wages rising
 - Productivity lagging
- Produces inflationary pressure
 - May be moderated by strong corporate profits



Inflation: Labor Market

- October unemployment: 4.4% - lowest level since May 2001



Source : Bureau of Labor Statistics

- Labor costs: Up 5.3% YoY – fastest increase in 16 years
- Productivity: Up 1.3% YoY – slowest growth since 1997



Inflation: Labor Market Outlook

- ↑ Unemployment**
 - Expected to average out at 4.75% through 2007

- ↑ Labor productivity**
 - Projected 2.0% increase YoY in 2007
 - Increase as workforce thins

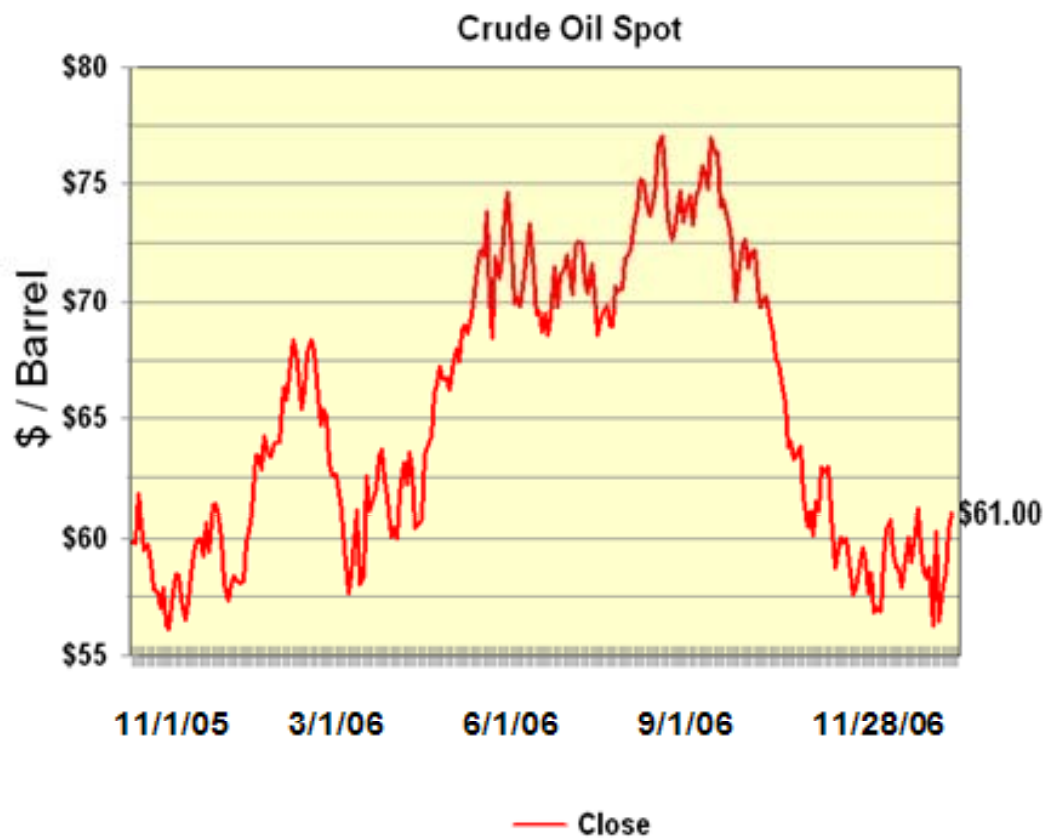
- ↓ Labor costs**
 - Increase at slower rate as unemployment rises towards natural rate



Inflation: Energy

Oil

- Spike in spring/summer
- 20% decline since July 2006 peak
- Prices relatively flat YoY
- Eased geopolitical factors
- Positive weather



Source: Energy Information Administration



Inflation: Energy (Cont'd)

Natural Gas

- 40% decrease from August to September 2006
- 50% increase from September to October of 2006
- Temperature sensitive
- Positive weather

Natural Gas Spot



Source: Energy Information Administration



Inflation: Energy Outlook

Oil

- OPEC production
 - 1.2 million bbl/d cutback
 - Further cutbacks
- Non-OPEC countries production
- Oil demand during heating season

- Estimates
 - 2006: \$61-\$67 a barrel
 - 5%-15% increase YoY
 - 2007: \$62-\$68 a barrel
 - Flat YoY

Natural Gas

- Storage of inventories
- Winter weather forecasts

- Estimates
 - Stay below \$9 per million BTU
 - 20%-50% decrease YoY
 - Increases from 2006 to 2007



Inflation Outlook

- Inflationary concerns will continue to drive Fed monetary policy going forward
- Inflation expected to continue trending down towards a more “comfortable” level (2%)
- Decrease driven by
 - Moderate energy prices
 - Cooling labor market
 - Moderate economic growth



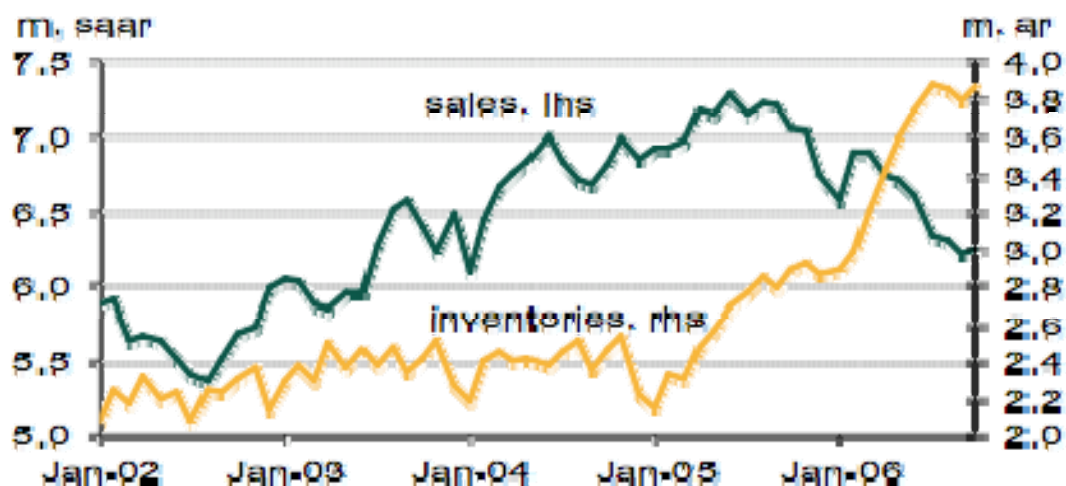
Economic Growth

- Slower economic growth may influence Fed decisions going forward
- Economic growth significantly influenced by
 - Housing market slowdown
 - Consumption
 - International influences



Economic Growth: Housing

Existing home sales and inventories

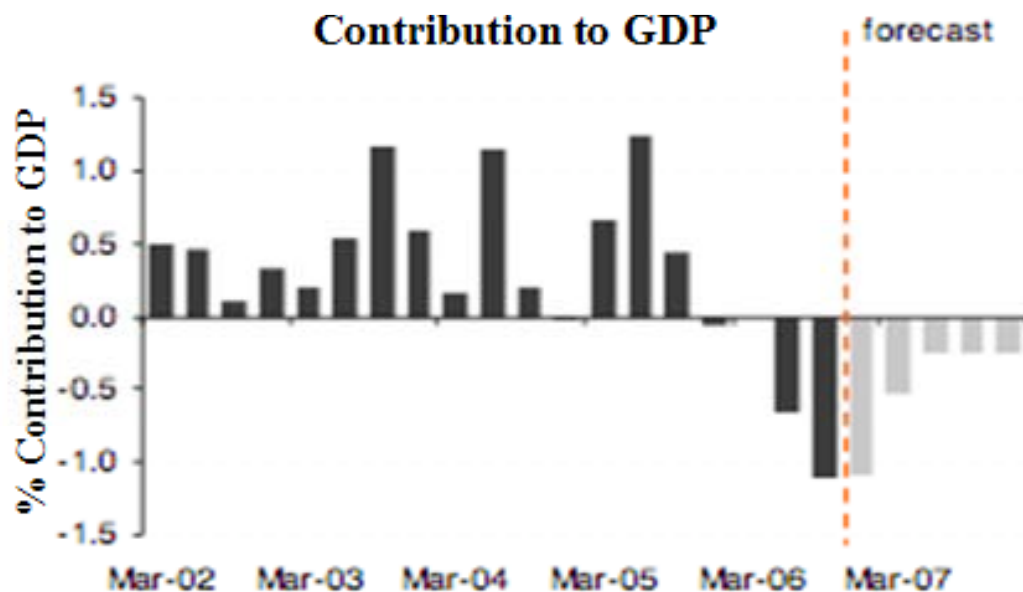


Source : National Realtors Association

- Aggressive price-appreciation and higher mortgage interest rates decreased the affordability of housing
- Lower demand and large supply has put downward pressure on home prices
 - Inventory build-up
 - Cut back on residential investment



Economic Growth: Housing



Source : National Realtors Association

- Housing’s contribution to economic growth peaked last year and is now subtracting from overall economic activity
 - Residential investment reduced Q3 GDP growth by 1.1 pp
- Limited evidence of multiplier effects on consumer spending or aggregate employment

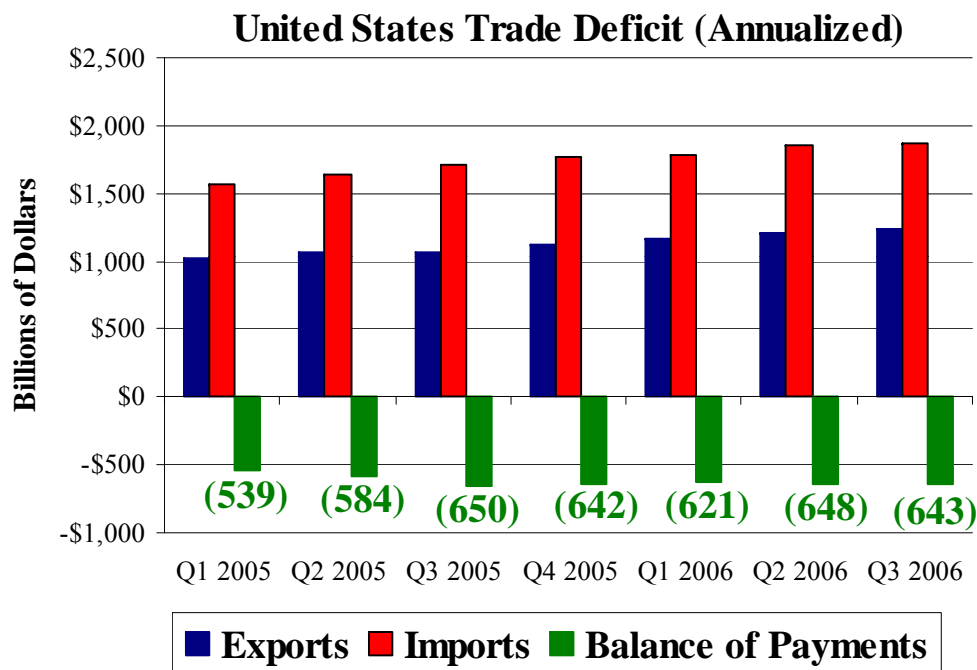


Economic Growth: Housing Outlook

- First stage of correction is ending
- However,
 - Prices: Average Selling Price (ASP) will continue to fall
 - Demand: Stabilizing in response to lower mortgage rates and lower prices
 - Supply: Builders will reduce construction
- Residential investment will reduce 1pp from GDP growth in 2007



Economic Growth: Trade Deficit



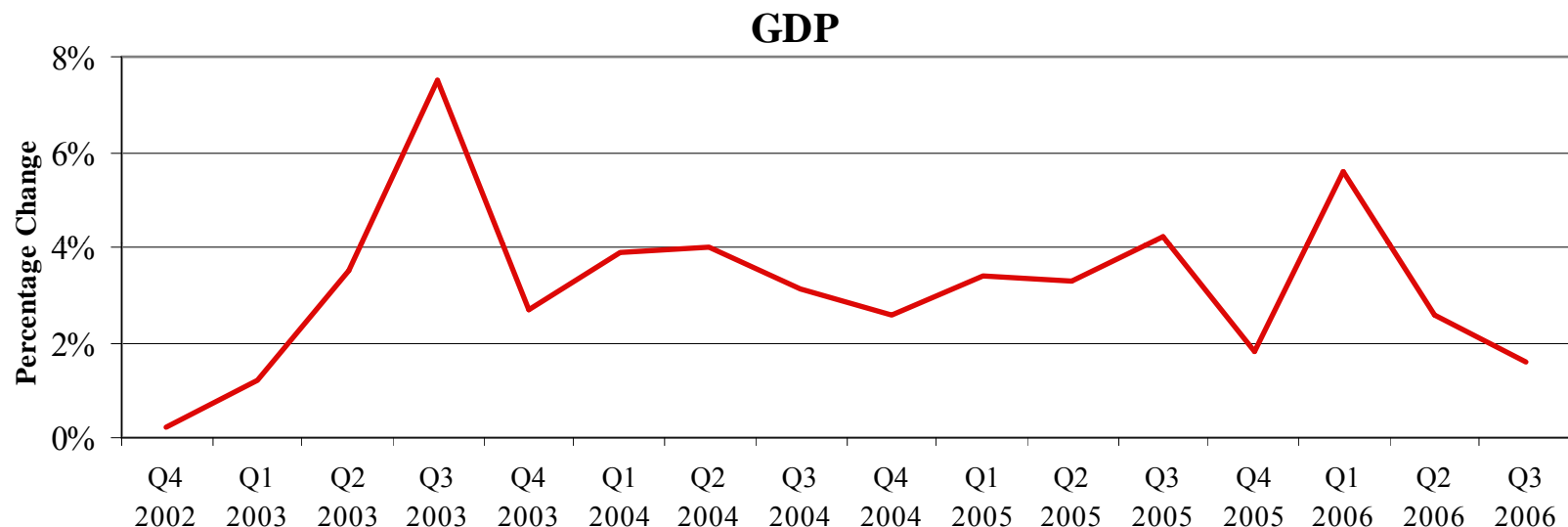
Source: Federal Reserve Bank of St. Louis

- Trade deficit still substantial
- Trade deficit leveling off
 - Depreciating U.S. dollar
 - Strong performance of exports
- Deficit less of a drag on the economy



Economic Growth: GDP

- Economy has entered the *transition phase* in the expansionary cycle



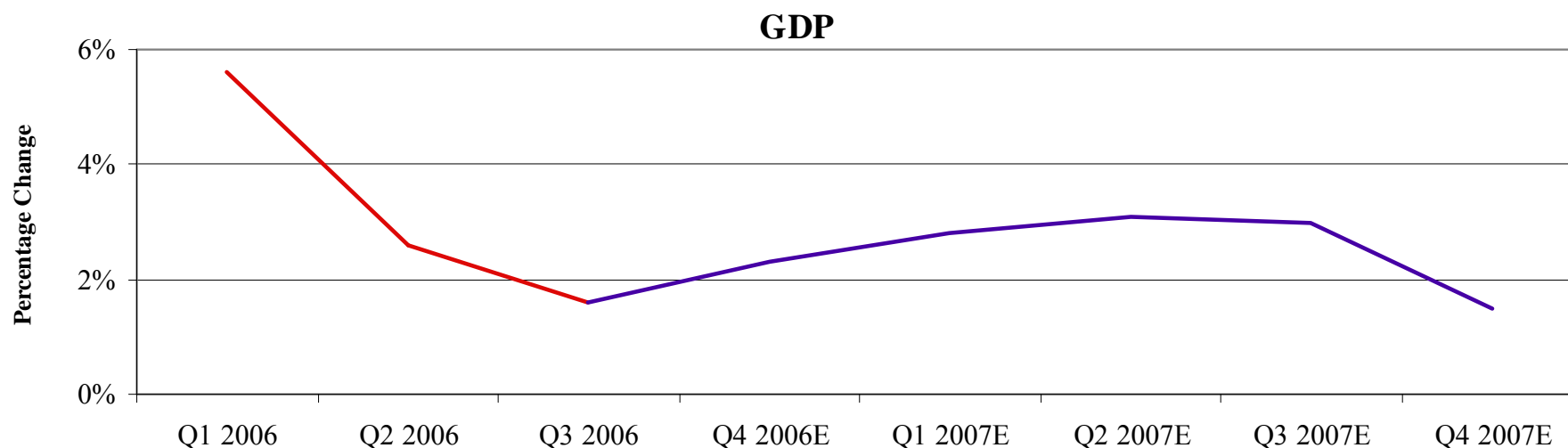
Source: Department of Commerce

- Q3 GDP 2.2%, down from 2.6% in Q2 and 5.6% in Q1
 - Interest sensitive consumer sectors and the housing correction drive decreased expenditures
 - On the other hand, a solid job market, healthy capital expenditures and decline in unemployment signal strong economic fundamentals



Economic Growth: GDP Outlook

- Moderate economic expansion
 - 2006E: 3.3% YoY
 - 2007E: 2.6% YoY



Source: Department of Commerce and Moody's Estimates






Interest Rates: Outlook

- Will Fed raise or lower interest rates?
 - Inflation out of Fed's comfort zone
 - Slowing economy
- Interest rate changes
 - Fed will continue to leave rates unchanged
 - Rate cut expected early to mid 2007
 - High interest rates force inflation to subside
 - Lower rates boost a sluggish economy



Portfolio Impact

- Portfolio analyzed in light of economic forecast by sector
- Analyzed on the basis of four forecasted variables
 - Moderate energy prices
 - Easing labor market
 - Housing market correction
 - Flat interest rates
- Impact on sector based on forecast
 - Positive 
 - Neutral 
 - Negative 



Portfolio Impact (Cont'd)

- Sector impacts
 - Consumer discretionary and consumer staples

Sector	Moderate Energy Prices	Easing Labor Market	Housing Correction	Flat Interest Rates
Consumer Discretionary				
Coach, Tupperware, Cabela's				
Higher unemployment and slower increases in wages drag sector				

Sector	Moderate Energy Prices	Easing Labor Market	Housing Correction	Flat Interest Rates
Consumer Staples				
Sysco				
Staples remain resilient				



Portfolio Impact (Cont'd)

- Sector impacts
 - Healthcare and information technology

Sector	Moderate Energy Prices	Easing Labor Market	Housing Correction	Flat Interest Rates
Healthcare				
Medtronic, Amgen, Unitedhealth Group, Gilead Sciences				
Most income comes from 3rd party insurers				

Sector	Moderate Energy Prices	Easing Labor Market	Housing Correction	Flat Interest Rates
Information Technology				
Dell, Ixia, Symantec				
The sector remains highly sensitive to the labor sector for future growth				



Portfolio Impact (Cont'd)

- Sector impacts
 - Energy and materials

Sector	Moderate Energy Prices	Easing Labor Market	Housing Correction	Flat Interest Rates
Energy				
BJ Services, Exxon, XTO				
Moderate energy price increases will positively benefit sector to offset labor costs				

Sector	Moderate Energy Prices	Easing Labor Market	Housing Correction	Flat Interest Rates
Materials				
Barrick Gold				
Gold acts as inflationary hedge				



Portfolio Impact (Cont'd)

- Sector impacts
 - Financials

Sector	Moderate Energy Prices	Easing Labor Market	Housing Correction	Flat Interest Rates
Financials	Yellow	Green	Yellow	Red
Citigroup, Moody's, Morgan Stanley, Western Union, McGraw Hill				
Increased productivity benefits sector while interest rate environment hurts sector				



Section 3
Security Analysis



AIM Research Process

- Company background analysis
- Industry analysis
- Fundamental analysis
 - Business and financial risk measures
 - Growth and DuPont analysis
- Earnings forecasts and beta estimation
- Final valuation
 - DCF
 - Multiples
- Technical analysis



Citi Trends: Overview

- Discount retailer of urban fashion apparel
- Formed through reorganization of Allied Department Stores in 1999
- Refocused strategy: urban fashion market, value-pricing, and efficient store model
- 266 stores in Southeast/Mid-Atlantic
- IPO May 2005
- Market Capitalization: \$555.62 M

Citi Trends

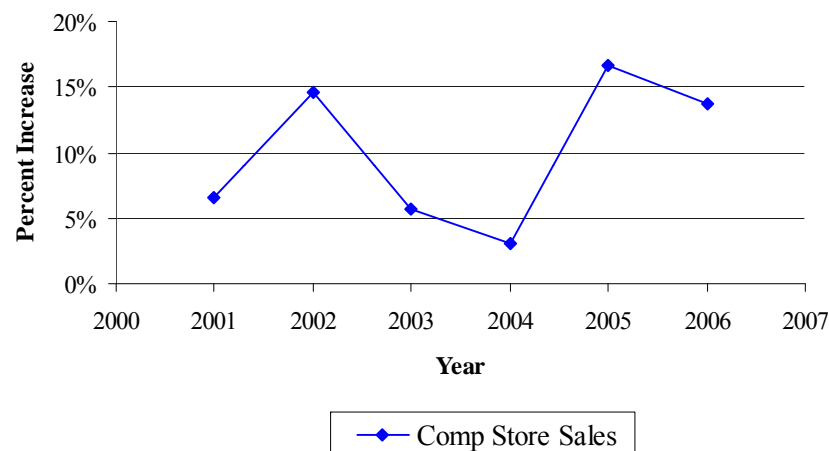


Citi Trends: Revenue Forecast

Projected Stores



Comparable Store Sales



- Revenue growth slows from 25% to 15% in five years



Citi Trends: Continuing Value

CV

NOPLAT	\$56,366
g	7.00%
ROIC	13.00%
WACC	11.05%
CV	\$642,346
Discounted	\$342,498

Slower growth in perpetuity

All value in the CV

Intrinsic Value

Value of Operations	\$328,418
Entity Value	\$373,793
Debt Value	\$88,318
Equity Value	\$285,475
Shrs. Outstanding	14,069
Intrinsic Value	\$20.29
Share Price	\$45.59



Citi Trends: Valuation

Analysis	Value	Weight	Contribution to Weighted Average
Free Cash Flow	\$20.29	67%	\$13.59
Price to Earnings	41.52	33	13.70
Total			\$27.30
Market Price			\$45.59
Downside			67.0%
Recommendation			SELL



Western Union: Overview

- Global leader in money transfer and consumer payments business
- Two primary business segments
 - Consumer-to-consumer (C2C)
 - Consumer-to-business (C2B)
- TTM revenues of \$4.4 Bn
 - C2C: 82%
 - C2B: 15%
 - Other 3%
- Market Cap - \$16.5 Bn





Western Union: Overview (cont'd)

- Spun-off from First Data in February 2006
 - Began trading October 2nd
- Largest footprint in a fast-growing, global industry
 - Over 270,000 agent locations in 200 countries/territories
 - Global migrant population expected to grow rapidly
 - WU well positioned in major emigration countries
 - India, China, Mexico, and Philippines
- Most recognizable and trusted name
- Cash cow
 - Operating margins above 30%
 - Low reinvestment needs



Security Analysis

Western Union: Free Cash Flow

(in millions)	2007	2008	2009	2010	2011	Annuity	CV
FCF:	\$ 849.95	\$1,080.26	\$ 1,318.69	\$ 1,425.50	\$ 1,659.17	\$ 13,377.03	\$ 48,112.55
DCF (at WACC of 11.6%):	\$ 761.62	\$ 867.40	\$ 948.81	\$ 936.48	\$ 8,686.88	\$ 9,277.61	
Sum of DCF's:			\$ 21,478.80				
plus cash:		\$1,327.60					
Entity Value:			\$ 22,806.40				
minus Liabilities:		\$3,977.60					
Equity Value:			\$ 19,306.80				
Shares Outstanding:		764					
Intrinsic Value:			\$ 25.27	per share			



Western Union: Valuation

Analysis	Value	Weight	Contribution to Weighted Average
Free Cash Flow	\$25.27	100%	\$25.27
Book Value	(0.75)	0%	-
Total			\$25.27
Market Price			\$22.57
Upside			12.0%
Recommendation			BUY



Bluegreen Corp: Division Analysis

- Communities division
 - 35% of revenues, 44% profits
 - “Horizontal development”
 - 50-75 miles from cities
- Resorts division
 - 65% of revenues, 56% profits
 - 115,000 Vacation Club members
 - Global exchange network
- Market Capitalization: \$421 M
- Revenue (ttm): \$621 M





Bluegreen Corp: Industry Analysis

- Timeshares
 - Impressive growth over past 10-15 years
 - Growth fueled by entry of well-known companies
 - Marriott, Hilton, Walt Disney
 - Increasing competition
 - Evidenced by increasing SG&A as % of sales for Bluegreen





Bluegreen Corp: Valuation

Analysis	Value	Weight	Contribution to Weighted Average
Free Cash Flow	\$11.86	50%	\$5.93
Price to Earnings	9.18	25%	2.30
Price to Sales	12.92	10%	1.29
Price to Book	12.13	10%	1.21
Book Value	10.83	5%	0.54
Total			\$11.27
Market Price			\$13.62
Downside			20.9%
Recommendation			SELL



Symantec: Overview

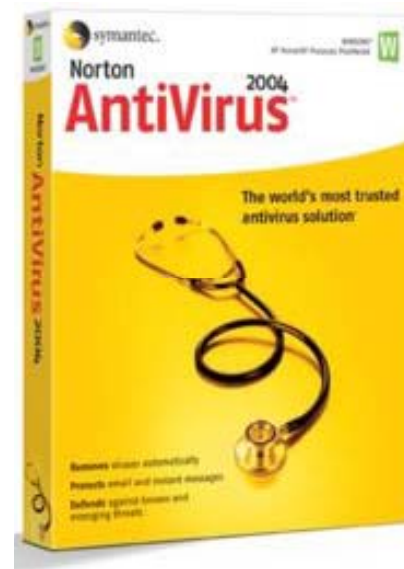
- Computer storage and security products
- Five business segments
 - Consumer products
 - Enterprise security
 - Data protection - VERITAS
 - Storage and server management - VERITAS
 - Services
- Market Cap - \$20 Bn





Symantec: Overview (Cont'd)

- Strengths
 - Strong management
 - Strong product base (especially Consumer AV Software)
 - Strong cash flows from subscription revenue
- Threats
 - Microsoft's entry into AV Market
 - Microsoft's new Vista OS
 - Commoditization of AV Software?
 - Inability to fully integrate Veritas





Symantec: PE Multiples

Currently Trading at:*	17x
Peers*	
McAfee (MFE)	19x
Microsoft (MSFT)	20x
Software Industry Average	22x
Historically	25x
20x FY07E	\$28.60

***Based on 2007 estimated earnings**



Symantec: Valuation

Analysis	Value	Weight	Contribution to Weighted Average
Free Cash Flow	\$26.11	55%	\$14.36
Price to Earnings	28.60	25%	7.15
Price to Sales	24.16	10%	2.42
Price to Book	34.74	10%	3.47
Total			\$27.40
Market Price			\$20.15
Upside			36.0%
Recommendation			BUY



Armor Holdings: Overview

- Aerospace & Defense division
 - Armoring and safety systems to US Military
 - Sole provider of Armored Humvees
- Products division
 - Brand name safety and protective products to government agencies, law enforcement, etc.
- Mobile Security division
 - Armored cars for heads of state, wealthy individuals, banks & money services, etc.
- Market Cap: \$1.98 Bn

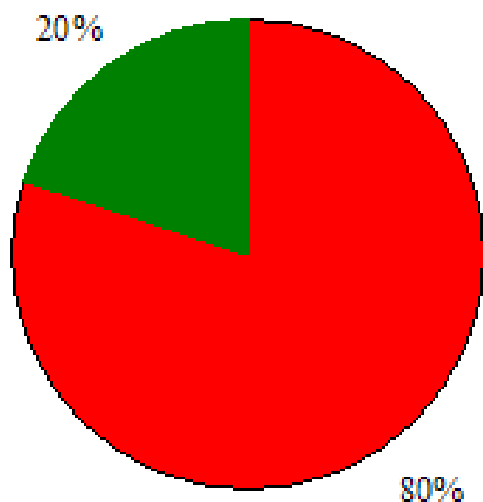


ARMOR HOLDINGS, INC.

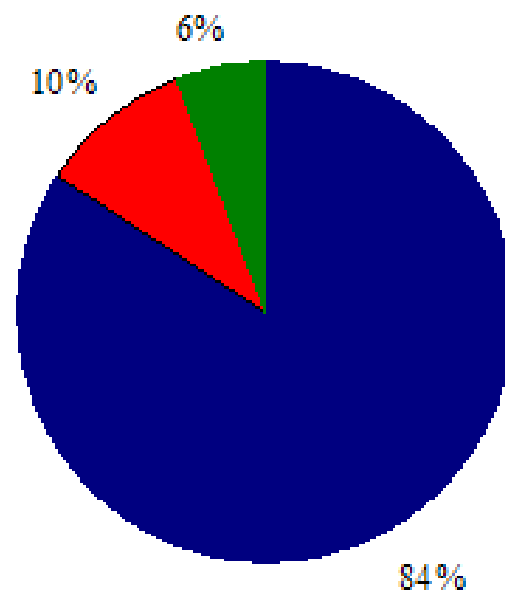


Armor Holdings: Business Mix

AH Business Units (2001 Earnings)



AH Business Units (2005 Earnings)





Armor Holdings: EPS Forecast

	TTM	2007	2008	2009	2010	2011
Revenue Growth	23.0%	66.0%	-10.0%	-10.0%	-8.0%	-8.0%
Margins:						
Gross	21.0%	18.0%	20.0%	19.5%	19.5%	19.5%
Operating	13.2%	11.2%	13.2%	12.1%	11.7%	11.4%
Net	9.3%	6.0%	7.4%	7.0%	6.9%	6.8%
EPS	\$5.04	\$5.26	\$5.76	\$4.84	\$4.25	\$3.83

- Armor relies heavily on US military action overseas
 - Democratic control of Congress
 - Expiration of Humvee Contracts
- Recent acquisition of Stewart & Stevenson



Armor Holdings: Valuation

Analysis	Value	Weight	Contribution to Weighted Average
Free Cash Flow	\$54.41	60%	\$32.65
Price to Earnings	63.18	40%	25.27
Total			\$57.92
Market Price			\$54.34
Upside			6.6%
Recommendation			BUY

- Decision process
 - Desire to invest in companies with strong earnings growth
 - Risk of inability to secure replacement contract
- Final decision
 - DO NOT BUY



Getty Images: Overview

- World's leading provider of imagery, film footage, and digital services
- Primary customers
 - Advertising agencies, corporations, news companies
- 3 main lines of business
 - Stock photography (80%)
 - Editorial (15%)
 - Film (5%)
- Market Cap: \$2.64 Bn

gettyimages®



Getty Images: SWOT

- Strengths
 - Market leader and first mover in the industry
 - Business model
 - Website
 - Product offering (quantity and quality)
- Weaknesses
 - Revenues tied to a cyclical industry
 - Exposed to exchange rate fluctuations



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Getty Images: SWOT (Cont'd)

- Opportunities
 - International markets
 - Video advertising
 - New website
- Threats
 - Competition from Corbis and Jupitermedia
 - Downturn in the advertising industry
 - Strengthening dollar





Getty Images: DuPont Analysis

	1999	2000	2001	2002	2003	2004	2005	TTM
Net Margin	-27.4	-34.9	-21.1	4.6	12.2	17.1	20.4	20.2
TAT	0.26	0.44	0.45	0.45	0.43	0.43	0.44	0.49
Leverage	1.28	1.62	1.67	1.54	1.46	1.36	1.34	1.36
ROE	-9.1%	-24.8%	-15.9%	3.2%	7.7%	10.0%	12.0%	13.5%



Getty Images: Valuation

Analysis	Value	Weight	Contribution to Weighted Average
P/E	\$56.71	10%	\$5.67
Price to Sales	66.79	10%	6.68
Price to EBIT	64.45	10%	6.45
Price to EBITDA	59.35	10%	5.94
Free Cash Flow	50.79	60%	30.47
Total			\$55.21
Market Price			\$44.33
Upside			19.7%
Recommendation			BUY



Build-A-Bear Workshops: Overview

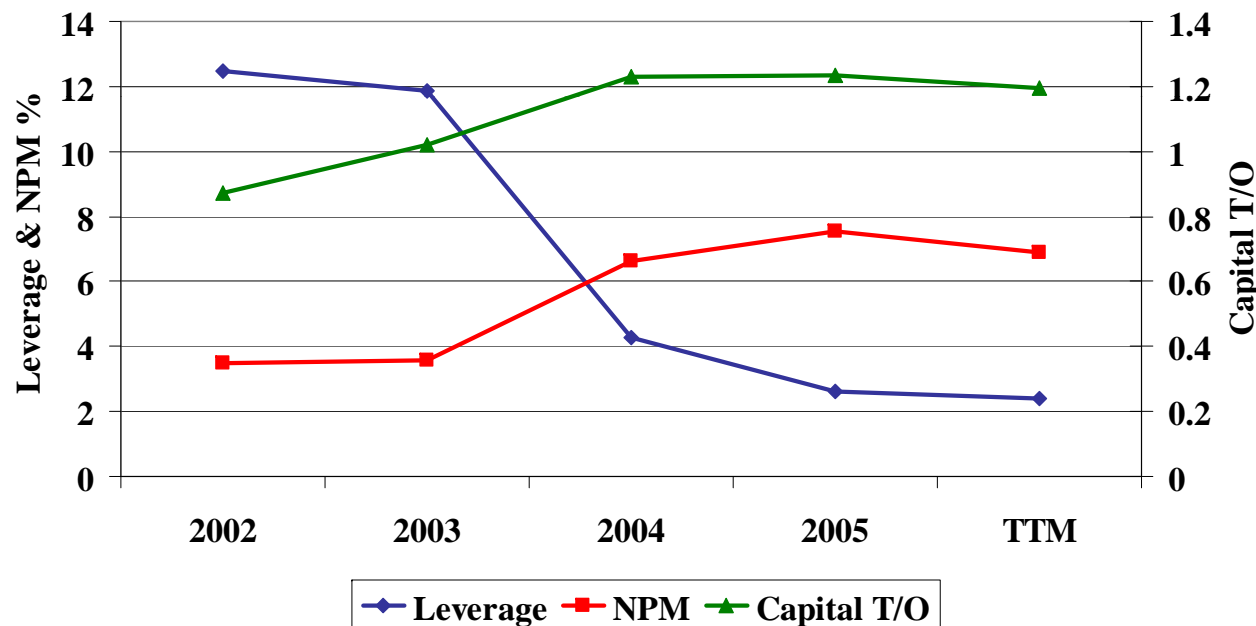
- The concept
 - Build-your-own stuffed animal retailer
 - Niche market player in experiential retail space
- Cash flow drivers
 - Incremental sales in new stores
 - Franchise fees and royalties on international locations
- Capital structure
 - \$656 million market capitalization
 - No traditional long term debt
 - Significant operating leases





Build-A-Bear: Fundamental Analysis

Du Pont Components

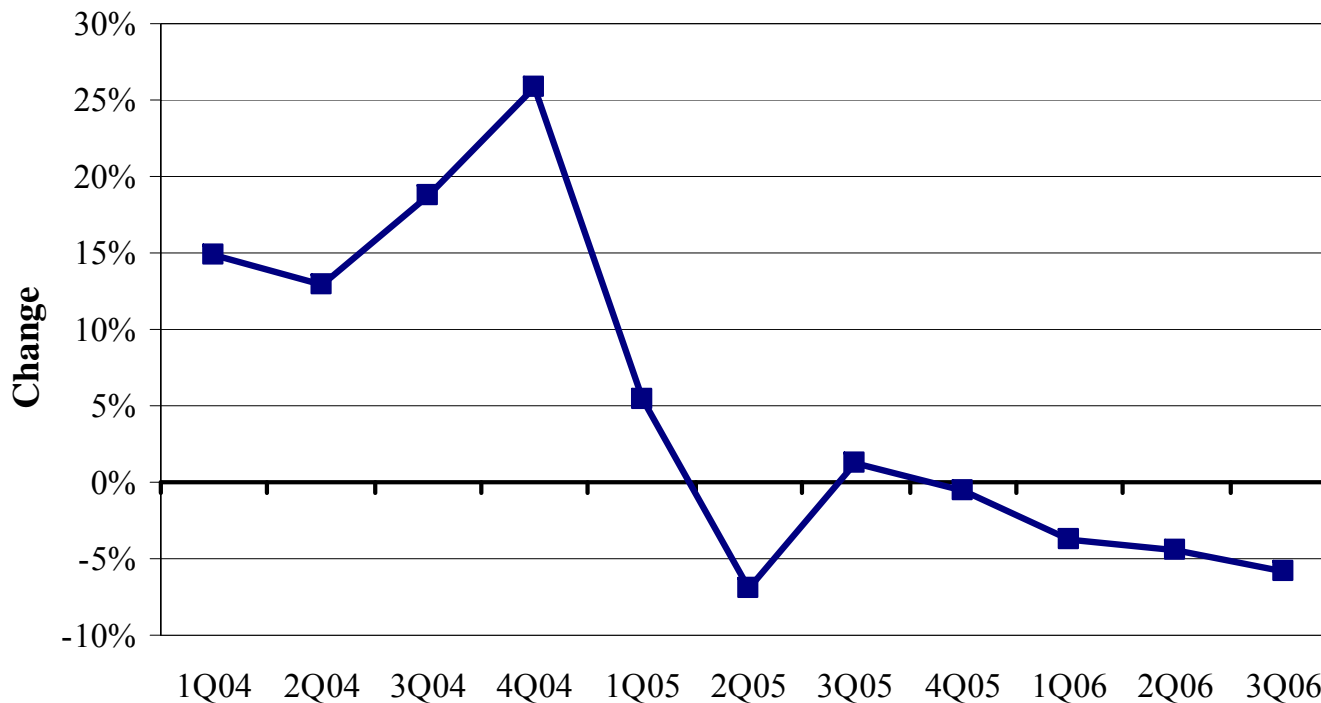


- Leverage swing attributable to 2004 IPO
- Drastic slowing/reversal of profit margin and turnover growth



Build-A-Bear: Fundamental Analysis (Cont'd)

**Change In Same Store Sales
Compared to Same Quarter in Previous Year**





Build-A-Bear: Valuation

Analysis	Value	Weight	Contribution to Weighted Average
Free Cash Flow	\$28.53	70%	\$19.97
Price to Earnings	28.28	15%	4.24
Price to Book	31.11	15%	4.67
Total			\$28.88
Market Price			\$29.43
Downside			1.9%
Recommendation			DO NOT BUY



Gilead Sciences: Overview

- World-leader in HIV retroviral treatments
 - Principal source of sales revenue (77%)
- Large cash reserves used to purchase royalty interests owned by third parties and for acquisitions
 - Acquired Myogen, Inc. for \$2.5 Bn (cash) in 4th quarter of 2006 to expand into the cardiovascular disease arena
- HIV products sold at-cost in 97 developing countries

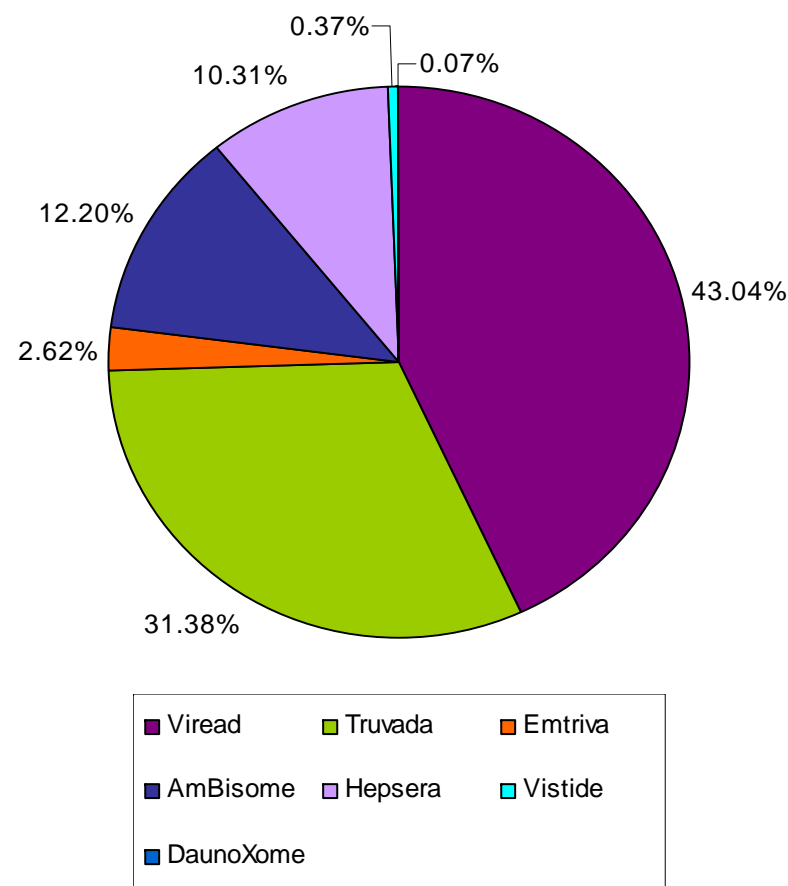




Gilead Sciences: Background

- Major HIV products
 - **Truvada**: Fixed-dose combination of Viread and Emtriva (once-a-day)
 - **Atripla**: Stand-alone therapy combining Truvada and Bristol-Meyers' Sustiva (July 2006)
- Growing royalty revenue from Roche's sales of Tamiflu
 - Continued orders for pandemic readiness (globally)

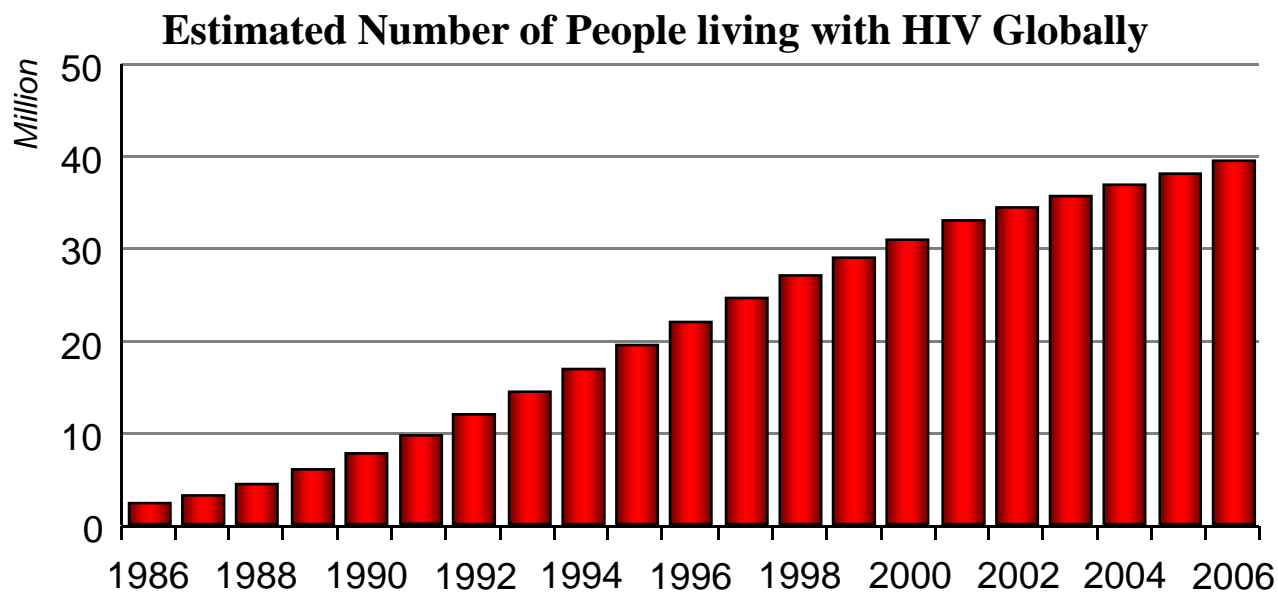
Sales Breakdown by Product





Gilead Sciences: Market Analysis

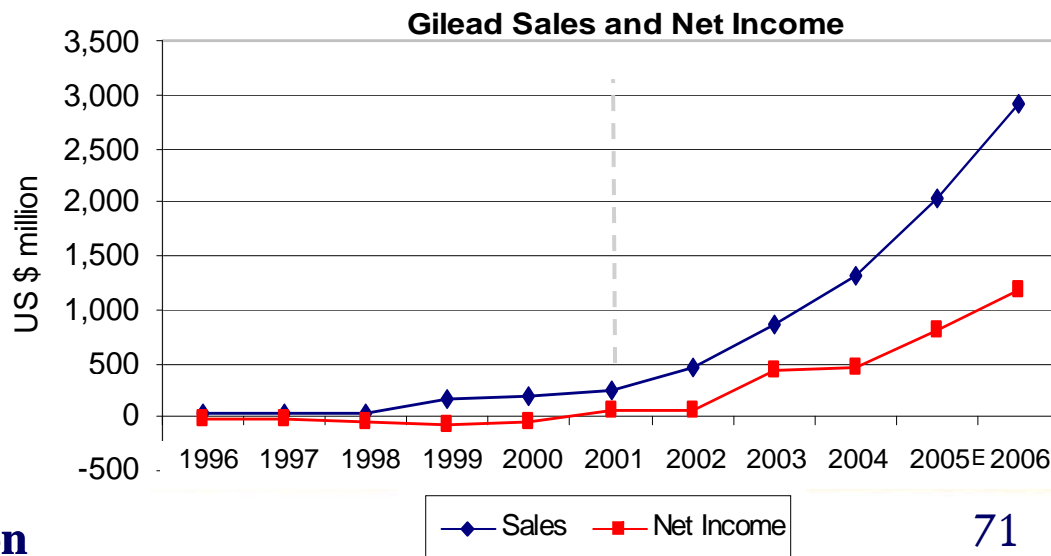
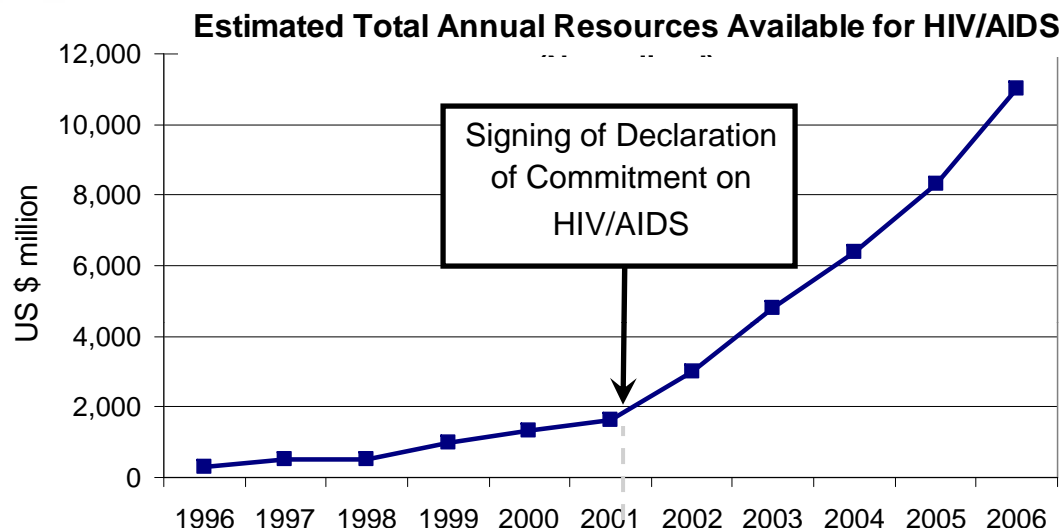
- **High unmet need**
 - 16% covered in Asia
 - 13% in Eastern Europe and Central Asia
 - 12% in the Caribbean





Gilead Sciences: Market (Cont'd)

- AIDS to become the 3rd leading cause of death worldwide
- Increased awareness has led to reforms for its prevention and treatment
- Funds and need have led to sharp increase in sales
- Revenues for 2005 represented a 53% increase from 2004

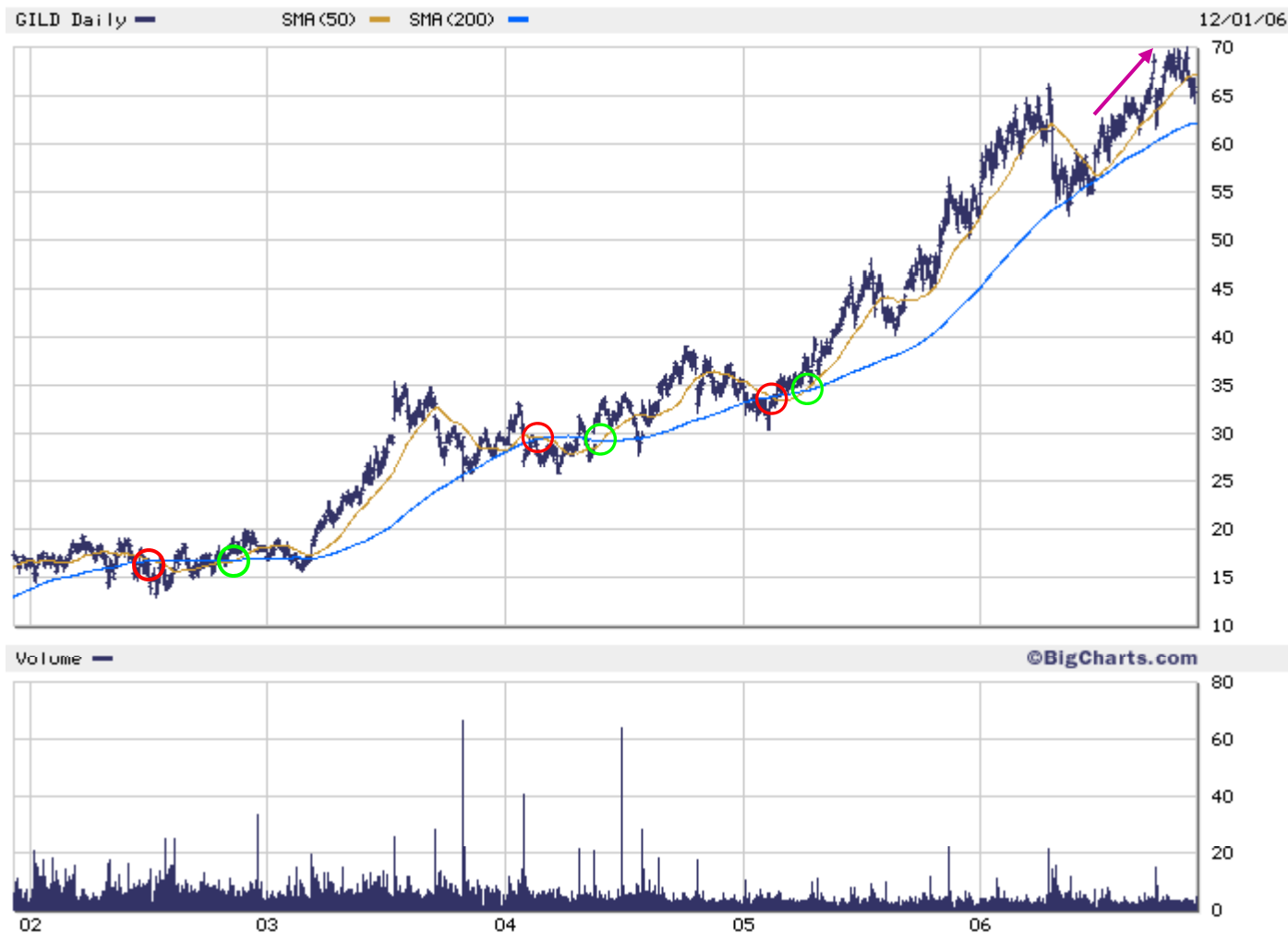




Gilead Sciences: Technical Analysis

Moving Averages
(50 day vs.
200 day)

5-Year Chart



- Bearish
- Bullish



Gilead Sciences: Valuation

Analysis	Value	Weight	Contribution to Weighted Average
Free Cash Flow	\$73.74	75.0%	\$55.30
Price to Earnings	64.30	15.0%	9.64
Price to EBIT	80.52	2.5%	2.01
Price to Sales	70.11	2.5%	1.75
Price to Book	79.85	5.0%	3.99
Total			\$72.71
Market Price			\$67.86
Upside			7.1%
Recommendation			BUY



Section 4

Portfolio Performance Evaluation



Evaluation Approach

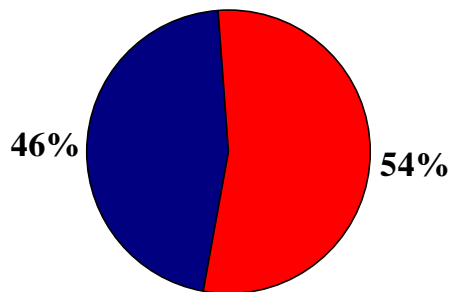
- In comparison to S&P 500 (benchmark)
 - Sector allocations
 - Absolute performance
 - Risk
 - Beta
 - Standard deviation
 - Risk-adjusted performance
 - Sharpe ratio
 - Alpha
 - Attribution analysis
- Focus on risk-adjusted performance
- Look at long-term returns



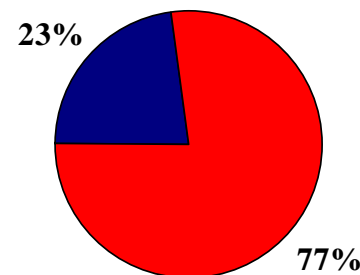
Market Capitalization Breakdown

Market Capitalization	Portfolio Targets	Portfolio Percentage (As of 05/15)	Portfolio Percentage (As of 11/15)
< \$5 Billion	35%	46%	23%
> \$5 Billion	65%	54%	77%
Total	100%	100%	100%

05/15 Market Capitalization Breakdown



Current Market Capitalization Breakdown



■ Small & Mid Cap ■ Large Cap



Portfolio Performance Evaluation

AIM Portfolio vs. Benchmark

(As of 11/27/06)

	P/E	Div Yield	EPS Growth	Debt/Equity
S&P 500	16.61	1.82%	19.32%	1.17
AIM Portfolio	17.58	0.90%	29.04%	1.13

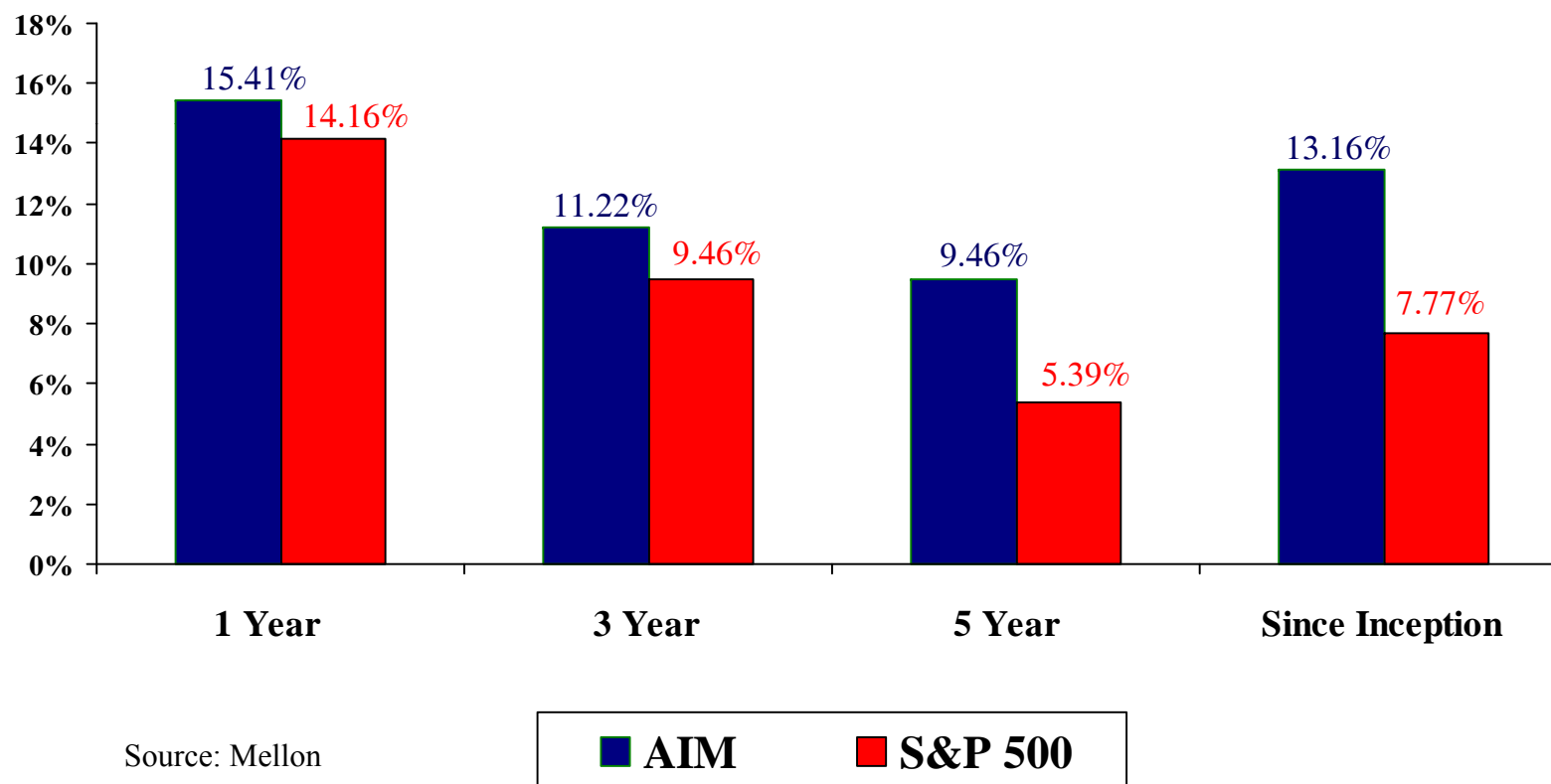
Source: Mellon



Portfolio Performance Evaluation

AIM Portfolio Performance vs. S&P 500

(As of 10/31/06)

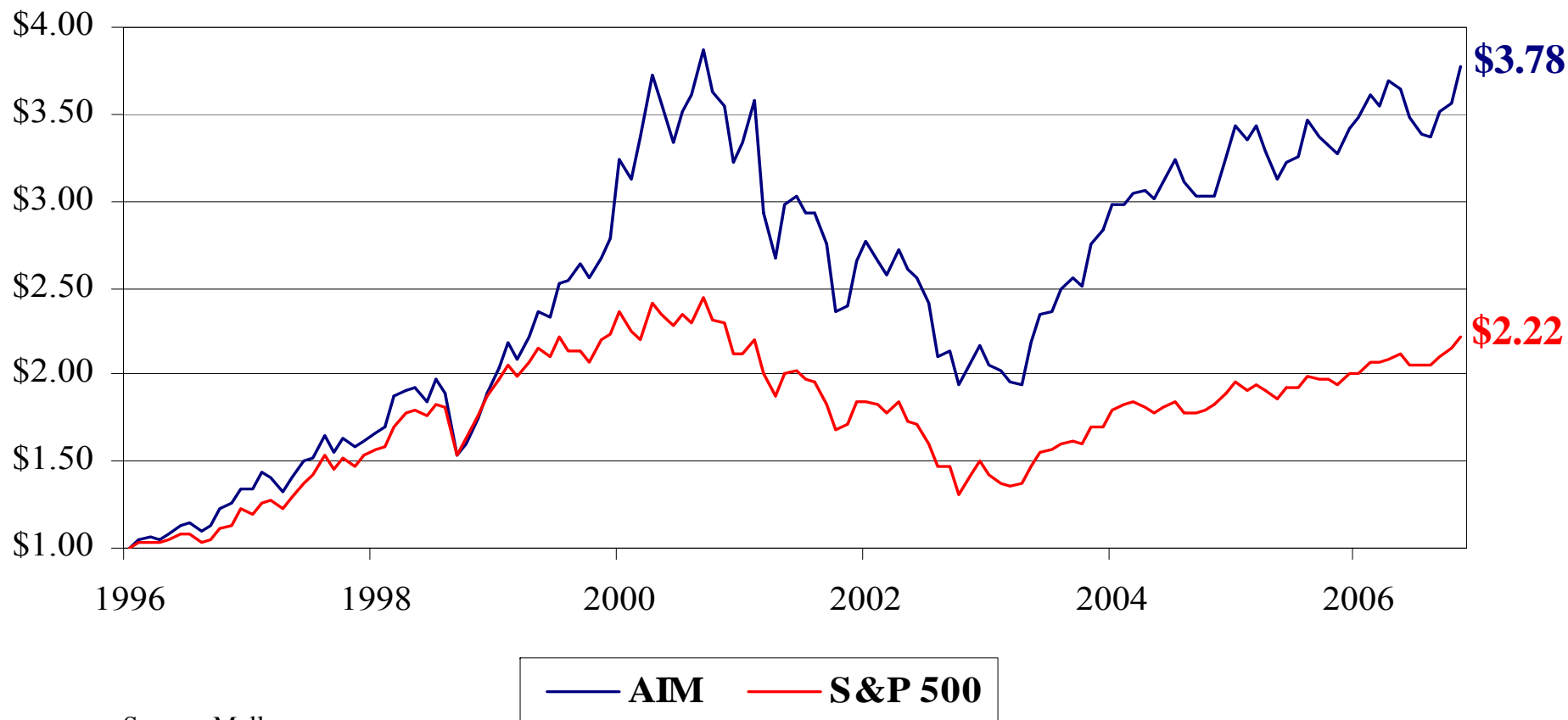




Portfolio Performance Evaluation

Dollar Growth: AIM Portfolio vs. S&P 500

(As of 10/31/06)



Source: Mellon



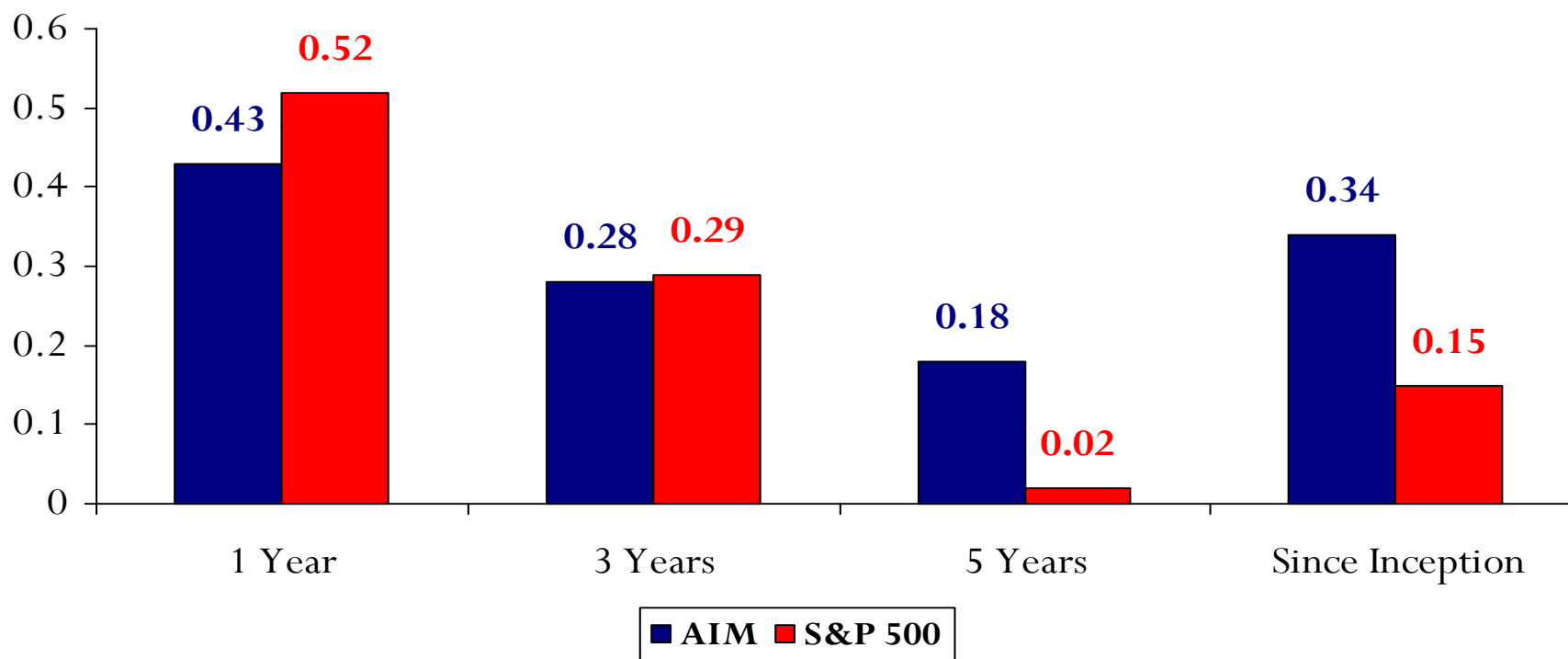
Risk Adjusted Performance

- **Sharpe Ratio:** $S(p) = (R_p - R_f) / \text{StdDev}(p)$
 - Measures our portfolio's return over the risk-free rate per unit of risk, as defined by its standard deviation
- **Alpha:** $R_p = R_f + \beta \times (R_m - R_f) + \alpha$
 - Measures our portfolio's return in excess of expected returns adjusted for our portfolio's risk



Risk-Adjusted Performance: Sharpe Ratio

(As of 10/31/06)



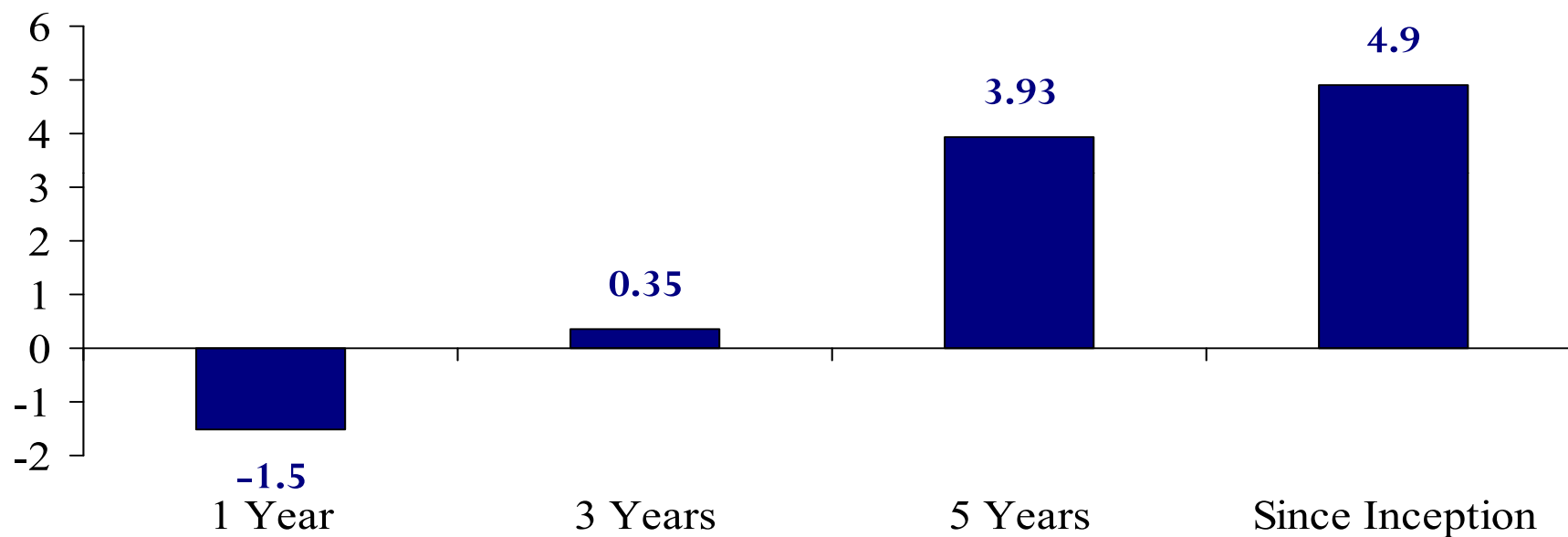
Source: Mellon



Portfolio Performance Evaluation

Risk-Adjusted Performance: Alpha

(As of 10/31/06)



Source: Mellon



Portfolio Performance Evaluation

AIM Portfolio Return vs. S&P 500

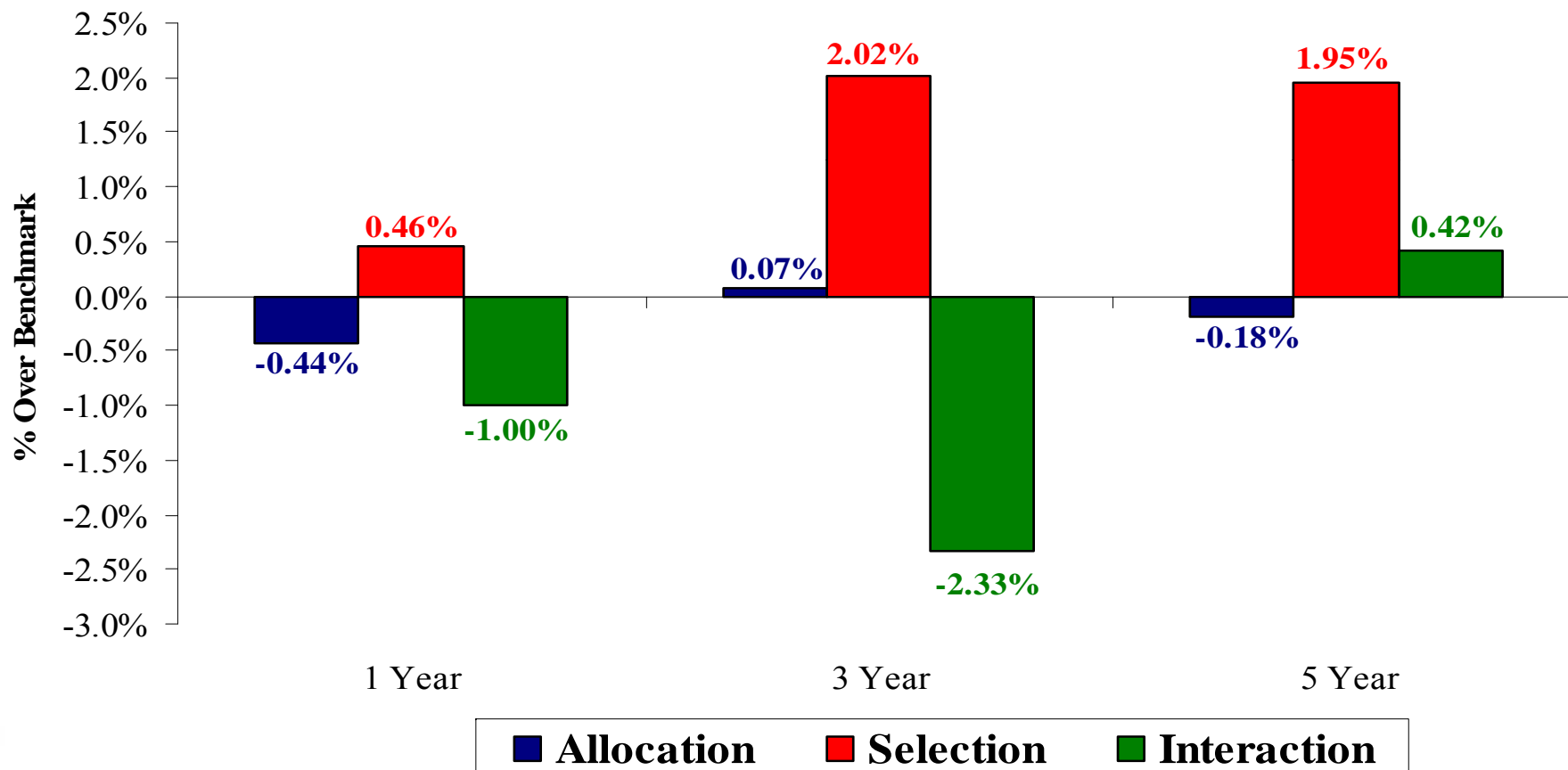
(As of 10/31/06)

	1 Year	3 Years	5 Years	Since Inception
Correlation	.84	.86	.93	.91
Beta	1.30	1.28	1.14	1.21



Performance Attribution

(As of 10/31/06)

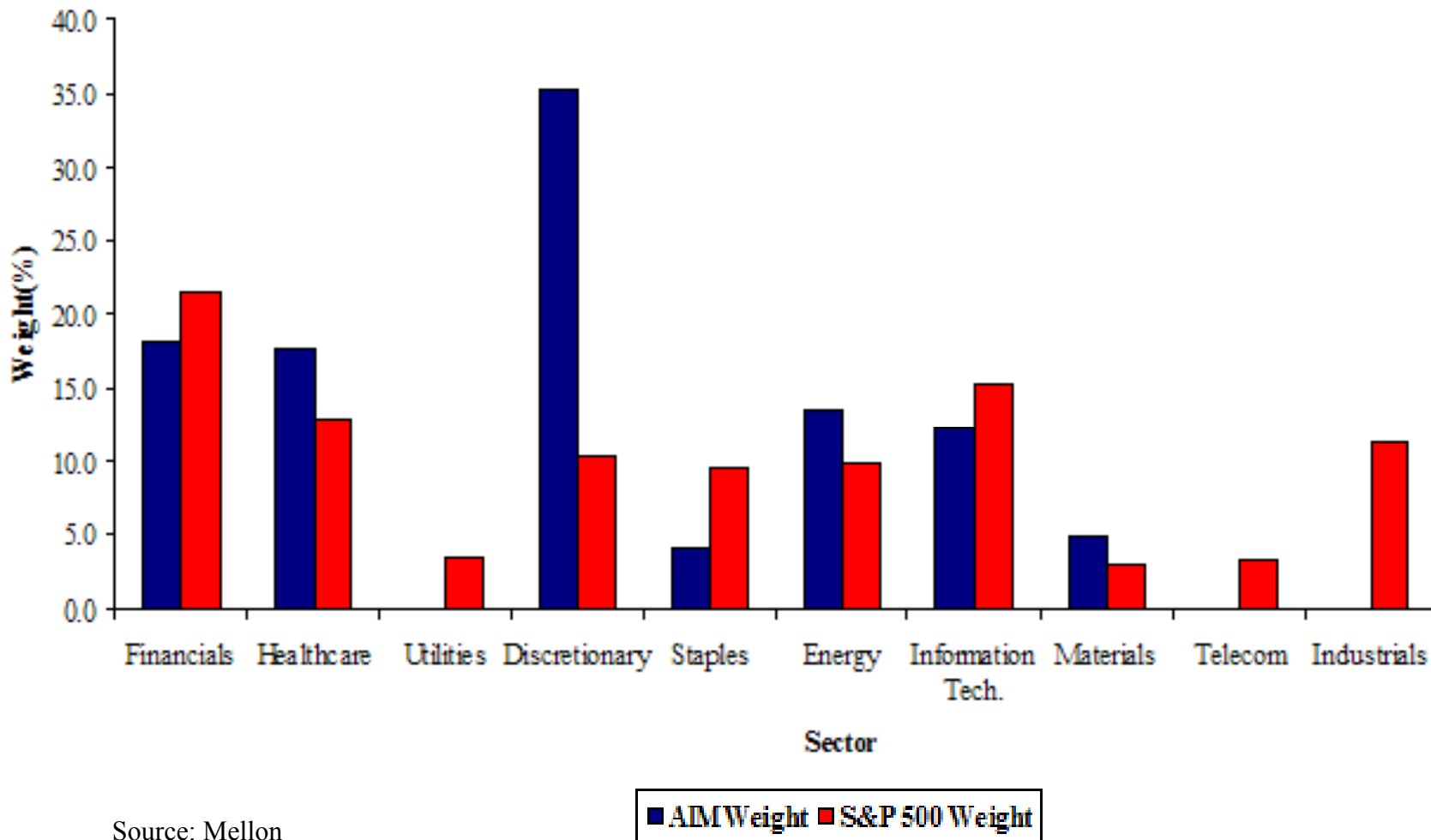


Source: Mellon



Portfolio Sector Allocation

(As of 11/15/06)



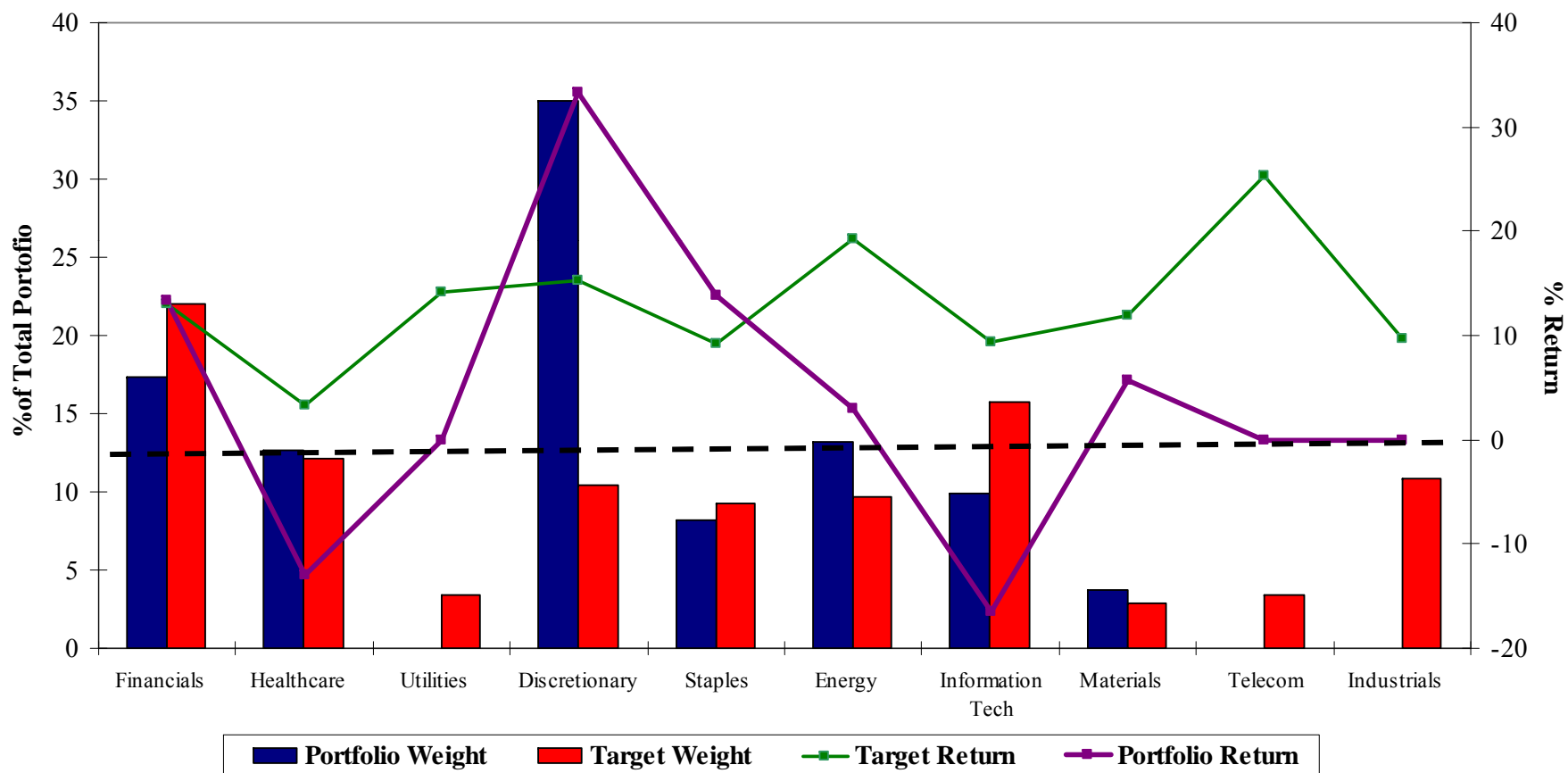
Source: Mellon



Portfolio Performance Evaluation

Portfolio vs. S&P 500

(As of 11/15/06)



Source: Mellon



Individual Stock Returns

(As of 11/28/06)

Top 5 Individual Performers

Stock	Return (TTM or *HPR)
Morgan Stanley (MS)	35.4%
Exxon Mobil (XOM)	27.1%
McDonalds Corp. (MCD)	22.0%
PetSmart Inc. (PETM)	19.5%
Coach Inc. (COH)	17.9%*

Source: Mellon and CapitalIQ



Individual Stock Returns (Cont'd)

(As of 11/28/06)

Bottom 5 Individual Performers

Stock	Return (TTM or *HPR)
Ixia (XXIA)	(29.1%)
United Health Group Inc. (UNH)	(21.2%)
Dell Inc. (DELL)	(11.4%)
BJ Services Co. (BJS)	(10.4%)
Tupperware Brands Corp. (TUP)	(5.1%)*

Source: Mellon and CapitalIQ



Portfolio Transactions

	Sells	Buys	Increases
<p>SMALL CAP <\$5bil</p>	Standard Parking Bluegreen CitiTrends Sanderson Farms Headwaters Websense Quiksilver Int'l Speedway Herman Miller	Sotheby's Cabela's Getty Images	PetSmart
<p>LARGE CAP >\$5bil</p>	Annheuser-Busch	Whirlpool XTO Energy Gilead Sci. McGraw Hill Symantec Western Union	Barrick Gold UnitedHealth Dell

Source: Mellon



Portfolio Performance Summary

- Short Term
 - Performance gap narrowing
 - Increasing beta, decreasing alpha
- Long Term
 - Outperform benchmark (S&P 500) on year-over-year returns
 - Outperform benchmark on risk-adjusted basis
 - Positive alpha



Section 5
Other Activities



Trips

- Chicago – Early September
 - William Blair & Company (Investment Bank)
 - Case study on Cabela's IPO
 - Thor Equities (Real Estate Investment Firm)
 - Tour of the Palmer House
 - Learned about real estate investment approach
 - Madison Dearborn Partners (Private Equity)
 - Emphasis on examining R&D when analyzing a company
 - Alliance Capital (Asset Management Firm)
 - Received insights on potential stocks



Trips (Cont'd)

- New York – Mid November
 - S-Squared Technology (Hedge Fund)
 - Exclusively technology and life sciences
 - Focus on stock opportunity such as Gilead
 - Nasdaq (Public Exchange)
 - Largest U.S. electronic stock market
 - Discussed aggressive growth strategies
 - Mason Capital Management (Hedge Fund)
 - Learned about investment strategies



Trips (Cont'd)

- New York – Mid November
 - Sterling Stamos (Hedge Fund)
 - Investment company with a broader mandate
 - Insight regarding future interest rate fluctuations
 - The Blackstone Group (Private Equity)
 - Investment side / advisory side
 - Stressed the importance of meeting with and assessing management when valuing a company
 - Goldman Sachs (Investment Bank)
 - Asset and private wealth management



Speakers

- Sankaty Advisors (Hedge Fund)
 - Distressed debt and convertible bond firm
 - Fundamental analysis
- Todd Martin (Investment Firm)
Partner, Martin Capital Management
 - Emphasized presence of overconfidence bias
 - Discussed various people that can aid investment process
 - Company management
 - Company employees
 - Competitors
 - Suppliers



Newsletter

- Objectives
 - Allow AIM alumni to stay up-to-date
 - Provide quarterly overview of present portfolio
- Current newsletter points of interest
 - New stocks and new portfolio
 - AIM alumni updates
 - New York trip review
 - Economic snapshots
 - AIM XXIII analysts' future plans



AIM Website

- Website address
 - <http://aim.nd.edu>
- E-Mail address
 - aim@nd.edu
- Specific areas of interest
 - Analysts and alumni
 - Publications
 - Portfolio
 - News

Applied Investment Management
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HOME ABOUT AIM ANALYSTS & ALUMNI PUBLICATIONS RESOURCES PORTFOLIO GUESTBOOK AIM@ND.EDU

AIM News

AIM XXIII New York Trip - Call for Contact Information

AIM XXIII will host AIM Alumni for dinner in New York on November 11. All area alumni that have not yet received an invitation should send their e-mail address to Laura Leblang at Leblang.2@nd.edu.

Welcome to the AIM Website!

About AIM

The Applied Investment Management course (FIN 40640) blends traditional investment theory with the practical experience of hands-on investment management of a \$3 Million U.S. Equity portfolio. The course will provide students with a thorough grounding in the process of portfolio management, from the asset allocation decision to individual stock selection. AIM is

AIM Portfolio Tracker

Ticker	Position	Price	\$ Chg.
^DJI	0	12,136.45	14.74
ABX	4500	30.16	0.52
AMGN	2100	71.76	-0.12
BJS	4800	32.00	0.34
BUD	3000	46.89	0.75
BXG	11000	13.66	0.28
C	2740	49.56	-0.33
COH	4000	41.84	-0.27
CTRN	3400	41.10	-0.52
DELL	3300	26.95	-0.06
HW	4500	23.23	0.19



Section 6

Conclusions



Conclusions

Special Thanks

The AIM Advisory Board

Including those who could not make the trip



Special Thanks (Cont'd)

- The Notre Dame Investment Office
- AIM Professors
 - Jerry Langley
 - Scott Malpass
 - Frank Reilly
 - Ed Trubac
- Also to Rachel Karnafel for her supporting efforts



Closing Remarks

Please join us for dinner at the Morris Inn!

