Presentation Agenda

• Personal Introductions

• Presentation Topics
  – Objectives and Guidelines
  – Economic Environment
  – Security Analysis
  – Portfolio Performance
  – General Information

• Concluding remarks
<table>
<thead>
<tr>
<th>Name</th>
<th>Location, Country</th>
<th>Company</th>
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<tr>
<td>Blaza, Gabriel</td>
<td>Manila, Philippines</td>
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<td>Coughlin, Kevin</td>
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<td>Iarocci, Molly</td>
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<td>Ramakrishnan, Kalimuthu</td>
<td>Chennai, India</td>
<td>PwC LLP (Chicago)</td>
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<td>Wilson, Judah</td>
<td>Merritt Island, FL</td>
<td>PwC LLP (Boston)</td>
</tr>
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</table>
**1st Round**

- **Abbott Labs** (McDonald, S.)
- **Activision** (Coughlin, K.)
- **Alaska Air** (Ford, B.)
- **Alliant Tech** (Haines, D.)
- **Apple** (McEvily, B.)
- **Archer Daniels** (McDonald, B.)
- **Cal-Maine Foods** (Blaza, G.)
- **Chevron** (Hopkins, K.)
- **Chubb** (Kothari, V.)
- **Cisco Systems** (DaCosta, J.)
- **Coca Cola** (Parzanese, E.)
- **Ecolab** (Wiesehan, C.)
- **Fed Ex** (Iarocci, M.)
- **General Dynamics** (Guzman, K.)
- **Gilead Sciences** (Niebla, M.)
- **Google** (Derr, D.)
- **Hansen Natural** (Johnson, J.)
- **Insituform** (Jagadeesh, N.)
- **Intl Game Tech** (Debbas, H.)
- **J Crew** (Quirke, L.)
- **Newmont Mining** (Ramakrishnan, K.)
- **Options Express** (Wilson, J.)
- **Perrigo** (Mohammadi, J.)
- **Potash** (Dagres, G.)
- **Symmetry Medical** (Hayes, R.)
- **United Health** (Kuch, S.)

---

**2nd Round**

- **AGCO** (Kuch, S.)
- **American Tower** (Derr, D.)
- **Annaly Capital** (Kothari, V.)
- **Chipotle** (Hopkins, K.)
- **Continental Resource** (McDonald, S.)
- **Deere & Co.** (Dagres, G.)
- **Discover** (Parzanese, E.)
- **Dollar Tree** (Wilson, J.)
- **Gaylord Entertainment** (Mohammadi, J.)
- **Global Payments** (Johnson, J.)
- **Hasbro** (Blaza, G.)
- **Hovnanian** (McEvily, B.)
- **Intel** (Hayes, R.)
- **Omega Protein** (Coughlin, K.)
- **Paychex** (Guzman, K.)
- **Qualcomm** (Ramakrishnan, K.)
- **Ryder** (Niebla, M.)
- **Saks** (Iarocci, M.)
- **Sonic Corp** (Haines, D.)
- **Starbucks** (Quirke, L.)
- **Starwood** (McDonald, B.)
- **Stratasys** (Jagadeesh, N.)
- **Tessera Tech** (Debbas, H.)
- **Trinity Industries** (Ford, B.)
- **W.R. Grace** (Wiesehan, C.)
- **Whole Foods** (DaCosta, J.)
OBJECTIVES & GUIDELINES
Overview

• Selection Process
  – Students complete an application and submit resume
  – Professors select students based on academic credentials and professional experience

• Course Objective
  – Blends traditional academic objectives with the practical experience of hands-on investment management
  – Provides students with a foundation in all aspects of portfolio management

• Portfolio Management
  – Equity selection and analysis
  – Portfolio asset allocation and performance reporting
  – Industry analysis
  – Economic analysis
Analyst Responsibilities

• Stock Selection
  – First Round: Inherit portfolio position and complete a comprehensive security analysis
  – Second Round: Select a second equity and complete a comprehensive security analysis

• Security Analysis
  – Company Background
  – Industry Analysis
  – Fundamental Analysis
  – Earnings Forecast
  – Technical Analysis
  – Valuation Analysis
Group Responsibilities

• Industry / Sector Analysis
  – Focus on industries and sectors relevant to the portfolio
  – Industry and sector overviews
  – Historic results
  – Outlook

• Economic Analysis
  – Recent Trends: Unemployment, inflation, GDP growth, etc.
  – Recent Events
  – Focus on factors with most relevance to the portfolio

• Portfolio Performance Analysis
  – Performance benchmark comparisons
  – Risk-adjusted performance measures
  – Industry composition
  – Best and worst performers

• Trading Group
  – Coordinates trading activity for the portfolio
  – Works closely with the ND Investment Office
  – In conjunction with BNY Mellon
Final Portfolio

- Hedge position recommended, discussed and voted upon by analysts

- Pitch and buy/sell recommendations given by analysts based on security analysis performed

- Full discussion among analysts of all stocks analyzed

- Final portfolio decisions are voted upon and require a majority vote of all analysts
Investment Philosophy

• Investment objective
  – Outperform the S&P 500 over a long time horizon (3-5 Years)
    • Outperform secondary indices, namely the Russell 1000, Russell 2000, and the HBI (65% S&P 500, 35% Russell 2000)

• Risk managed by diversification

• Investment decisions
  – Fundamental analysis
  – Bottom-up approach
Investment Policies

• Only equities traded on major U.S. exchanges

• Portfolio target allocation
  – 35% in Small (<$1B) and Mid-Cap ($1B - $5B) Stocks
  – 65% in Large Cap (>5B) Stocks
  – +/- 10% Boundary
  – 0% long-term target for cash holdings

• No individual stock will exceed 10% of portfolio
Ethical Policies

• AIM will not invest in any company whose values are not consistent with those of the University of Notre Dame

• Includes but is not limited to:
  – Abortifacients
  – Birth Control
  – Tobacco
Market Capitalization

AIM XXXI
- Large Cap: 65.4%
- Mid, Small Cap: 34.6%

AIM XXXII
- Large Cap: 92.3%
- Mid, Small Cap: 7.7%

Average Market Capitalization $93 billion
ECONOMIC ENVIRONMENT
Economic Outlook Agenda

• Overview (Dagres, G.)

• GDP Components (Johnson, J.)

• Housing (Hayes, R.)

• Unemployment (Quirke, L.)

• Inflation/Monetary Policy (Kuch, S.)
Economic Summary

• Slow growth to continue
  – High unemployment rates
  – Slow wage growth
  – Rising commodity prices

• Risks factors
  – Housing
  – Unrest in the Middle East
  – Japanese supply disruptions
  – U. S. fiscal uncertainty
  – European sovereign crisis

• Portfolio positioned to benefit

2011 Economic Forecast
• Real GDP: 3.0%
• Inflation: 2.9%
• Unemployment: 8.5%
GDP Component Breakdown

Contributions to % Change in Real GDP

- Gross domestic product
- Gross private domestic investment
- Personal consumption expenditures
- Net exports of goods and services
- Government consumption expenditures and gross investment

Source: BEA Website
Real Personal Consumption Expenditures
Seasonally Adjusted (Billions)

Applied Investment Management XXXII
Consumption

Real Disposable Personal Income
Seasonally Adjusted Annual Rates (Billions)

- Real DPI
- Annualized Growth Rate
Consumption

Personal Saving as a Percentage of Disposable Personal Income

- Recessions
- Personal saving rate, percent of DPI (3 month average)

http://www.calculatedriskblog.com/

- 5.7%
- Quarter 1
- 2011
Consumption

Tailwinds:
• Improved equity markets increasing household net worth
• Pay-down of household debt throughout 2009 and 2010

Headwinds:
• Inflation concerns coupled with lower income expectations
• Inflated oil prices
• Continued housing decline
• Consumer Confidence Index
  – Dropped 12% in March.
  – Up 2.5% in April (remains 9.5% below February)
Investment Contributions to Percent Change in Real GDP, Rolling 4 Quarters

http://www.calculatedriskblog.com/
Net Exports

U.S. Trade, Exports and Imports, Billions Dollars per Month (SA)

- Recession
- Exports
- Imports

http://www.calculatedriskblog.com/

$45.8B Deficit February 2011
Government Expenditures

- Contributions to % Change in Real GDP
- Billions

Graph showing the contribution to % change in real GDP and government expenditures over time.
Key Housing Drivers

- Increase in multi-family building starts
- Vacancies decrease as supply absorbed by new families
- Inventories remain high, but price reductions help
- Delinquencies declining, but backlog of foreclosures persist
Housing Starts & Vacancies

Housing Starts and Total Vacancy Rate

- Total Starts
- Total Vacancy Rate

Recession

549,000 in Mar
+7.2% over Feb
-13.4% YoY

http://www.calculatedriskblog.com/
New & Existing Home Sales

New and Existing Home Sales, March 2011

- New Home Sales (right axis)
- Existing Home Sales (left axis)

- First Time Home Buyer Tax Credit
- The "Distressing" Gap
- 5.1M in Mar +3.7% over Feb -6.3% YoY
- 300,000 in Mar +11.1% over Feb -21.9% YoY

http://www.calculatedriskblog.com/
Home Price Declines

Case-Shiller Price Cumulative Declines from Peak (SA), Year and City

- Las Vegas: -58.0%
- Phoenix, AZ: -55.2%
- Miami: -50.5%
- Detroit, MI: -45.9%
- Tampa, FL: -45.6%
- San Francisco: -38.8%
- Los Angeles: -37.6%
- San Diego: -37.4%
- Minneapolis, MN: -34.9%
- Chicago: -31.5%
- Seattle, WA: -29.0%
- Washington: -26.7%
- Portland, OR: -26.4%
- Atlanta, GA: -25.2%
- New York: -23.3%
- Cleveland, OH: -17.1%
- Charlotte, NC: -16.1%
- Boston: -15.2%
- Denver: -10.4%
- Dallas, TX: -6.7%

http://www.calculatedriskblog.com/
Housing Forecast

• Housing growth on track to be the lowest in history in 2011
  – 2010 growth was the previous low
  – Multifamily housing starts have negligible impact
  – Distressing gap persists amid foreclosure backlog

• Price stabilization and improving unemployment will positively affect vacancies

• Greater development should commence in 2012
Change in Nonfarm Payrolls

January 2008 – December 2009: -8,363,000

March 2010 – March 2011: 1,492,000
Unemployment

Unemployed by Duration, as percent of civilian labor force

- < 5 Weeks
- 5 to 14 Weeks
- 15 to 26 Weeks
- 27+ Weeks

4% - all time high

http://www.calculatedriskblog.com/
Average Change in Payroll Employment by Industry March 2010 – March 2011

- Professional and business services: +78,000
- Education and health services: +45,000
- Leisure and hospitality: +37,000
- Trade, transportation, and utilities: +32,000
- Manufacturing: +17,000
- Mining and logging: +15,000
- Financial activities: +6,000
- Other services: +5,000
- Construction: -1,000
- Information: -4,000
- Government: -14,000

Source: U.S. Bureau of Labor Statistics
Expect inflation to increase in 2011 to an annual rate of 2.9%, mainly due to high food and fuel prices

- Important CPI March Stats (YoY)
  - Food and Beverage: 2.9%
  - Gasoline: 27.5%

- CPI (annualized)
  - All items: 2.7%
  - Less food and energy: 1.2%

- PPI (annualized)
  - Estimate: 3.5%
Consumer & Producer Price Indices

PPI and CPI over 1 yr

Monthly change in %


Total PPI
Total CPI

Source: Bureau of Labor Statistics
Monetary Policy

Fed Funds Rate Prediction

Source: Federal Reserve Board of Cleveland
### AIM Portfolio Impact

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<tr>
<th>Potentially Negative</th>
<th>Potentially Positive</th>
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</thead>
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<tr>
<td>FedEx</td>
<td>American Tower Corp.</td>
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<td>Sonic</td>
<td>EcoLab</td>
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<td>Activision Blizzard</td>
<td>Newmont Mining</td>
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<tr>
<td>Coca Cola</td>
<td>Perrigo</td>
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<td>Alliant Tech Systems</td>
<td>United Health</td>
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<td>Discover Financial Services</td>
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<td>Starbucks</td>
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<td>Starwood Hotels</td>
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<td>United Health</td>
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**Note:** This analysis intends to show the impact of macroeconomic forecasts on the AIM portfolio and may differ from individual analyst recommendations with regard to securities in the portfolio.
SECURITY ANALYSIS
Selection & Analysis

- Bottom-up approach to security selection
- Six reports address the following areas of analysis:
  - Company Background
  - Fundamental Analysis
  - Industry
  - EPS Forecast
  - Final Valuation
  - Technical Analysis
- Discovery component
- Buy, Sell, Hold recommendation
<table>
<thead>
<tr>
<th>Analyst</th>
<th>Company</th>
<th>Focus</th>
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<tr>
<td>Neetal Jagadeesh</td>
<td>Stratasys</td>
<td>Company Background &amp; Technical Analysis</td>
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<tr>
<td>Brian McEvily</td>
<td>Hovnanian</td>
<td>Corporate Governance &amp; Beta</td>
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<td>Jeffrey Mohammadi</td>
<td>Perrigo</td>
<td>Discovery</td>
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<td>Judah Wilson</td>
<td>Dollar Tree</td>
<td>Fundamental Analysis</td>
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<td>Gabriel Blaza</td>
<td>Hasbro</td>
<td>Multiples Valuation &amp; Industry Analysis</td>
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<td>Brennan McDonald</td>
<td>Starwood</td>
<td>Earnings Forecast</td>
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<tr>
<td>David Derr</td>
<td>American Tower</td>
<td>DCF Valuation</td>
</tr>
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</table>
Stratasys (SSYS)

- Market Price: $53.72
- Forward P/E: 55.00x
- Market Cap: $1.13B
- LTM Revenue: $117M
- LTM EPS: $0.44
• Awesomeness
• Significant market potential today
  – Rapid prototyping
  – Decreased cost and time
• Phenomenal market potential tomorrow
  – Circuit Boards: < 3 years
  – Flexible materials: 5-10 years
  – Biological compounds: 10-15 years
  – Currently the price of a laser printer in early 1980s
SSYS Technical Analysis - Current Year

SSYS

Last 53.77


Volume (100,000s)

MACD 3.185
Signal 2.786

Moving Average Convergence Divergence (12,26,9)

MACD 3.185
Signal 2.786

Applied Investment Management XXXII
SSYS - Buzz Indicator

- Aggregate Google search results for:
  - 3D printer market
  - Stratasys
  - Competitors

- Use moving averages

- Also applicable to fundamental analysis
SSYS Technical Analysis - 5 Year

SSYS

Last: 53.77

200d m.a.
50d m.a.

Volume (100,000s)

Moving Average Convergence Divergence (12,26,9):
MACD: 2.165
Signal: 2.786

Applied Investment Management XXXII
SSYS Technical Analysis - Current Year

SSYS


Volume (100,000s):

Moving Average Convergence Divergence (12,26,9):
MACD: 3.166
Signal: 2.786
SSYS Recommendation - Buy

### Valuation Model

<table>
<thead>
<tr>
<th>Valuation Model</th>
<th>Value</th>
<th>Weight</th>
<th>Weighted Value</th>
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<tr>
<td>Forward P/E</td>
<td>$40.51</td>
<td>30%</td>
<td>$12.15</td>
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<tr>
<td>Free Cash Flow</td>
<td>$69.21</td>
<td>70%</td>
<td>$48.45</td>
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<tr>
<td><strong>Final Valuation</strong></td>
<td></td>
<td></td>
<td><strong>$60.60</strong></td>
</tr>
</tbody>
</table>

- **Price as of valuation:** $48.67
- **Estimated Upside:** 25%

### Investment Thesis:

3D printers, plagued by promise fatigue, are finally set for explosive growth, which SSYS is uniquely positioned to capture through its superior products and partnerships.
**Hovnanian (HOV)**

- Market Price $3.38
- Forward P/E -
- Market Cap $265M
- LTM Revenue $1.3B
- LTM EPS ($3.80)

---

**Hovnanian Homes**

“*The First Name in Lasting Value.*”

(April 28, 2011)
Background & Corp. Governance

- New Jersey Based
- Est. 1959 (Kevork)
- CEO – Ara Hovnanian (1979, ‘99)
- Operations in 20 States
  - Acquisition strategy pre-crisis
  - Revenues from <$1B to >$6B
- Family Controlled
  - 45% stake
- Executive Compensation
Key Assumptions

Revenue

Margins

HOV XHB* HOV XHB*
5yr Monthly 5yr Monthly 2yr Weekly 2yr Weekly
Beta 3.0 1.4 4.0 1.6
Adjusted** 2.3
*S&P Homebuilders SPDR
**Adj Beta = .33 + .67(Beta)

Other Published Beta's
Bloomberg 3.0
Yahoo Finance 3.2
Self-reported Beta 3.0
## HOV Valuation

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<th>Weight</th>
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<td>Forward P/S</td>
<td>$4.27</td>
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<td>1.50</td>
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<tr>
<td>Free Cash Flow</td>
<td>$5.98</td>
<td>65%</td>
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<td>$5.38</td>
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<tr>
<td>Price as of 4/18/11</td>
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<td>$3.28</td>
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<tr>
<td>Estimated Upside</td>
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<td>64%</td>
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</table>

**Investment Thesis:**
Debt burden and general uncertainty about recovery’s timing/strength present considerable risk to upside potential.
Perrigo (PRGO)

- Market Price: $91.50
- Forward P/E: 20.47x
- Market Cap: $8.5B
- LTM Revenue: $2.52B
- LTM EPS: $2.95
• Perrigo: Generic pharmaceutical company
• Leading store brand/private label over-the-counter company
• Perrigo develops, manufactures, and distributes pharmaceutical products
  – **Develops:** 2,400 different products
  – **Manufactures:** 44B tablets
  – **Distributes:** 800 different retailers
• Value proposition to retailers and consumers

<table>
<thead>
<tr>
<th></th>
<th>Perrigo Product</th>
<th>Pharmacia</th>
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<tbody>
<tr>
<td>Retail Price</td>
<td>$53</td>
<td>$72</td>
</tr>
<tr>
<td>Cost (to retailer)</td>
<td>$23</td>
<td>$57</td>
</tr>
<tr>
<td>Retailer Profit ($, %)</td>
<td>$30, 56%</td>
<td>$15, 20%</td>
</tr>
</tbody>
</table>

Discovery Process

1) Contacted Merchandise Manager at Target Corporate Headquarters
2) Local visits to Wal-Mart and Meijer

Takeaways:

• Retailers will focus on growing & energizing store brands
• Price point awareness
• Space allocation of store brands

Conclusion: Store brands are not a recession inspired fad. Retailers and customers like the theme and PRGO is well positioned in the space.
## Valuation Model

<table>
<thead>
<tr>
<th>Valuation Model</th>
<th>Value</th>
<th>Weight</th>
<th>Weighted Value</th>
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</thead>
<tbody>
<tr>
<td>Forward P/E</td>
<td>$81</td>
<td>20%</td>
<td>$16.20</td>
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<tr>
<td>DCF</td>
<td>$96</td>
<td>80%</td>
<td>$76.80</td>
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</tbody>
</table>

**Final Valuation**

- $93

**Price as of 4/18/11**

- $87

**Estimated Upside**

- 7%

---

**Investment Thesis:**

PRGO is well positioned to outperform based on: the value proposition of the company, a strong pipeline of new products, and its dominant market position.
Dollar Tree (DLTR)

- Market Price: $58.13
- Forward P/E: 15.00x
- Market Cap: $6.95B
- LTM Revenue: $5.88B
- LTM EPS: $3.13
- Accelerated sales and new stores growth
- Reinvestment in CAPEX/SG&A
- Peer leader in Net Profit Margin

Fundamental Analysis
Future Drivers

• Why pay this much at CVS/Walgreens?
  - Umbrella: $5—$10
  - Pregnancy Test: $11
  - Gift Bags: $5—$8
  - AA/8 Pack Batteries: $5

  The “Smart Shopper” goes to Dollar Tree.

• Are customers leaving Dollar Tree after the crisis?
  – Spending habits have changed…customers are sticking

• Do customers shopping at Dollar Tree feel poor?
  – Positioned as “Quality” discount retailer…think TJ Maxx
## DLTR Recommendation - Buy

<table>
<thead>
<tr>
<th>Valuation Model</th>
<th>Value</th>
<th>Weight</th>
<th>Weighted Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward P/E</td>
<td>$57.00</td>
<td>10%</td>
<td>$5.7</td>
</tr>
<tr>
<td>Price-to-Book</td>
<td>$64.55</td>
<td>10%</td>
<td>$6.45</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>$66.68</td>
<td>80%</td>
<td>$53.34</td>
</tr>
</tbody>
</table>

**Final Valuation**

$65.49

**Price as of 4/18/11**

$56.91

**Estimated Upside**

15%

### Investment Thesis:

Post-crisis shoppers remaining frugal and similar to the TJ Maxx model.
Hasbro (HAS)

• Market Price $44.56
• Forward P/E 12.6x
• Market Cap $6.13B
• LTM Revenue $4.0B
• LTM EPS $2.48
Toy Industry Analysis

- Consolidating: revenues declined 5.6% from 2005 - 2010

- Leaders: Mattel (15%), Hasbro (12%)

- “Age compression” phenomenon

- Competition from other forms of entertainment (video games/sports)

- Volatility in consumer trends/preferences

Revenues by Retailer:

- Walmart: 54%
- Target: 23%
- "R" Us: 12%
- Toys: 11%
- Other: 11%
2010 Toy Industry Costs

2010 Avg. costs of all industries in Cons. Discr. Sector
Toy Industry Analysis

Products and services segmentation (2010)

- 13% Arts and crafts toys
- 14% Infant toys
- 5% Youth electronics
- 26% Action figures, dolls and plush toys
- 26% Other toys and games

Source: www.ibisworld.com
## Multiples Analysis

<table>
<thead>
<tr>
<th>Forward Price / Earnings</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011 (e)</th>
<th>2011 EPS (e)</th>
<th>Intrinsic Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hasbro (HAS)</td>
<td>12.3x</td>
<td>13.2x</td>
<td>15.2x</td>
<td>9.4x</td>
<td>13.1x</td>
<td>13x</td>
<td>$3.21</td>
<td>$41.73</td>
</tr>
<tr>
<td>Mattel (MAT)</td>
<td>8.4x</td>
<td>14.9x</td>
<td>15.6x</td>
<td>9.5x</td>
<td>11.8x</td>
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</table>

<table>
<thead>
<tr>
<th>Forward Price/ Sales</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011 (e)</th>
<th>2011 Rev/Sh (e)</th>
<th>Intrinsic Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hasbro (HAS)</td>
<td>1.0x</td>
<td>0.8x</td>
<td>0.8x</td>
<td>1.0x</td>
<td>1.3x</td>
<td>1.2x</td>
<td>$32.15</td>
<td>$38.58</td>
</tr>
<tr>
<td>Mattel (MAT)</td>
<td>1.3x</td>
<td>1.1x</td>
<td>0.9x</td>
<td>1.2x</td>
<td>1.3x</td>
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<td></td>
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</tr>
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</table>
HAS Recommendation – Buy

<table>
<thead>
<tr>
<th>Valuation Model</th>
<th>Value</th>
<th>Weight</th>
<th>Weighted Value</th>
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</thead>
<tbody>
<tr>
<td>Forward Price/Earnings and Price/Sales (Equally Weighted)</td>
<td>$40.16</td>
<td>10%</td>
<td>$4.02</td>
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<tr>
<td>Free Cash Flow</td>
<td>$54.05</td>
<td>90%</td>
<td>$48.65</td>
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<tr>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Final Valuation</td>
<td></td>
<td></td>
<td>$52.66</td>
</tr>
<tr>
<td>Price as of 4/18/11</td>
<td></td>
<td></td>
<td>$44.28</td>
</tr>
<tr>
<td>Estimated Upside</td>
<td></td>
<td></td>
<td>19%</td>
</tr>
</tbody>
</table>

Investment Thesis:
The market is undervaluing the effect of this year’s upcoming lineup of media-related products, as well as the impact of the reinvestments being currently being made.
Starwood (HOT)

- Market Price $58.24
- Forward P/E 25.73x
- Market Cap $11.52B
- TTM Revenue $5.07B
- TTM EPS $2.51

![Starwood Hotels & Resorts World](chart.png)
Who is Starwood?

Starwood Hotels & Resorts Worldwide is a leading hotel and leisure company

- Own, operate and franchise hotels and resorts
- Manage nine different brands focused on luxury and upscale segments of lodging industry
- Portfolio of business: ~1,000 properties in 100 countries
Earnings Forecast

Three drivers

1. Top line revenue growth

• Material affect on valuation
• Forecast at 28%, 20% and 15% in 2011, 2012 and 2013
• Supported by 3-year lag in new properties by competitors
• Supported by industry reports
• Consistent for a company with beta of 1.7 in a growing economy
Three drivers

1. Top line revenue growth
2. Decrease in net PP&E

• Management’s stated goals of <20% ownership
• Tag line “Move from owning the hotel to owning the customer”
• 20% decrease over previous five years
Three drivers

1. Top line revenue growth
2. Decrease in net PP&E
3. Terminal growth rate

- Conservative estimate of 1% after 2016
- Supported by number of franchise and management contracts that extend to 20 years
- Intention of management to continue to build brand to differentiate
## Sensitivity to growth drivers

### 5-year tapered revenue growth

<table>
<thead>
<tr>
<th></th>
<th>High 35% - 10%</th>
<th>Predicted 28% - 7%</th>
<th>Medium 20% - 6%</th>
<th>Low 12% - 5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>High 95% - 20%</td>
<td>$87.78</td>
<td>$75.14</td>
<td>$67.20</td>
<td>$60.88</td>
</tr>
<tr>
<td>Predicted 95% - 50%</td>
<td>$83.09</td>
<td>$70.46</td>
<td>$62.50</td>
<td>$56.19</td>
</tr>
<tr>
<td>Medium 95% - 65%</td>
<td>$70.52</td>
<td>$57.88</td>
<td>$49.93</td>
<td>$43.62</td>
</tr>
<tr>
<td>Low 95% - 80%</td>
<td>$64.76</td>
<td>$52.12</td>
<td>$44.18</td>
<td>$37.86</td>
</tr>
</tbody>
</table>

For every 1% increase in terminal growth, stock value increases about 10%
<table>
<thead>
<tr>
<th>Valuation Model</th>
<th>Value</th>
<th>Weight</th>
<th>Weighted Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free Cash Flow</td>
<td>$69.96</td>
<td>90%</td>
<td>$63.59</td>
</tr>
<tr>
<td>Forward P/E</td>
<td>$74.86</td>
<td>10%</td>
<td>$7.49</td>
</tr>
<tr>
<td>Dividend Discount</td>
<td>$14.84</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Final Valuation</strong></td>
<td></td>
<td></td>
<td><strong>$70.46</strong></td>
</tr>
<tr>
<td>Price as of 4/18/11</td>
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<td><strong>$56.47</strong></td>
</tr>
<tr>
<td>Estimated Upside</td>
<td></td>
<td></td>
<td><strong>23%</strong></td>
</tr>
</tbody>
</table>

**Investment Thesis:**
Starwood is breaking the mold of the traditional hotel and will outperform its competitors in revenue growth and ROI in the coming years.
American Tower Corporation (AMT)

- Market Price: $52.38
- Forward P/E: 64.23x
- Market Cap: $20.82B
- LTM Revenue: $1.99B
- LTM EPS: $0.93
• **Free Cash Flow analysis**

\[ \text{Free Cash Flow} = \text{Gross Cash Flows} - \text{Gross Investment} \]
• Gross Cash Flow steadily increasing
  – Tenants per tower increasing
    • New towers adding tenants
    • 4G LTE upgrades domestically
  – AT&T/T-Mobile acquisition – no major impact
    • T-Mobile only 8% of AMT revenues
    • Only 4% of total revenues from AT&T/T-Mobile shared towers
    • Average remaining T-Mobile lease = 5+ years
• Gross Investment high in 2010 and 2011, normalizing after
  – Large acquisitions in 2010 and 2011
  – Incremental growth going forward
AMT Recommendation - Buy

<table>
<thead>
<tr>
<th>Valuation Model</th>
<th>Value</th>
<th>Weight</th>
<th>Weighted Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free Cash Flow</td>
<td>$63.65</td>
<td>85%</td>
<td>$54.10</td>
</tr>
<tr>
<td>Forward Price to Sales</td>
<td>$58.77</td>
<td>15%</td>
<td>$8.82</td>
</tr>
<tr>
<td>Final Valuation</td>
<td></td>
<td></td>
<td>$62.92</td>
</tr>
<tr>
<td>Price as of 4/18/11</td>
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<td></td>
<td>$49.56</td>
</tr>
<tr>
<td>Estimated Upside</td>
<td></td>
<td></td>
<td>26.9%</td>
</tr>
</tbody>
</table>

**Investment Thesis:**
Market is underestimating impact of 4G LTE upgrades and overestimating impact of mobile industry consolidation
PORTFOLIO PERFORMANCE
Portfolio Performance Agenda

- Historical Returns (DaCosta, J.)
- Risk Adjusted Performance Measures (Parzanese, E.)
- Attribution Analysis (McDonald, S.)
- Best & Worst Performing Stocks (Coughlin, K.)
- Portfolio Transactions (Ramakrishnan, K.)
- Final Portfolio Review (Haines, D.)
Benchmarks

1 Year

AIM Portfolio: 16.76%
S&P 500: 15.65%
HBI: 19.20%
Russell 2000: 25.79%

3 Years

AIM Portfolio: 6.61%
S&P 500: 2.35%
HBI: 4.61%
Russell 2000: 8.57%

5 Years

AIM Portfolio: 3.78%
S&P 500: 2.62%
HBI: 2.97%
Russell 2000: 3.35%

Since Inception

AIM Portfolio: 10.30%
S&P 500: 7.05%
HBI: 7.59%
Russell 2000: 8.05%
- Overweight in Info Tech, Materials, Consumer Staples, and Healthcare
- Underweight in Consumer Discretionary, Telecom, Energy, and Financials
Sharpe Ratio

• Measures excess return (or risk premium) over a risk-free portfolio per unit of risk (standard deviation)

• Explains whether the excess returns are from investment decision efforts or higher total risk

• Higher ratios indicate better performance

• Formula:

\[
\frac{\text{Average Portfolio Return} - \text{Risk Free Rate}}{\text{Portfolio Standard Deviation}}
\]
Sharpe Ratio

1 Year: 0.40
3 Year: 0.36
5 Year: 0.38
Inception: 0.40

 AIM
S & P 500
HBI
Jensen’s Alpha

• A performance measure that adjusts for systematic risk

• Measures the excess return over the expected return as given by the Capital Asset Pricing Model

• Explains whether the excess returns are from investment decisions or higher systemic risk

• Higher values indicate better performance

• Formula:
  \[
  \text{Portfolio Return} - (\text{Risk Free Rate} + \beta \times \text{Market Risk Premium})
  \]
Jensen’s Alpha

- 1 Year: 0.26
- 3 Year: 0.31
- 5 Year: 0.18
- Inception: 0.04

AIM
HBI

Applied Investment Management XXXII
Attribution Analysis

Management Effect

Allocation Effect: Industry Weightings

Selection Effect: Stock Picking
Attribution Analysis

Portfolio Performance Attribution

<table>
<thead>
<tr>
<th>Period</th>
<th>Allocation Effect</th>
<th>Selection Effect</th>
<th>Total Net Management Effect</th>
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<tbody>
<tr>
<td>1 Year</td>
<td>1.117%</td>
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<tr>
<td>3 Years</td>
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<td>4.269%</td>
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</tr>
<tr>
<td>5 Years</td>
<td></td>
<td></td>
<td>1.164%</td>
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# Attribution Analysis

## 3 Year Annualized Attribution

<table>
<thead>
<tr>
<th></th>
<th>% Over/Underperformance</th>
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<tbody>
<tr>
<td>Allocation Effect</td>
<td>0.56%</td>
</tr>
<tr>
<td>Selection Effect</td>
<td>1.79%</td>
</tr>
<tr>
<td>Total Net Mgmt. Effect</td>
<td>2.36%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sector</th>
<th>Allocation Effect</th>
<th>Consumer Discr.</th>
<th>Consumer Staples</th>
<th>Energy</th>
<th>Financials</th>
<th>Health Care</th>
<th>Utilities</th>
<th>Materials</th>
<th>Industrial</th>
<th>Telecom</th>
<th>Tech</th>
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<tbody>
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<td></td>
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</tr>
<tr>
<td>Energy</td>
<td>-0.06%</td>
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<tr>
<td>Financials</td>
<td>0.75%</td>
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</tr>
<tr>
<td>Health Care</td>
<td>0.06%</td>
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</tr>
<tr>
<td>Utilities</td>
<td>-0.08%</td>
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<tr>
<td>Materials</td>
<td>0.40%</td>
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<tr>
<td>Industrial</td>
<td>0.06%</td>
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<td></td>
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<tr>
<td>Telecom</td>
<td>-0.17%</td>
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<tr>
<td>Tech</td>
<td>-0.75%</td>
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<td></td>
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<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

-3% Over/Underperformance
Consumer Discr. Weight and Return

- AIM Weight: 15.39%
- S&P Weight: 9.35%
- AIM Return: 13.88%
- S&P Return: 10.10%

Consumer Discr. Performance Attribution

- Allocation Effect: 0.56%
- Selection Effect: 1.79%
- Total Net Management Effect: 2.36%

Attribution Analysis

3 Year Annualized Attribution

<table>
<thead>
<tr>
<th>Sector</th>
<th>Allocation Effect</th>
<th>Selection Effect</th>
<th>Total Net Mgmt. Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Discr.</td>
<td>0.56%</td>
<td>1.79%</td>
<td>2.36%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>-0.61%</td>
<td>1.55%</td>
<td>0.93%</td>
</tr>
<tr>
<td>Energy</td>
<td>-0.06%</td>
<td>0.63%</td>
<td>0.57%</td>
</tr>
<tr>
<td>Financials</td>
<td>0.75%</td>
<td>-0.22%</td>
<td>0.53%</td>
</tr>
<tr>
<td>Health Care</td>
<td>0.06%</td>
<td>0.18%</td>
<td>0.25%</td>
</tr>
<tr>
<td>Utilities</td>
<td>-0.08%</td>
<td>0.25%</td>
<td>0.17%</td>
</tr>
<tr>
<td>Materials</td>
<td>0.40%</td>
<td>-0.55%</td>
<td>-0.15%</td>
</tr>
<tr>
<td>Industrial</td>
<td>0.06%</td>
<td>-0.23%</td>
<td>-0.17%</td>
</tr>
<tr>
<td>Telecom</td>
<td>-0.17%</td>
<td>-0.01%</td>
<td>-0.18%</td>
</tr>
<tr>
<td>Tech</td>
<td>-0.75%</td>
<td>-0.31%</td>
<td>-1.06%</td>
</tr>
</tbody>
</table>
Technology Weight and Return

Key Transactions: Intel, Qualcomm, Tessera Technologies, Cisco Systems
Best & Worst Performing Stocks

• Stocks held ≥ 1 year
  – 12-month return (04/21/10 to 04/21/11)

• Stocks held < 1 year*
  – Holding period return (Trade date to 04/21/11)
  – Multiple transaction dates
    • Weighted average share price

• Excluded new purchases on 04/19/11
Top 5 Performing Stocks

- Chevron*: 32.6%
- Apple: 35.3%
- Perrigo: 43.1%
- Potash: 59.7%
- UNH: 60.2%
Bottom 5 Performing Stocks

<table>
<thead>
<tr>
<th>Stock</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alliant Tech</td>
<td>-12.7%</td>
</tr>
<tr>
<td>Google</td>
<td>-11.8%</td>
</tr>
<tr>
<td>Gilead</td>
<td>-10.2%</td>
</tr>
<tr>
<td>Activision</td>
<td>-3.0%</td>
</tr>
<tr>
<td>FedEx*</td>
<td>8.7%</td>
</tr>
<tr>
<td>Portfolio Turnover</td>
<td></td>
</tr>
<tr>
<td>--------------------</td>
<td></td>
</tr>
</tbody>
</table>

### Buy
- American Tower Corp. (AMT)
- Continental Resources (CLR)
- Deere & Co. (DE)
- Discover Financial Services (DFS)
- Dollar Tree (DLTR)
- Hasbro (HAS)
- Intel (INTC)
- Qualcomm (QCOM)
- Starbucks (SBUX)
- Starwood Hotels (HOT)
- Sonic Corp. (SONC)
- Tessera Technologies (TSRA)

### Sell
- Abbott Labs (ABT)
- Alaska Air Group (ALK)
- Cal-Maine Foods (CALM)
- Chubb (CB)
- Cisco Systems (CSCO)
- General Dynamics (GD)
- Global Payments (GPN)
- Hansen Natural (HANS)
- Insituform Tech. (INSU)
- International Game Technology (IGT)
- J Crew Group (JCG)
- Symmetry Medical (SMA)

### Hold
- Activision Blizzard (ATVI)
- Alliant Tech Systems (ATK)
- Apple (AAPL)
- Archer Daniels Midland (ADM)
- Coca Cola (KO)
- Chevron (CVX)
- EcoLab (ECL)
- Fed Ex (FDX)
- Gilead Sciences (GILD)
- Google (GOOG)
- Newmont Mining (NEM)
- Perrigo (PRGO)
- Potash (POT)
- United Health Group (UNH)
## Portfolio Purchases

<table>
<thead>
<tr>
<th>Stock</th>
<th>Ticker</th>
<th>Decision Day Price</th>
<th>Intrinsic Value</th>
<th>Upside</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Tower Corp.</td>
<td>AMT</td>
<td>$49.42</td>
<td>$63.65</td>
<td>29%</td>
</tr>
<tr>
<td>Continental Resources</td>
<td>CLR</td>
<td>$65.65</td>
<td>$74.32</td>
<td>13%</td>
</tr>
<tr>
<td>Deere &amp; Co.</td>
<td>DE</td>
<td>$91.88</td>
<td>$115.33</td>
<td>26%</td>
</tr>
<tr>
<td>Discover Financial Services</td>
<td>DFS</td>
<td>$24.02</td>
<td>$28.98</td>
<td>21%</td>
</tr>
<tr>
<td>Dollar Tree</td>
<td>DLTR</td>
<td>$56.92</td>
<td>$65.35</td>
<td>15%</td>
</tr>
<tr>
<td>Hasbro</td>
<td>HAS</td>
<td>$44.28</td>
<td>$57.00</td>
<td>29%</td>
</tr>
<tr>
<td>Intel</td>
<td>INTC</td>
<td>$19.89</td>
<td>$27.28</td>
<td>37%</td>
</tr>
<tr>
<td>Qualcomm</td>
<td>QCOM</td>
<td>$53.59</td>
<td>$65.79</td>
<td>23%</td>
</tr>
<tr>
<td>Starbucks</td>
<td>SBUX</td>
<td>$36.23</td>
<td>$40.79</td>
<td>13%</td>
</tr>
<tr>
<td>Starwood Hotels</td>
<td>HOT</td>
<td>$58.26</td>
<td>$70.46</td>
<td>21%</td>
</tr>
<tr>
<td>Sonic Corp.</td>
<td>SONC</td>
<td>$8.99</td>
<td>$12.00</td>
<td>34%</td>
</tr>
<tr>
<td>Tessera Technologies</td>
<td>TSRA</td>
<td>$17.37</td>
<td>$21.23</td>
<td>22%</td>
</tr>
</tbody>
</table>
## Portfolio Divestitures

<table>
<thead>
<tr>
<th>Stock</th>
<th>Ticker</th>
<th>Decision Day Price</th>
<th>Intrinsic Value</th>
<th>Upside/(Downside)</th>
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<td>Abbott Labs</td>
<td>ABT</td>
<td>$51.14</td>
<td>$53.21</td>
<td>4%</td>
</tr>
<tr>
<td>Alaska Air Group</td>
<td>ALK</td>
<td>$59.86</td>
<td>$42.02</td>
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<td>CALM</td>
<td>$28.63</td>
<td>$31.00</td>
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<td>Chubb</td>
<td>CB</td>
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<tr>
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<td>$16.56</td>
<td>$15.60</td>
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<td>General Dynamics</td>
<td>GD</td>
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<td>Global Payments</td>
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<td>$43.15</td>
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<tr>
<td>Hansen Natural</td>
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<td>$60.02</td>
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<td>Insituform Tech.</td>
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<td>Int. Game Tech</td>
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<td>$43.17</td>
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<td>Symmetry Medical</td>
<td>SMA</td>
<td>$9.91</td>
<td>$10.05</td>
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</table>
Hedge Position

- iShares Dow Jones U.S. Oil Equipment Index (IEZ)
  - Tracks the Dow Jones U.S. Oil Equipment and Services Index
  - Invested approximately $2500

- ProShares Short 20+ Year Treasury (TBF)
  - Inverse of the daily performance of the Barclays Capital 20+ Year U.S. Treasury Bond Index
  - Invested approximately $2500
## Current Portfolio

<table>
<thead>
<tr>
<th>Stock</th>
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<th>Market Value</th>
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<td>Dollar Tree</td>
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<td>$210,345</td>
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<td>3.4%</td>
<td>$190,533</td>
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<td>DFS</td>
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<td>$195,570</td>
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<td><strong>Financials</strong></td>
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<td>GILD</td>
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<td></td>
<td>13.1%</td>
<td>$739,653</td>
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<tr>
<td>Alliant Tech Systems</td>
<td>ATK</td>
<td>2.5%</td>
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<td><strong>Industrials</strong></td>
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<td>EcoLab</td>
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<td>Newmont Mining</td>
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<td>$231,966</td>
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<td>11.0%</td>
<td>$620,110</td>
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<tr>
<td>Activision Blizzard</td>
<td>ATVI</td>
<td>3.5%</td>
<td>$198,470</td>
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<tr>
<td>Apple</td>
<td>AAPL</td>
<td>5.9%</td>
<td>$331,850</td>
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<td>Google</td>
<td>GOOG</td>
<td>3.2%</td>
<td>$179,126</td>
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<tr>
<td>Intel</td>
<td>INTC</td>
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<tr>
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<td>QCOM</td>
<td>3.9%</td>
<td>$218,489</td>
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<td>$1,352,117</td>
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<td><strong>Telecom</strong></td>
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<td>3.6%</td>
<td>$203,196</td>
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<td>Cash &amp; Hedge</td>
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<td>0.2%</td>
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<tr>
<td><strong>Total</strong></td>
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Current Portfolio

Sector Allocation - AIM XXXI vs. AIM XXXII
As of 4/18/11

<table>
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<th>Sector Allocation</th>
<th>AIM XXXI</th>
<th>AIM XXXII</th>
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<tr>
<td></td>
<td>5%</td>
<td>18%</td>
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<tr>
<td>Telecom Svc</td>
<td>0%</td>
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<td>Info Tech</td>
<td>21%</td>
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<td>Energy</td>
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<td>8%</td>
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<td>Materials</td>
<td>11%</td>
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<tr>
<td>Financials</td>
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<td>3%</td>
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<tr>
<td>Industrials</td>
<td>15%</td>
<td>10%</td>
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<tr>
<td>Consumer Staples</td>
<td>15%</td>
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<td>Health Care</td>
<td>23%</td>
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<tr>
<td>Utilities</td>
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*includes J. Crew position

Applied Investment Management XXXII
Current Portfolio

Sector Allocation - AIM XXXII vs. S&P 500
As of 4/18/11

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<th>Sector</th>
<th>AIM XXXII</th>
<th>S&amp;P 500</th>
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<tr>
<td>Info Tech</td>
<td>24%</td>
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<tr>
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<td>13%</td>
</tr>
<tr>
<td>Financials</td>
<td>3%</td>
<td>16%</td>
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General Information
Chicago Trip

• Dinner at Maggiano’s Little Italy
  – Attended by over 20 AIM alumni in the Chicago area
  – Discussed careers and AIM experiences
Chicago Trip

• Rail-Splitter Capital Management
  – Hosted by John Souter (ND Alum ‗88)
  – Topic: Long/short hedge fund strategy

• Citadel
  – Hosted by Matt Hooker (ND Alum ‘01)
  – Topic: Surviving the 2008 crisis

• LaSalle Capital Group
  – Hosted by Kelly Cornelis (ND Alum ‘96)
  – Topic: Strategies for adding value to acquired businesses

• William Blair & Company
  – Hosted by Vanessa Rollings Giannis (ND Alum ‘96)
  – Topic: Middle market investment banking and careers
• Matt Hooker, ND Alum ‘01
  – In 2008 Top Trader Magazine named him to the 30 under 30 Top Young Traders list
  – Company: Citadel
  – Trades: Equities
  – Sector: Technology

Caption from Top Trader Magazine

Hooker is turning the tech equities space upside-down. After graduating from Notre Dame in 2001, having completed its rigorous Applied Investment Management course, he left South Bend for New York, spending more than three years on the equities desk at Goldman Sachs. In 2004, he headed to Ken Griffin's Citadel, trading tech names in its Global Equities strategy. He is also a chartered financial analyst. "An absolute superstar over there," says someone familiar with his trading.
Special Presentations

• Scott Malpass
  – Awarded Large Endowment Manager of the Year

• Dr. Edward Trubac
  – How to monitor the economy

• ND Investment Office: James Quinn and Thomas Gotsch
  – How to monitor the portfolio using the BNY Workbench
• **Objective**
  – Alumni news
  – Portfolio performance
  – Economic outlook

• **Current Newsletter**
  – Discussion of employment and inflation
  – Current portfolio positions
  – Sector allocations
  – Alumni updates

Available at: [http://aim.nd.edu/](http://aim.nd.edu/)
Social Networking

Linkedin Account Type: Basic

Notre Dame - AIM Alumni

Most Popular Discussions

AIM Alumni Dinner, Thursday, March 25th - Chicago, IL
AIM Alumni,

On behalf of the Notre Dame Investment Office, I hope this finds you eagerly awaiting Spring! If you are currently in the Chicago area (or plan to be), please see the link below regarding the AIM alumni dinner on Thursday, March 26th.

http://aim.nd.edu/alum ...
posted March 8, 2010

Over 200 Registered For The AIM 15 Year Reunion! Are You?

We are six weeks away from the AIM 15 Year Reunion and over 200 AIM Alumni have already registered! Registration will remain open until a week or so before the event, but we would like to have as many folks registered as possible by June 1st for planning purposes. Remember,...

AIM Alumni Dinner - Chicago - RSVP Today!

Join the AIM professors, AIM XXXI and your fellow AIM alumni on Wednesday, September 15, 2010 at Maggiano’s Little Italy in Chicago, IL. Reception at 6:30PM and Dinner at 7:00PM. Please RSVP to Shelley Huff by September 10th (shelley.huff@anthonytravel.com). We look forward to...
About AIM

Applied Investment Management (AIM) blends traditional investment theory with the practical experience of managing a live equity portfolio for select students at the University of Notre Dame. Learn more.....

News & Events

Q1 2011 Newsletter
- Click here to download a copy

Fall 2011 Application
- Click here to download a copy
Thank You

• Special thanks to:
  
  – AIM Advisory Board
  
  – Mr. Scott Malpass & the Notre Dame Investment Office
  
  – Professors Langley, McDonald, Reilly and Trubac
  
  – Rachel Karnafel
Post-presentation agenda

• Post-presentation Agenda:
  – Food & drinks
  – Q&A with AIM Advisory Board
<table>
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