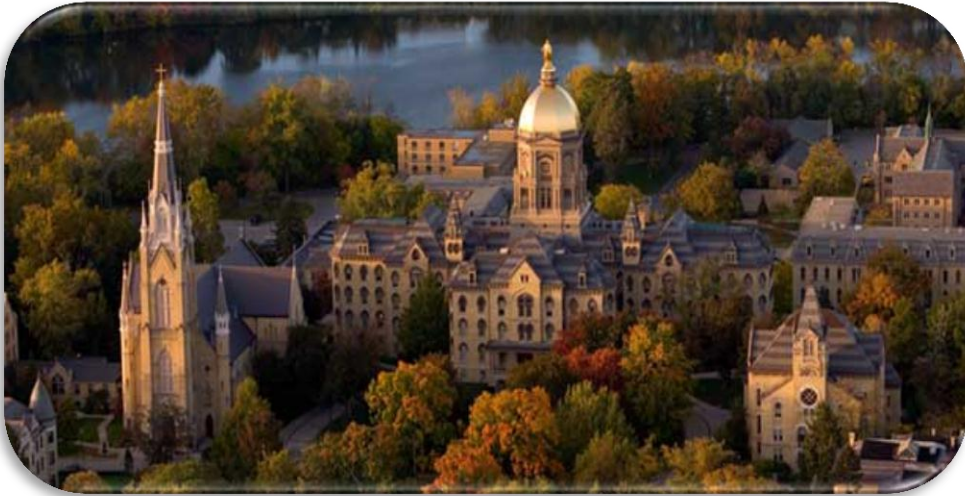


# AIM QUARTERLY



## Greetings from AIM XXXV

As the end of 2012 is nearing and an undefeated football team walks among us, Professors Jerry Langley and Frank Reilly continue to lead a group of 27 analysts in managing the AIM portfolio. During this very interesting time in the economy, an outlook of economic uncertainty remains. Meanwhile, voting has concluded, and after long debate, a final portfolio of both old and new stocks has been assembled. AIM XXXV recently traveled to New York City where analysts were able to meet with a few of the most successful hedge funds and private equity firms in the city.

Quarter 4, Fall 2012

*In This Issue*



*State of the Economy 2-3*



*Alumni Updates 3-4*



*Portfolio Performance 4-6*



*New York 7-8*

*AIM XXXV Class Profile 9*

# Economic Outlook: An AIM Perspective

## *GDP*

According to the Bureau of Economic Analysis, U.S. real GDP increased at an annual rate of 2.0 percent in Q3 2012. This increase primarily reflects positive contributions from personal consumption expenditures, federal government spending, and residential fixed investment that were partially offset by negative contributions from exports, nonresidential fixed investment, and private inventory investment.

Federal Reserve forecasts for U.S. GDP in 2012 range from 1.6%-2.0% in 2012 and 2.3%-3.5% in 2013. This lack of growth prompted the Chairman of the Federal Reserve, Ben Bernanke, to continue QE3, the open-ended program which will continue to purchase mortgage-backed securities (MBS) at a rate of \$40 billion a month. Although the Federal Reserve has not issued an official statement on the total quantity of MBS purchases, Goldman Sachs economists estimate that the program could total as much as \$2 trillion. Continued uncertainty due to the Fiscal Cliff, the European debt crisis, and the labor market will continue to impede U.S. economic growth in the near term.

## *Consumer Sentiment*

In November, the Conference Board Consumer Confidence Index rose 3.8 points to 72.2 from 68.4 in October and in doing so, marginally exceeded consensus estimates of 72.0. Though this represents the highest level since 2008, consumer confidence remains well below its 46 year average of 93.2. This perception of remaining in a recessionary environment is exemplified by the fact that twice as many people say business conditions are 'bad' versus 'good' and

that almost four times as many people say jobs are 'hard to get' versus jobs being plentiful. Driving this widespread uncertainty are the high unemployment rate, fiscal cliff situation, the impact of 'Obamacare' on businesses, European instability and international political developments. Due to the continued uncertainty resulting from these situations, we expect consumer confidence to remain between 65.0 and 75.0 in the near future.

## *Housing*

Although the housing sector faces some headwinds, the sector as a whole can expect growth and recovery going forward, albeit at a slow rate. Indicators such as new and existing home sales and housing starts are both positive going forward. Housing starts performed strongly in September, with single-unit starts at 603,000, 11 percent above the revised August figure of 543,000. Aggregate September starts were 15 percent above the revised August figure and 34.8 percent higher than September 2011. Both existing home sales and new home sales have increased, though new home sales continue to lag behind existing. The Case-Shiller 20-City seasonally adjusted home price index recorded an annual return of 2.0 percent in August, with the average home price increasing 0.9 percent from July to August. Of the 20 cities included in the index, 19 experienced positive monthly gains in August. Although prices appear to have bottomed out, significant shadow inventory remain. Distressed homes accounted for 22 percent of August sales, down from 24 percent in July. The 15 and 30 year fixed mortgage rates for September 2012 were at historical lows of 3.03 percent and 3.76 percent, respectively. Delinquencies remain the largest headwind to the

housing recovery; however, loss mitigation has been enacted in attempts to moderate the impact of delinquencies. Despite a sharp decrease in the percentage of loans in foreclosure in September, the percentage of loans delinquent increased in September compared to August. With regards to monetary policy, the Federal Reserve is continuing its open-ended easing program, QE3, purchasing an additional \$40 billion in mortgage-backed securities per month. In theory, this policy should continue to decrease mortgage rates.

## *Inflation*

In October 2012, the U.S. Bureau of Labor Statistics reported that the Consumer Price Index for all Urban Consumers increased 0.1 percent on a seasonally adjusted basis, following a 0.6 percent increase in September. Over the last 12 months, the all items index increased 2.2 percent before seasonal adjustment. The shelter index increased 0.3 percent, the largest increase since March 2008, accounting for over half of the seasonally adjusted all items increase. Increases in apparel and airline fare as well as the rise in the shelter index more than offset the declines in the indexes for used cars and trucks, new vehicles, and recreation, resulting in a 0.2 percent increase in the index for all items less food and energy. The food index increased 0.2 percent in October, with a 1.7 percent change in the 12-month index. The energy index, which had risen sharply in August and September, declined slightly in October, and has increased 4.0 percent over the last 12 months.

## *Employment*

The U.S. Bureau of Labor Statistics reported a total nonfarm payroll increase of 171,000 in October 2012, though the unemployment rate remained essentially unchanged at 7.9 percent. Employment levels rose in the professional and business services, health care, and

retail trade industries. Mining was the largest source of job declines, with 9,000 jobs lost in October. The number of unemployed persons in October also remained essentially unchanged at 12.3 million, following a decline in September. Long-term unemployed persons, defined as jobless for 27 weeks or more, accounted for 40.6 percent of the unemployed in October, remaining unchanged from the prior month. The civilian labor force rose by 578,000 to 155.6 million in October, causing a slight increase in the labor participation rate to 63.8 percent. Because employment recovery has been slow and unemployment numbers have remained essentially unchanged from September to October, the U.S. Federal Open Market Committee stated in their October 24 meeting that “without sufficient policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions.” An additional concern is that job growth is being primarily driven by lower-wage positions, with higher income jobs continuing to be cut.

## **Alumni Updates**

### *Mike Anderson, AIM XX*

Mike is a Structured Finance Trader at Advantus Capital Management, the asset management arm of Securian Financial in St. Paul, Minnesota. A 2005 graduate of the MBA program, he worked at PricewaterhouseCoopers upon graduation and has now been at Advantus for five years. Mike also leads the Hearts & Hammers volunteers from the ND Club of MN to provide free exterior home repairs and improvements for elderly and disabled homeowners with limited financial means. He spends his free time with his wife, Sarah (also 2005 ND MBA) and two year old son, Everest.

### *Adam Fleck, AIM XXI*

Adam is currently an Associate Director of Research at Morningstar in Chicago where he focuses on the

industrials sector. He has worked at Morningstar for the last six and a half years since graduating in 2006. While in AIM, Adam covered Edwards Lifesciences Corp (which was kept in the portfolio) and Hasbro (which was not bought). Two months ago, he married a Saint Mary's College graduate who currently works as a lawyer. Over the years, Adam has been instrumental in helping ND undergrads in Student International Business Council with the Equity Research project.

### *Blair Mlnarik Pircon, AIM XXVI*

Blair works as an Equity Research Associate for Robert W. Baird in Chicago. Her current focus is on softline retail and department stores, which involves frequent trips to the mall and discussions with investors about handbags and yoga pants. Prior to that, Blair covered education services out of Baird's Milwaukee office after graduating in 2008. There, she was promoted to associate and traveled to Washington D.C. and Beijing for discovery on the education sector. Her AIM stocks were Digital River (kept in the portfolio) and FCStone Group (added to the portfolio). Blair recently married a former Baird investment banker and is active in the firm's recruiting efforts at ND. She is also currently looking for tickets to the BCS National Championship game in Miami.

## **Portfolio Performance: The AIM Advantage**

### *Benchmark Comparison*

The AIM portfolio continues to outperform major benchmark indices throughout all periods over the last five years (HBI is comprised of 65% S&P 500 and 35% Russell 2000 returns). The portfolio has consistently performed at least one percent better than benchmarks for all time periods. When going back five

years to include the recession, the portfolio still significantly outperformed indices as well.

### *Portfolio Attribution Analysis*

Over the past year, the AIM portfolio's outperformance of S&P 500 is largely attributed to the selection effect. The allocation effect shows the comparative value added by over or underweighting sectors relative to benchmark, while the selection effect represents the value added by choosing securities that outperform the benchmark in each of these sector levels. For all time periods, the selection effect dominates the allocation effect; however, allocation in sectors such as the underweighting of financials contributed more to the net management effect for three- and five-year time horizons. Since the AIM portfolio has consistently demonstrated stronger selection effects, the AIM program has without a doubt demonstrated its ability to properly value companies and choose well-performing stocks.

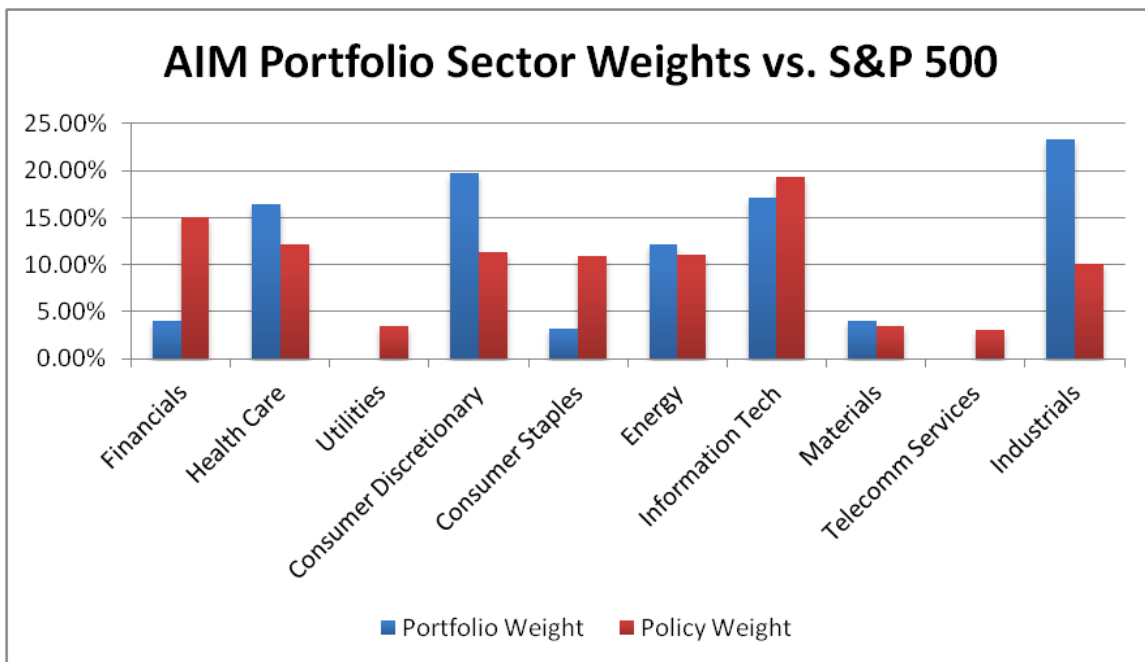
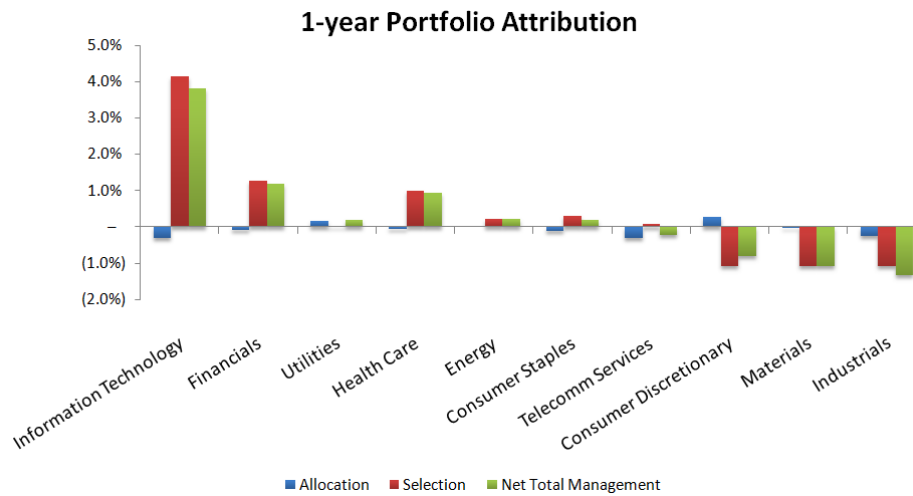
### *Portfolio Positions*

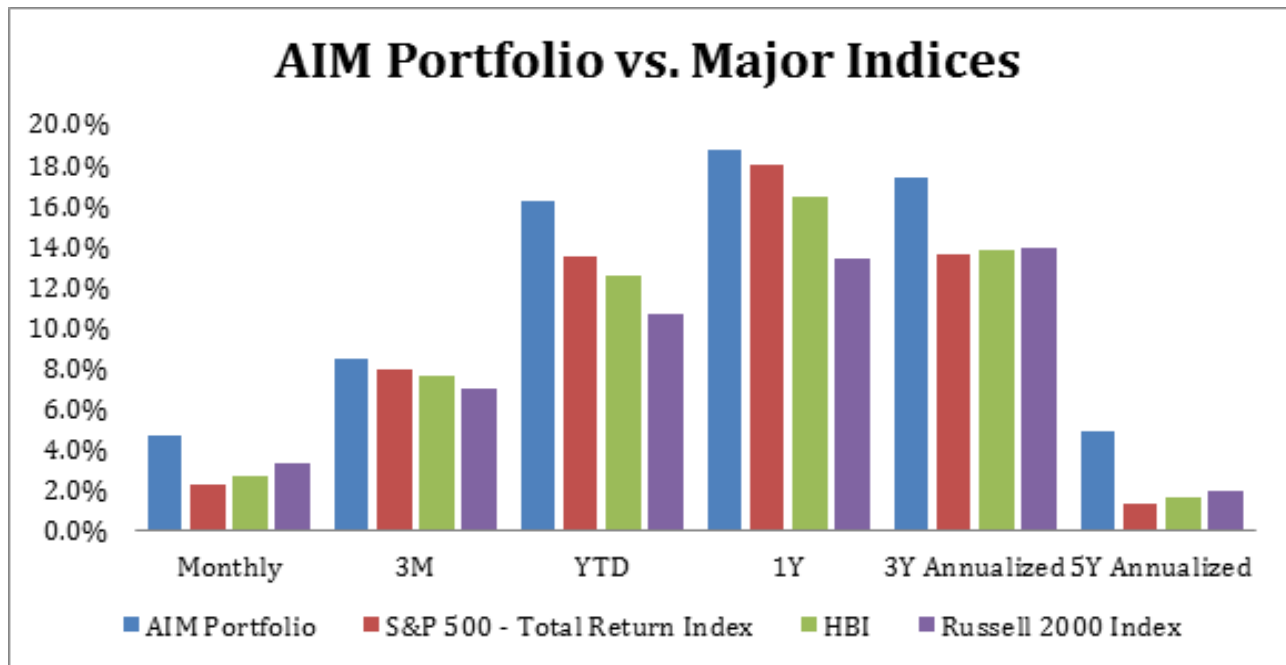
The AIM portfolio's composition is listed below. Its largest positions are Apple at 5.22% and Chevron at 4.42%. The smallest holdings are Flowserve at 3.08% and Domino's Pizza at 3.25%.

### *Sector Allocation*

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Holding	Ticker	Shares	Price (\$)	Market Value	% of Portfolio
Activision Blizzard	ATVI	23,500	\$ 11.34	\$ 266,490.00	3.93%
Acuity	AYI	4,200	\$ 65.05	\$ 273,210.00	4.03%
Apple	AAPL	600	\$ 589.53	\$ 353,718.00	5.22%
Cerner Corp	CERN	3,400	\$ 77.02	\$ 261,868.00	3.86%
Chevron	CVX	2,850	\$ 104.99	\$ 299,221.50	4.41%
Continental Resources	CLR	3,600	\$ 69.66	\$ 250,776.00	3.70%
Cummins	CMI	2,700	\$ 99.61	\$ 268,947.00	3.97%
Dick's Sporting Goods	DKS	4,900	\$ 51.49	\$ 252,301.00	3.72%
Discover Financial	DFS	6,500	\$ 41.34	\$ 268,710.00	3.96%
Domino's	DPZ	5,300	\$ 41.52	\$ 220,056.00	3.25%
eBay	EBAY	5,500	\$ 51.40	\$ 282,700.00	4.17%
Expeditors International	EXPD	7,400	\$ 37.24	\$ 275,576.00	4.06%
Flowserve Corp	FLS	1,500	\$ 139.20	\$ 208,800.00	3.08%
Gilead Sciences	GILD	4,400	\$ 75.47	\$ 332,068.00	4.90%
Google	GOOG	400	\$ 661.15	\$ 264,460.00	3.90%
Halliburton	HAL	8,400	\$ 32.03	\$ 269,052.00	3.97%
IPG Photonics	IPGP	4,600	\$ 59.83	\$ 275,218.00	4.06%
Kapstone	KS	13,100	\$ 20.95	\$ 274,445.00	4.05%
Lab Corp	LH	3,200	\$ 82.84	\$ 265,088.00	3.91%
Open Table	OPEN	6,200	\$ 44.78	\$ 277,636.00	4.09%
Potash	POT	7,000	\$ 38.40	\$ 268,800.00	3.96%
Select Comfort	SCSS	10,400	\$ 26.56	\$ 276,224.00	4.07%
Teradata Corp	TDC	4,200	\$ 62.13	\$ 260,946.00	3.85%
United Health Group	UNH	4,800	\$ 53.53	\$ 256,944.00	3.79%
Wynn Resorts	WYNN	2,500	\$ 107.57	\$ 268,925.00	3.97%
Cash				\$ 8,650.00	0.13%
<b>Total</b>				<b>\$ 6,780,829.50</b>	<b>100.00%</b>

Data as of November 26, 2012

## November 8-11<sup>th</sup> New York Trip

On November 8th, AIM XXXV traveled to New York City and checked into the Hilton New York. On Friday morning, the class met with Ryan Heslop and Ariel Warszawski of Firefly Value Partners, a top performing long / short hedge fund. After sharing their perspectives on equity selection, the investment process and how to design short investments, Ryan and Ariel surprised the AIM class with sporty 'Invest Like a Champion' t-shirts (see photo below).

Next, AIM XXXV had the opportunity to meet with Kevin Oram and Peter Uddo of Praesidium Investment Management, also a long-only value oriented hedge fund. Kevin and Peter graciously shared their perspectives on how to conduct value added due diligence, the investment process and how to remain unbiased when re-evaluating current investments.

Following the meeting with Kevin and Peter, the AIM class traveled to Blackstone where we had the opportunity to meet with ND alumni Sean Klimczak and Jamie O'Connell, who are Managing Directors in the company's Private Equity and Restructuring groups, respectively. Over lunch, Sean and Jamie described some of their current projects, shared opinions on the recent presidential election and provided some great career advice.



After meeting with Sean and Jamie, the class traveled to Elliot Management where we had the privilege of meeting with Paul Singer, Jay Newman and ND Alumnus Brian Bock. After describing his background and describing his firm's 'tenacious' investment strategy, Paul fielded questions from AIM students and ND Investment Office professionals. Thereafter, Jay described the situation surrounding Elliott's recent seizure of Argentina's ARA Libertad and Brian provided career advice and answered any remaining questions.

Next, the AIM class visited Sandler O'Neill Asset Management, a financials focused long / short equity hedge fund where Terry Maltese shared his perspectives on how to value financial companies and his firm's investment strategy.

After returning to the Hilton, Scott Malpass and the current AIM class hosted a dinner for AIM alumni. The dinner provided a great opportunity for informal networking, the sharing of stories and AIM alumni to ask questions of Scott. With over 40 alumni in attendance, the dinner was well attended and overall, a great time.

On Saturday morning, AIM class had the opportunity to meet with ND and AIM alumnus John Reilly of South Ferry Capital. After describing his investment strategy, John went through several distressed debt case studies for the great benefit of the AIM class.

After meeting with John, the AIM class attended the Radio City Christmas Spectacular, which did not disappoint. That evening, the AIM class celebrated the completion of its New York Trip with a phenomenal dinner at Smith and Wollensky and watched ND football trounce Boston College at the Public House. Overall, this semester's AIM New York trip was a great success – full of insightful advice, good company and lasting memories.





# AIM XXXV Class Profile

Name (Last, First)	Hometown	Email	First Stock	Second Stock	Summer Employment	Next Year Plans
<b>Asuncion, Justin</b>	Omaha, NE	jasuncio@nd.edu	AeroVironment (AVAV)	Bridgepoint Education (BPI)	Goldman, Sachs & Co. (IBD)	Goldman, Sachs & Co. (IBD)
<b>Barnes, Justin</b>	Los Angeles, CA	jbarnes7@nd.edu	Activision Blizzard (ATVI)	OpenTable (OPEN)	Spotlight Funds	Lincoln International (IBD)
<b>Beres, Sam</b>	Brookfield, WI	sberes@nd.edu	Apple, Inc. (AAPL)	CoinStar (CSTR)	McGladrey LLP (Valuation)	Robert W. Baird (ER)
<b>Cameron, John</b>	Rolling Meadows, IL	jcameron2@nd.edu	Caterpillar (CAT)	La-Z-Boy (LZB)	William Blair (IBD)	William Blair (IBD)
<b>Cappello, Shawn</b>	Monmouth Beach, NJ	scappell@nd.edu	Cummins (CMI)	Kapstone (KS)	Credit Suisse (IBD)	Credit Suisse (IBD)
<b>Charnesky, Andrew</b>	Grosse Pointe, MI	acharnes@nd.edu	Harley-Davidson (HOG)	Glu Mobile (GLUU)	Goldman, Sachs & Co. (IBD)	McKinsey & Company (BA)
<b>Cochran, Michael</b>	Oceanside, NY	mcochra3@nd.edu	Chevron (CVX)	Yum! Brands (YUM)	Barclays (IBD)	Barclays (IBD)
<b>Cox, Adam</b>	New Palestine, IN	acox6@nd.edu	PNC Financial Services (PNC)	Teavana (TEA)	BlackRock (HY FI)	BlackRock (HY FI)
<b>Crow, Robert</b>	Champaign, IL	rcrow@nd.edu	LabCorp (LH)	Cerner Corp. (CERN)	Citigroup (IBD)	Shoptalk (Co-founder)
<b>Donnelly, Michael</b>	Rochester, NY	mdonne17@nd.edu	Halliburton (HAL)	Constellation Brands (STZ)	Constellation Brands, Inc.	Undecided
<b>Draine, Alex</b>	Warren, OH	ddraine@nd.edu	Google Inc. (GOOG)	Expeditors Int'l (EXPD)	Citigroup (IBD)	Citigroup (IBD)
<b>Elizondo, Alberto</b>	Monterrey, Mexico	aelizond@nd.edu	Qualcomm (QCOM)	Radioshack (RSH)	Goldman, Sachs & Co. (IBD)	Goldman, Sachs & Co. (IBD)
<b>Holenstein, Bradley</b>	Newton, NJ	bholenst@nd.edu	Potash Corp (POT)	Idexx Labs (IDXX)	Blackstone (Advisory M&A)	Blackstone (Advisory M&A)
<b>Kimball, Alex</b>	St. Paul, MN	akinball@nd.edu	Dick's Sporting Goods (DKS)	Autozone (AZO)	Deutsche Bank (IBD)	Blackstone (Private Equity)
<b>Lavelle, Chad</b>	Louisville, KY	clavell1@nd.edu	UnitedHealth Group (UNH)	Life Time Fitness (LTM)	Lazard	Bain & Company (AC)
<b>Marek, Joseph</b>	St. Paul, MN	jmarek1@nd.edu	eBay (EBAY)	Select Comfort Corp. (SLCC)	Morgan Stanley (S&T FI)	Morgan Stanley (S&T FI)
<b>Rampino, Joseph</b>	Long Beach, CA	jrampino@nd.edu	Continental Resources (CLR)	Madison Square Garden (MSG)	HFP Capital Markets (IBD)	Undecided
<b>Rocheleau, Brett</b>	Naperville, IL	brochele@nd.edu	Flowsolve (FLS)	Wynn Resorts (WYNN)	Credit Suisse (IBD)	Credit Suisse (IBD)
<b>Roesch, Matt</b>	West Chester, OH	mroesch1@nd.edu	Discover Financial Services (DFS)	Medifast (MED)	Credit Suisse (IBD)	Credit Suisse (IBD)
<b>Rossetto, Matt</b>	Frankfort, IL	mrossett@nd.edu	Williams-Sonoma (WSM)	Constant Contact (CTCT)	William Blair (Operations)	Undecided
<b>Schmitz, Adam</b>	Highlands Ranch, CO	aschmit2@nd.edu	Dollar Tree (DLTR)	Acquity (AYI)	Robert W. Baird (ER)	Robert W. Baird (ER)
<b>Si, Richard</b>	Montreal, Quebec	rsi@nd.edu	CarMax (KMX)	Tim Hortons, Inc. (THI)	Deutsche Bank (IBD)	Deutsche Bank (IBD)
<b>Smith, Tyler</b>	Carlsle, MA	tsmith25@nd.edu	ATK	Michael Kors (KORS)	Eaton Vance (Equity Research)	Eaton Vance (ER)
<b>Thomas, Michael</b>	St. Clair Shores, MI	thomas.268@nd.edu	Teradata Corporation (TDC)	Dominos Pizza (DPZ)	Morgan Stanley (IBD)	Morgan Stanley (IBD)
<b>Tompkins, Allison</b>	Jackson, MI	atompki1@nd.edu	Gilead Sciences (GILD)	J.M. Smuckers (SJM)	Barclays (IBD)	Morgan Stanley (IBD)
<b>Vander Linde, Alex</b>	Hinsdale, IL	avanderl@nd.edu	Coca-Cola (KO)	IPG Photonics (IPGP)	Greenhill (IBD)	Greenhill (IBD)
<b>Welcenbach, Erin</b>	Menomonee Falls, WI	ewelcenb@nd.edu	KeyCorp (KEY)	Rockwell Automation	Eaton Corp.	Robert W. Baird (ER)