
AIM QUARTERLY



Credit Mary Galphin

QUARTER 1, SPRING 2013
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Greetings from AIM XXXVI

As the first quarter of 2013 is ending, Professors Jerry Langley, Bill McDonald, and Frank Reilly continue to lead a group of 24 MBA/MSA analysts as they navigate through the global economic uncertainties to pursue abnormal returns.

The first round security analysis was recently completed, and each analyst is now selecting a stock for the second round. The AIM XXXVI class is looking forward to the Chicago trip in late March.

“The reason a lot of people do not recognize opportunity is because it usually goes around wearing overalls looking like hard work.” - Thomas A. Edison.



Economic Outlook: An AIM Perspective

GDP

According to the Bureau of Economic Analysis, real GDP decreased by .1 percent annual rate in the 4th quarter, from the third quarter. The Bureau believes the decrease was due to decreased government spending. The decrease in real GDP in the fourth quarter primarily reflected decreasing contributions from private inventory investment, federal government spending, and exports that were partly offset by positive contributions from personal consumption expenditures (PCE), nonresidential fixed investment, and residential fixed investment. Imports, which reduce GDP, decreased.

CONSUMER SENTIMENT

On January 29th the Conference Board reported the results of its January consumer confidence index survey. According to the most recent monthly surveys, the index (1985 = 100) fell from 72.2 in November to 66.7 in December. It then fell to 58.6 in January. Both present situation and expectations indices declined. The recent decline in consumer confidence has erased all gains that occurred in 2012. Between January and December, consumers became increasingly pessimistic about the job market, business conditions, and their future incomes. The only bright spot was that somewhat fewer expected the economy to worsen. The perception indicated by the consumer confidence index is that the U.S. is in a recession.

HOUSING

Recent news continues the cautiously optimistic sentiment surrounding the housing sector. Certain data points are stronger but many headwinds and uncertainties remain.

Through November 2012, the S&P/Case-Shiller 20-city composite showed home price increases of 5.5% for the prior twelve months. Prices rose in 19 of the 20 cities within the index and are back to their autumn 2003 levels. This remains roughly 30% below summer 2006 peaks.

New home construction numbers have improved, though recent data suggests a mixed bag. January 2013 housing starts are 35% above January 2012 levels but overall declined 8.5% from December 2012. Single-family housing starts remain nearly 70% below the peak in early 2006. Of note, the aggregate housing inventory is declining and currently sits at a 13-year low. At the current pace of sales, it would take merely 4.2 months to sell the existing inventory of homes. Distressed sales represented 23% of January's figures, down 35% from a year earlier but still a significant portion of the market.

Mortgage rates remain at historic lows. However, rates continue to rise in 2013, up nearly a quarter of a percent in the first six weeks of the year. Mortgage delinquencies are declining, and 10.8% of single-family homes are either past 30 days due or in foreclosure as of December 2012, down from a peak of 14.7% in 2010.

Perhaps the biggest uncertainty in the housing sector involves the influence of the Federal Reserve going forward. In particular, the timing of the ending of QE3 is uncertain. Many still expect the Fed to continue the



program into the first half of 2014 but others see an early end in the second half of 2013. The upcoming FOMC meeting in March should shed some light on the Fed's thinking. For now, QE3 continues to support the mortgage market.

INFLATION

Overall, inflation continues to run slightly below the Fed's target figure. The U.S. Bureau of Labor Statistics reported that the Consumer Price Index for all Urban Consumers was unchanged in January on a seasonally adjusted basis. Prices for all items less food and energy increased by 0.3% in the month, while the energy index fell 1.7% and the food index was unchanged after increasing in each of the prior ten months. Both the items index and the food index have increased 1.6% over the past year, while the energy index has declined 1.0%.

The Producer Price Index for finished goods rose 0.2% in January, seasonally adjusted, after declines of 0.3% in December and 0.4% in November. Over 75% of the advance in prices is due to food prices, which rose 0.7% in January. Energy prices fell 0.4%.

EMPLOYMENT

The U.S. Bureau of Labor Statistics reported an expansion of nonfarm payrolls by 157,000 in January, below the 2012 average of 181,000. Employment levels rose in retail, construction, healthcare, and wholesale sectors. The biggest declines were seen in transportation and warehousing. The unemployment rate remains at 7.9%, a level that has been little changed since September 2012. The total number of unemployed persons in the United States remained at 12.3 million, relatively unchanged. Over 38% of these are long-term unemployed, defined as those who are jobless for 27 weeks or more. The employment-population ratio remains at 58.6% and the civilian labor force participation rate is unchanged at 63.6%.

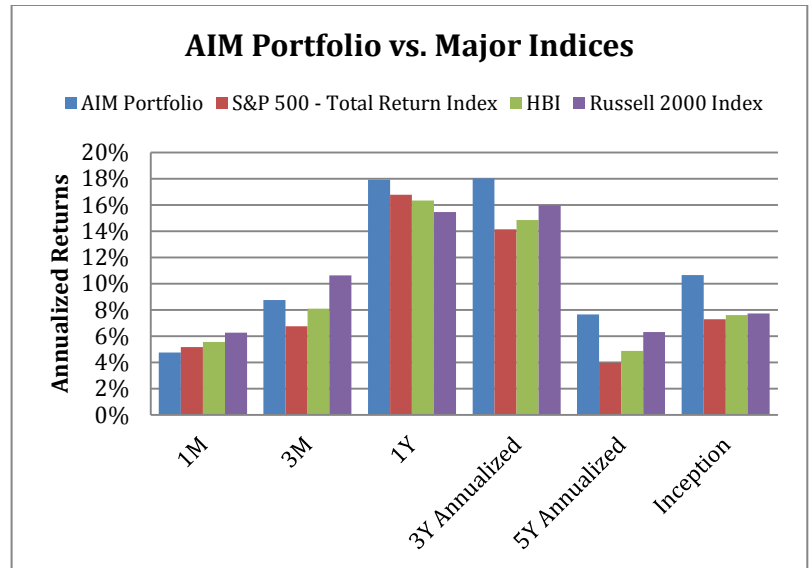
The Fed expects 7.4 – 7.7% unemployment in 2013. The continued recovery should benefit cyclical sectors of the economy. Downside risks include fallout from Europe and fiscal uncertainty, which continues to restrict payroll growth.



Portfolio Performance: The AIM Advantage

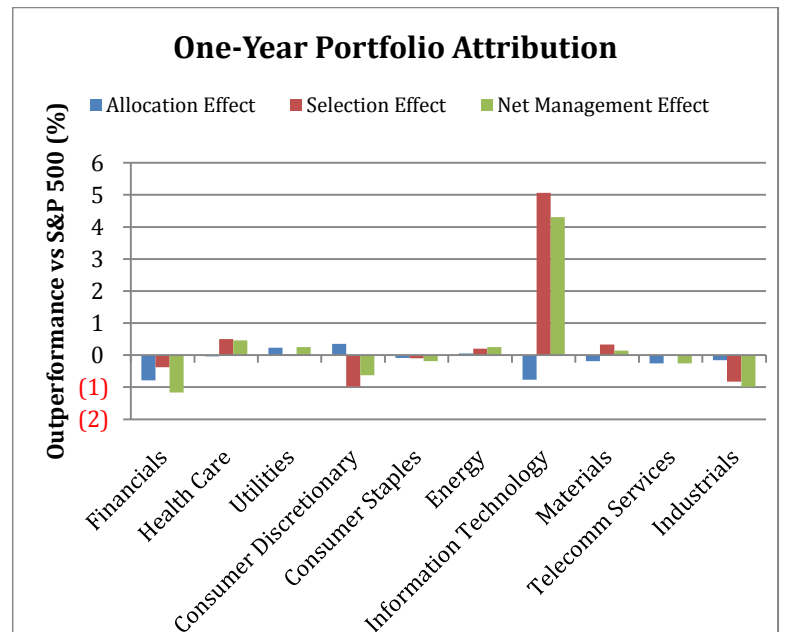
BENCHMARK COMPARISON

The AIM portfolio continues its strong record of relative outperformance, besting the S&P 500, Russell 2000, and HBI (65% S&P 500, 35% Russell 2000) over almost all periods. The most stark outperformance is seen since inception, with the AIM portfolio returning an annualized 10.7% relative to the 7.3-7.7% of the benchmarks.



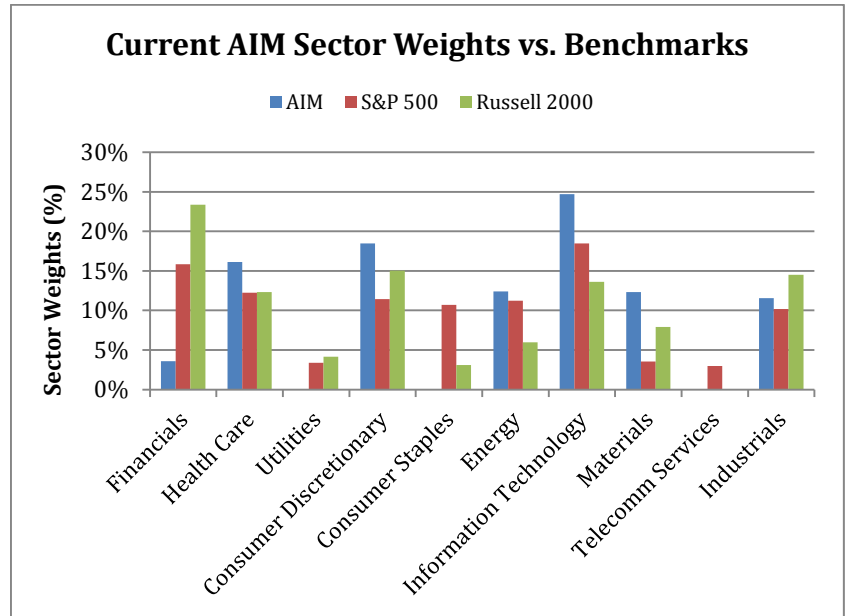
PORTFOLIO ATTRIBUTION ANALYSIS

Over the past one year, the AIM portfolio’s largest contributor to outperformance has been in the information technology space, driven by selection effect (with allocation effect acting as a drag on performance). The portfolio’s most problematic sector has been financials, in which we have seen a net management effect of -1.2%. We note a positive net management effect in five out of the ten sectors in which the AIM portfolio is invested over the past one year. However, this jumps to nine out of ten when looking at the portfolio on a five-year time horizon, with industrials as the only sector in which the net management effect has been negative.



SECTOR ALLOCATION

While the AIM portfolio seeks to benchmark the S&P 500 and the Russell 2000, the individual sector allocations between the portfolio and the two benchmarks vary over time. Currently the portfolio is over weighted in the Consumer Discretionary, Information Technology, and Materials sectors. Over the past twelve months the greatest increase has occurred in the Materials sector due to the addition of Acuity Brands. The AIM portfolio is currently underweighted in Financials and Consumer Staples. The Financial sector has seen the largest allocation drop in the past twelve months as the analysts elected to sell both Key Corp and PNC Financial Services.

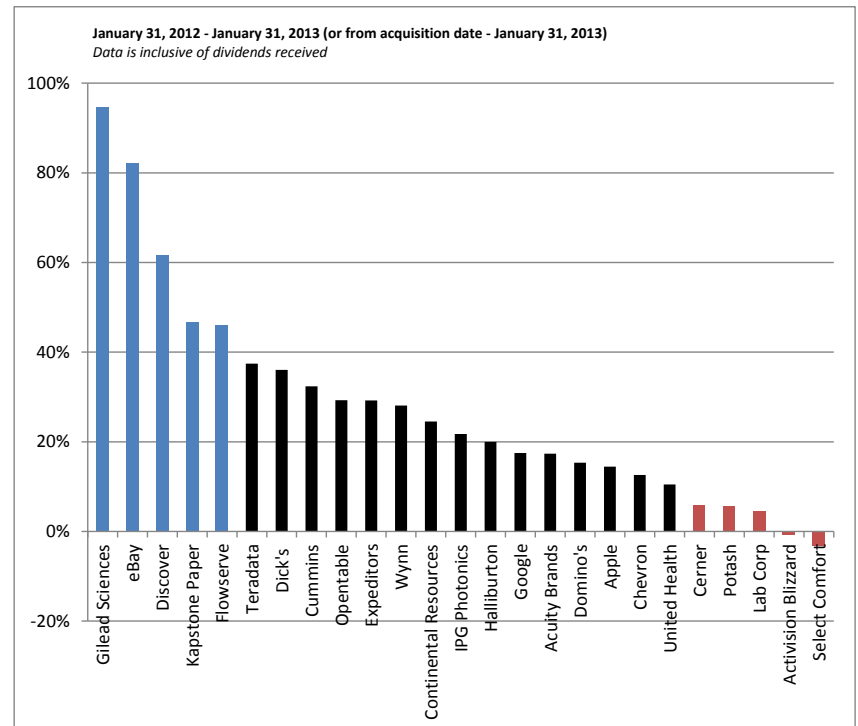


PORTFOLIO POSITIONS

The largest positions within the AIM portfolio are Halliburton at 4.84% and Open Table at 4.80%. The smallest holdings in the portfolio are Gilead Sciences at 2.62% and Select Comfort at 2.99%.

The individual positions within the AIM portfolio have performed very well over the past year with 23 of the 25 stocks in the portfolio generating a positive return. Select Comfort (down 3.24%) and Activision Blizzard (down 0.79%) are the only firms with a negative return over the past year. The portfolio includes five holdings that have returned over 45% in the past year, the two biggest returns being Gilead Sciences (up 94.72%) and eBay (up 82.27%).

One-Year Return of Individual Positions in the Portfolio



Current Portfolio Composition

Holding	Ticker	Shares	Price (\$)	Market Value (\$)	% of Portfolio
Apple	AAPL	600	\$450.81	\$270,486	3.79%
Activision Blizzard	ATVI	23,500	\$14.51	\$340,985	4.78%
Acuity Brands	AYI	4,200	\$72.13	\$302,946	4.25%
Cerner	CERN	3,400	\$87.56	\$297,704	4.17%
Continental Resources	CLR	3,600	\$83.89	\$302,004	4.23%
Cummins	CMI	2,700	\$112.79	\$304,533	4.27%
Chevron	CVX	2,850	\$115.96	\$330,486	4.63%
Discover Financial Services	DFS	6,500	\$38.89	\$252,785	3.54%
Dicks Sporting Goods	DKS	4,900	\$48.95	\$239,855	3.36%
Domino's Pizza	DPZ	5,300	\$46.07	\$244,171	3.42%
eBay	EBAY	5,500	\$55.02	\$302,610	4.24%
Expeditors International	EXPD	7,400	\$40.81	\$301,994	4.23%
Flowserve	FLS	1,500	\$161.30	\$241,950	3.39%
Gilead Sciences	GILD	4,400	\$42.45	\$186,780	2.62%
Google	GOOG	400	\$799.71	\$319,884	4.49%
Halliburton	HAL	8,400	\$41.11	\$345,324	4.84%
IPG Photonics	IPGP	4,600	\$58.97	\$271,262	3.80%
Kapstone Paper	KS	13,100	\$26.08	\$341,648	4.79%
Lab Corp	LH	3,200	\$88.98	\$284,736	3.99%
OpenTable	OPEN	6,200	\$55.16	\$341,992	4.80%
Potash	POT	7,000	\$39.15	\$274,050	3.84%
Select Comfort	SCSS	10,400	\$20.48	\$212,992	2.99%
Teradata	TDC	4,200	\$63.19	\$265,398	3.72%
United Health	UNH	4,800	\$54.47	\$261,456	3.67%
Wynn Resorts	WYNN	2,500	\$117.34	\$293,350	4.11%
Total AIM Portfolio				\$7,131,381	99.18%



Alumni Updates

Mathew Klody, CFA (BSBA '98, AIM V)

Mathew is the Founder and Portfolio Manager of MCN Capital Management, a fundamental, intrinsic value-focused long/short equity investment partnership. Prior to establishing MCN, Mat was the Senior Vice President and Senior Analyst at Chicago-based Sheffield Asset Management, a long/short equity hedge fund with over \$400MM in AUM from 2007-2012. Adhering to fundamental, intrinsic value investing, his long and short recommendations significantly outperformed the market from 2008-2012. From 2003-2007 he was one of two analysts at Alleghany Corporation (ticker "Y") covering a long equity portfolio that grew to nearly \$1BN and returned 141% vs. 42% for the S&P 500 from 2004-2007. Mat began his career as a credit analyst at the Global Corporate and Investment Bank at Bank of America where he was responsible for analyzing, underwriting and structuring general corporate, leveraged and acquisition financing for both domestic and international clients. At Notre Dame, Mat was an assistant PM for the ND Investment Club and a member of the AIM V class. He lives in the western suburbs of Chicago with his wife and two year old daughter. He enjoys attending AIM reunions and will be speaking to the AIM XXXVI class in Chicago this spring.

John Madia (MBA '12, AIM XXXIV)

John graduated from the MBA program in 2012 and returned to Sandler O'Neil & Partners as an associate with the investment banking group after interning with them over the previous summer. He covers financial institutions including banks & thrifts, broker dealers, specialty finance companies and financial technology companies. John has already been involved in over \$2 billion of M&A transactions. These included the merger of Knight Capital Group and GETCO Holding Company, and the acquisition of Duff & Phelps by The Carlyle Group. Aside from his work, he is most excited about the birth of his first child, John Joseph Madia III.

Clayton Bill (MBA '10, AIM XXX)

Originally from Chicago, Clay is now living in South Bend with his wife and two sons (2 years and 2 weeks old). He worked at Bank of America for 12 years in Chicago and London before beginning his Notre Dame MBA in 2008. He now works for the Indiana Trust and Investment Management Company, a wealth management firm located in Mishawaka.

Chuck Alberton, CFA, CAIA (MBA '00, AIM X)

Chuck is the Vice President and Senior Portfolio Manager for City National Rochdale. In July 2012 City National Bank acquired Rochdale Investment Management, where Chuck had been an investment manager and part-owner at the firm for 13 years. He specializes in managing customized portfolios for high net worth clients.

Chris Sikorski, CFA (BSBA '03, AIM XV)

Chris is a Business Analyst with the US Securities and Exchange Commission, where he tailors technology and process solutions to address specific needs of the agency's examination program. Prior to that, he had been a compliance examiner with the agency since graduation in 2003. Chris completed his MBA from Chicago Booth in 2010 and lives in the Chicago suburbs with his wife Christy (another 2003 ND grad) and their 18-month old son, Will. Chris credits the AIM program with teaching him to have confidence in your analysis and to embrace rigorous inquiry of your conclusions.

Nick Goode (BSBA '11, AIM XXXIII)

Nick works in Chicago as a banking analyst with Robert W. Baird in the Business Services group. He will begin a new position as an associate with Genstar Capital in San Francisco beginning in July 2013.

Adam Hansmann (BSBA '10, AIM XXXI)

Adam worked as an analyst in the corporate finance group at McKinsey & Company for two years following graduation in 2010. He advised clients primarily in the consumer, energy, and financial services sectors. His work there allowed him to frequent exotic locales including Des Moines, IA; Enid, OK; and Columbus, OH. Over the summer of 2012 Adam joined Calera Capital, a middle-market private equity firm located in San Francisco. As an avid marathoner, he was excited to have had the opportunity to work on and close a deal in the fitness/endurance event sector. Adam is enjoying the new job and living in the Bay Area.



AIM XXXVI Class Profile

ANALYST	HOMETOWN	EMAIL	1st STOCK	CAREER INTEREST
Blake Asjes	Kansas City, MO	basjes@nd.edu	Wynn Resorts	Financial Services
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Wenjun Zou	Wuzhou, China	wzou@nd.edu	Gilead Sciences	Investment Research

