



AIM Quarterly

AIM XXVII

aim.nd.edu

Fall 2008



WELCOME TO AIM XXVII

Amidst collapsing credit markets, economic turbulence and the near crash of Wall Street, AIM XXVII has accepted the challenge of managing the portfolio in unique and unprecedented times. Leading the class of analysts are Professors Jerry Langley, Frank Reilly, and Scott Malpass, who continue to share their investment knowledge, guidance and expertise with the new group of 26 students.

The Chicago Trip was a great success and an excellent way to start out the semester, allowing us to both learn more about various career options at different financial institutions and providing us with the opportunity to meet a broad base of AIM Alumni. As you will see below, Scott Malpass has also provided the portfolio with an extra \$1.5 million to invest. It was certainly an honor to be given these resources and responsibility and our allocation decisions are outlined below. As first round stock analyses draw to a close and our second stock valuations are rapidly approaching, we look forward to an exciting and challenging second half of the semester.

PROFILE OF AIM XXVII

First	Last	Email	Company	Ticker
Tim	Andruszkiewicz	tandrusz@nd.edu	EMC Corp.	EMC
Kelly	Betts	kbetts2@nd.edu	Dentsply Intl.	XRAY
Bradley	Blomstrom	bblomstr@nd.edu	Zhongpin Inc.	HOGS
Laura	Carney	lcarney@nd.edu	Morgan Stanley	MS
Allison	Carrick	acarrick@nd.edu	Goldman Sachs	GS
Jack	Carroll	jcarrol5@nd.edu	McGraw Hill	MHP
Harrison	Chilton	hchilton@nd.edu	Zimmer Holdings	ZMH
Johann	DeSousa	jdesous1@nd.edu	BJ Services	BJS
Joseph	DiLuia	jduluia@nd.edu	Cabelas	CAB
Kevin	Fitzgerald	kfitzge4@nd.edu	Progress Energy	PGN
Thomas	Foote	tfoote1@nd.edu	Tupperware	TUP
Andrew	Forero	aforero@nd.edu	Whirlpool Corp.	WHR
Chris	Hagen	chagen@nd.edu	Caterpillar	CAT
Bryan	Jckson	bjackso5@nd.edu	Pharmaceutical	PPDI
Patrick	Martin	pmartin2@nd.edu	Barrick Gold	ABX
Matthew	Millsfield	mmillsfi@nd.edu	FC Stone Group	FCSX
Ben	O'Connor	boconno7@nd.edu	YRC Worldwide	YRCW
Paul	Oddy	poddy@nd.edu	Dell	DELL
Jeffrey	Osowski	jeffthejuice@gmail.com	Digital River	DRIV
Michael	Roscitt	mroscitt@nd.edu	Huron Consulting	HURN
Marjorie	Rosmonowski	mrosmo@nd.edu	Service Corp.	SCI
Tim	Scallen	tscallen@nd.edu	United Health	UNH
Laura	Schwartz	laura.b.schwartz@gmail.com	Apple	AAPL
Stephanie	Severyn	sseveryn@nd.edu	Boeing Corp.	BA
John	Watkins	jwatkins3@nd.edu	Republic Services	RSA
Andy	Whalen	awhalen@nd.edu	Walgreen Co.	WAG

ALUMNI UPDATES

Brendan Gibney AIM XXV

Brendan is a 2007 graduate of Notre Dame who is currently working in Chicago, having just started working as in an investment banker for William Blair in June. He is currently part of their two year analyst program. Brendan was able to attend the AIM alumni dinner in Chicago a few weeks ago and had a great time getting to know the current AIM members and catching up with others from his class.

Jessica Feeney AIM XXI

Jessica is beginning her third year as a financial analyst for the Goldman Sachs Private Wealth Management Group in Chicago. She is an analyst on a team of four Private Wealth Advisors managing assets for families throughout the United States. Her team's responsibilities include developing and managing relationships of wealthy individuals, families and foundations to build and protect their financial needs through a robust asset allocation and other strategic wealth advisory services. Her primary responsibilities include evaluating and rebalancing asset allocations, performance analysis, manager selection, trading, marketing investment opportunities and providing comprehensive client service. After her third year ends in July 2009, Jessica will join her team full-time as a Wealth Management Professional with further client coverage and solicitation responsibilities.

CHICAGO TRIP (September 3 & 4, 2008)

On September 3rd, AIM XXVII journeyed to Chicago to meet with AIM alumni and several other investment professionals in the city. We spent our first evening at Maggiano's Little Italy with around sixty AIM alumni, some of who belonged to the very first AIM class in the fall of 1995. After dinner, several of the alumni members advised us on handling the demands not just of the AIM class in particular but of senior year in general.

The next day we were scheduled to meet five very different firms -- William Blair & Co., Bain & Co., Madison Dearborn Capital Partners, Greenfield Partners and Alliance Capital. We began with a working breakfast with Dan Connelly and Brendan Gibney from the investment banking division of William Blair & Company. We then ventured into the offices of Bain & Co. where Emmet Gaffney, Keith Bevans, Jed Buchanan and several younger members of the Bain team gave us a brief overview of strategic consultancy and the life of a consultant. The Bain & Co. presentation was followed by a working lunch in the newly-furbished board room of Madison Dearborn Partners. At lunch, Pat Eilers gave us an insight into the firm and the success of its recent funds, as well as the intricacies of the leveraged buyout business with a special focus on growth equity. Our next stop was the magnificent Santa Fe building on Michigan Avenue that the University owns. There we were given a presentation by Greenfield Partners, a real estate investment management firm, on the state of the industry as well as the firm's recent success with some of its investments. Our final stop was at the offices of Alliance Capital, a global asset management firm, where Joe Elegante presented the firm's large cap growth strategies as well as the different steps involved in the portfolio management process. The class then picked his brain on a number of the stocks in the AIM portfolio and their current market valuations.

This year's Chicago trip was an extremely informative one with the class gaining a unique insight into the different forms of investing, and current and future career opportunities. We now look forward to the upcoming New York trip.

NEW YORK TRIP UPDATE

The AIM class will make its annual trip to New York on November 6th to the 9th. We have several plans in progress for the trip, including visits to Credit Suisse as well as several hedge funds including Maverick Capital, Perry Capital and Viking Global Equities. We are also planning an alumni dinner similar to the one in Chicago on Saturday, November 8th. More information will be sent out regarding the dinner at a later date. We are looking forward to another great trip and meeting more AIM alumni.

PRESENTATIONS & VISITS

AIM XXVII has had the pleasure of hosting a variety of guest speakers throughout the semester thus far. On Friday, September 12th, we hosted the recruiting team from McKinsey & Company led Jean-Hugues Monier and former AIM alums Pat Sullivan and James Calderbank. They provided us with some valuable insight on the potentials of consulting and their specific Corporate Performance Center (CPC) division. They were followed by AIM alum Matt Byrnes from Ashford Capital who provided the class with a variety of tips for selecting our second stock and reasons for seeking employment in the buy-side.

On Friday, September 27th, the class welcomed Kevin Compton from Kleiner Perkins Caufield & Byers. Kevin gave the class an incredible look into the world of Venture Capital and shared some great stories from his experiences in this exciting field. We then had a quick visit from Mark Yusco on his firm Morgan Creek Capital.

Finally, on Friday, October 4th, the class was visited by Paul Roberts from Schweitzer-Mauduit International. Paul gave the class an in-depth presentation on the logistics of a Spin-Off and shared his personal involvement in the spin-off of Schweitzer from Kimberly-Clark. This was then followed by a talk with Michael Neus, the General Council for Perry Capital. Michael shared with the class some very unique perspectives in the midst of the bailout as he has represented hedge funds during SEC hearings and G7 meetings. We thank all of our guests for taking the time to come and share their insights with us!

CURRENT PORTFOLIO OVERVIEW

For the year ending August 31st, 2008, the AIM portfolio had an annualized return of -6.17%, outperforming both the S&P 500 and the DJIA who had annualized returns of -11.15% and -10.04% respectively. The Russell 2000 saw annualized returns of -5.48%. In the long term, the AIM Portfolio also remains competitive. Over the 5-year period ending August 31st, 2008, the portfolio had a compounded annual return of 8.45% compared to 6.85% for the S&P and 9.55% for the Russell 2000.

Top 5 Individual Performers		Bottom 5 Individual Performers	
Stock	HPR	Stock	HPR
Huron Consulting Group Inc	23.62%	Barrick Gold Corp.	-17.99%
Boston Private Financial Holdings	14.31%	DELL Inc.	-11.56%
Digital River Inc.	9.68%	Goldman Sachs Group Inc.	-10.89%
FCSTONE Group Inc.	8.57%	BJ Services Co.	-8.67%
United Health Group Inc.	8.44%	Tupperware Corp.	-8.41%

OUR ECONOMIC OUTLOOK

The first 2 months of AIM XXVII contained a series of unprecedented economic events that have dramatically changed the global financial landscape. Throughout this period, officials at the Treasury and Federal Reserve have been looking for a comprehensive approach to the credit crisis after a series of ad hoc interventions. The government's various moves, from saving mortgage giants Fannie Mae and Freddie Mac to letting Lehman Brothers fail, have confused investors and frozen many in place at a time when the banking system was desperate for fresh capital. That contributed to what in essence was a high-level run on Wall Street banks, with market liquidity and funding drying up overnight.

Following a dramatic series of events regarding the initial failure to pass the \$700 billion bailout bill, the bill was eventually passed on October 2, 2008. The bill known as the Troubled Asset Relief Program, or TARP, gives the Treasury secretary up to \$700 billion to buy mortgages and other troubled assets owned by financial institutions. Although TARP was expected to stabilize and calm the volatile markets, there was an 18% decline the following week, the worst in the Dow's history. Throughout the week the Fed announced numerous unprecedented moves from paying interest on reserve balances, to the purchase of commercial paper, to a global coordinated 0.5% rate cut that saw the target Federal Funds Rate move to 1.5%. Unfortunately, these steps failed to defrost frozen credit markets and jump start declining global equity markets. Following an 11% rally on the oversold market on Monday, October 13th, U.S. government officials released a plan to take stakes in nine large financial institutions using \$250 Billion from the \$700 Billion rescue package in an effort to help revive the banking sector and fight the global credit crunch. Even with the rebound on October 13th, the Dow remains down 34% from its record high on Oct. 9, 2007 and down 13% in October alone.

Following a brief pickup to 2.8% annualized economic growth in Q2 due to the temporary tax rebates, the economy has deteriorated markedly and has likely slipped into recession for the second half of the year. Continued housing declines and adjustment due to still high energy and other commodity costs have been key contributors to the downturn, but the intensification of financial stress has been the key contributor to economic weakening.

Because of tight credit conditions, reduced profit margins and weak aggregate demand, businesses have been cutting payrolls this year. The pace of decline has intensified, with a 159,000 drop in September. The unemployment rate has surged to 6.1% and it is expected predicted to rise to 7.5% the second half of 2009.

While FOMC members remain concerned over the inflation outlook, the recent decline in commodity prices has been relieving inflationary pressure. Inflation concerns, expressed in FOMC minutes, kept policy on hold for 5 months, but the weakening economic outlook and the deterioration of credit markets led to a 50 basis point coordinated ease on October 8th. There has been increased concern regarding the effectiveness of monetary policy as the LIBOR has not fallen to the target rate of 1.5%.

The outlook for the AIM portfolio is bearish in the short-term. Financials should benefit from the huge injection of liquidity by the Fed, but concerns remain regarding how the regulatory environment will shape financials and what exactly their profit drivers will be as deleveraging has hurt earnings power, especially for investment banks. Energy should remain depressed in the near term due to plummeting oil and natural gas prices. Materials will also be hurt as commodity prices fall, the dollar strengthens, and international growth slows. Industrials will be hurt by a global economic slowdown and tight credit. Health Care trends should remain intact. The consumer discretionary sector will be hurt by low consumer spending and an impending economic recession. IT is also likely to encounter difficult times as consumer spending and global demand slow. Utilities will remain strong but will be impacted by an industrial slowdown. Consumer staples should provide a defensive play and a safe haven in this recessionary environment.

POSITION CHANGES

Earlier this month the AIM XXVII class received the exciting news from Scott Malpass that he would be providing us with an addition \$1.5 million to invest in the portfolio. Given the currently oversold nature of the market, it was decided that we should invest this money in some of our first stocks since we had just finished our final valuations. As seen below we increased our positions in 16 stocks with high value/price ratios. Notably, Apple (AAPL) and Caterpillar (CAT) were being covered by AIM analysts, but not in the portfolio, so they had their initial positions purchased with these funds as well.

Stock	Valuation	Price	Upside	Shares	Dollar Value	BUY
FCSX	\$41.01	\$12.57	226%	2,387	\$30,000	15-6
MS	\$41.25	\$16.70	147%	1,198	\$20,000	15-6
DELL	\$32.00	\$13.75	133%	4,364	\$60,000	20-1
BJS	\$30.55	\$13.24	131%	3,021	\$40,000	12-9
CAB	\$20.01	\$9.22	117%	2,169	\$20,000	14-7
AAPL	\$161.78	\$94.84	71%	1,265	\$120,000	21-0
HOGS	\$13.18	\$7.84	68%	5,102	\$40,000	18-3
UNH	\$32.71	\$19.84	65%	2,016	\$40,000	11-10
ABX	\$58.43	\$35.70	64%	1,120	\$40,000	12-9
MHP	\$40.25	\$25.47	58%	1,570	\$40,000	16-5
GS	\$182.23	\$119.36	53%	251	\$30,000	13-8
XRAY	\$50.05	\$32.87	52%	913	\$30,000	12-9
WAG	\$39.70	\$26.36	51%	1,138	\$30,000	12-9
RSG	\$35.51	\$24.78	43%	1,614	\$40,000	19-2
BA	\$68.87	\$48.62	42%	411	\$20,000	12-9
CAT	\$67.20	\$49.30	36%	2,028	\$100,000	12-9
					<u>\$700,000</u>	

CURRENT AIM PORTFOLIO (As of 10/13/08)

Company Name	Ticker	# of Shares	Cost	Market Value	Unrealized Gain/Loss	Weight	Analyst
APPLE INC	AAPL	1,300	\$120,523	\$143,338	\$22,815	4%	Laura Schwartz
BJ SERVICES CO	BJS	7,500	154,148	94,275	(59,873)	3%	Johann DeSousa
BARRICK GOLD CP	ABX	4,600	143,221	129,352	(13,869)	4%	Patrick Martin
BOEING CO	BA	2,300	169,769	108,284	(61,485)	3%	Stephanie Severyn
BOSTON PRIVATE FINANCIAL HOLDINGS	BPFH	14,000	146,861	116,060	(30,801)	3%	
CABELAS INC	CAB	12,200	223,926	125,660	(98,266)	4%	Joseph DiLuia
CATERPILLAR INC	CAT	2,000	96,260	98,960	2,700	3%	Chris Hagen
DELL INC	DELL	10,900	271,401	165,789	(105,612)	5%	Paul Oddy
DENTSPLY INTL INC	XRAY	4,900	165,828	157,780	(8,048)	5%	Kelly Betts
DIGITAL RIVER INC	DRIV	4,200	164,040	126,714	(37,326)	4%	Jeffrey Osowski
EMC CP	EMC	9,000	140,469	101,790	(38,679)	3%	Tim Andruszkiewicz
EXXON MOBIL CP	XOM	1,200	45,474	87,696	42,222	3%	
FCSTONE GROUP INC	FCSX	5,900	173,234	62,304	(110,930)	2%	Matthew Millsfield
GOLDMAN SACHS GROUP INC	GS	1,175	191,494	130,425	(61,069)	4%	Allison Carrick
HURON CONSULTING	HURN	3,600	189,588	184,680	(4,908)	5%	Michael Roscitt
MCGRAW HILL COS THE	MHP	5,600	266,783	151,256	(115,527)	4%	Jack Carroll
MORGAN STANLEY	MS	4,700	173,931	85,070	(88,861)	3%	Laura Carney
PHARMACEUTICAL PROD DEV INC	PPDI	3,500	130,031	124,670	(5,361)	4%	Bryan Jackson
PROGRESS ENERGY INC	PGN	3,500	146,452	137,200	(9,252)	4%	Kevin Fitzgerald
PROSHARES ULTRASHORT REAL ESTATE	SRS	60	5,266	5,848	582	0%	
PROSHARES ULTRA FINANCIALS	UYG	160	5,042	1,744	(3,298)	0%	
REPUBLIC SERVICES INC	RSG	6,300	184,613	154,350	(30,263)	5%	John Watkins
SERVICE CP INTL	SCI	13,500	140,535	94,365	(46,170)	3%	Marjorie Rosmonowski
TUPPERWARE BRANDS CP	TUP	3,395	76,561	74,928	(1,634)	2%	Thomas Foote
UNITED HEALTH GROUP INC	UNH	6,000	199,946	140,280	(59,666)	4%	Tim Scallen
WALGREEN CO	WAG	5,200	183,306	127,868	(55,438)	4%	Andy Whalen
WHIRLPOOL CP	WHR	1,600	136,999	114,192	(22,807)	3%	Andrew Forero
YRC WORLDWIDE INC	YRCW	11,500	193,215	67,965	(125,250)	2%	Ben O'Connor
ZHONGPIN INC	HOGS	19,100	190,617	164,833	(25,784)	5%	Bradley Blomstrom
ZIMMER HOLDINGS INC	ZMH	1,500	97,375	85,980	(11,395)	3%	Harrison Chilton