

# Advisory Board Presentation

AIM XXVII  
December 8, 2008



UNIVERSITY OF  
NOTRE DAME



# AIM XXVII Analysts

## Introductions

### Kevin Fitzgerald

*Denver, CO*

Progress Energy (PGN)

Ralph Lauren (RL)

### Stephanie Severyn

*Naperville, IL*

Boeing (BA)

Buffalo Wild Wings (BWLD)

## Portfolio Overview

### Tim Andruszkeiwicz

*Springfield, MA*

EMC Corp. (EMC)

Home Depot (HD)

### Laura Carney

*Lexington, KY*

Morgan Stanley (MS)

Macy's (M)

## Portfolio Overview

### Harrison Chilton

*Zionsville, IN*

Zimmer Holdings (ZMH)

Boston Private Financial Holdings (BPFH)

## Economic Environment

### Kelly Betts

*Tampa, FL*

Dentsply Intl. (XRAY)

Callaway Golf (ELY)

### Johann DeSousa

*Bombay, India*

BJ Services (BJS)

AT&T (T)

### Joe DiLuia

*Flossmoor, IL*

Cabela's (CAE)

MGM Mirage (MGM)

## Economic Environment

### Bryan Jackson

*Atlanta, GA*

Pharmaceutical Product Development (PPDI)

Under Armour (UA)

### Matthew Millsfield

*Oak Park, CA*

FCStone (FCSX)

Costco (COST)

### Andy Whalen

*Memphis, TN*

Walgreens (WAG)

AutoZone (AZO)

## Security Analysis

### Allie Carrick

*Woodland Park, CO*

Goldman Sachs (GS)

Carnival Corporation (CCL)



# AIM XXVII Analysts

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## Security Analysis

### Andrew Forero

*Huntington, NY*

Whirlpool Corp. (WHR)

On Assignment (ASGN)

### Chris Hagen

*St. Paul, MN*

Caterpillar (CAT)

Thoratec (THOR)

### Paul Oddy

*Whitesboro, NY*

Dell (DELL)

American Apparel (APP)

### Jeff Osowski

*Kalamazoo, MI*

Digital River (DRIV)

Ormat Technologies (ORA)

## Security Analysis

### Margie Rosmonowski

*Winfield, IL*

Service Corp. Intl. (SCI)

YUM! Brands (YUM)

### Tim Scallen

*St. Paul, MN*

UnitedHealth Group (UNH)

EcoLab (ECL)

### John Watkins

*Louisville, KY*

Republic Services (RSA)

Graco (GGG)

## Performance Evaluation

### Brad Blomstrom

*McLean, VA*

Zhongpin Inc. (HOGS)

Coca-Cola (KO)

## Performance Evaluation

### Jack Carroll

*Princeton, NJ*

McGraw Hill (MHP)

Exxon Mobil (XOM)

### Tom Foote

*Barrington, IL*

Tupperware (TUP)

Windstream (WIN)

### Patrick Martin

*Binghamton, NY*

Barrick Gold (ABX)

BlackRock (BLK)

### Michael Roscitt

*Lincroft, NJ*

Huron Consulting (HURN)

Shuffle Master (SHFL)

## General Information

### Ben O'Connor

*Columbus, NE*

YRC Worldwide (YRCW)

Chipotle Mexican Grill (CMG)

### Laura Schwartz

*Plano, TX*

Apple Computer (AAPL)

Netflix (NFLX)



# Presentation Agenda

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- Portfolio Overview
- Economic Environment
- Security Analysis
- Performance Evaluation
- General Information



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# Portfolio Overview

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# Objectives

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- Analysts are actively engaged in hands-on portfolio management
  - Asset allocation decision
  - Individual stock selection
  - Portfolio performance evaluation
- Assigned first stock from prior portfolio
- Select second stock



# Asset Management Process

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## ■ Groups

- ❑ Report portfolio performance
- ❑ Report current economic conditions
- ❑ Conduct trades
- ❑ Produce newsletter

## ■ Analysts

- ❑ Research individual stocks and industries
- ❑ Stay current on relevant market news





# Asset Management Process

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- Research and modeling
  - Company background
  - Fundamental analysis
  - Earnings forecast
  - Beta forecast
  - Valuation
    - Variety of metrics
  - Technical Analysis





# Portfolio Decisions

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- Discuss key assumptions and drivers of analyst's presentations
- Final recommendations given based on intrinsic value
- Portfolio decisions by majority vote
  - Based on intrinsic value and industry weightings



# Investment Philosophy

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- Investment objective
  - Outperform S&P 500 over the long run
    - Outperform secondary indices including the Russell 1000, Russell 2000 and HBI
  - Grow value of portfolio for future classes
- Risks
  - Managed by diversification
- Investment decisions
  - Fundamental analysis
  - Bottom-up approach



# Investment Philosophy

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- Perpetual investment horizon
  - Investments will be viewed for their potential over the long-term, 3 to 5 years
- Taxes
  - Irrelevant due to tax exempt status of the University
- Prudent person rule
  - Common law standard for fiduciary duty
  - In extraordinary circumstances, fund managers can intervene as necessary to meet AIM objectives



# Investment Policies

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- Sector concentration will roughly match the weighting on the S&P 500
  
- No individual stock will exceed 10% of the current market value of the portfolio
  
- Long-term target for cash holdings is 0%
  - Excess cash is invested in S&P SPDR



# Investment Policies

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- Portfolio will be comprised of only equities listed on US exchanges
  - No ADR's
- No fixed income, money market or derivatives instruments
- No margin purchases
- No short selling



# Ethical Policies

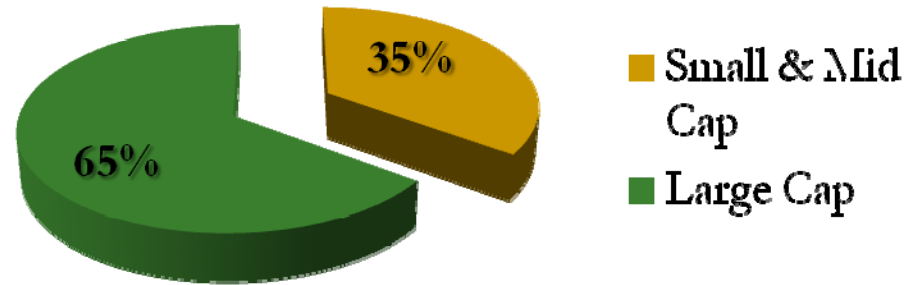
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- AIM will not invest in companies inconsistent with the values of Notre Dame
  - Abortifacients
  - Tobacco
  - Birth Control
  - Other ethical issues



# Portfolio Target Allocation

- Sector Concentration will match S&P, plus or minus 5%
- No individual stock will exceed 10% of market value of portfolio



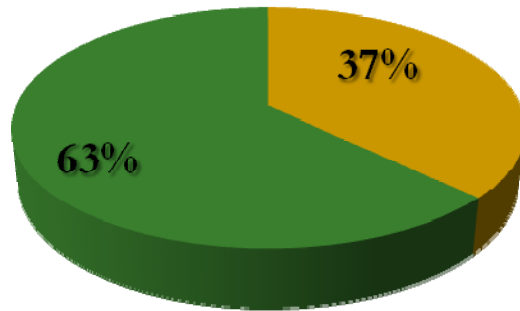
**Small Cap** < \$500M  
**Mid Cap** \$500M – \$5B  
**Large Cap** > \$5B





# Market Capitalization Profile

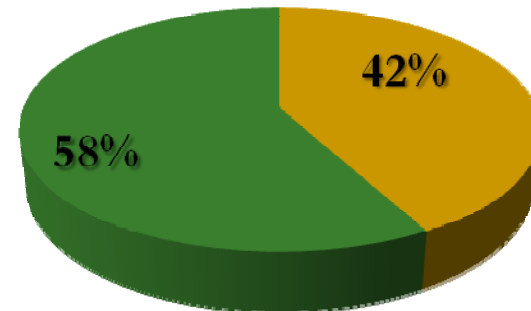
9/1/2008



■ Small & Mid Cap

■ Large Cap

12/1/2008



- Slightly underweight large cap stocks
  - Due to market downturn
  - Three AIM stocks' market caps shrunk below \$5B



# Economic Environment



# Economics Group Agenda

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- Economic prediction
- Factors driving current situation
- Government moves
- Portfolio Impact



# Future of the Economy



# Economic Prediction

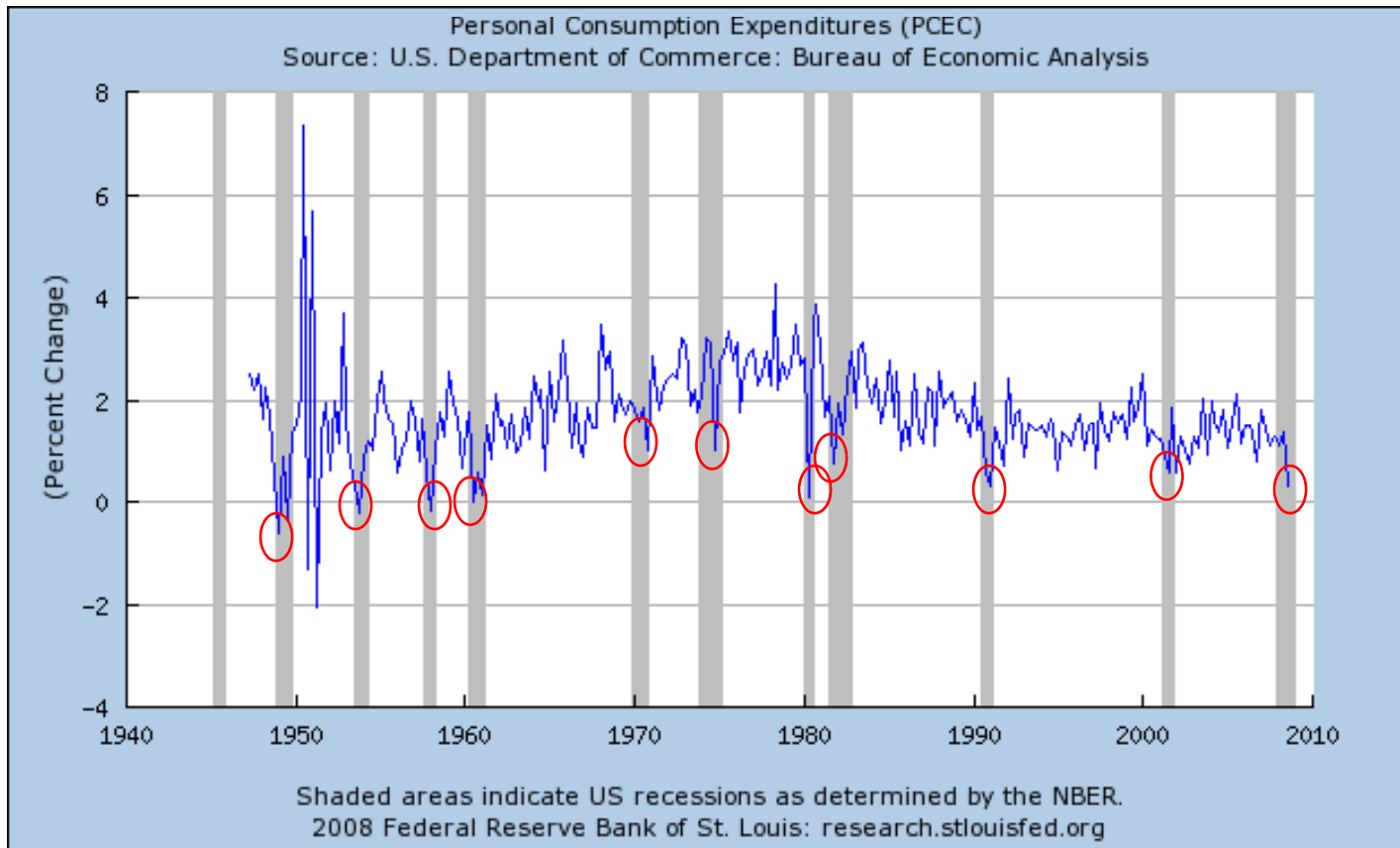
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- Recession through 2009
- Key Factors
  - GDP: (0.5%) change in Q3
  - Personal consumption: (3.1%) change in Q3
  - Negative housing data
    - Subsequent wealth effects
  - Persistent credit crunch
- Government action will lead turnaround



# Historical Perspective

- Consumption is the major factor in GDP trends





# Historical Perspective

- Recession already long versus past recessions





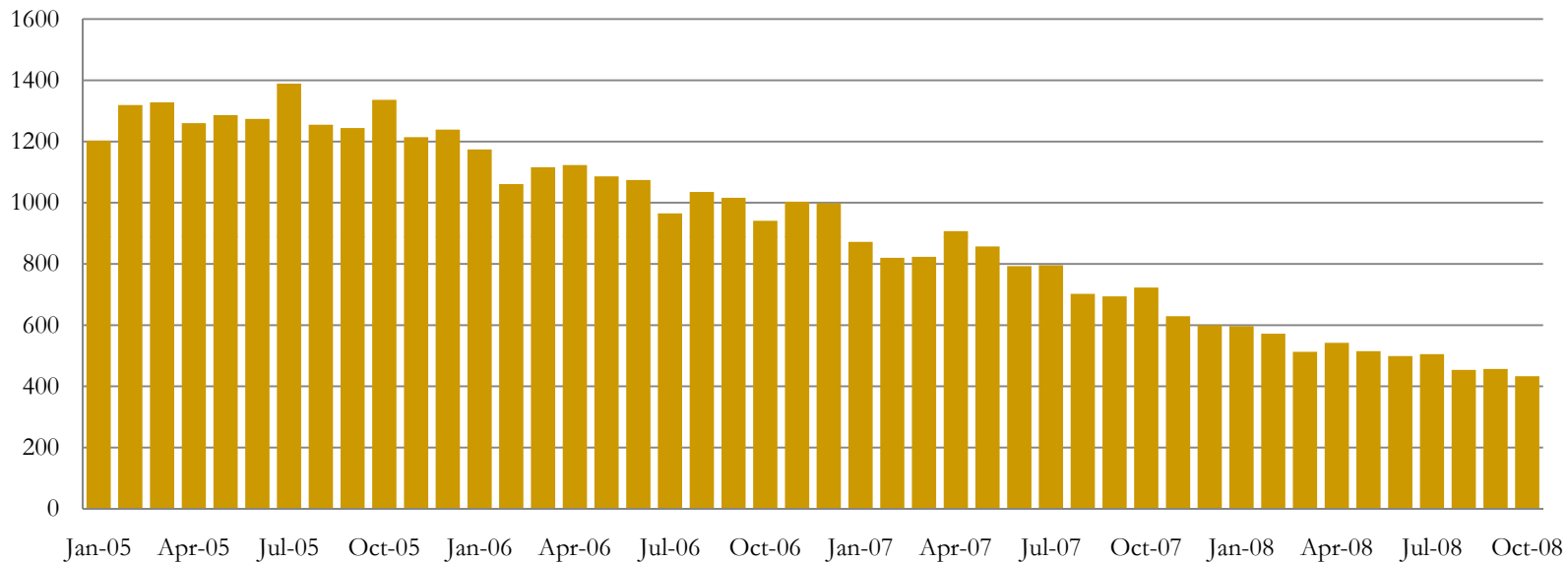


# Housing



# New Home Sales

New Home Sales (000s)

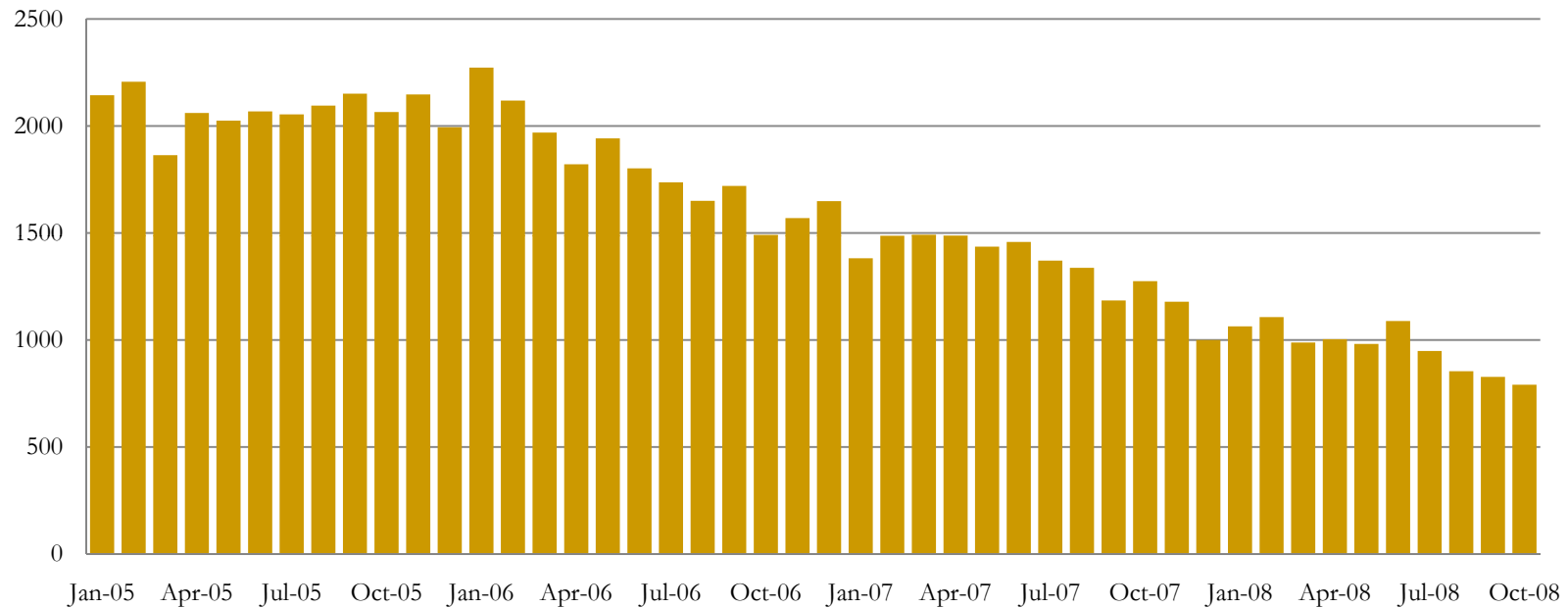


- Reached lowest levels in 17 years
- Down 40.1% from October 2007 and down 5.3% from September
- Down 18.0% in the West and 6.0% in the South from September
- Up 22.6% in the Northeast and 6.0% in the Midwest from September



# Housing Starts

Housing Starts (000s)

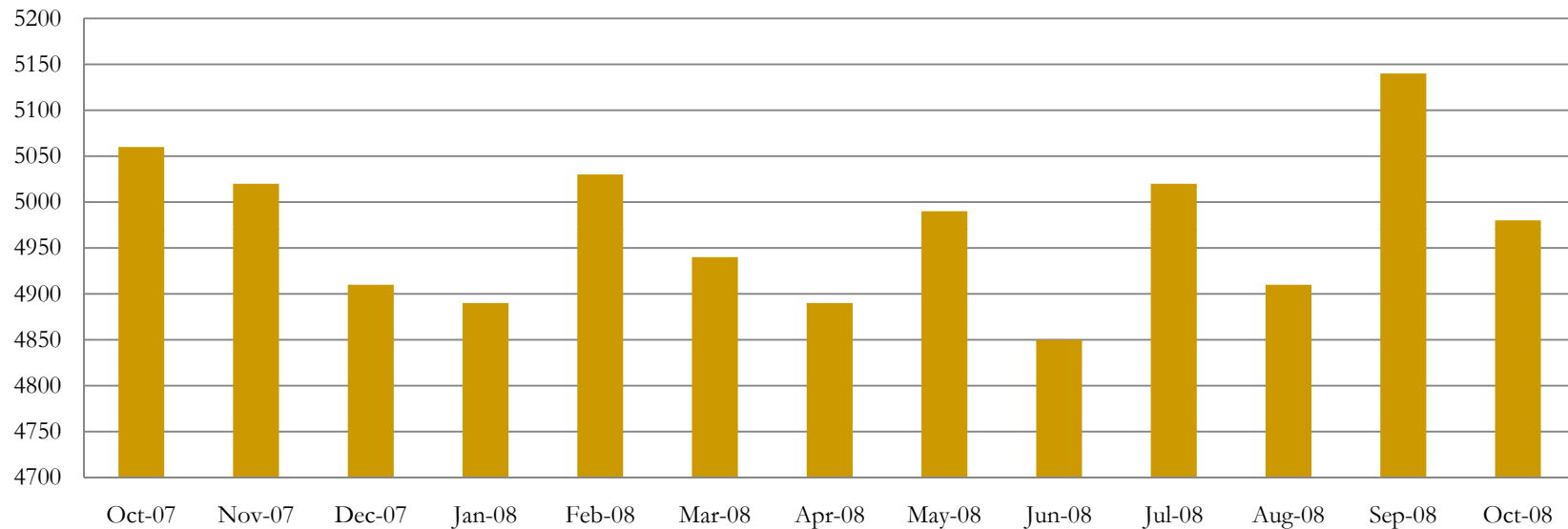


- Hit a 17 year low in October
- Down 4.5% from September
- Have fallen 67% from the 2.3 million peak in January 2006



# Existing Home Sales

Existing Home Sales (000s)

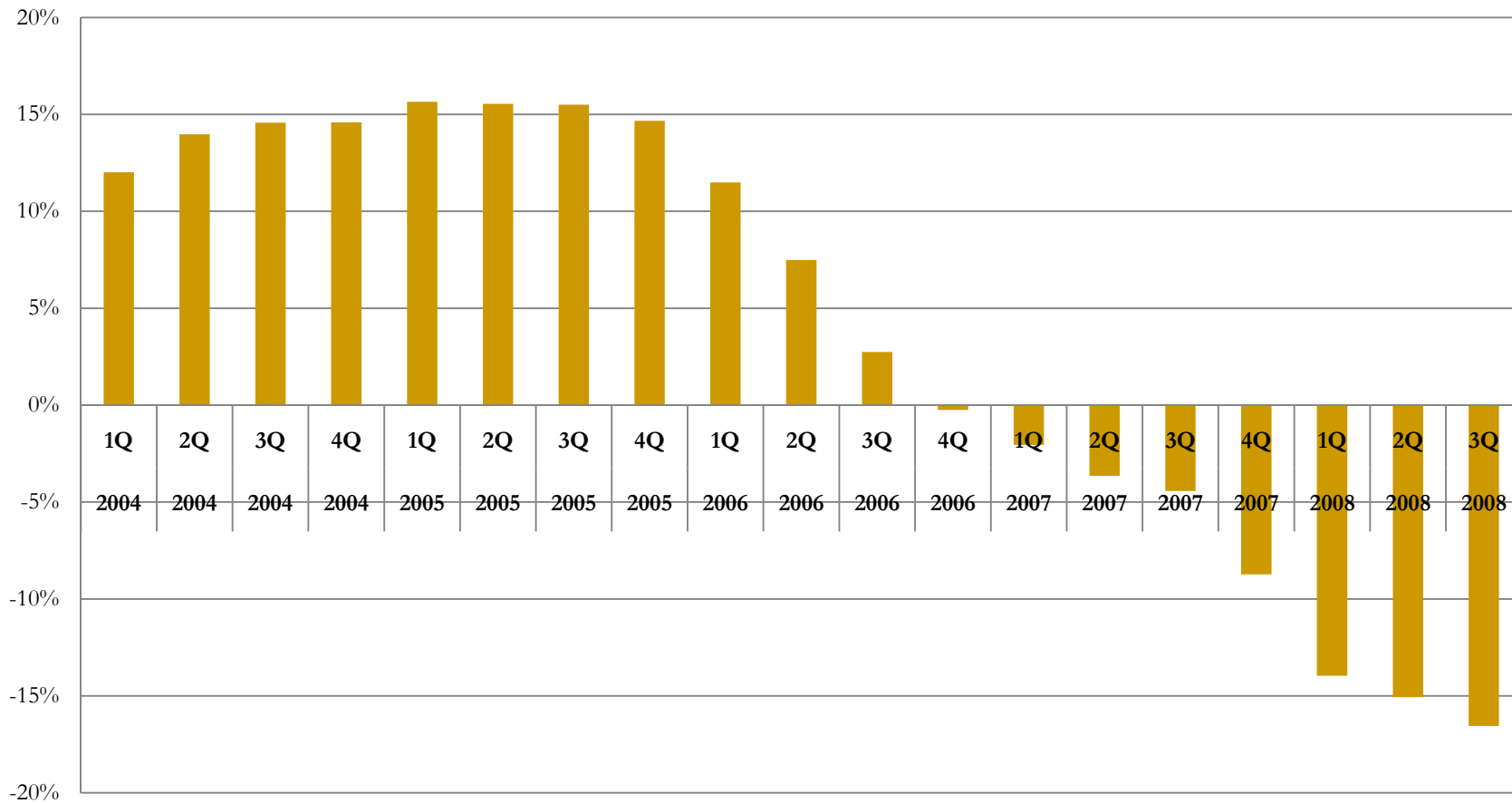


- Over 40% of existing home sales are due to the purchases of foreclosed homes
- Down 3.1% from September and down 1.6% from October 2007
- Down over 30% from the 7.2 million peak in 2005



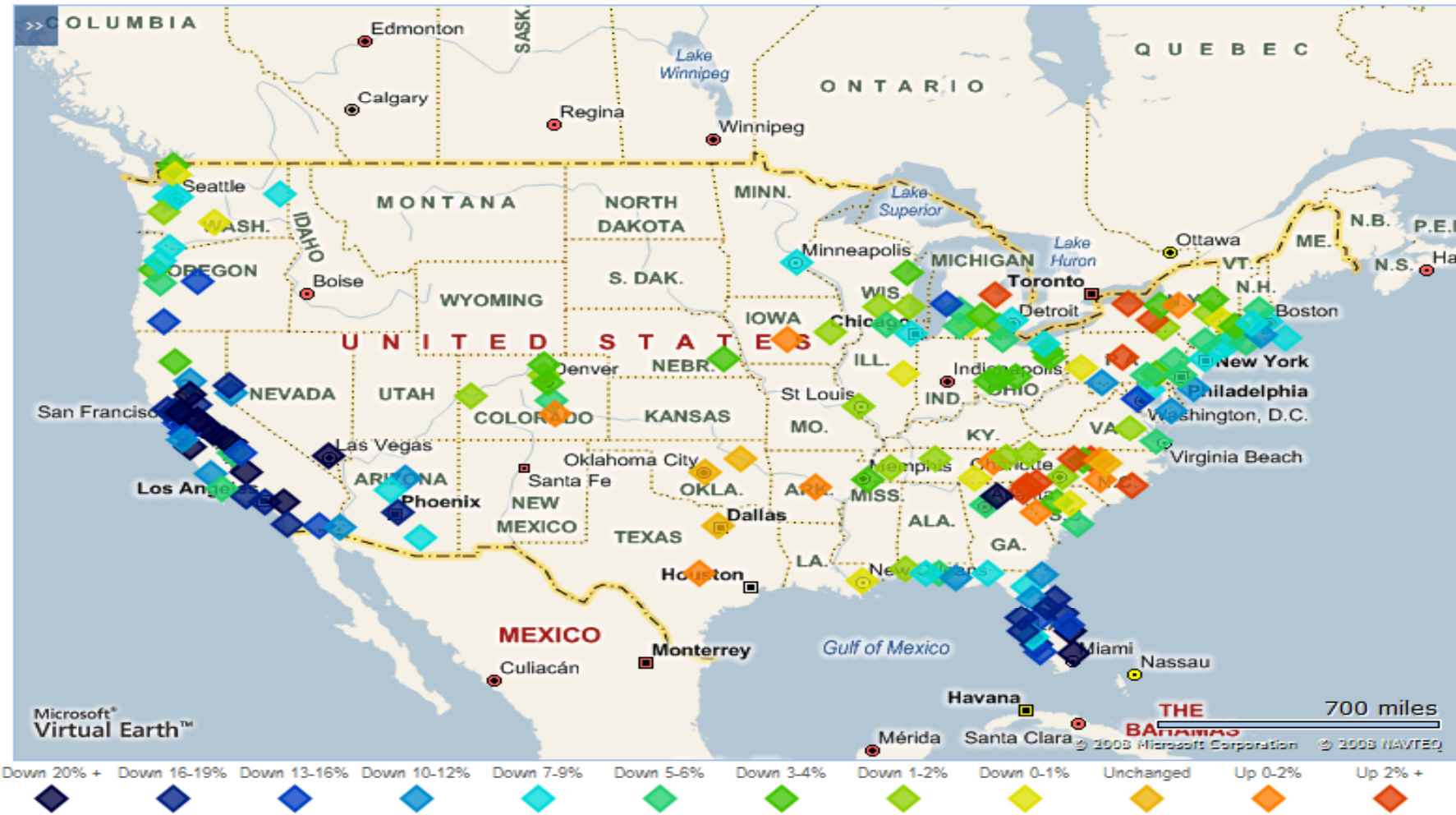
# S&P/Case-Shiller Home Price Index

**% Changes (Year-Over-Year)**





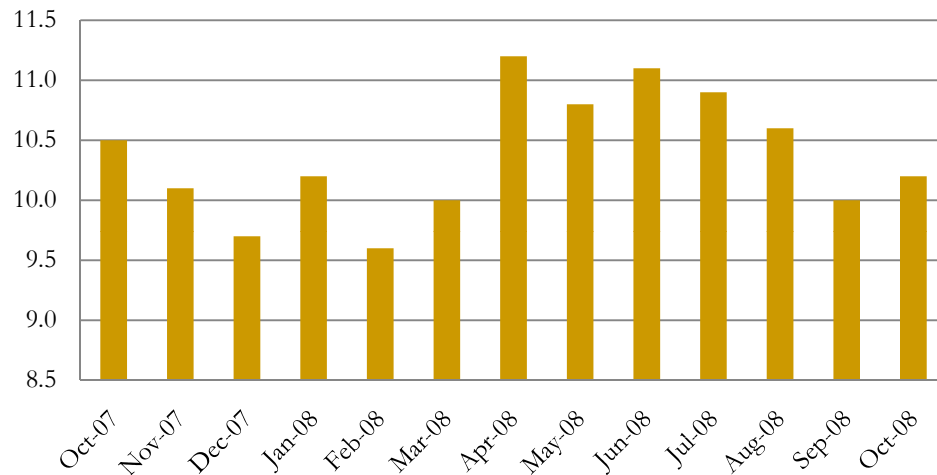
# 3Q US Home Values



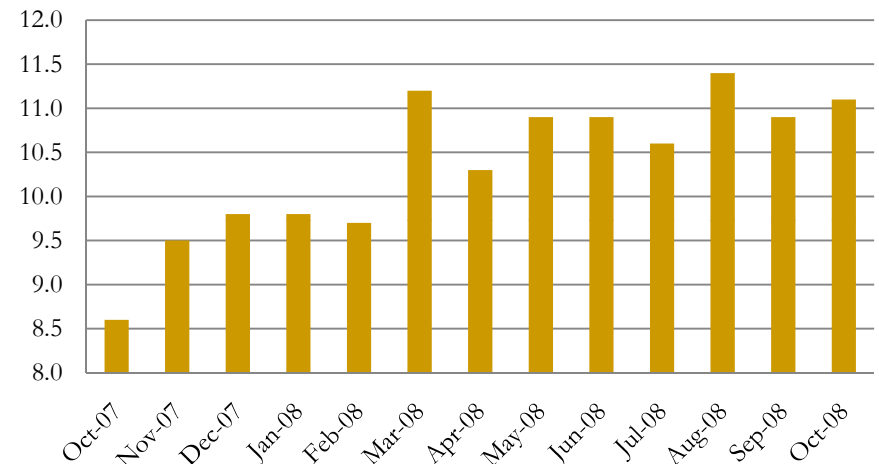


# Home Inventory

Existing Home Inventory (in months)



New Home Inventory (in months)

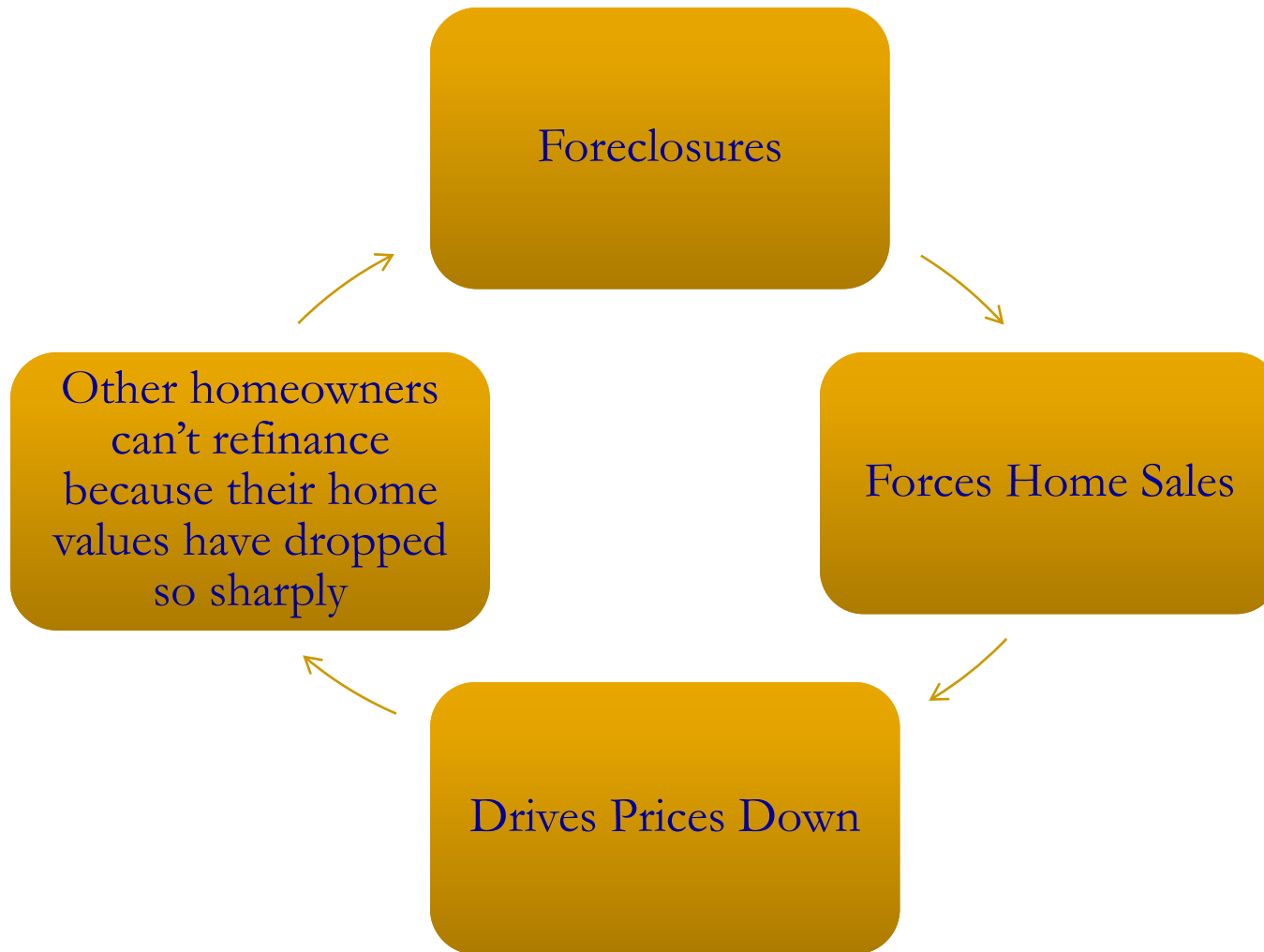


- Existing home inventory rose 2.0% in October
- New home inventory rose 1.83% in October
- Normal inventory levels are around 5 months





# Housing Cycle





# Credit Crunch



# Credit Crunch

Foreclosures rise

Housing-based securities lose value

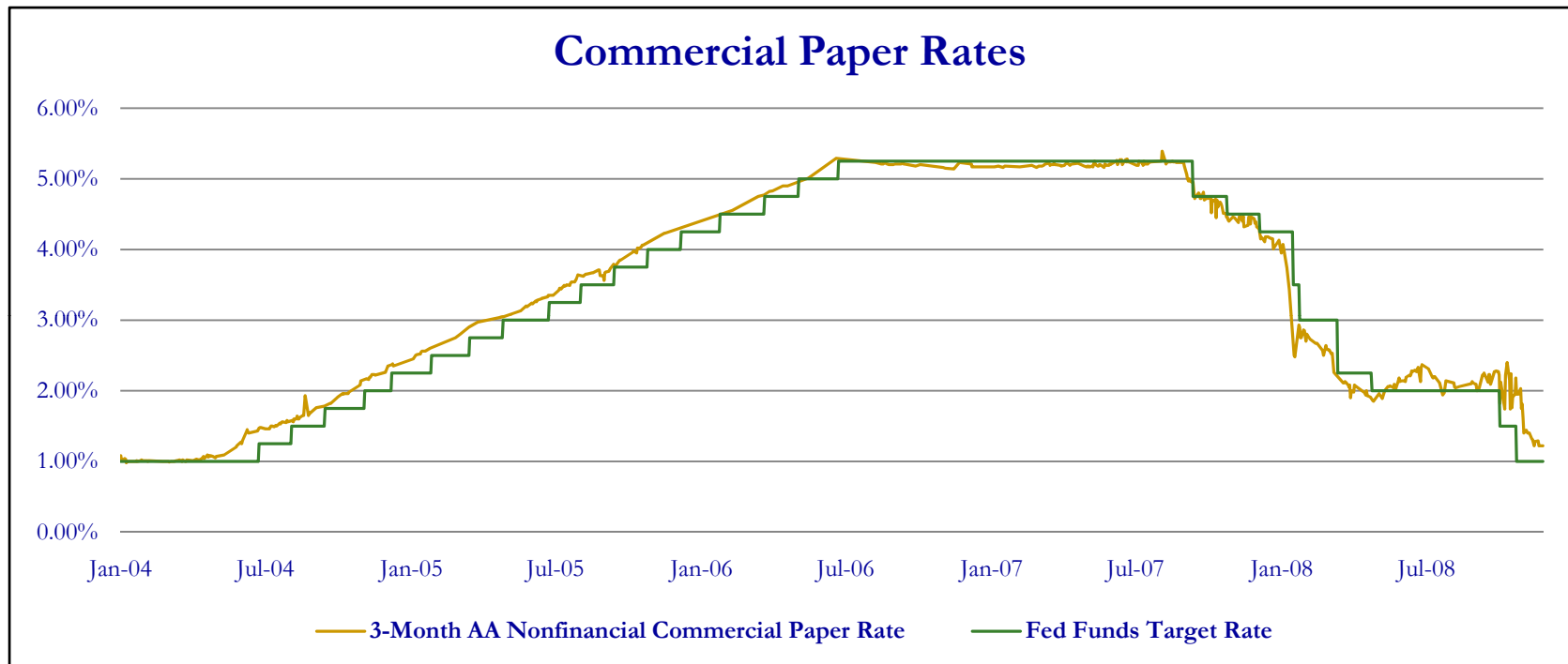
Securities present on firms' balance sheets

Firms' capital drops significantly

Lenders recognize that firms are in trouble, refuse to lend



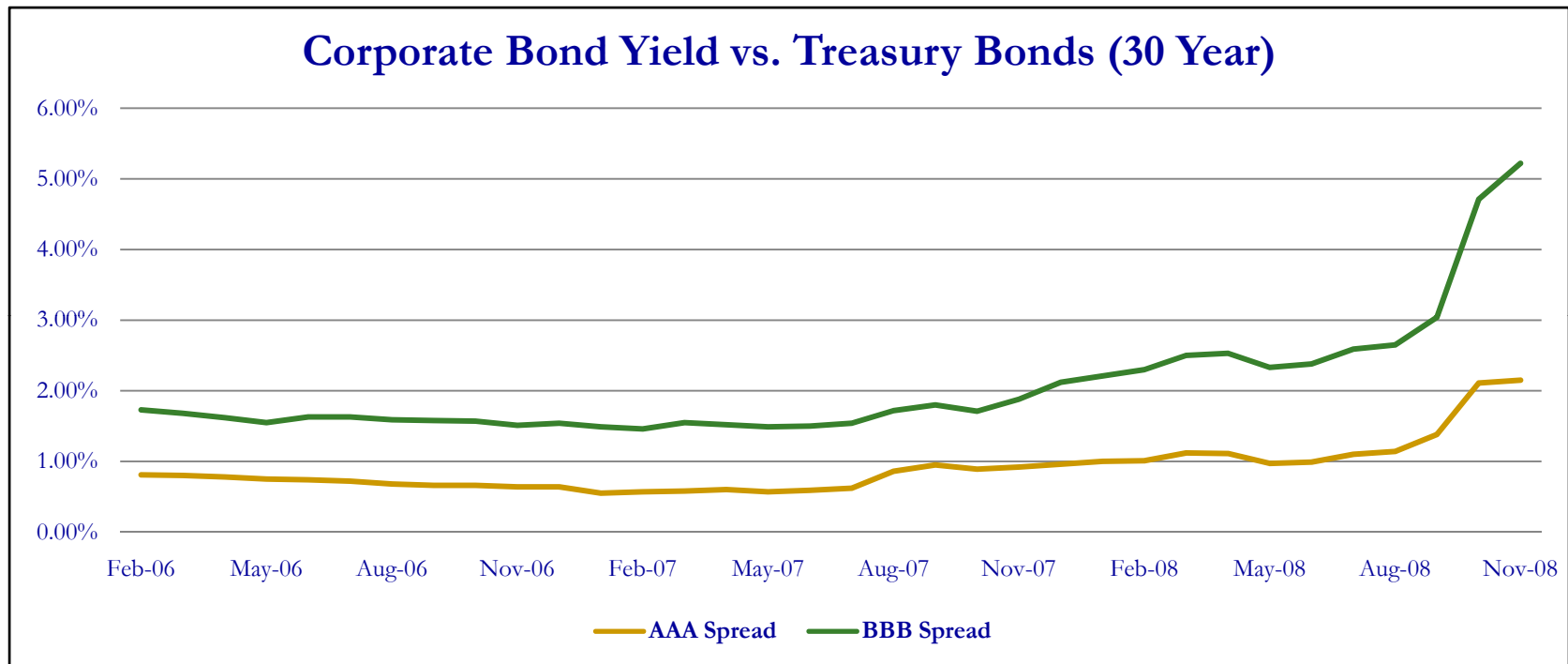
# Credit Crunch



- Commercial paper: \$1.75 trillion market
- Lehman Brothers bankruptcy, impact on money markets
- Oct. 8: Creation of Commercial Paper Funding Facility



# Credit Crunch



- Significant concern about loan defaults
- Impact on AIM portfolio (MGM Mirage)



# Credit Crunch

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- Dec. 1: Fed announces possibility of buying 10-year Treasury notes
  - Should lower corporate bond rates, promote borrowing
- Decision expected at December 15-16 meeting
- If unsuccessful, Fed may look to purchase other assets



# The Consumer





# Key Factors

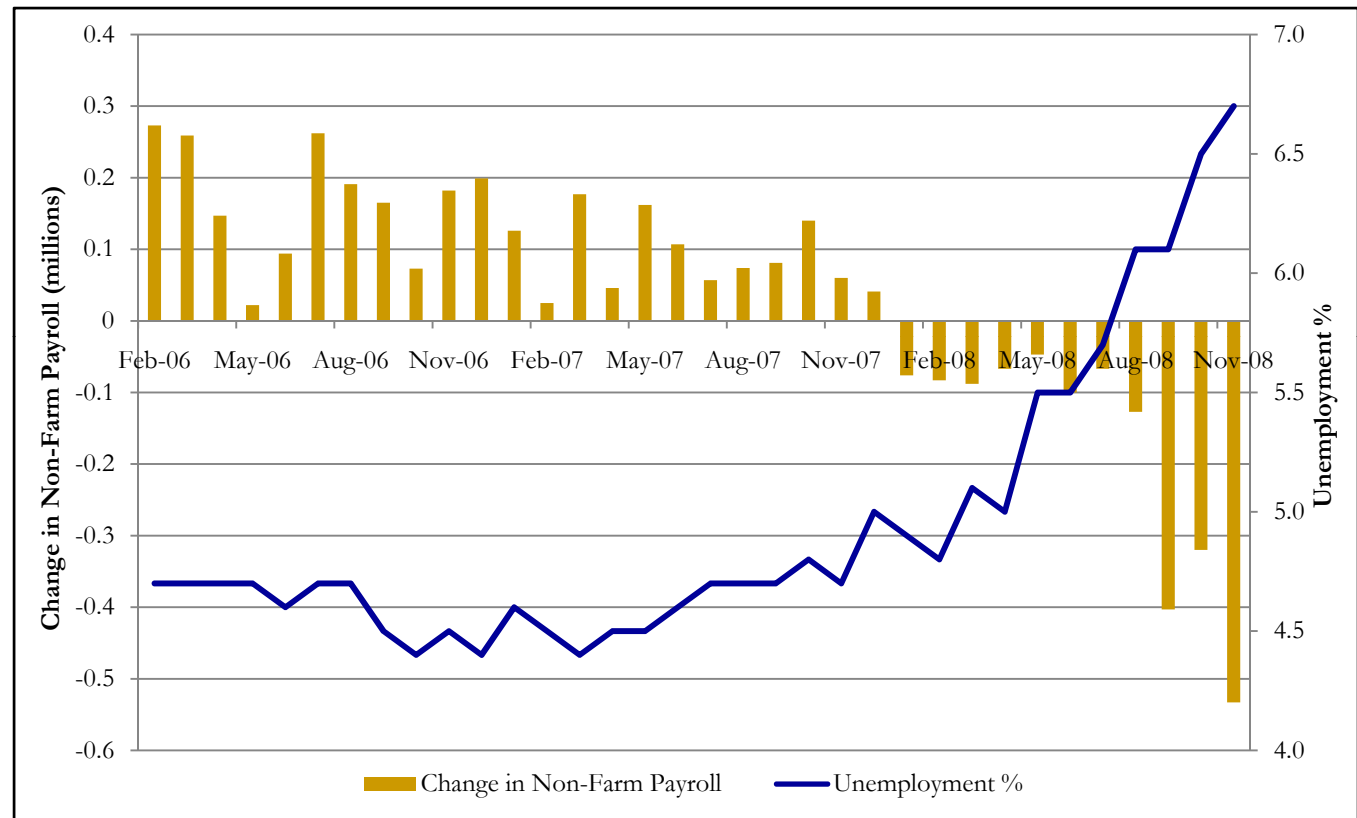
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- Non-Farm Payroll
- Consumer Confidence Levels
- Disposable Personal Income
- Personal Consumption Expenditure



# Non-Farm Payroll (NFP)

- 11 months of declining NFP
- NFP has dropped 1.3% in 2008
- Key concerns:
  - Continuing of the financial crisis
  - Failure of the Big 3



## Industries Adding Jobs:

- Healthcare
- Mining
- Education

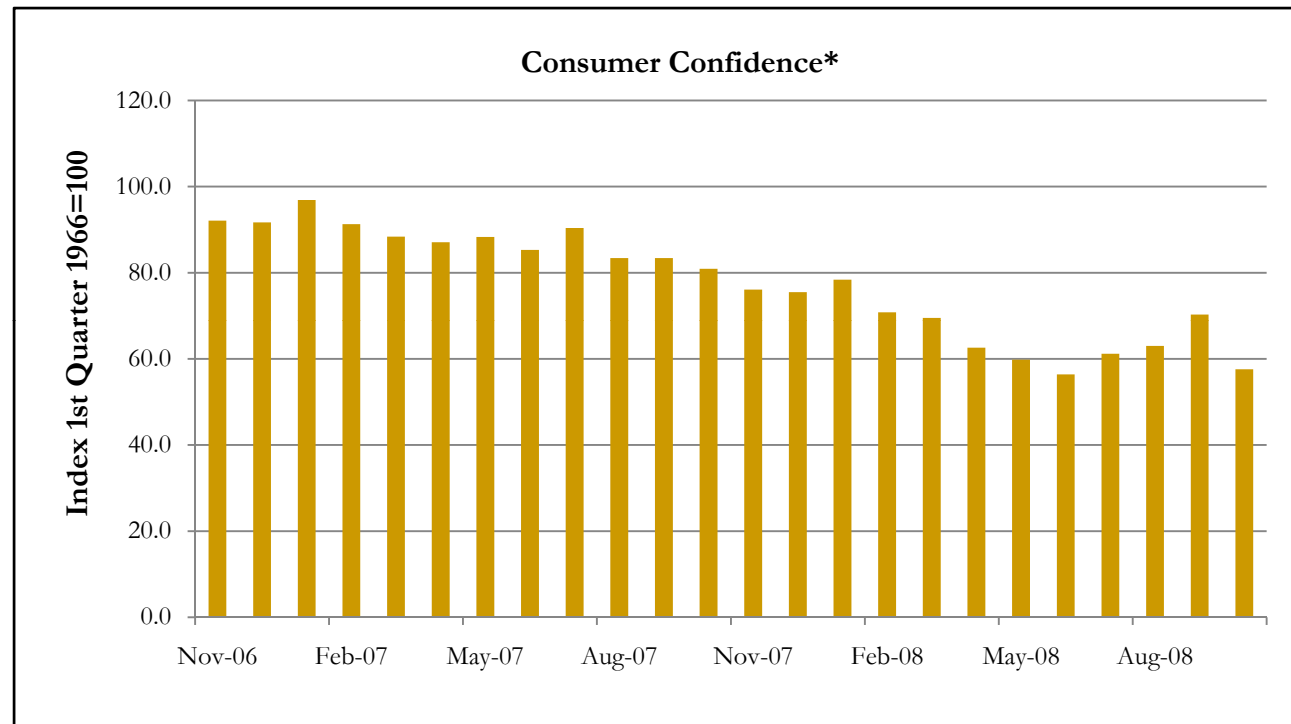
## Industries Cutting Jobs:

- Financials
- Manufacturing
- Other service industries



# Consumer Confidence

- Has been declining in 2008
- Recent trends indicates a change in economic direction
- Poor outlook



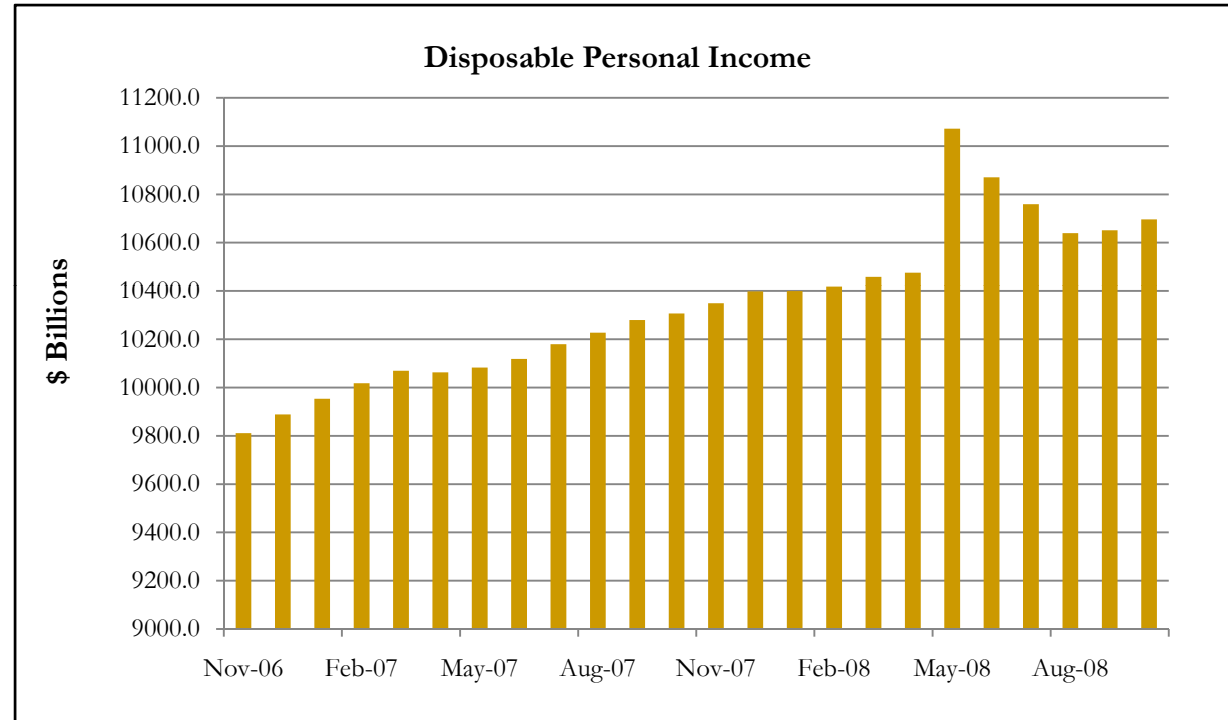
June	July	Aug	Sept	Oct	Nov
56.4	61.2	63.0	70.3	57.6	57.9

\*- Survey Research Center: University of Michigan



# Disposable Income

- Rather steady growth over the past 10 years
- Spike in May attributed to stimulus package
- Recent trends not as favorable
  - Down ~3.4% from May peak
- Weak outlook

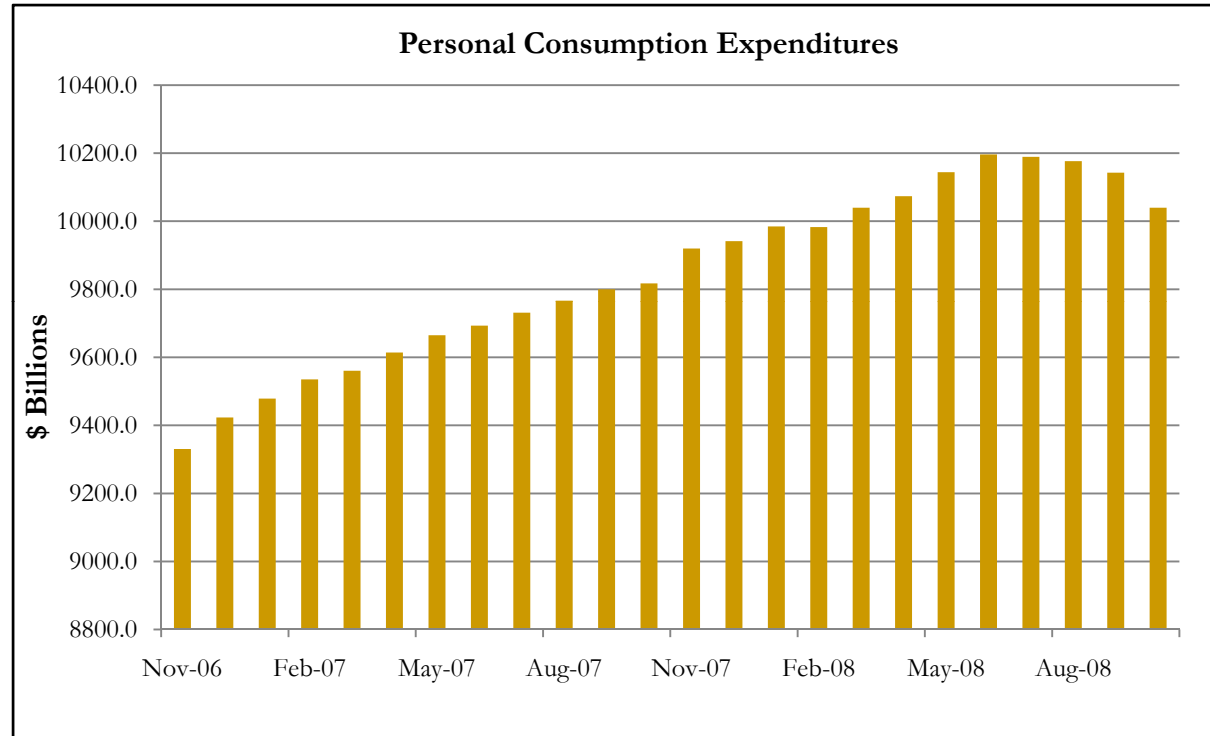


May	June	July	Aug	Sept	Oct
11,071	10,870	10,759	10,639	10,651	10,696



# Consumer Spending

- 4 straight months of declining spending
- Sector driving this decline
  - Durable Goods
- No significant lift from plunge in oil prices (~67%)?
- Poor outlook



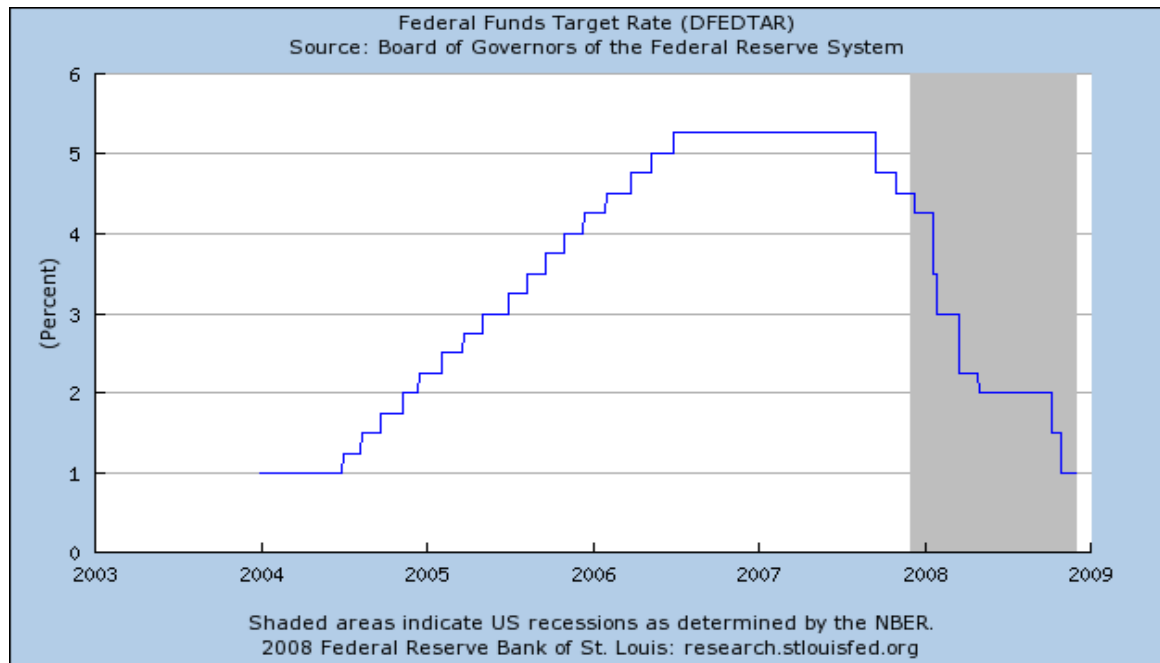
June	July	Aug	Sept	Oct
10,196	10,189	10,176	10,142	10,039



# The Federal Reserve



# Rates



- Fed cuts rate by 50 basis points last meeting to 1% (Oct. 29)
- Other central banks taking similar action
  - Common themes: recessionary economies, declining price levels
  - Exception: Iceland raising rates



# Rate Expectations

12/16 meeting		
Fed Move	Current	1 Mo. Ago
Cut to .75	0.0%	70.0%
Cut to .50	62.0%	30.0%
Cut to .25	38.0%	0.0%

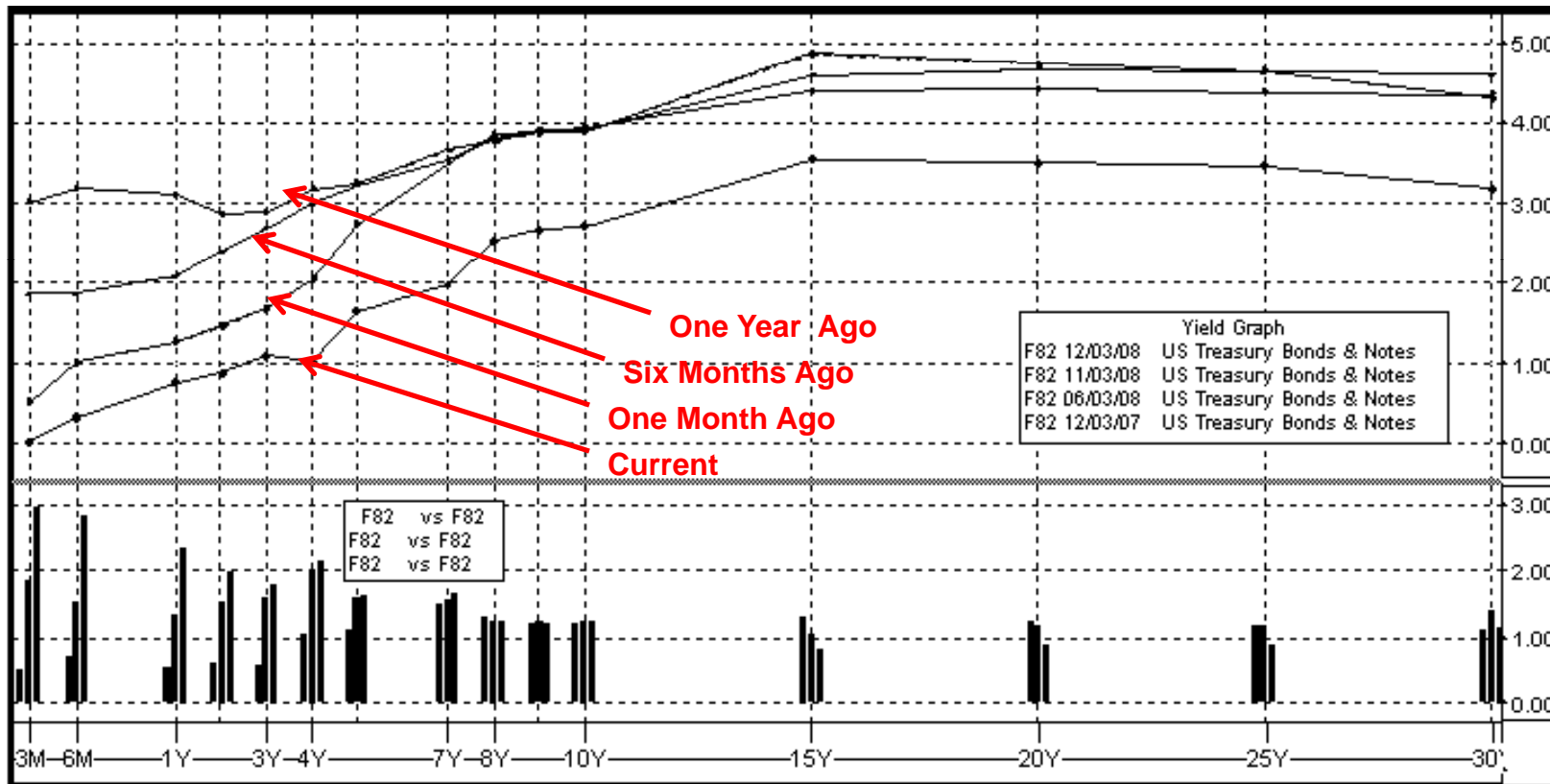
Data as of 12/2/08

- Seeing worsening economic data along with declining inflation
  - Opens room for larger rate cut
- However, rates moving to 0% is unlikely
  - Fed will utilize other monetary means to spur economic growth





# Yield Curves



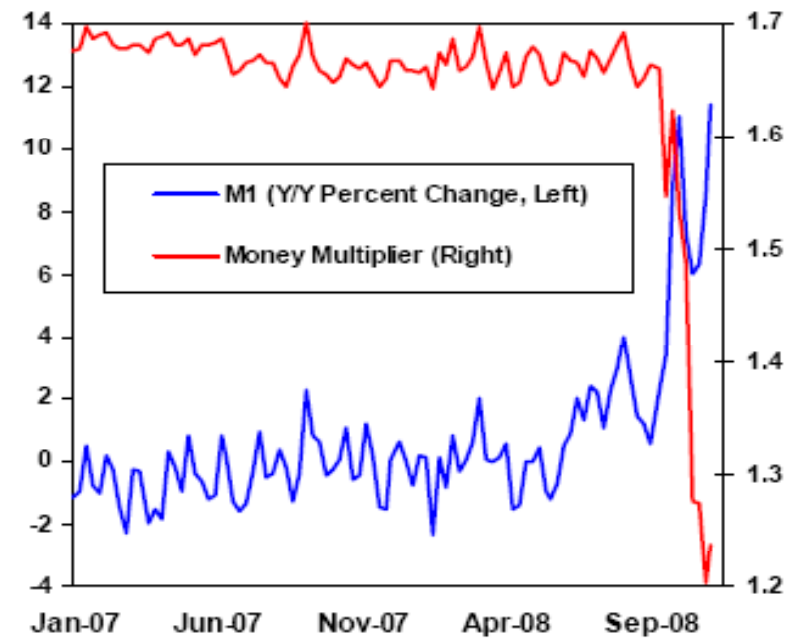
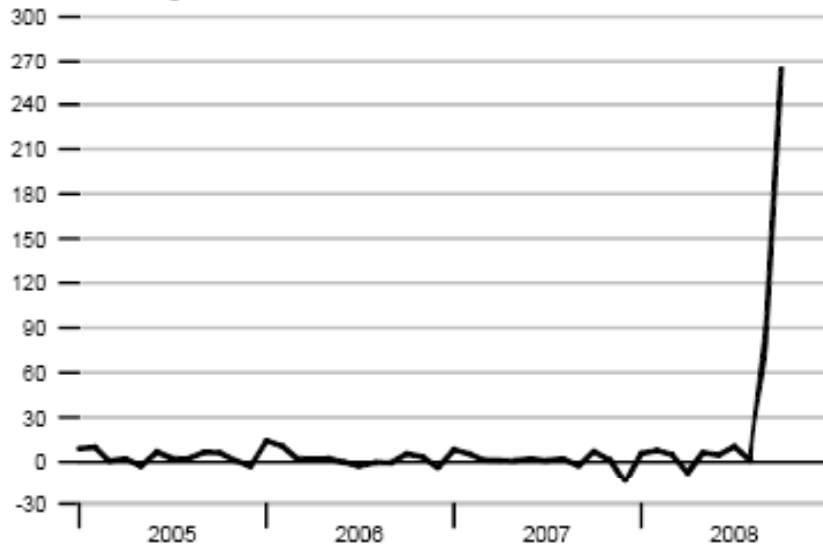


# Quantitative Easing

- Fed shifting focus to money supply

## Adjusted Monetary Base

Percent change at an annual rate





# Other Recent Government Actions

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- TARP
  - Initially: \$700B to purchase troubled assets
  - Now: Preferred equity stakes in select financial institutions
  
- GSE Loan Purchases
  - \$600B to purchase debt issued or backed by GSEs
  
- Term Asset-Backed Securities Loan Facility (TALF)
  - \$200B in loans
  
- Obama Stimulus Package
  - Estimated \$500B - \$700B

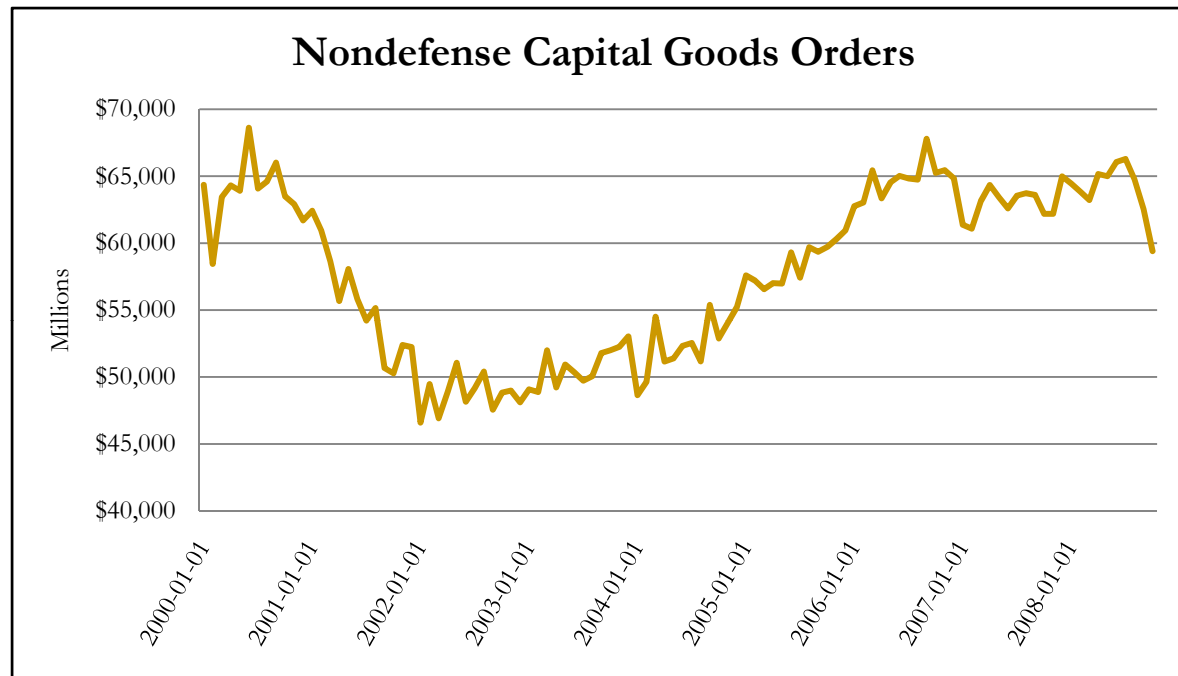


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# Other Issues



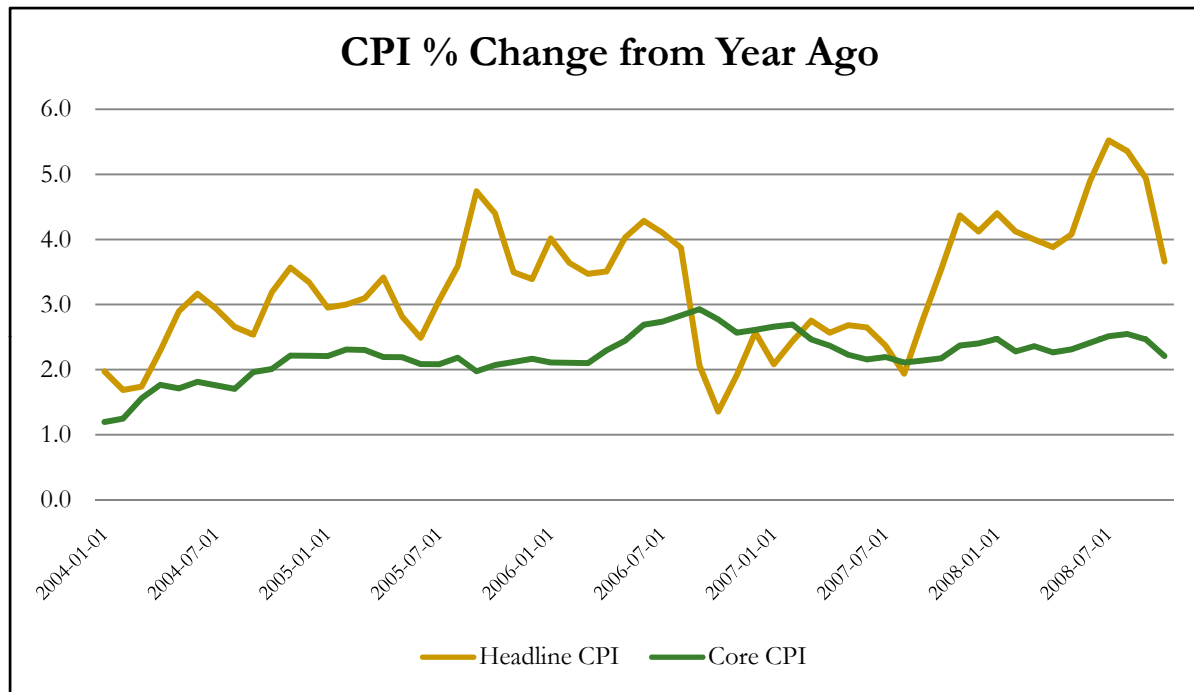
# Capital Goods Orders



- Nondefense Capital Goods Orders down 4.0% last month
- Down 3.3% from a year ago
- Business spending will not be helping to support the economy



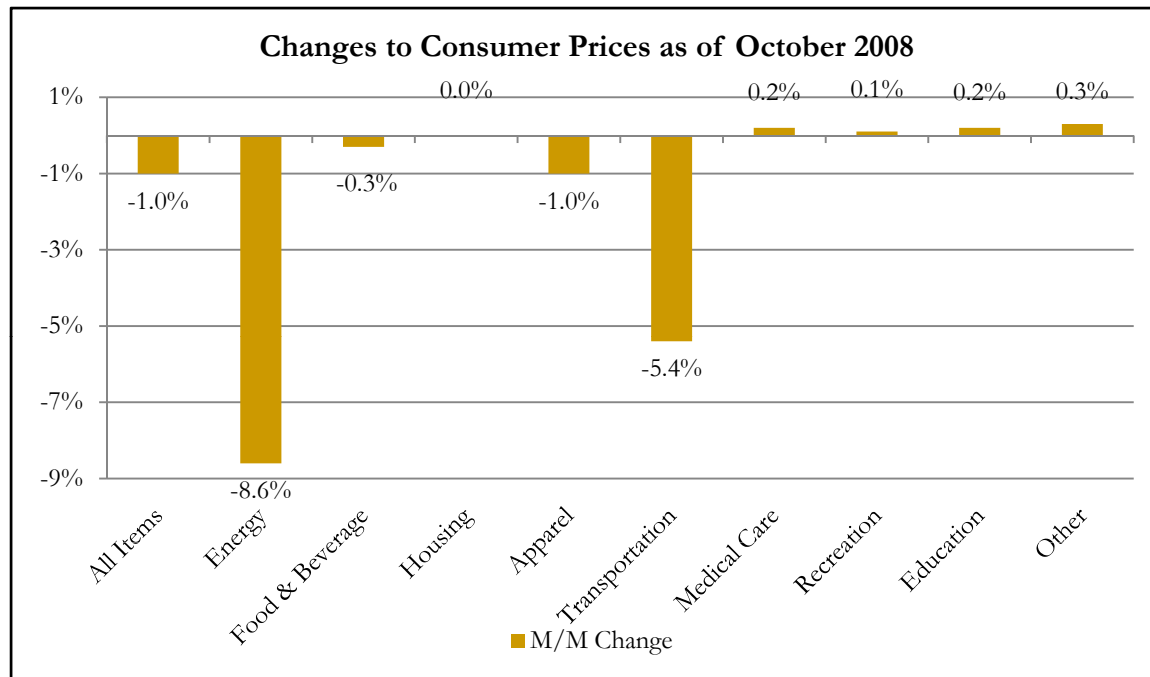
# Inflation



- Good news!
- October 2008: Headline CPI -1.0% M/M yet +3.7% Y/Y
- October decline was the **largest one month decrease** since the publication of seasonally adjusted changes began in February 1947



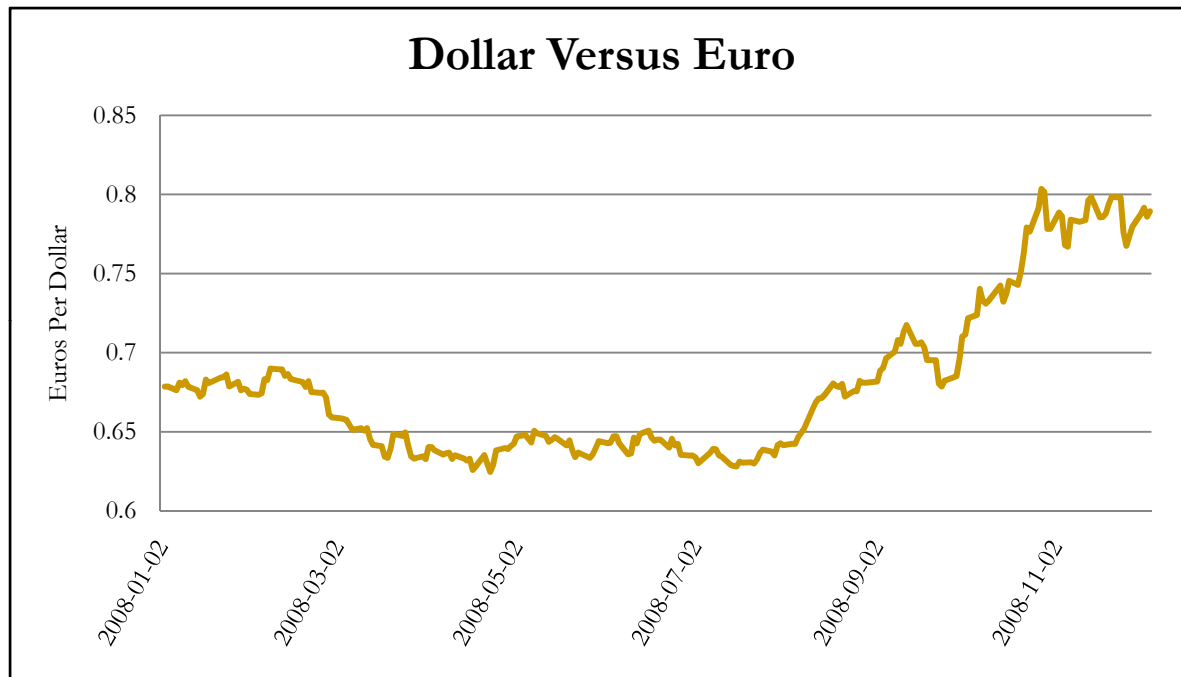
# Inflation



- Greatest monthly change was **energy** prices followed by transportation and apparel.
- Modest increases in food, medical care, recreation, and education prices.
- Next release: 12/16/08



# International Landscape



- After a slight decline, recently USD has been gaining on the Euro as more negative international news is helping the dollar.
- Global economic downturn is having a large impact on exports and GDP





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# Portfolio Impact



# Portfolio Impact by Sector

Sector	Outlook	Catalyst
Healthcare	↑	Positive demographic trends
Consumer Staples		Defensive play to slower GDP growth
Utilities		Defensive play to slower GDP growth
Energy	↔	Lower oil prices for the time being
Telecom		Opposite trends in wireless and wireline
Financials	↓	Ongoing credit crisis, exposure to subprime
Consumer Discretionary		Drop in disposable income, consumption
Real Estate		Starts, sales data all very negative
Industrials		Slower US GDP growth



# Economic Review

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- Projected recession for next four quarters
- Housing, consumer, credit crunch driving recession
- Government attempts to promote growth
- Portfolio impact



# Security Analysis



# Research Process

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- Company Background Report
  - Overview of business
  - SWOT analysis
  - Revenue and operating earnings
- Industry Report
  - Competitive environment
  - Cost and demand factors
  - Short- and long-run outlook



# Research Process

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- Fundamental Analysis
  - Business and financial risk
  - Ratio and DuPont analysis
- Technical Analysis
  - Analyze stock prices using four technical methods
  - Does not impact valuation



# Research Process

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- EPS and Beta Forecast
  - Estimate earnings through 2009
  - Heuristic and financial methods
  - Regress returns to calculate beta
- Valuation and Final Recommendation
  - FCF model
  - Multiplier methods
  - Discovery
  - Compare intrinsic value to price to make recommendation



# Analyst Presentations

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## Analyst

John Watkins

Tim Scallen

Margie Rosmonowski

Allie Carrick

Jeff Osowski

Paul Oddy

Chris Hagen

## Stock

Graco, Inc. (GGG)

Ecolab Inc. (ECL)

YUM! Brands (YUM)

Carnival Corp. (CCL)

Ormat Technologies (ORA)

Dell Inc. (DELL)

Thoratec (THOR)





# Graco, Inc. (GGG)

Market Price: \$20.47  
Fwd P/E: 8.9x  
Mkt Cap: \$1.14 B  
Rev (2009E): \$808 M  
2009E EPS: \$2.24

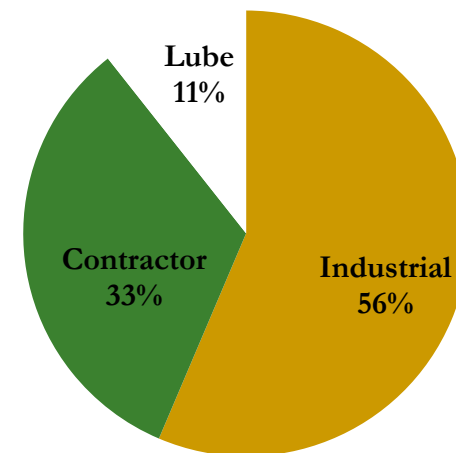




# GGG Business Overview

- Provides fluid handling solutions to manufacturing, processing, construction and maintenance organizations.
- Products spray, dispense, measure or move a variety of fluids or semi-solids.
- Focused on making products technologically superior, reliable, and multi-featured.
- Three segments: Industrial, Contractor, and Lubrication.

Revenue Breakdown





# GGG Business/Financial Risk

- Business risk: LOW
  - Revenue variability (12 years) only 9%
  - EBIT variability (12 years) only 9%
- Financial Risk: LOW

<b>Financial Risk Ratios</b>							
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>
Total Debt/Total Cap	5.1%	2.4%	2.5%	2.8%	5.3%	34.0%	44.9%
Interest Coverage	183.8x	266.7x	324.4x	139.1x	238.9x	67.7x	36.6x
Cash Flow Coverage	156.8x	228.3x	247.8x	112.5x	165.5x	52.6x	33.0x
Debt/Equity	5.4%	2.5%	2.6%	2.9%	5.5%	51.5%	81.5%



# GGG DuPont Model

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>
<b>ROE</b>	<b>30.8%</b>	<b>51.1%</b>	<b>47.1%</b>	<b>43.7%</b>	<b>45.2%</b>	<b>62.5%</b>	<b>56.4%</b>
Leverage	1.45	2.34	1.61	1.55	1.55	2.19	2.46
<b>ROA</b>	<b>21.3%</b>	<b>21.8%</b>	<b>29.2%</b>	<b>28.2%</b>	<b>29.3%</b>	<b>28.5%</b>	<b>22.9%</b>
Net Profit Margin	15.5%	16.2%	18.0%	17.2%	18.3%	18.2%	17.2%
Total Asset Turnover	1.37	1.35	1.63	1.64	1.60	1.57	1.33



# GGG Recommendation → BUY

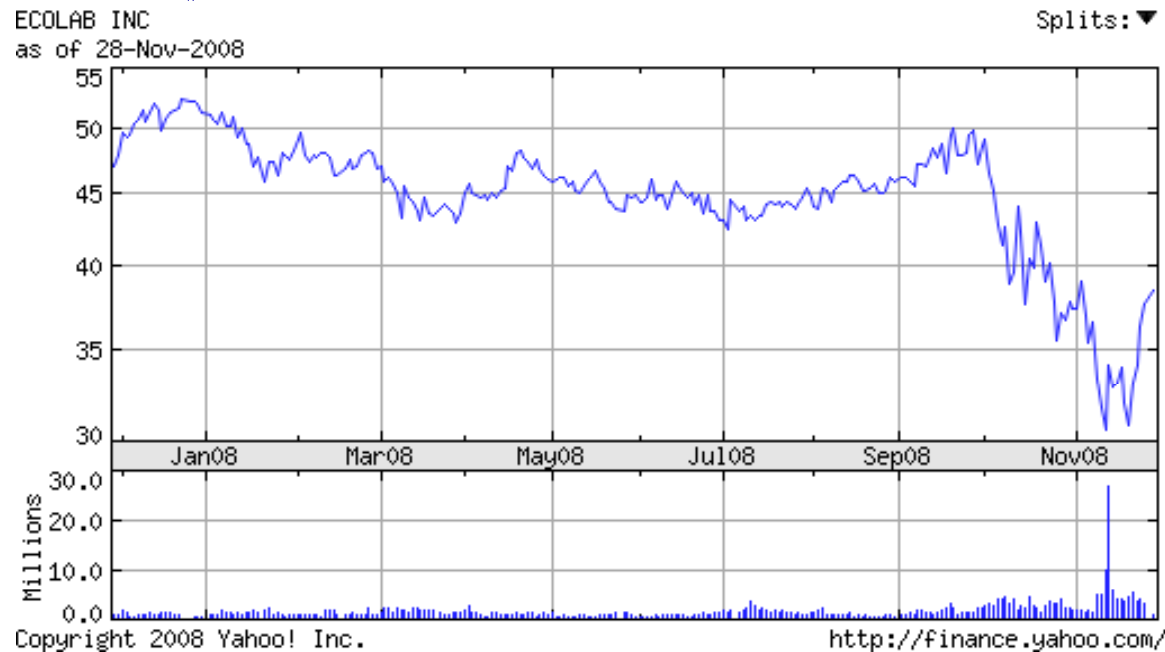
Valuation Technique	Intrinsic Value	Weighting	Value
FCF	\$49.96	45%	\$22.48
P/E	29.13	40	11.65
DDM	39.50	5	1.98
P/B	23.31	10	2.33

Final Intrinsic Value	\$38.44
Market Price	20.47
% Upside	88%



# Ecolab Inc. (ECL)

Market Price: \$34.10  
Fwd P/E: 20.0x  
Mkt Cap: \$8.7 B  
Rev (2009E): \$6.6 B  
2009E EPS: \$2.04

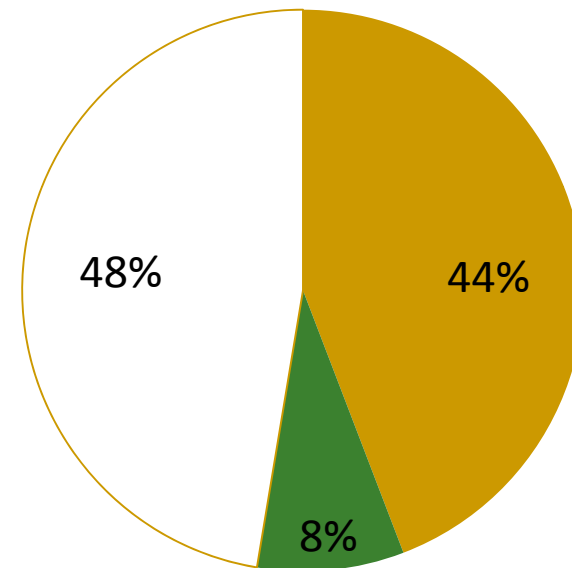




# ECL Business Overview

- Global leader in the chemicals, cleaning and sanitizing industry
- Develops, manufactures and distributes products and services solely to commercial customers
- Superior products combined with industry leading customer service leads to deep relationships with customers
- Global presence in 70+ countries, serving the healthcare, hospitality, automotive, foodservice industries

**Revenue**



- US Cleaning & Sanitizing
- US Other Services
- International



# “Circle the Customer, Circle the Globe”

Complementary nature of business segments → close partnerships

GCS, Textile Care

Integrated Pest Control

Institutional Ware washing

Food & Beverage Safety

Floor Care

Scent Branding







# ECL: Industry Leader

- Superior financial strength
- Margin consistency and superiority
- Effective management team

Metric (LTM)	Ecolab	Industry <sup>1</sup>
Interest Coverage	12.8x	2.75x
Gross Margin	49.3%	12.2%
Net Profit Margin	7.9%	3.2%
Return on Equity	24.5%	6.6%
Return on Assets	10.3%	2.4%

<sup>1</sup>Industry: US Soap & Cleaning Compound Manufacturers



# ECL PE Multiple Analysis

	Ecolab	P & G	Clorox	Kimberly Clark	Johnson & Johnson
FWD PE (N4Q)	20.0x	14.4x	13.8x	12.5x	12.1x

- Concentration on commercial customers:
  - Diminished exposure to FDA (i.e. fewer label requirements)
  - Increased efficiency in marketing spending (i.e. no TV ads)
  - Overall: greater ability to channel more resources to R&D
- Focused spending reflected in PE multiples
  - **PE substantially higher than competitors**



# ECL PE Multiplier Valuation

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Estimated Forward PE:	20.0x
Estimated N4Q Earnings:	<u>\$2.04</u>
Intrinsic PE Valuation	<u>\$40.80</u>



# ECL Recommendation → BUY

<b>Valuation Technique</b>	<b>Intrinsic Value</b>	<b>Weighting</b>	<b>Value</b>
FCF	\$42.63	50%	\$21.31
P/E Multiple	40.80	50	20.40
<b>Final Intrinsic Value</b>			<b>\$41.71</b>
<b>Market Price</b>			<b>34.10</b>
<b>% Upside</b>			<b>22%</b>



# YUM! Brands (YUM)

Price: \$25.32  
Fwd P/E: 16.5x  
Mkt Cap: \$11.66 B  
Rev (2009E): \$11.2 B  
2009E EPS: \$2.00

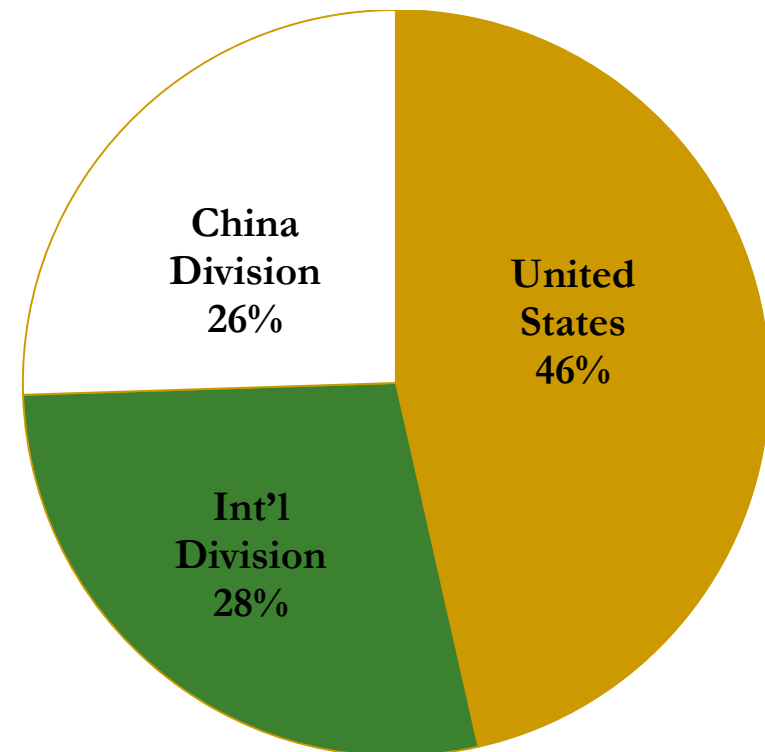




# YUM Business Overview

- Largest quick-service restaurant chain by # of locations
- 35,000 units in over 100 countries
- 5 brand names:
  - Taco Bell
  - KFC
  - Pizza Hut
  - Long John Silver's
  - A&W All-American Food

## Revenue Breakdown





# YUM SWOT Analysis

---

## Strengths

- Strong brand names
- Variety through combination locations
- Consistency worldwide

## Weaknesses

- Recent U.S. performance
- Negative media
  - Dec. 2006 E. coli breakout
  - Feb. 2007 rat video



# YUM SWOT Analysis

---

## Opportunities

- Growth in China and International segments
- Expanding menus
- Healthier quick-service options

## Threats

- Commodity costs
- Americans' growing concern for healthy eating
- U.S. recession





# YUM Recommendation → BUY

Valuation Technique	Intrinsic Value	Weighting	Value
FCF	\$40.62	60%	\$24.37
Implied Forward P/E	32.47	12	3.90
DDM	80.33	8	6.43
Price-to-sales	13.43	10	1.34
Price-to-book	40.67	10	4.07

**Final Intrinsic Value**                      **\$40.10**

**Market Price**                                      **25.32**

**% Upside**    **58%**



# Carnival Corporation (CCL)

Market Price: \$17.75  
Fwd P/E: 11.0x  
Mkt Cap: \$15.63 B  
Rev (2009E): \$ 15.1 B  
2009E EPS: \$ 3.47





# CCL Business Overview

- Largest Cruise Provider in the World.
  - 88 Ships
  - 80,000 employees
  - More than 8 million guests annually

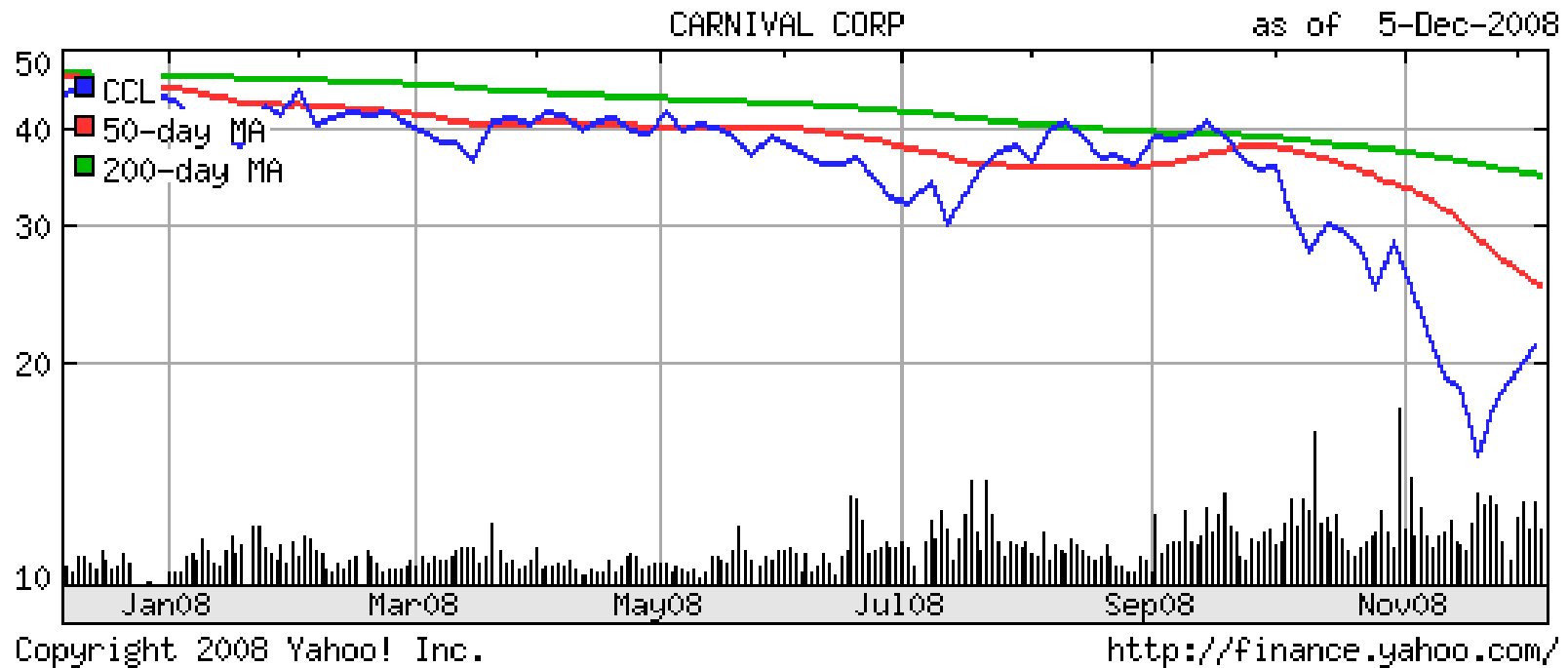
- 11 Brands in Portfolio





# CCL Technical Analysis

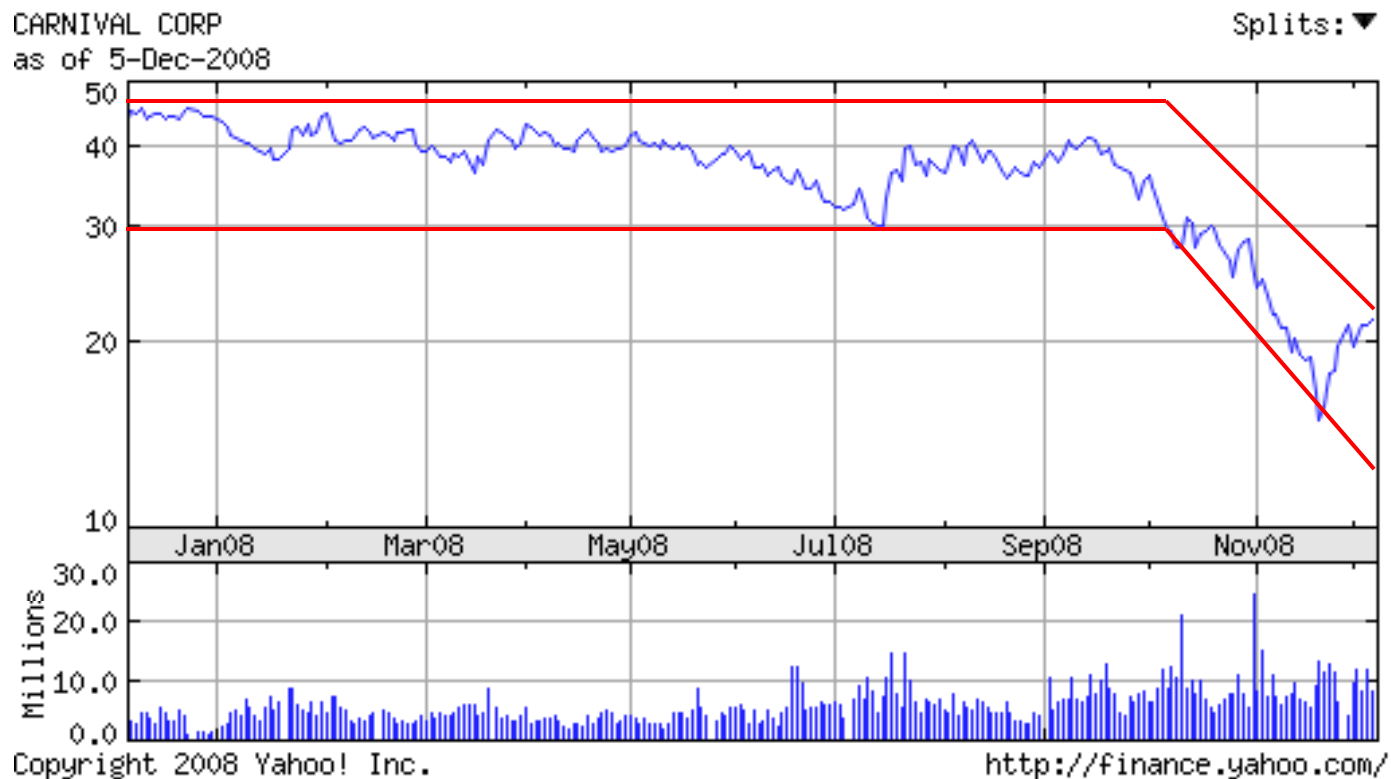
## ■ Moving Averages





# CCL Technical Analysis

## ■ Support and Resistance Levels



## ■ Technical Analysis provides bearish signal.



# CCL Recommendation → Buy

<b>Valuation Technique</b>	<b>Intrinsic Value</b>	<b>Weighting</b>	<b>Value</b>
FCF	\$32.68	50%	\$16.34
Book Value	32.57	45	14.66
Implied Forward P/E	41.69	5	2.08

<b>Final Intrinsic Value</b>	<b>\$33.08</b>
<b>Market Price</b>	<b>17.75</b>
<b>% Upside</b>	<b>86.4%</b>



# CCL Labor Controversy → No Buy

---

- War on Want with the International Transport Workers' Federation (ITF)
  
- Sexual Harassment Allegations
  - Culture of fear
  - Difficult to enforce rules
  
- Carnival Action



# Ormat Technologies (ORA)

Market Price: \$27.95  
Fwd P/E: 18.5x  
Market Cap: \$1.27 B  
Rev (2009E): \$446 M  
2009E EPS: \$1.51

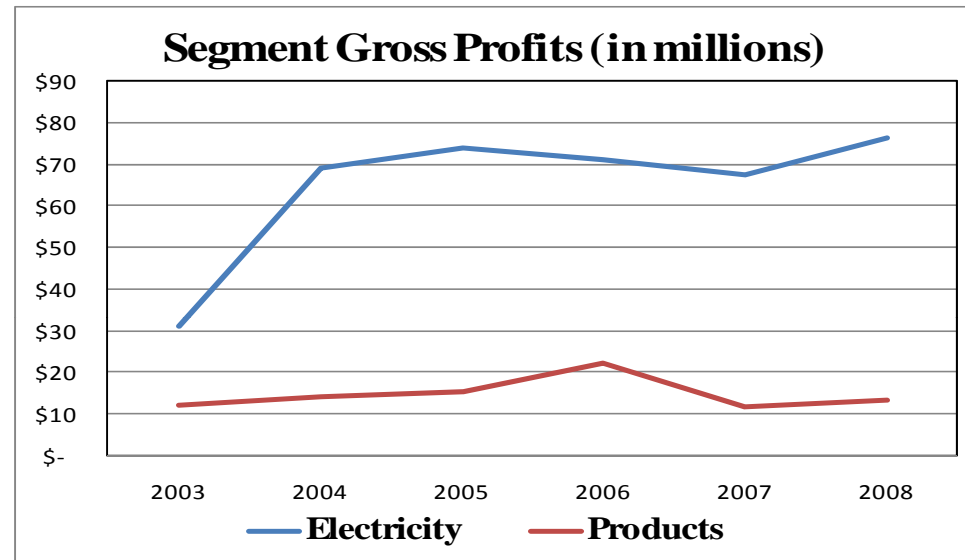






# ORA Background & Industry

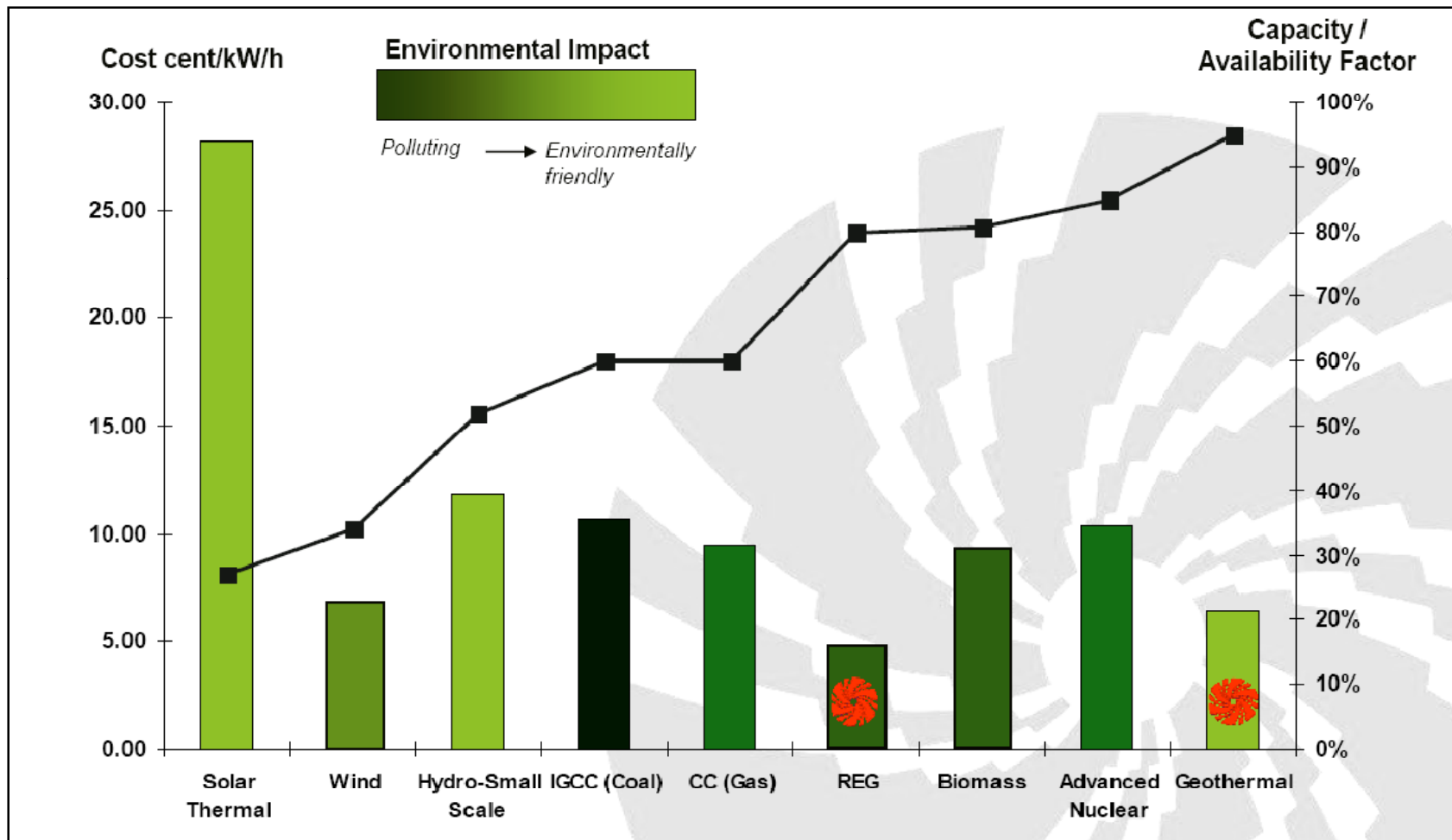
- The only vertically integrated geothermal and recovered energy power business. (60% US and 40% International)
- Rapid growth in demand due to strong regulatory support.
- Rapid plant expansions nearing completion in next three years. 10-K Guidance expects 16% compounded annual growth in capacity.



- Two Segments:
  - Electricity – plant generation of energy (75% of revenue)
  - Products – sale of equipment and services related to geothermal and recovered energy (25% of revenue)



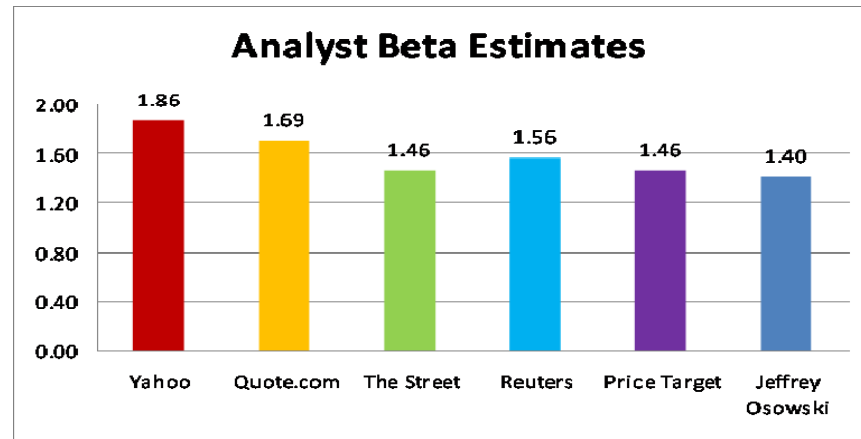
# ORA Energy Advantages





# ORA Beta & WACC

WACC Calculations	
Beta	1.40
Risk-Free Rate	2.72%
Market Risk Premium	5.00%
Effective Tax Rate	15%
Debt Weight	51.2%
Equity Weight	48.8%
Cost of Debt	5.20%
Cost of Equity	9.72%
WACC	7.41%



Debt Ratings Calculations			
	2007	Q3 2008	Rating
EBIT Interest Coverage	4.32	4.97	A/BBB
Leverage	2.01	1.51	AA
ROC	3.05	3.4	B
Total Debt/Capital	0.5	0.32	AA
My Rating			A
10 year Yield Curves			6.12



# ORA FCF Key Drivers

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- Key Drivers
  - Revenue Growth – in line with corporate guidance for capacity growth in the next 3 years then gradually decreases to 10%.
  - Expenses – conservative and gradual decline for COGS & SGA to reflect the synergies between segments and increased economies of scale.
  - Capital Expenditures – \$100-\$150M annual expenditures for continued plant expansion.
  - Terminal Growth Rate – 5% to match expectations of long term growth for the renewable energy industry.



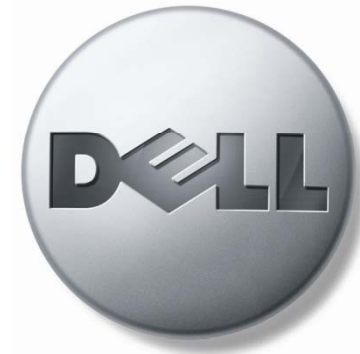
# ORA Recommendation → BUY

<b>Valuation Technique</b>	<b>Intrinsic Value</b>	<b>Weighting</b>	<b>Value</b>
FCF	\$36.15	50%	\$18.08
Price-to-book	37.31	30	11.19
Implied Forward P/E	41.71	20	8.34
		<b>Final Intrinsic Value</b>	<b>\$37.61</b>
		<b>Market Price</b>	<b>27.95</b>
		<b>% Upside</b>	<b>34.6%</b>



# Dell Inc. (DELL)

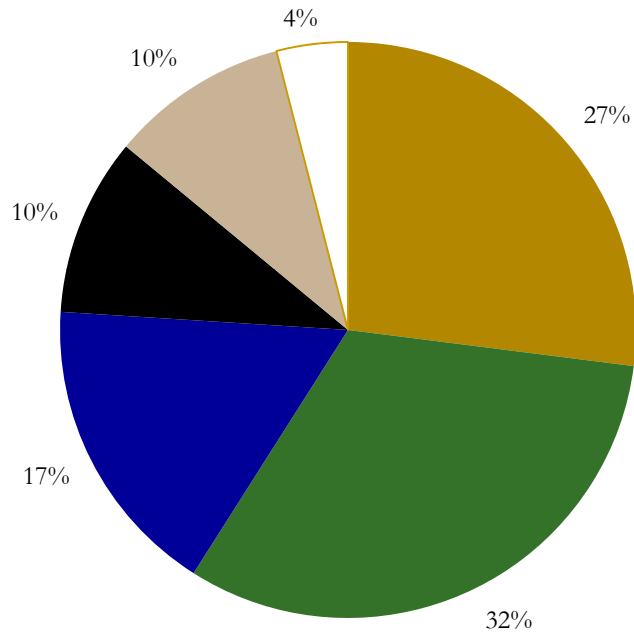
Market Price: \$10.14  
Fwd P/E: 7.0x  
Mkt Cap: \$19.5 B  
Rev (2010E<sup>1</sup>): \$60.2 B  
2010E EPS: \$1.45





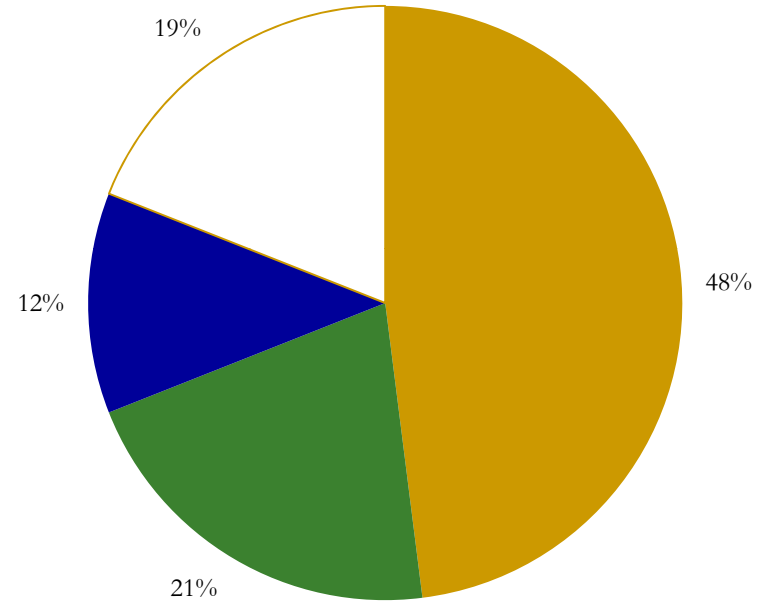
# DELL Revenue Breakdown

## Product Segment



- Desktop PCs
- Mobility
- Software & Peripherals
- Servers & Networking
- Services
- Storage

## Geographic Segment



- Americas Commercial
- EMEA Commercial
- Asia Pacific - Japan Commercial
- Global Consumer



# DELL Business/Financial Risk

## ■ Business risk: HIGH

### Sales Volatility

Coefficient of Variation	0.36
Vs. Linear	6%
Vs. Constant Growth (14%)	16%

### EBIT Volatility

Coefficient of Variation	0.24
Vs. Linear	22%
Vs. Constant Growth (14%)	24%

### Operating Leverage

Value:	2.82
Standard Dev:	4.61





# DELL Business/Financial Risk

## ■ Financial risk: LOW

	2004	2005	2006	2007	2008	LTM
<b>Leverage (FYE / MRQ)</b>	1.37	1.40	1.58	1.85	2.18	2.85
<b>X Int Earned (w/ Cap. Op. Leases)</b>	155.80	157.17	101.58	51.26	56.91	35.23
<b>Op. Cash Flow / LTD</b>	5.49	7.50	6.22	4.31	5.30	4.10

## Share Buybacks (\$ in MM)

	Q4 08	Q1 09	Q2 09	Q3 09	LTM
<b>Amount Repurchased</b>	\$7,400	\$1,000	\$1,400	\$400	\$10,200
<b>% of Shares Outstanding</b>	8.0%	2.5%	3.0%	1.1%	14.6%
<b>Still Authorized</b>	\$4,600				
<b>% of Shares Outstanding</b>	23.4%				



# DELL DuPont Model

	2004	2005	2006	2007	2008	LTM
<b>ROE</b>	<b>47.43%</b>	<b>47.68%</b>	<b>67.87%</b>	<b>60.29%</b>	<b>71.29%</b>	<b>70.22%</b>
Leverage	1.37	1.40	1.58	1.85	2.18	2.85
<b>ROA</b>	<b>34.67%</b>	<b>34.07%</b>	<b>43.04%</b>	<b>32.61%</b>	<b>32.70%</b>	<b>24.64%</b>
NPM	6.38%	6.18%	6.46%	4.50%	4.82%	4.40%
Capital T/O	5.43	5.51	6.67	7.25	6.78	5.60



# DELL Recommendation → BUY

Valuation Technique	Intrinsic Value	Weighting	Value
FCF	\$14.33	82%	\$11.75
Implied Forward P/E	15.46	15	2.32
Price-to-Sales	15.18	3	0.46
		<b>Final Intrinsic Value</b>	<b>\$14.52</b>
		<b>Market Price</b>	<b>10.14</b>
		<b>% Upside</b>	<b>43.2%</b>



# Thoratec Corp. (THOR)

Market Price: \$28.15  
Fwd P/E: 34.4x  
Mkt Cap: \$1.5 B  
Rev (2009E): \$400 M  
2009E EPS: \$0.80



**T H O R A T E C**<sup>®</sup>  
C O R P O R A T I O N





# THOR Business Overview

- Medical device firm which manufactures VADs (Ventricular Assist Device)
- VAD market overview
  - Large and growing addressable market
  - Best alternative to heart transplant
  - High barriers to entry – FDA approval process
- HeartMate II
  - Only VAD approved by FDA for transplant patients



Thoratec HeartMate II



# Discovery

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- Attempt to “discover” information not widely available
- Designed to test some aspect of investment thesis
  
- Thoratec discovery:
  - Heart surgeon, University of Minnesota Heart Center
  - Cardiologist, Rochester Mayo Clinic
  
- Conclusions:
  - Physicians very enthusiastic about HeartMate II
  - HeartMate II better device than leading competitor
  - Positive physician views of device should drive revenue growth



# THOR Recommendation → BUY

<b>Valuation Technique</b>	<b>Intrinsic Value</b>	<b>Weighting</b>	<b>Value</b>
Price/Sales	\$ 25.45	30%	\$ 7.64
EV/Sales	27.32	30	8.20
FCF	24.62	25	6.16
Acquisition	31.57	15	4.74

**Final Intrinsic Value** \$ **26.72**

**Market Price** **21.24**

**% Upside** **25.8%**



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# Performance Evaluation

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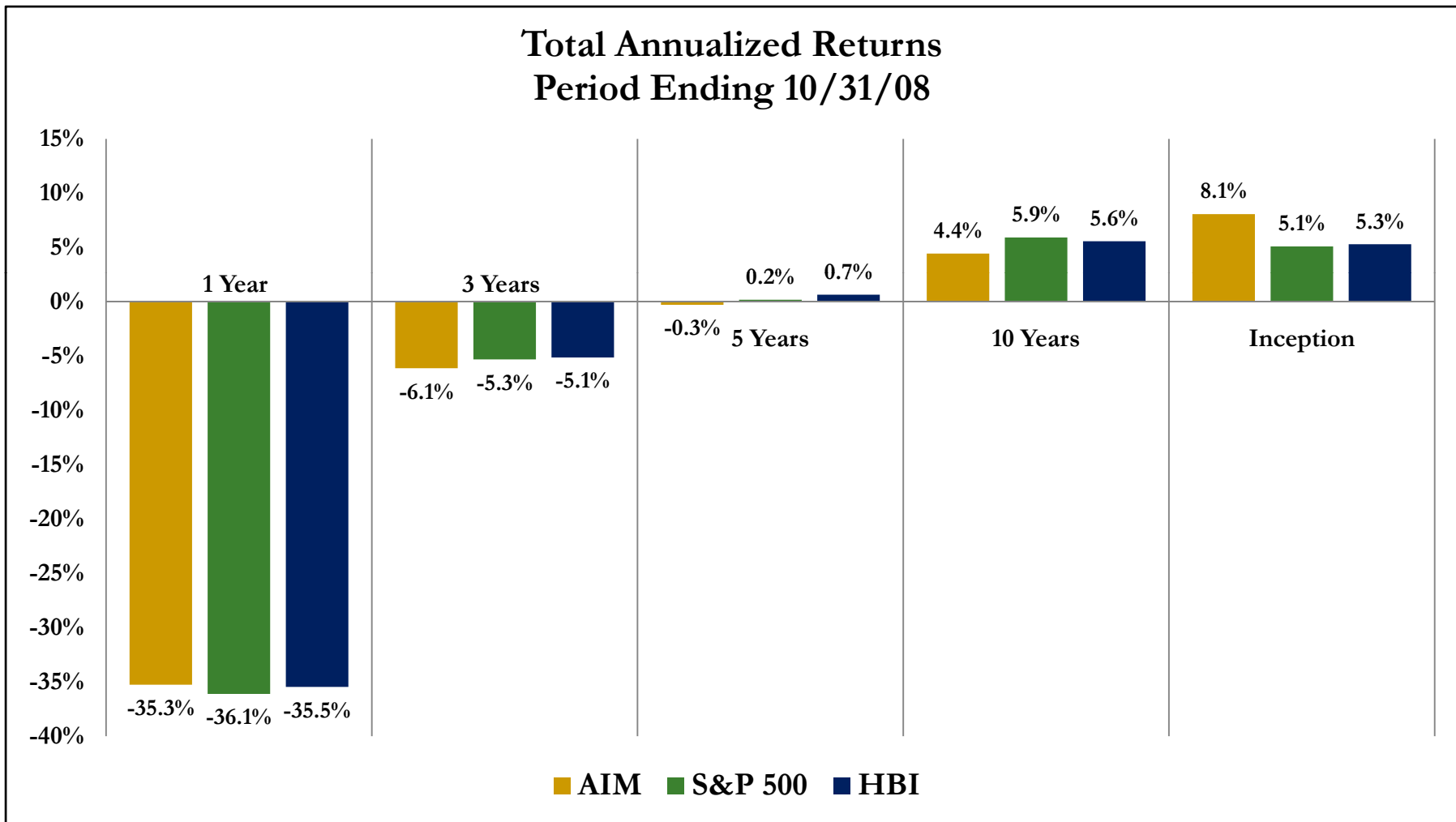
# Portfolio Performance Evaluation

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- Historical return v. benchmarks
- Risk-adjusted performance measures
- Attribution analysis
- Top 5 / Bottom 5 performing stocks over 1 year
- Additions and deletions
- Current portfolio and characteristics



# AIM Performance Profile





# Risk-Adjusted Performance Measures

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## ■ Risk-Adjusted Metrics

- Sharpe Ratio
- Treynor Ratio
- Jensen's Alpha

## ■ Considerations

- Relative comparison measures
- Based on annualized monthly returns
- Risk-free rate – 10-year Treasury Note Yield
- All data as of 10/31/2008



# Sharpe Ratio Explained

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## ■ Sharpe Ratio

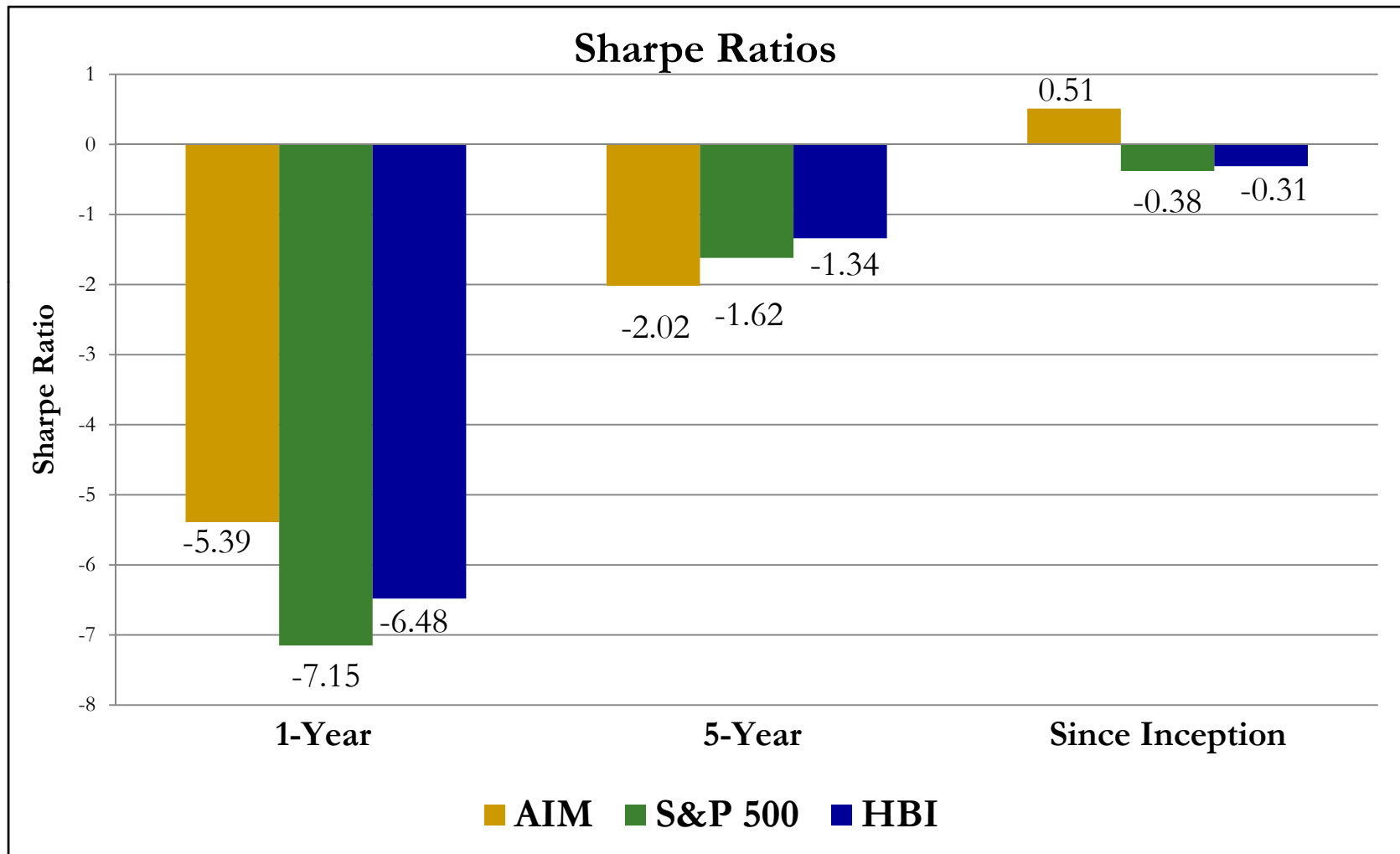
- Measures excess return over a risk-free portfolio, per unit of total risk
- Shows if excess returns are from wise investment decisions or undertaking higher levels of total risk
- Higher ratios indicate better relative performance

## ■ Formula :

$$\frac{\text{Portfolio Return} - \text{Risk-Free Rate}}{\text{Standard Deviation of Returns}}$$



# Sharpe Ratio Comparison





# Treynor Ratio Explained

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## ■ Treynor Ratio

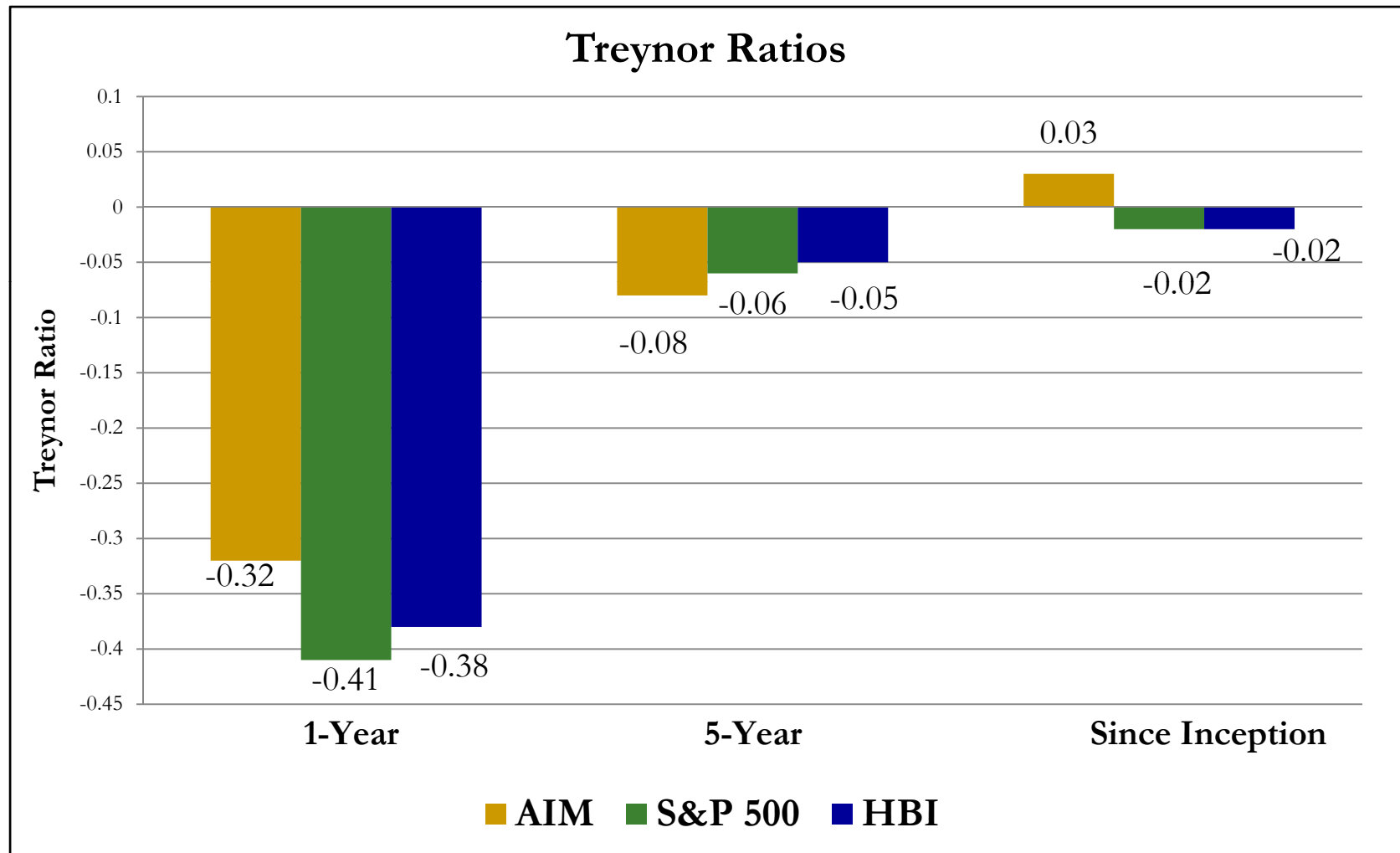
- Measures excess return over a risk-free portfolio, per unit of market risk, or beta
- Shows if excess returns are from wise investment decisions or taking on higher levels of market risk
- Higher ratios indicate better relative performance

## ■ Formula :

$$\frac{\text{Portfolio Return} - \text{Risk-Free Rate}}{\text{Portfolio Beta}}$$



# Treynor Ratio Comparison





# Jensen's Alpha Explained

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- Jensen's Alpha

- Measures excess return, or alpha, over the expected rate of return as given by Capital Asset Pricing Model (CAPM)
- Positive alpha indicates management has outperformed market and risk expectations

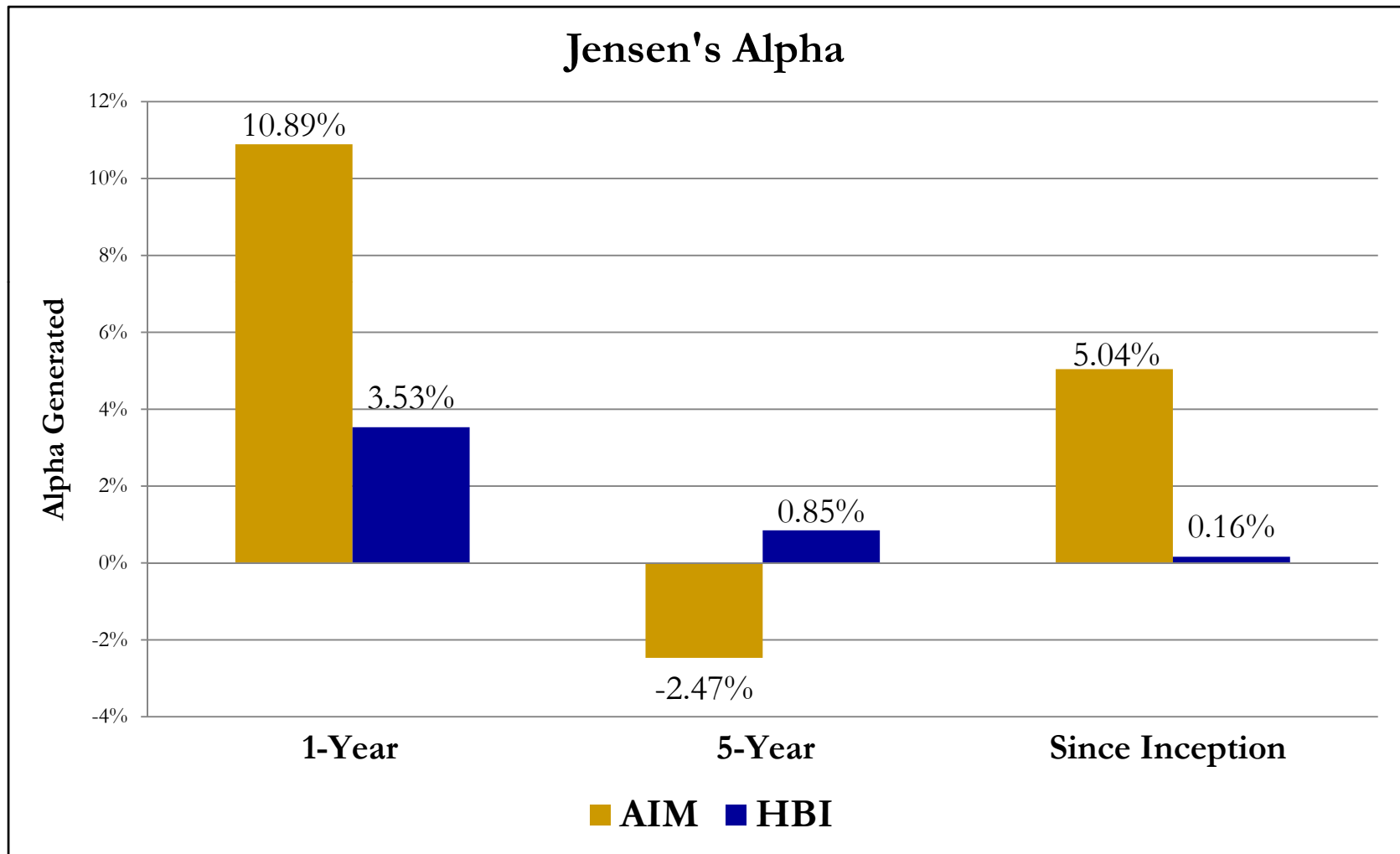
- Calculation:

Portfolio Return – [Risk-Free Rate + Beta (Market Return - Risk-Free Rate)]





# Alpha Generation Comparison





# Risk-Adjusted Performance Results

---

## ■ 1-Year

- Outperformed benchmark indices
- Generated excess returns, or positive alpha (10%)

## ■ 5-Year

- Underperformance
- Did not meet expected returns, or negative alpha

## ■ Since Inception

- Outperformed benchmark indices
- Positive alpha generation (5%)



# Attribution Analysis

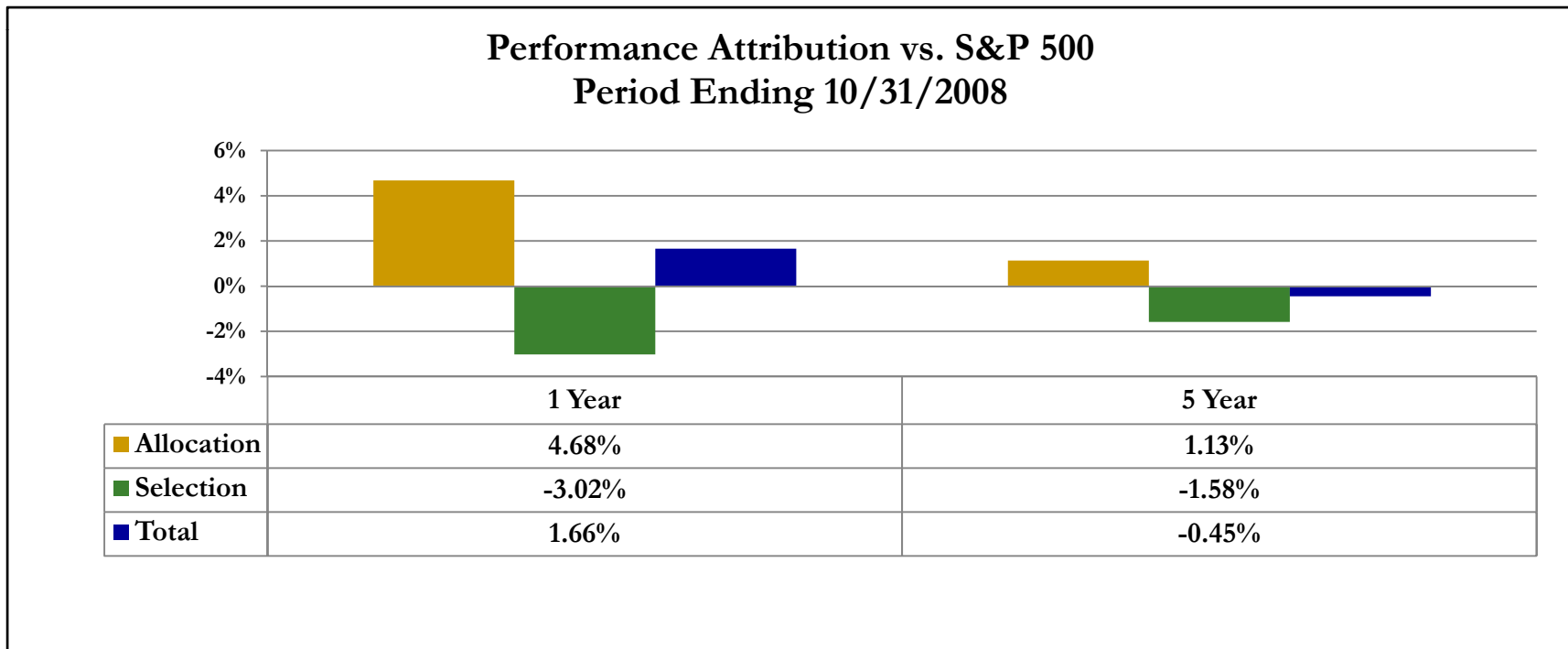
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- Components
  - Allocation
  - Selection
  - Net management
  
- Relative to benchmark



# Attribution Analysis

- Active management effect benchmark: S&P 500
  - Greater benefit from portfolio allocation vs. stock selection

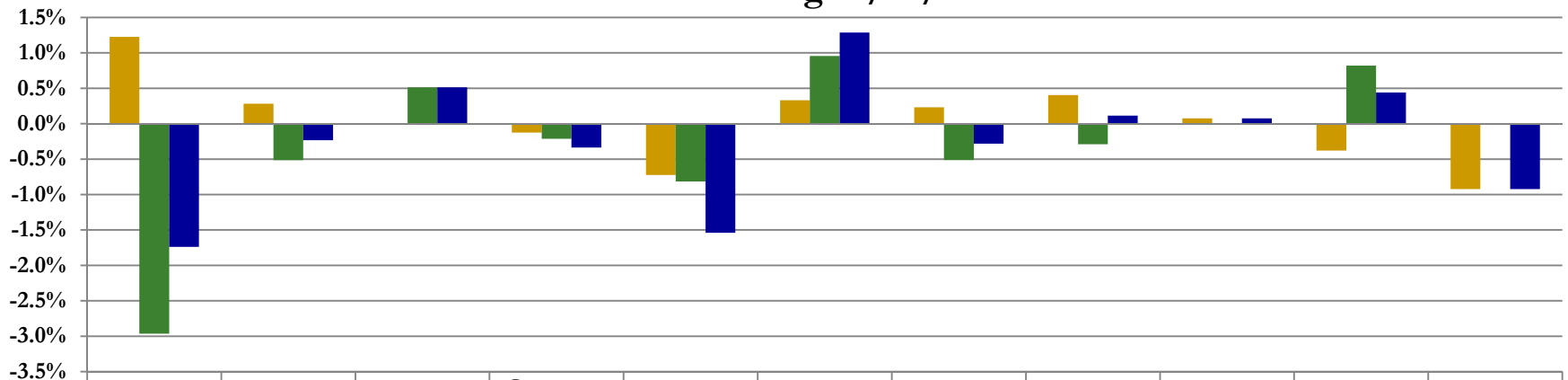




# Attribution Analysis – 1 Year

- Poor selection: Financials, Consumer Staples
- Value adding selection: Industrials, Energy, Utilities

Industry Attribution vs. S&P Industry Indexes  
1 Year Period Ending 10/31/2008



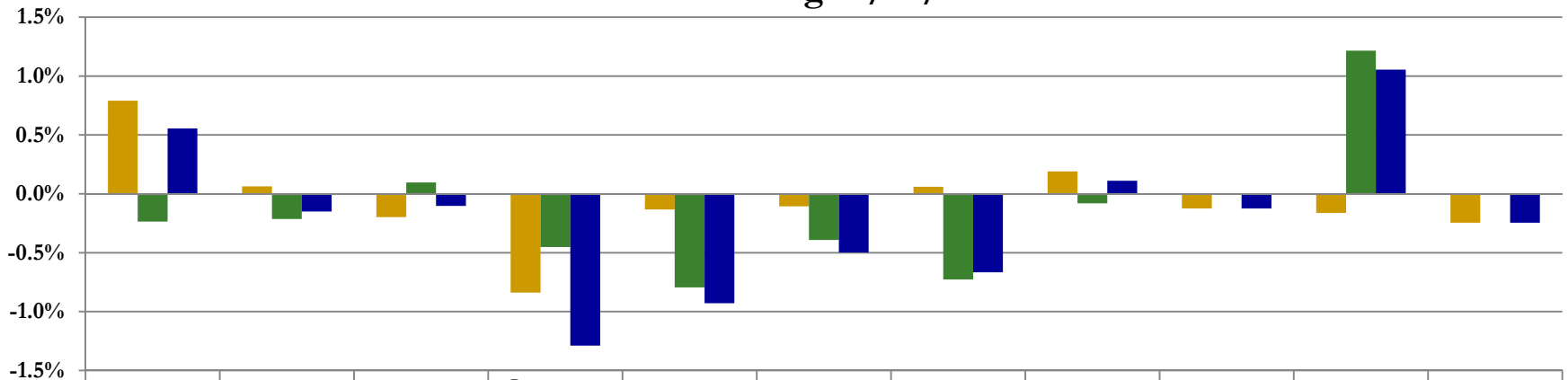
	Financials	Health Care	Utilities	Consumer Discretionary	Consumer Staples	Energy	Information Technology	Materials	Telecomm Services	Industrials	Other
■ Allocation	1.23%	0.28%	0.00%	-0.13%	-0.72%	0.33%	0.23%	0.40%	0.08%	-0.38%	-0.92%
■ Selection	-2.97%	-0.52%	0.51%	-0.21%	-0.82%	0.96%	-0.51%	-0.29%	0.00%	0.82%	0.00%
■ Total	-1.74%	-0.23%	0.51%	-0.34%	-1.54%	1.29%	-0.28%	0.12%	0.08%	0.44%	-0.92%



# Attribution Analysis – 5 Years

- Poor selection: Consumer, Energy, IT
- Value adding selection: Industrials

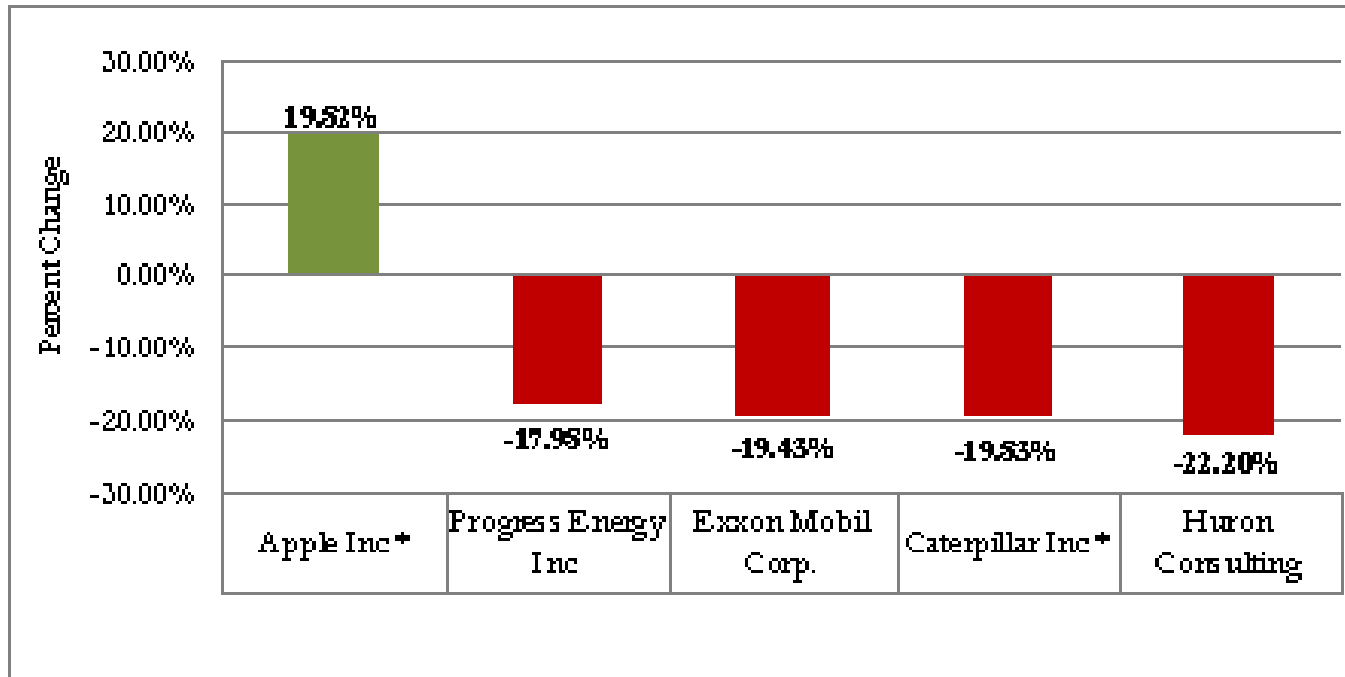
Industry Attribution vs. S&P Industry Indexes  
5 Year Period Ending 10/31/2008



	Financials	Health Care	Utilities	Consumer Discretionary	Consumer Staples	Energy	Information Technology	Materials	Telecomm Services	Industrials	Other
■ Allocation	0.79%	0.06%	-0.20%	-0.84%	-0.13%	-0.11%	0.06%	0.19%	-0.13%	-0.16%	-0.25%
■ Selection	-0.24%	-0.21%	0.10%	-0.45%	-0.80%	-0.39%	-0.73%	-0.08%	0.00%	1.22%	0.00%
■ Total	0.56%	-0.15%	-0.10%	-1.29%	-0.93%	-0.50%	-0.67%	0.11%	-0.13%	1.05%	-0.25%



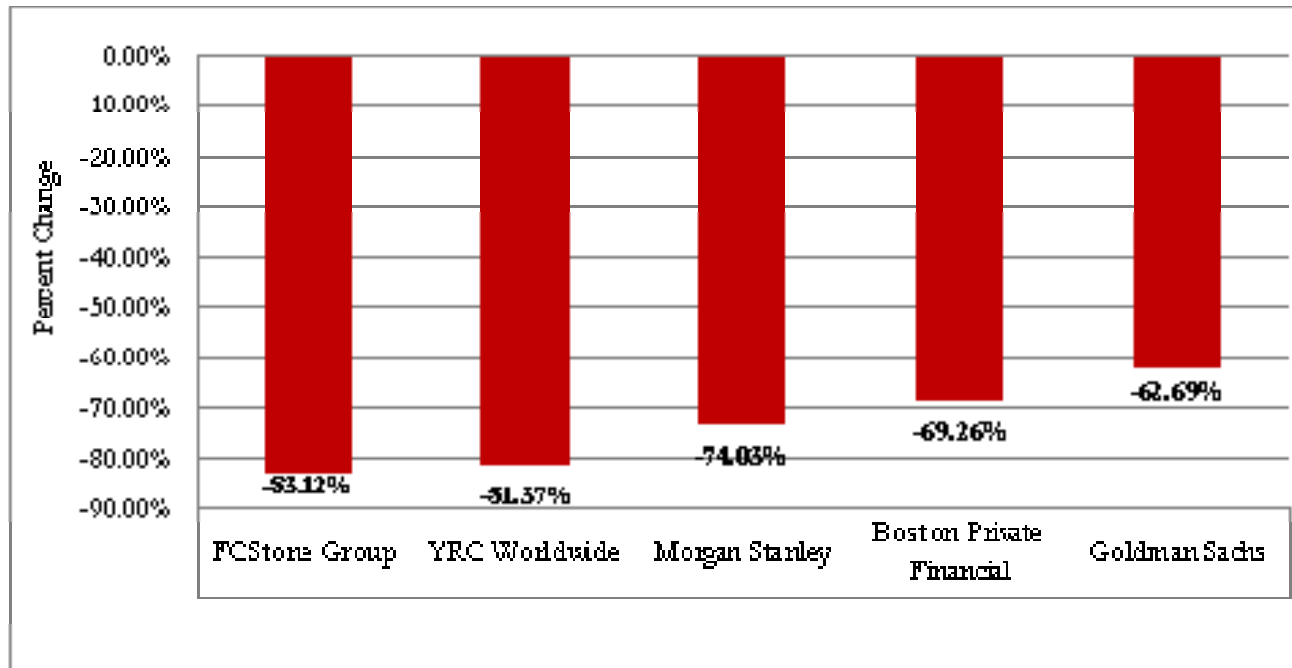
# Biggest “Winners” (1 year or holding period return)



\*Holding Period Return (10/8/08)



# Biggest Losers(1 year or holding period return)







# Buys

Stock	Ticker	Price on Day of Decision	Intrinsic Value	Upside
<i>Stocks Added to Portfolio</i>				
Graco	GGG	\$20.47	\$38.44	87.8%
Apple	AAPL	\$92.95	\$149.21	60.5%
Buffalo Wild Wings	BWLD	\$19.35	\$30.90	59.7%
Yum Brands	YUM	\$25.32	\$40.10	58.4%
Ormat Technologies	ORA	\$27.29	\$36.50	33.7%
Coca-Cola	KO	\$45.23	\$58.19	28.7%
Thoratec	THOR	\$21.24	\$26.72	25.8%
AT&T	T	\$26.94	\$33.61	24.8%
EcoLab	ECL	\$34.10	\$41.71	22.3%
Caterpillar	CAT	\$36.34	\$43.17	18.8%



# Sells

Stock	Ticker	Price on Day of Decision	Intrinsic Value	Upside
<i>Stocks Removed from Portfolio</i>				
Whirlpool	WHR	\$36.32	\$32.92	-9.4%
Boston Private Financial	BPFH	\$6.74	\$6.74	0.0%
Huron Consulting	HURN	\$50.12	\$52.57	4.9%
Digital River	DRIV	\$19.88	\$23.00	15.7%
YRC Worldwide	YRCW	\$2.43	\$2.91	19.8%
Dell	DELL	\$10.14	\$14.55	43.5%
Service Corp	SCI	\$4.86	\$7.69	58.2%
Boeing	BA	\$40.75	\$67.99	66.8%
Morgan Stanley	MS	\$13.38	\$24.70	84.6%
FCStone	FCSX	\$2.60	\$10.41	300.4%



# New Portfolio

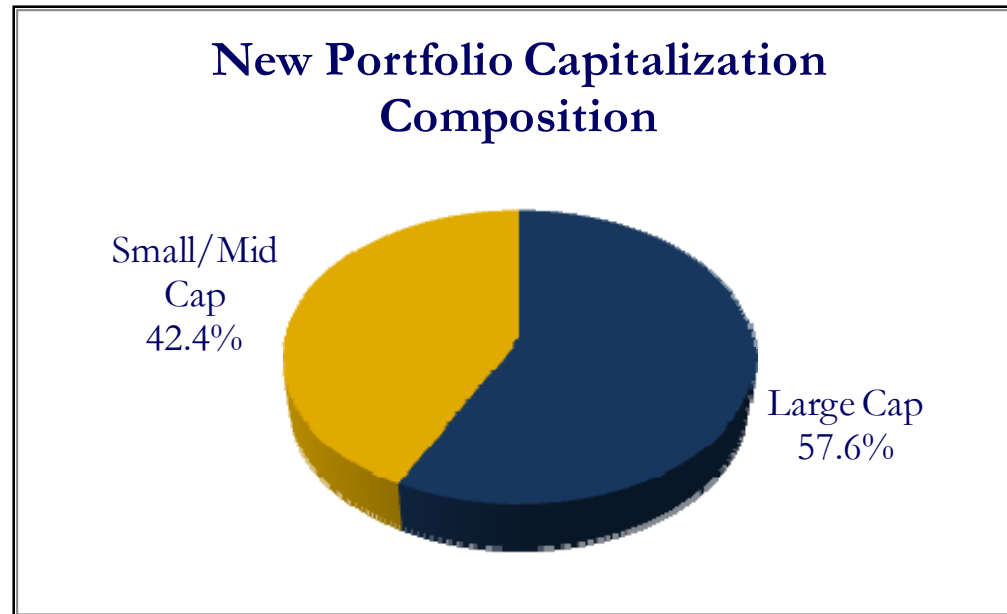
<u>Company</u>	<u>Ticker</u>	<u>Shares</u>	<u>Price</u>	<u>Position</u>	<u>Weight</u>
1 Apple	AAPL	1300	\$94.00	\$122,200	3.85%
2 AT&T	T	4000	\$28.15	\$112,600	3.54%
3 Barrick Gold	ABX	4600	\$25.14	\$115,644	3.64%
4 BJ Services	BJS	11000	\$9.39	\$103,290	3.25%
5 Buffalo Wild Wings	BWLD	5000	\$23.01	\$115,050	3.62%
6 Cabelas	CAB	17000	\$6.33	\$107,610	3.39%
7 Caterpillar	CAT	2500	\$38.26	\$95,650	3.01%
8 Coca-Cola	KO	2300	\$45.98	\$105,754	3.33%
9 Dentsply	XRAY	4900	\$24.73	\$121,177	3.81%
10 Ecolab	ECL	3300	\$36.93	\$121,869	3.84%
11 EMC	EMC	9000	\$10.81	\$97,290	3.06%
12 Exxon Mobil	XOM	1200	\$76.60	\$91,920	2.89%
13 Goldman Sachs	GS	2100	\$70.72	\$148,512	4.67%
14 Graco	GGG	7000	\$20.62	\$144,340	4.54%
15 McGraw-Hill	MHP	5200	\$24.23	\$125,996	3.97%
16 Ormat Technologies	ORA	3600	\$30.23	\$108,828	3.43%
17 Pharmaceutical Product Development	PPDI	4800	\$26.31	\$126,288	3.98%
18 Progress Energy	PGN	3100	\$39.86	\$123,566	3.89%
19 Republic Services	RSG	6300	\$22.60	\$142,380	4.48%
20 Thoratec Corp.	THOR	4500	\$28.15	\$126,675	3.99%
21 Tupperware	TUP	5300	\$16.69	\$88,457	2.78%
22 Unitedhealth Group	UNH	6000	\$21.41	\$128,460	4.04%
23 Walgreen Co.	WAG	5200	\$25.94	\$134,888	4.25%
24 YUM! Brands	YUM	4700	\$29.00	\$136,300	4.29%
25 Zhongpin	HOGS	17000	\$9.54	\$162,180	5.10%
26 Zimmer Holdings	ZMH	3200	\$37.54	\$120,128	3.78%
			<b>Total Equity</b>	\$3,127,052	98.43%
			<b>Cash</b>	\$50,000	1.57%
			<b>Total Portfolio</b>	\$3,177,052	100%

Note: Price data as of 12/5/2008



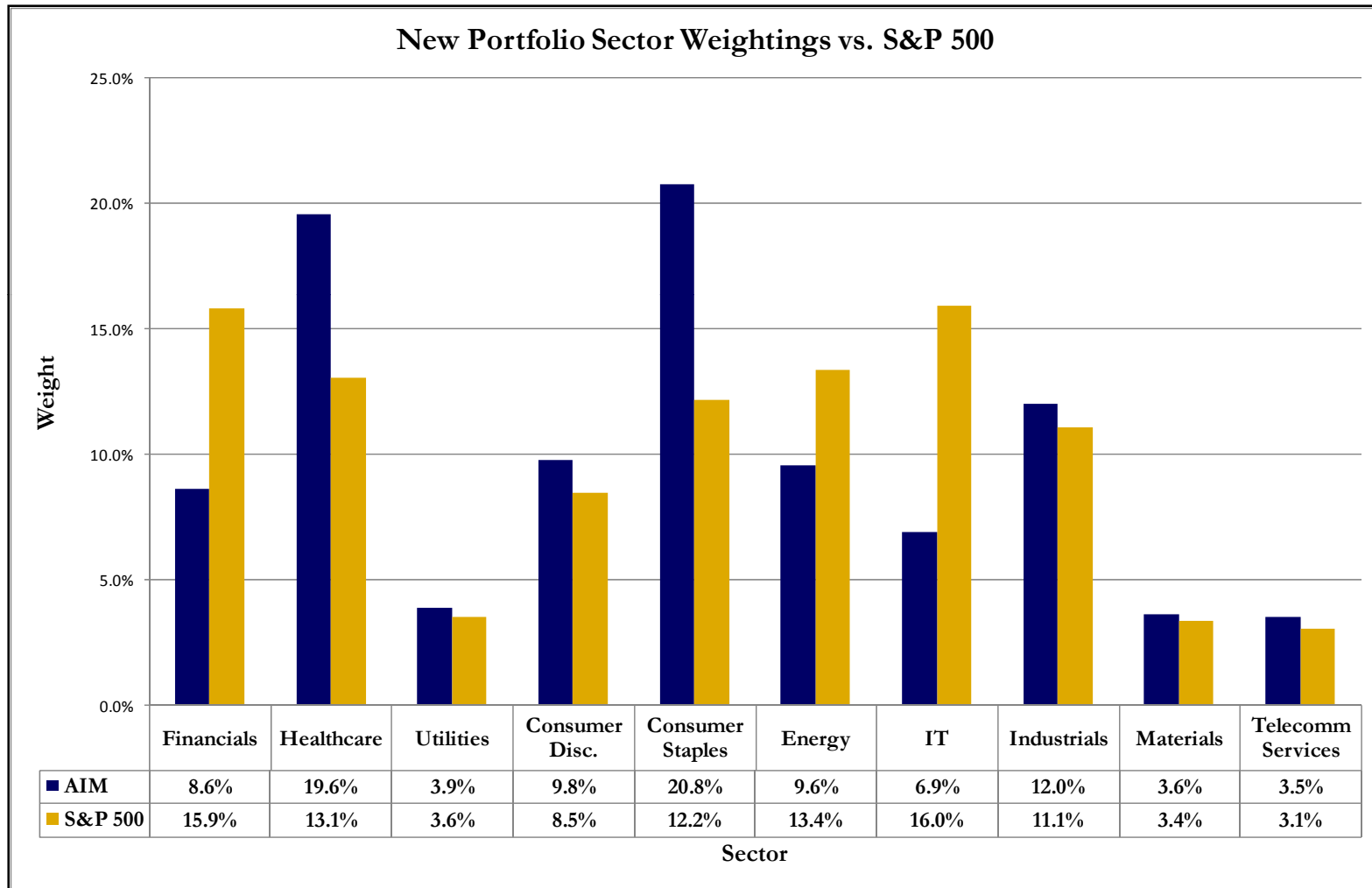
# New Portfolio - Capitalization

- Portfolio slightly out of line with policy objective of 65% Large Cap, 35% Small/Mid Cap
- Divergence due to the shift to Mid Cap classification of 3 portfolio companies





# New Portfolio - Weightings





# General Information



# Chicago Trip

---

- **William Blair & Co.**

- Hosted by Dan Connolly & Brendan Gibney
- Insight into investment banking and the lifestyle of a William Blair analyst

- **Bain & Co.**

- Hosted by Kim Anderson
- Explanation of the work of a consulting firm and insight to the lifestyle of a Bain associate
- Analysts discussed why they chose Bain and what exit opportunities it presents



# Chicago Trip

---

- **Madison Dearborn Capital Partners**

- Hosted by Pat Eilers
- Explained the process of an LBO using examples of Madison Dearborn transactions

- **Greenfield Partners**

- Hosted by Dean Sotter
- Insight into real estate investing, recommending a skeptical outlook on “popular” new areas

- **Alliance Capital**

- Hosted by Joe Elegante
- Discussed AIM analysts’ individual stocks and gave opinions on the future outlook of those companies





# New York Trip

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## ■ Credit Suisse

- ❑ Hosted by Kristen Boyd
- ❑ Discussion of the housing crisis, the process of buying defaulted mortgages, and details about home foreclosures

## ■ Maverick Capital

- ❑ Hosted by Matt Kinsella
- ❑ Explained how to use common sense rules while investing
- ❑ Engaged AIM analysts in discussions about technological stocks

## ■ Perry Capital

- ❑ Hosted by Richard Perry
- ❑ Detailed his grim outlook on the economy
- ❑ Discussed the necessity of government aid to auto industry



# New York Trip

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## ■ Tiger Asia

- Tim Keller
  - Christian pastor and author
  - Discussed how to incorporate faith into one's career
- Julian Robertson
  - Explained the simplicity of value investing
- Bill Hwang
  - Presented his unsuspecting career path that led him to Tiger Asia

## ■ Viking Capital

- Hosted by Jim Parsons
- Explained importance of accurate valuations
- Presented personal examples of unexpected stock price movement



# Selected Class Speakers

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- **Doug Kimmelman of Energy Capital Partners**
    - ❑ Career Advice- choose an industry that interests you and know it better than anyone
    - ❑ Innovative thinking about alternative energy and “storing” energy
    - ❑ Urged Notre Dame to become energy independent
  
  - **Todd Martin of Martin Capital Management**
    - ❑ Discussed value stock picking
    - ❑ Only invest in businesses you understand
    - ❑ Stressed importance of an honest and informative relationship with his clients
-



# Selected Class Speakers

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- **Paul Roberts of Schweitzer-Mauduit**

- Presented a spin-off case study of Schweitzer-Mauduit from Kimberly Clark
- Discussed the complexity of this venture, including financial, legal, employment, and geographic decisions

- **Michael Neus of Perry Capital**

- Detailed his role as general counsel for Perry Capital
- Shared his perspectives on the importance of hedge funds amidst SEC hearings, G7 meetings, and the financial bailout



# Newsletter

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## ■ Objectives

- ❑ Allows AIM alumni to stay up to date
- ❑ Provides quarterly overview of current portfolio

## ■ Current newsletter points of interest

- ❑ New portfolio as of 11/24/08
- ❑ Description of new stocks
- ❑ AIM alumni updates
- ❑ New York trip review
- ❑ Quick economic snapshots
- ❑ AIM XXVII analysts' future plans



# AIM Contact Information

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## Website

<http://aim.nd.edu>

## Email Address

[aim@nd.edu](mailto:aim@nd.edu)



# Thank You

---

AIM Advisory Board

Scott Malpass

Frank Reilly

Jerry Langley

Ed Trubac

The Notre Dame Investment Office

Rachel Karnafel

*Please join us for pizza!*