



AIM Quarterly

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• Introduction •

The second half of the year continues to present a unique economic environment for the analysts of the AIM portfolio. Volatility in the equity markets remains high and the real level of interest rates is still at a record low. Significant political and economic uncertainties in the United States and Europe have created an atmosphere of fear and caution for both businesses and investors. Meanwhile, the AIM analysts made their recommendations on their second stocks and voted on which companies to add to the portfolio. Additionally, AIM XXXIII traveled to New York to meet with past members of AIM and several financial firms (see article on page 7).

• Economic Outlook •

• Inflation •

The cost of living in the U.S. dropped in October for the first time since June as fuel prices and the cost of new vehicles fell. The consumer price index was down 0.1% for the month after a 0.3% increase in September. Yearly inflation eased to 3.5%, down for the first time in 11 months, while the core inflation rate rose from 2.0% to 2.1%, in line with expectations. This recent decrease in inflation could pave the way for more monetary easing by the Fed to help stimulate economic growth. Recently, Fed policymakers have indicated that additional action may be needed to stimulate the economy, even at the risk of inflation. The positive data from October could make this a reality.

• Employment •

The unemployment rate declined to 9.0% for the month of October. Nonfarm payroll employment increased 80,000 - increasing an average of 125,000 jobs per month driven by modest job growth continuing in professional and businesses services, leisure and hospitality, health care, and mining. Employment in other major

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private-sector industries remained little changed. Professional and business services added the most jobs at 32,000 while construction lost the most at 20,000. Government employment continued to trend down, driven by declines in state and local government employment. Overall, October witnessed modest job growth. General macroeconomic weakness and uncertainty will continue to weigh on overall job growth. We do not foresee any significant short-term improvement in the job market. Long-term, we believe a new natural rate of unemployment is likely as the economy struggles to add jobs and reach pre-crisis employment levels.

• **Housing** •

The housing market in October saw some resilience as building permits, a sign of future construction, rose 11 % while housing starts fell a less-than-forecast 0.3%. Foreclosures declined 6% from August and 38% from September 2010. This was offset however, by a deeper- than-expected 3.9% decrease in home prices compared to the third quarter of 2010. Existing home sales, after what turned out to be a brief gain in August, fell back in September, down 3.0 % to a 4.91 million annual rate. Overall, the housing market continues to show concerning signs of weakness.

• **Consumer Sentiment** •

The University of Michigan consumer sentiment index rose to 64.2 in November, an increase of 5.4% from its October index value of 60.9. This value far surpassed the median forecast of 61.5, and is the third consecutive gain for the index. However, consumer sentiment remains at historical lows, with the index more than 13 points off its February peak and down 10.3% from its value a year ago. This is primarily driven by consumer expectations. While this figure increased 8.5% in November, it still remains rather anemic at 56.2; however, respondents no longer expect the economy to worsen in the year ahead, which buoyed the index in the most recent period. Furthermore, the survey's barometer of

Alumni Updates

Mathew Klody (AIM V)

Mat currently works at Sheffield, a contrarian-oriented, value-focused long short equity hedge fund with ~\$425mm under management. He was promoted to Senior Vice President in 2010. Mat is a generalist but concentrates on consumer, energy, basic materials and technology. He is active in the CFA society of Chicago and his local church, St. Joan of Arc in Lisle.

Stephanie Severyn (AIM XXVII)

Steph joined Goldman Sachs' Private Wealth Management Team in Chicago in May 2011 after working for two years with the ND Investment Office's Risk Management Team. In her new role as a Senior Analyst, Steph assists in creating and implementing customized investment strategies for clients. She also serves on the Auxiliary Board of the Big Shoulders Fund, which supports inner-city Catholic schools.

current economic conditions nudged up to 76.6 from 75.1, and all three of the primary indexes rose to their highest levels since June. Nonetheless, these positive notes were moderated by consumers' negative outlook on their own finances, and residual effects from the debt ceiling debate leading only 42% of respondents to rate current economic policies as favorable. The culmination of this will likely be that "real consumer expenditures will not be strong enough during the year ahead to enable the higher rates of economic growth needed to offset the negative grip of income and job stagnation on consumer spending," survey director Richard Curtin said in a statement. The effects of this will be felt in both the consumer discretionary and technology sectors of the AIM portfolio, but will likely be moderated by the increase in spending during the holiday season throughout the fourth quarter.

• **GDP** •

Real GDP increased at an annual rate of 2.0% in the third quarter of 2011, up from an increase of 1.3% in the second quarter. Although encouraging, this is lower than consensus estimates of 2.7% growth, which is potentially problematic for an economy that needs so much mending. Even a pace of 2.7% would bring down the unemployment rate by less than a half a percentage point over the year, and the economy remains vulnerable to further debt issues in the US and Europe. Nonetheless, real GDP did increase in the third quarter, primarily driven by positive contributions from personal consumption, nonresidential fixed investment, exports, and federal spending, but partially offset by decreased private inventory investments and state and local spending. Looking into the future, economists surveyed by the NABE expect anemic growth, with 82% forecasting GDP increases of less than 2% over 2011. We tend to agree with this assessment, and are particularly concerned with residual effects from the European debt crisis; therefore, we project 2011 GDP growth to be around 2%, bolstered by strong holiday sales after growing at only 0.9% in the first half of the year.

Alumni Updates

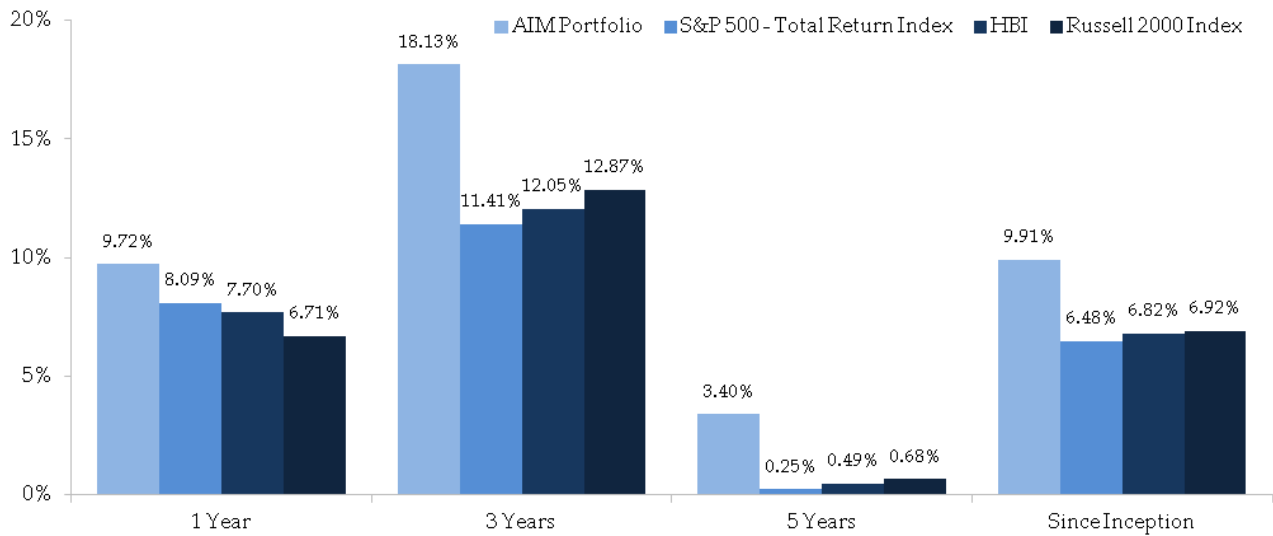
Matt Delaney (AIM XXXI)

Matt is in his first year as a part of the Real Estate group at Barclays Capital in New York where he works on IPOs, bond deals, and M&A advisory for publicly-traded REITs. While at ND Matt became involved with the non-profit organization No Parent Left Behind. His involvement started as a class project, but he still works with the organization closely today, and was just named to the Board of Directors.

Jared Feeney (AIM XXV)

Jared currently works at JPMorgan in New York where he is a High Yield Credit Research Analyst covering the Healthcare sector. Jared moved to New York from Chicago in April, where he had worked for JPMorgan in Leveraged Finance and Institutional Asset Management Sales. He recently passed Level 3 of the CFA.

• Portfolio Performance •

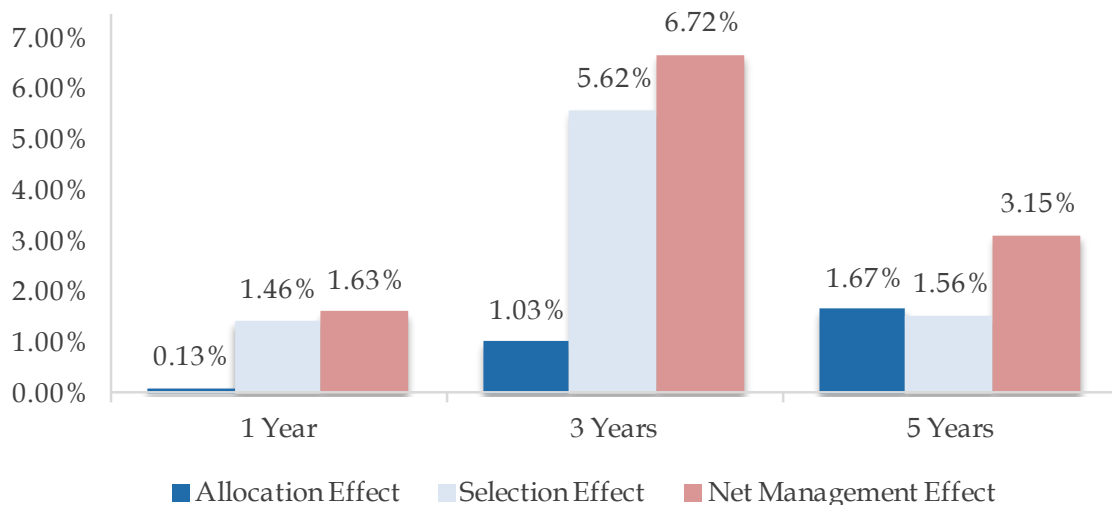


• Benchmark Comparison •

Since inception, the AIM portfolio has outperformed the S&P 500 (our primary benchmark), the Russell 2000, and the Hank Blended Index (the HBI is comprised of 65% S&P 500 returns and 35% Russell 2000 returns). The portfolio has outperformed all benchmarks by over 5% in the last 3 years. Our portfolio has seen growth well above our benchmarks in each time period, but the AIM advantage can clearly be seen over longer time horizons.

• Portfolio Attribution Analysis •

The AIM portfolio has outperformed the S&P 500 for the past five years due to a combination of both the allocation and selection effect. While more balanced in prior years, 2011 has seen outperformance almost entirely because of security selection. The allocation effect has turned positive again, but was weighed down in large part by the energy and consumer staples sectors. Security selection in the healthcare and telecom services sectors helped drive strong selection outperformance. Refer to the chart below.



• **New Portfolio** (as of 11/29/2011) •

| Company | Ticker | # Shares | Closing Price (11/29/11) | Portfolio Weight | Value of Position |
|-----------------------------|--------|----------|-----------------------------|---------------------|----------------------|
| Alliant Tech Systems | ATK | 3,400 | \$57.17 | 3.5% | \$194,378 |
| Amazon.com | AMZN | 1,050 | \$188.39 | 3.5% | \$197,810 |
| Apple | AAPL | 750 | \$373.20 | 5.0% | \$279,900 |
| Caterpillar | CAT | 2,500 | \$90.54 | 4.0% | \$226,350 |
| Chevron | CVX | 2,250 | \$97.39 | 3.9% | \$219,128 |
| Coca Cola | KO | 3,100 | \$66.19 | 3.7% | \$205,189 |
| Continental Resources | CLR | 3,200 | \$66.12 | 3.8% | \$211,584 |
| Cummins | CMI | 2,400 | \$88.47 | 3.8% | \$212,328 |
| Dick's Sporting Goods | DKS | 4,900 | \$38.53 | 3.4% | \$188,797 |
| Discover Financial Services | DFS | 8,600 | \$22.74 | 3.5% | \$195,564 |
| Dollar Tree | DLTR | 2,500 | \$79.72 | 3.6% | \$199,300 |
| eBay | EBAY | 6,800 | \$28.75 | 3.5% | \$195,500 |
| EcoLab | ECL | 4,000 | \$55.47 | 4.0% | \$221,880 |
| Gilead Sciences | GILD | 5,500 | \$39.27 | 3.9% | \$215,985 |
| Google | GOOG | 340 | \$582.93 | 3.5% | \$198,196 |
| Halliburton | HAL | 5,500 | \$33.54 | 3.3% | \$184,470 |
| KeyCorp | KEY | 28,000 | \$6.96 | 3.5% | \$194,880 |
| LabCorp | LH | 2,500 | \$83.49 | 3.7% | \$208,725 |
| Newmont Mining | NEM | 3,200 | \$65.29 | 3.7% | \$208,928 |
| Perrigo | PRGO | 2,200 | \$97.74 | 3.8% | \$215,028 |
| Potash | POT | 5,000 | \$42.39 | 3.8% | \$211,950 |
| Qualcomm | QCOM | 4,100 | \$53.11 | 3.9% | \$217,751 |
| RBC Bearings | ROLL | 4,800 | \$38.92 | 3.3% | \$186,816 |
| Sonic Corp | SONC | 28,000 | \$6.71 | 3.4% | \$187,880 |
| Starwood Hotels | HOT | 4,000 | \$45.30 | 3.2% | \$181,200 |
| Teradata Corp | TDC | 4,000 | \$50.70 | 3.6% | \$202,800 |
| United Health Group | UNH | 4,800 | \$45.88 | 3.9% | \$220,224 |
| Cash & Hedge | | | | | \$20,410 |
| Total | | | | | \$5,602,951 |

• **New Portfolio Positions** •

The composition of the new AIM portfolio as of 11/29/11 is listed on the following page. Apple (AAPL) was the portfolio's largest holding at 5% even after being trimmed down from its previous weight of 6.65%. This was done in order to keep

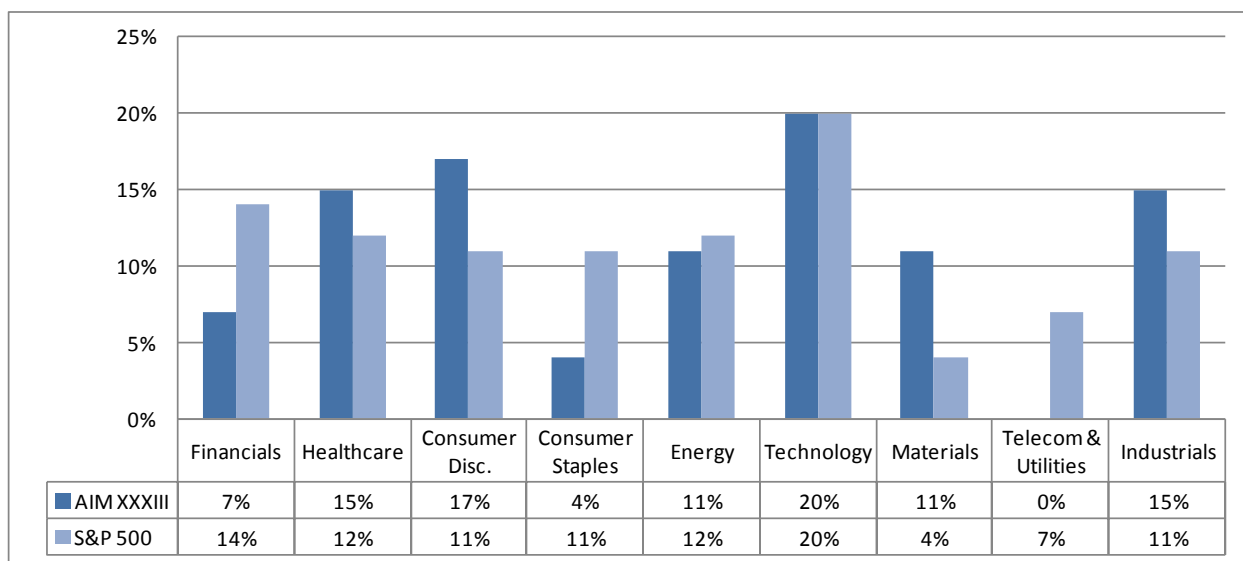
a desired balance in the portfolio. The next largest holdings were EcoLab Inc (ECL) and Caterpillar (CAT); each representing 4% of the portfolio. The portfolio also contained two small hedging positions: long in NASDAQ internet portfolio and short in 20-year Treasuries.

• **New Portfolio (continued)** •

• **Sector Allocations** •

The sector weightings are benchmarked against the S&P 500. As seen in the graph below, the new portfolio as of 11/13/11 overweighted Consumer Discretionary and Information Technology sectors and underweighted the Financial, Consumer Staples, and Telecom sectors. We attributed this, in part, to the fact

that Consumer Discretionary and Information Technology companies are often the most exciting companies that students know the most about, while Financial and Consumer Staples companies are often not as well-known or require a different approach to modeling. This bias is consistent with Warren Buffett's approach of only investing in companies one understands.



• **Stocks Sold from Portfolio** •

- Activision Blizzard, Inc (ATVI)
- American Tower Corporation (AMT)
- Archer-Daniels-Midland Company (ADM)
- Deere & Company (DE)
- FedEx Corporation (FDX)
- Hasbro, Inc (HAS)
- Intel (INTC)
- Starbucks Corporation (SBUX)
- Tessera Technologies (TSRA)

• **Stocks Added to Portfolio** •

Amazon.com, Inc (AMZN) is an e-commerce business with three primary customer sets: consumers, sellers and enterprises. It also generates revenue through other marketing and promotional services, such as online advertising, and co-branded credit card agreements.

Caterpillar, Inc (CAT) is a manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines and diesel-electric locomotives.

Cummins Inc (CMI) designs, manufactures, distributes and services diesel and natural gas engines, electric power generation systems and engine-related component products, including filtration, exhaust aftertreatment, fuel systems, controls and air handling systems.

Dick's Sporting Goods Inc (DKS) is a sporting goods retailer offering a range of brand name sporting goods equipment, apparel, and footwear in a specialty store environment.

eBay Inc (EBAY) bring together buyers and sellers every day on a local, national and international basis through a range of online marketplaces.

Halliburton Company (HAL) is an oilfield services company that provides a range of services and products for the exploration, development, and production of oil and natural gas around the world.

KeyCorp (KEY) is a bank holding company that provides a range of retail and commercial banking products, including commercial leasing, investment management, consumer finance and investment banking products and services to individual, corporate and institutional clients through two business segments: Key Community Bank and Key Corporate Bank.

Laboratory Corporation of America Holdings (LH) is an independent clinical laboratory company with a national network that provides clinical laboratory tests and results for a variety of medical uses.

RBC Bearings Incorporated (ROLL) is an international manufacturer and marketer of engineered precision plain, roller and ball bearings, focusing primarily on technical or regulated bearing products for specialized markets.

Teradata Corporation (TDC) is a provider of enterprise data warehousing (EDW), including enterprise analytic technologies and services. TDC also provides integrated marketing software.

Source: Reuters.

New York Recap

On November 3, the AIM class traveled to New York. We started our firm visits with Sy Goldblatt and team from S-Squared Technology, who walked the analysts through the fund's investment process with several interesting case studies. Next we went to the offices of D.E. Shaw, where CFO and ND alumnus Chris Zaback and team discussed risk management and the fund's unique and quantitative approach to investing. We subsequently had a working lunch at Blackstone where alumnus Sean Klimczak discussed excellent guiding principles to follow in our careers. We were extremely fortunate to have a surprise visit from Steve Schwarzman who shared advice and humor. Next, we visited Blackrock we heard from ND alumnus Jim Keenan regarding the European crisis and the current economic environment. We finished our day by meeting over 50 AIM alumni at the New York Hilton for a reception and dinner. This included a great Q&A session that allowed former analysts to share industry experience and wisdom with the class. Saturday morning, we met with ND alumnus Tom Maheras of Tegean Capital Management who shared his story and fielded questions about career advice, industry trends, and company specific investing ideas. We concluded the trip with an incredible steak dinner at Smith and Wollensky. AIM XXXIII had a great visit to New York and is grateful to everyone who contributed to its success.

• AIM XXXIII Roster •

| Name | Hometown | Email | First Stock | Second Stock | Next Year Plans |
|---------------------|-----------------------------|-----------------|------------------------|--------------------------------|---|
| Anderson, Kelly | Bolingbrook, IL | kander25@nd.edu | Dollar Tree | Cinemark Holdings | Deloitte Consulting, Chicago |
| Bratton, David | Houston, TX | dbratton@nd.edu | Archer Daniels Midland | MasTec | General Electric, Cincinnati |
| Burkin, Michael | Orange, CA | mburkin@nd.edu | Perrigo | Monro Muffler Brake | T. Rowe Price, Baltimore |
| Cahill, Robert | Oceanside, NY | rcahill@nd.edu | Coca-Cola | Forest Laboratories | Bank of America Merrill Lynch, New York |
| Goedert, John | Chicago, IL | jgoedert@nd.edu | Starwood Hotels | RBC Bearings | J.P. Morgan, Chicago |
| Hurtekant, Joseph | Dallas, TX | jhurteka@nd.edu | Potash Corp. | Dick's Sporting Goods | Leonard Green & Partners, Los Angeles |
| Keebler, Timothy | Philadelphia, PA | tkeebler@nd.edu | Discover Fin. Services | Teradata Corp. | General Catalyst Partners, Boston |
| Keeler, Colin | Moorestown, NJ | ckeeler@nd.edu | Sonic | Panera Bread Co. | Lincoln International, Chicago |
| Kissling, Patrick | Plymouth, MN | pkisslin@nd.edu | United Health | Boston Beer Company | Credit Suisse, Chicago |
| Lenzi, Anne | Carmel, IN | alenzi@nd.edu | Intel | Apollo Group | Barclays Capital, Chicago |
| Libel, Matthew | Springfield, MO | mlibel@nd.edu | Apple | Vistaprint NV | Undecided |
| Mahin, David | Cincinnati, OH | dmahin@nd.edu | American Tower | Dreamworks | L.E.K. Consulting, Chicago |
| Masoud, Christopher | San Francisco, CA | cmasoud@nd.edu | Chevron | Telsa Motors | Centerview Partners, San Francisco |
| McMackin, Thomas | Chevy Chase, MD | tcmacki@nd.edu | Tessera | Overseas Shipbuilding Group | The Blackstone Group, New York |
| Mezyk, Joseph | Chicago, IL | jmezyk@nd.edu | Gilead Sciences | Vale S.A. | PNC, New York |
| Misch, Katherine | Leonard, MI | kmisch@nd.edu | Qualcomm | Owens & Minor | Morgan Stanley, New York |
| Naylor, Griffin | Cincinnati, OH | gnaylor1@nd.edu | Continental Resources | eBay | Citigroup, New York |
| O'Donnell, Ryan | Bruswick, GA | rodonne1@nd.edu | Fed Ex | Abercrombie & Fitch | Robert W Baird, Milwaukee |
| Robb, Patrick | Kansas City, MO | probb@nd.edu | Newmont | Laboratory Corp. of America | J.P. Morgan, New York |
| Slawinski, Kevin | East Northport, NY | kslawins@nd.edu | Google | Cummins | Citigroup, New York |
| Spokes, Charles | Overland Park, KS | cspokes@nd.edu | Alliant Techsystems | Key Bank | Undecided |
| Study, Alexander | Dayton, OH | astudy@nd.edu | EcoLab | Yum! Brands | Deutsche Bank, New York |
| Sullivan, Eileen | Chicago, IL | esulliv6@nd.edu | Hasbro | Estee Lauder | Goldman Sachs, New York |
| Sullivan, Lauren | Rosemont, IL | lsulliv7@nd.edu | Caterpillar | Whole Foods Market | Bank of America Merrill Lynch, Chicago |
| Torres Page, Moises | San Pedro de Sula, Honduras | mtorresp@nd.edu | Deere | Chipotle Mexican Grill | Credit Suisse, Chicago |
| Weido, Nick | Houston, TX | nweido@nd.edu | Starbucks | Halliburton Group | Raymond James, Boston |
| Wright, Bradley | Cincinnati, OH | bwright4@nd.edu | Activision Blizzard | Huron Consulting Group | Undecided |
| Zemlock, Kathryn | Indianapolis, IN | kzemlock@nd.edu | Amazon | Green Mountain Coffee Roasters | PNC, Pittsburgh |