

AIM Quarterly

4th Quarter 2007 by the AIM XXV Class

AIM XXV UPDATE

As AIM XXV analysts prepare for the end of our semester, the class reflects on a wonderful experience consisting of hands-on training, exposure to various facets of asset management, and the opportunity to meet with outstanding investment managers. In addition, we have formed friendships that will remain for our lifetimes and are proud to be associated with the rich heritage of AIM.

Second valuations and final portfolio decisions have been completed and analysts are preparing for the board presentation (December 10th) and the eventual handover to AIM XXVI (December 12th). Moving forward, we are enthusiastic to enter the ranks of AIM alumni and look forward to continued correspondence with the class and other alumni. On a less important note, AIM XXV hopes future classes continue to engage in a “Trivial Pursuit” contest between Jerry’s Junk Bonds and Frank’s Fund of Funds, which occurred on Saturday, November 17th. In a close match, Frank’s Fund of Funds won.

Finally, AIM XXV would like to thank Professors Reilly, Langley, Malpass, McDonald, and Trubac for the knowledge they bestowed on us and the tools they provided us with, which will prove invaluable as we embark on our careers. Additionally, we thank the Investment Office for helping us evaluate our portfolio’s performance, execute trades, and coordinate trips to Chicago and New York.

CURRENT PROFILE OF AIM XXV

Name	E-Mail	First Stock	Second Stock	Plans After Graduation	Location
Alicia Alexander	aalexan4@nd.edu	Northrop Grumman	Procter & Gamble	Merrill Lynch: Investment Banking	Chicago
Joseph Carroll	jcarrol2@nd.edu	Dell	Under Armour	Bank of America: Investment Banking	New York
Nicholas Chambers	nchamber@nd.edu	Medtronic	Apache Oil	Notre Dame Investment Office	Notre Dame
Timothy Cremiuex	tcremiu@nd.edu	PPL	Target	Bank of America: F/I Sales & Trading	New York
Anna Davis	adavis6@nd.edu	McGraw Hill	Potash Corp	Morgan Stanley: Investment Banking	New York
Dominic DeBonis	ddeboni1@nd.edu	Cheesecake Factory	Nvidia	Bain Capital: Sankaty Advisors	Boston
Christopher Doolin	cdoolin@nd.edu	Apple	YRC Worldwide	Credit Suisse: Investment Banking	Chicago
Andrew Eggert	aeggert@nd.edu	Dentsply International	Comcast	Morgan Stanley: Investment Banking	Chicago
Jared Feeney	jfeeney2@nd.edu	Barrick Gold	Burlington Northern	JPMorgan: Investment Banking	Chicago
Molly Fitzpatrick	mfitzp10@nd.edu	Getty Images	Nutri Systems	Wachovia: Investment Banking	Charlotte
Kevin Geaney	kgeaney@nd.edu	United Health Group	Electronic Arts	Grosvenor Capital Management	Chicago
Brendan Gibney	bgibney@nd.edu	Morgan Stanley	Titanium Metal	William Blair: Investment Banking	Chicago
Lauren Godlasky	lgodlask@nd.edu	Zimmer Holdings	Fossil Inc.	Goldman Sachs: Asset Management	New York
Andrew Kelly	akelly7@nd.edu	BJ Services	Digital River	Brown Gibbons Lang: Investment Banking	Chicago
Joshua Kempf	jkempf1@nd.edu	Symantec	WMS Industries	Goldman Sachs: Investment Banking	New York
Christopher Liedl	cliedl@nd.edu	Tupperware Brands	Ocean Power Tech.	Undecided	Undecided

Name	E-Mail	First Stock	Second Stock	Plans After Graduation	Location
Christopher Lund	clund@nd.edu	Huron Consulting	Chipotle Grill	Bain Capital: Sankaty Advisors	Boston
Philip McCartin	pmccarti@nd.edu	Amgen	Smurfit Stone Container	Credit Suisse: Equity Sales & Trading	New York
Colleen McQuillan	cmcquill@nd.edu	Loopnet	Wells Fargo	UBS: Investment Banking	Chicago
Michael Metschl	mmetschl@nd.edu	Cabela's	Qualcomm	Citigroup: Investment Banking	San Francisco
Vijen Patel	vpatel@nd.edu	Exxon Mobil	Consolidated Water Co.	McKinsey & Company	New York
Jonathon Penn	jpenn1@nd.edu	Whirlpool	Starbucks	Blackstone Group: M&A Advisory	New York
Joshua Platek	jplatek@nd.edu	PepsiCo	Weyerhaeuser	Paul Capital Partners	Chicago
Edward Preuss	epreuss@nd.edu	Sysco	PMI Group	Bain Capital: Sankaty Advisors	Boston
Jonathon Schroeder	jschroe2@nd.edu	PPDI	Dollar Thrifty	Houlihan Lokey: Corporate Finance	Chicago
Eric Turner	eturner4@nd.edu	PetSmart	Cisco Systems	Goldman Sachs: Investment Banking	New York
Peter VanDeventer	pvandeve@nd.edu	Google	Winnebago Industries	Goldman Sachs: Investment Banking	New York
James Ward	jward5@nd.edu	Vaalco	Walgreen's	Boston Consulting Group	Chicago

PORTFOLIO OVERVIEW

The AIM portfolio has a YTD return of 7.05% versus the S&P 500 index return of 9.07% as of the end of 3Q 2007. In addition to the S&P 500, we benchmark the portfolio against the Russell 2000 since 36.6% of our portfolio consists of small or mid-cap companies. The Russell 2000's return was 3.16% for the same period. Top performers for the year were Loopnet, Tupperware, and Barrick Gold with returns of 51.13%, 42.56%, and 31.78%, respectively. The worst performers were Getty Images and McGraw-Hill with losses of 34.98% and 23.94%, respectively. The negative performance in Getty Images was due to lower than expected net income for the second quarter 2007. McGraw-Hill's negative return is due to the negative sentiment toward the rating agencies concerning defaults and delinquencies. Over the 5-year period ending 3Q'07, the AIM portfolio had a compounded annual return of 16.7%, versus 15.39% for the S&P 500.

ALUMNI UPDATES

John Miller (AIM XXI)

For the last year and a half, John has worked for Fox-Pitt Kelton Cochran Coronia Waller in Chicago doing US corporate advisory. He spends most of his time working with insurance distribution companies, almost exclusively in M&A. He believes AIM provides a great foundation so that students can survive in the real world, because the class encourages thoughtfulness and attention to detail. While in AIM, John covered Morgan Stanley and Outback Steakhouse.

Jeremy Lao (AIM XIX)

After graduating in 2005, Jeremy joined Citi to trade Investment Grade Credit in the Industrial, Retail, and Consumer sectors. He then spent his second year trading US interest rate products, primarily US inflation products, TIPS and inflation swaps. He was promoted to associate in March 2007 and permanently placed in US inflation trading. He advises students that an open mind, flexibility, and a desire to learn new products and techniques will help one survive in the business. Jeremy covered Edwards Lifesciences in AIM.

Steve Wang (AIM XXI)

Steve is an analyst in the Financial Advisory Services Group at Houlihan Lokey in Chicago, where he performs fairness opinions, solvency opinions, ESOP planning, and general business valuations for tax reporting purposes, purchase price allocations, and goodwill analyses. Steve has been with Houlihan Lokey since he graduated from Notre Dame in 2006.

ECONOMIC REPORT

The current state of the economy is characterized by uncertainty on all fronts. On October 30th the Fed reduced interest rates by .25% to 4.5% as the housing market and energy costs are taking tolls on various areas of the economy. Moreover, there continues to be trouble in the financial markets due to credit tightening and mortgage related securities.

For the third quarter of 2007, GDP grew at an annualized rate of 4.9%. A large contribution to this growth was strong exports due to the weak dollar. The fourth quarter of 2007 is expected to see a considerable slow down in GDP growth. It is estimated that the fourth quarter GDP growth rate will be less than 2%. Headline inflation has recently eased and core inflation has remained moderate. The PCE index rose 0.3% from September and core PCE rose 0.2%. Some areas of concern for inflation going forward include rising commodity costs and an increase in unit labor costs.

October personal income increased at a rate of 0.2% over the prior month. This was the worst performance since April 2007. Personal consumption also increased by 0.2% over the prior month. The participants at the FOMC October 30th meeting believed consumer spending had been well maintained. Looking forward however, the stress in the credit markets and higher oil prices are expected to restrain spending by businesses and consumers. Consumer confidence has been on the decline since the financial troubles that began over the summer, along with higher oil prices, declining home prices, and tighter underwriting standards for loans. There is concern that larger-than-expected declines in home prices could further drive down consumer confidence and individual net worth. Retail sales figures are continuing to take a hit due to high gas prices, falling home prices, and weakening consumer confidence. Retail sales were up only 0.2% for October over the previous month.

There continues to be much trouble in the housing markets, as seen with housing starts, which are currently down 46% from the January 2006 record high. As of October, housing starts were at 1,229,000, which is up 3% from September 2007. October single-family housing starts were at 884,000, which is down 7.3% from September 2007. October existing home sales fell 1.2% from the previous month. It is estimated that prices may have to fall 10-15% to clear the large supply of inventories. The October new home sales were up 1.7% from September. However, these sales are half that of the July 2005 peak. In order to clear this inventory, prices need to fall and credit needs to ease.

The October non-farm payrolls came in at 166,000 and it is estimated that November's non-farm payrolls will be at 65,000. Employment in residential construction, manufacturing, and industries related to mortgage lending has continued to decline. Most service-producing industries, such as healthcare, professional services, business services, and leisure have had job increases. Unemployment was at 4.7% as of October, but we expect this percentage to edge higher due to weakness in the housing markets and the tightening in the availability of credit.

The outlook for the current portfolio is mixed. Consumer discretionary stocks may be negatively affected if there is the drop in GDP growth that is expected for the fourth quarter and as the troubles in the housing market continue. The financial stocks may continue to suffer from the mortgage related losses and uncertainties. Technology stocks may see a negative impact if business and consumer spending levels drop due to a tightening in the credit markets and a hit to individual net worth as home prices fall. The recent drop in oil prices and expectations of a warm winter may hurt energy stocks. Finally, consumer staples and healthcare look relatively stable for the near term.

PORTFOLIO UPDATE

Stocks Added to Portfolio

Apple, Inc. (AAPL), headquartered in Cupertino, California and founded in 1976, designs, manufactures, and sells personal computers (MacBook, PowerBook, and iMac), portable digital music players (iPod), and mobile

communication devices (iPhone), as well as related software, services, peripherals, and networking solutions worldwide. As of September 30, 2007, the company had 197 retail stores in the United States, Canada, Japan, the United Kingdom, and Italy.

Digital River, Inc. (DRIV) provides global outsourced e-commerce solutions to companies primarily in the software and high-tech markets. The company's services include all facets of an e-commerce store, including design, hosting, order management, fraud prevention, product fulfillment, customer service, and online marketing. The company currently serves over 40,000 clients, including industry leading companies such as Adobe, Microsoft, and Symantec.

PMI Group, Inc. (PMI) is an international financial guarantee company which insures and reinsures residential mortgages and structured finance obligations. PMI Group has numerous fully consolidated and unconsolidated subsidiaries operating in the United States, Canada, Europe and Asia. PMI's US residential mortgage insurance subsidiaries account for approximately 60% of its net income, while its international operations and structure products guarantee divisions account for approximately 20% each.

Potash Corporation (POT) is an integrated fertilizer and animal feed products company. The company produces nitrogen, phosphate, and potash fertilizers, with potash as its primary focus. POT is the leading global producer of potash fertilizer and holds 75% of the world's excess capacity.

Walgreen Co. (WAG) is the nation's largest retail drugstore chain, operating 6,059 stores in 49 states and Puerto Rico. The organization offers the sale of prescription drugs, non-prescription drugs, and other general merchandise through store, mail, internet, and phone orders. Walgreens differentiates itself from its competition through strong brand recognition, a devoted focus on customer service, and a superior technological network.

Weyerhaeuser Company (WY) harvests timber, manufactures forest products, and has its own real estate segment. Its diverse product portfolio provides protection from negative market conditions in any one of its segments. The near future could bring a large increase in profitability as there is speculation that WY may sell some of its non-core operations and convert to a Timberland REIT.

YRC Worldwide, Inc (YRCW), headquartered in Overland Park, Kansas, through its subsidiaries, provides transportation services for the shipment of industrial, commercial, and retail goods in the United States and internationally. YRC also offers logistics management solutions, such as domestic and international freight forwarding, warehousing and cross-dock services, multi-modal brokerage, and transportation management services.

Zimmer Holdings Inc. (ZMH) is the world's largest pure-play maker of orthopedic devices. Zimmer designs, develops, and manufactures reconstructive orthopedic implants, spinal/trauma implants, and orthopedic surgical products. With 44% of sales outside of the United States, the company is number one in global market share for both knee and hip products. Zimmer Holdings continues to maintain an edge over its competitors by spending a relatively large percent of sales on R&D, which has continued to improve new product sales and increase revenues over the past three years.

Stocks Eliminated from Portfolio

Amgen (AMGN)

Medtronic (MDT)

Northrop Grumman (NOC)

PetSmart (PETM)

PPL Corporation (PPL)

Symantec (SYMC)

SYSCO Corporation (SYY)

The Cheesecake Factory (CAKE)

CURRENT PORTFOLIO

Company Name	Ticker	# of Shares	Value	Weight	Analyst
Apple	AAPL	900	\$163,998	4.2%	Christopher Doolin
BJ Services	BJS	6,500	159,770	4.1%	Andrew Kelly
Barrick Gold	ABX	3,800	153,938	4.0%	Jared Feeney
Cabela's	CAB	10,000	165,400	4.3%	Mike Metschl
Dell	DELL	6,000	147,240	3.8%	Joseph Carroll
Digital River	DRIV	3,500	135,345	3.5%	Andrew Kelly
Dentsply	XRAY	2,800	119,784	3.1%	Andrew Eggert
ExxonMobil	XOM	1,800	160,488	4.1%	Vijen Patel
Getty Images	GYI	5,000	145,750	3.7%	Molly Fitzpatrick
Huron Consulting	HURN	1,600	117,232	3.0%	Christopher Lund
Loopnet, Inc.	LOOP	8,000	122,880	3.2%	Colleen McQuillan
McGraw-Hill	MHP	3,400	166,872	4.3%	Anna Davis
Morgan Stanley	MS	3,300	173,976	4.5%	Brendan Gibney
Nutrisystems	NTRI	5,000	125,750	3.2%	Molly Fitzpatrick
Pepsico	PEP	1,600	123,488	3.2%	Joshua Platek
Pharmaceutical Product Dev.	PPDI	2,800	118,552	3.0%	Jonathon Schroeder
PMI Group	PMI	13,700	181,251	4.7%	Edward Preuss
Potash Corp.	POT	1,540	184,631	4.7%	Anna Davis
Tupperware Brands Corp.	TUP	3,395	118,418	3.0%	Christopher Liedl
UnitedHealth Group, Inc.	UNH	3,000	165,000	4.2%	Kevin Geaney
Vaalco Energy, Inc.	EGY	34,000	148,240	3.8%	James Ward
Walgreen Co.	WAG	4,100	150,019	3.9%	James Ward
Weyerhaeuser Co.	WY	2,000	146,360	3.8%	Joshua Platek
Whirlpool Corp.	WHR	2,000	161,920	4.2%	Jonathon Penn
YRC Worldwide, Inc.	YRCW	10,000	177,100	4.6%	Christopher Doolin
Zimmer Holdings, Inc.	ZMH	2,300	148,879	3.8%	Lauren Godlasky
Cash and Cash Equivalents			5,406		
TOTAL			\$3,887,686	100%	