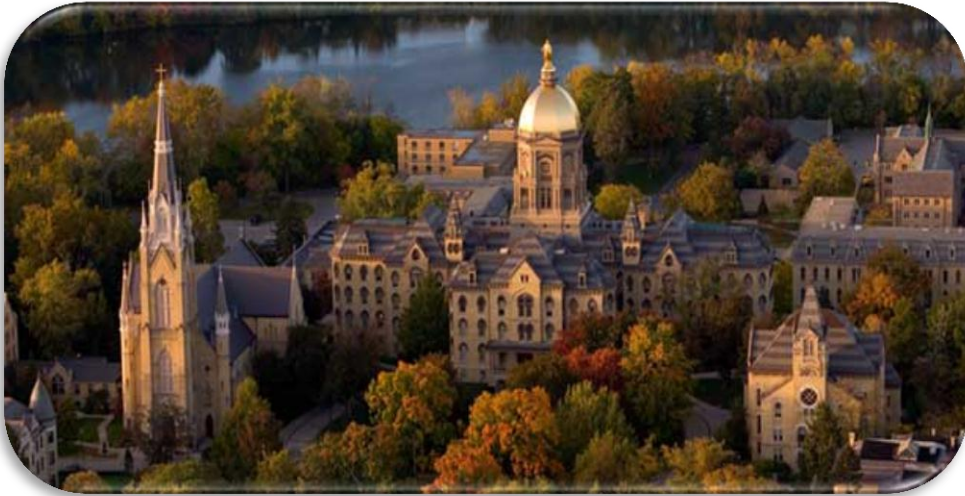


# AIM QUARTERLY



## Greetings from AIM XXXV

Hello from a revitalized campus!

The Irish are back!

As the third quarter of 2012 is ending, Professors Jerry Langley and Frank Reilly continue to lead a group of 27 undergraduate analysts in managing the AIM portfolio. First round valuations of securities are winding down and each analyst is choosing a second stock for the second round. AIM XXXV recently went to Chicago for a class trip and the class is looking forward to its trip to New York City in November.

*"It's a group that understands that they've got an opportunity to do something really big" -Brian Kelly*

Quarter 3, Fall 2012

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# Economic Outlook: An AIM Perspective

## *GDP*

In late August, the government revised its 2012 Q2 GDP growth rate to 1.7% after a previous estimate of 1.5%. The revision was due to better-than-expected net exports, along with a minor uptick in personal consumer spending. Despite this upward revision, the post-Recession expansion following the 2007-2009 lows is the slowest since the 1980-81 period. Some of the major causes for this sluggish growth are government spending cuts, higher scheduled taxes in 2013 and affects from the European debt crisis. Consumer spending, which accounts for about 70% of the US economy, dragged on the Q2 GDP growth with a 1.7% increase compared to a 2.4% growth in Q1. Much of this slowdown is attributed to a reluctance to purchase automobiles with an uncertainty over jobs and income levels.

In September 2012, the Federal Open Market Committee (FOMC) met and modestly increased their 2013 and 2014 estimates. GDP growth in 2013 is expected to range between 2.5% and 3%, while estimates for 2014 project GDP at 3% to 3.8%. This is based upon central tendency estimates that exclude the three highest and three lowest of the 19 committee member estimates. This lack of growth has forced Chairman of the Federal Reserve Ben Bernanke to initiate an open ended QE3 which is going to purchase mortgage-backed securities at the rate of \$40 billion a month. In the recent meeting, Bernanke stated this program is designed to promote strong economic growth along with maintaining an inflation rate consistent with government mandates.

## *Consumer Sentiment*

Consumer sentiment measured using the University of Michigan / Thomson Reuters Consumer Confidence index continues its rise upward. The index jumped up 4.9 points to 79.2 from August to September. This 37% increase, or 21.4 point index increase from September 2011, was the second highest reading of the year. Recent index gains were attributable to consumers' more favorable outlook on their financial situation (reduction in their outstanding debt) along with deeper price discounts and continued historically low interest rates. At current levels, confidence is at a level not seen since January 2008 and looking forward, the consumer seems reinvigorated.

Current issues weighing on consumer sentiment are uncertainty regarding the fiscal cliff and who will face increased taxes and lower government spending. There is also worry about a decrease in spending among all workers with the discontinuation of the payroll tax cuts in January. These headwinds represent a drag on the consumer, which is about two-thirds of the economy, and may reverse the recent gains in the index.

## *Housing*

The housing market as a whole appears to be on a slow recovery path. On the positive front, The Case-Shiller 20-city seasonally adjusted home price index gained 0.9% over the June prices, with the year-over-year non-seasonally adjusted rate up 0.5%, the first uptick in almost two years. New home sales continued to tick up 3.6% from June to 372,000 with supply down to 4.6 months compared to 6.7 months one year ago. Existing home sales were up in August, 7.6% month-on-month

and 9.3% year-over-year. Supply on the market is at 6.1 months at the current August sales rate, down from 6.5 months in June and significantly down from the 9.3 months one year ago when the market was saturated with distressed properties. One headwind is August housing starts, with the actual 750,000 starts coming in below expectations of 768,000. Single-family homes led the increase with a gain of 5.5%, partially offset by a decline of 4.9% in the multi-family component. On the monetary policy side, the Fed recently announced a new open-ended easing program, QE3, adding an additional \$40B in mortgage backed securities (MBS) purchases, bringing the total to \$85B per month. This should theoretically continue to decrease mortgage rates given the strict underwriting standards climate.

## *Inflation*

In August 2012, the US Bureau of Labor Statistics reported an increase of 0.6 percent in the Consumer Price Index for All Urban Consumers (CPI-U) on a seasonally adjusted basis. Over the last twelve months, the all time index increased 1.7 percent before seasonal adjustment. The indexes for food, energy, and all items less food and energy all increased in August. The gasoline index continued to rise by 9 percent, and accounted for over 80 percent of the increase in the energy index. The index for all items less food and energy has risen 1.9 percent over the last twelve months and the index for shelter rose 2.1 percent over the same period. The apparel index has risen 2.1 percent, the medical care index rose 4.2 percent, and the index for new vehicles has risen 1.0 percent for the last 12 months.

## *Employment*

In August 2012, the unemployment rate dropped from 8.3% to 8.1% as nonfarm payroll employment rose by 96,000. Nonfarm payroll employment has risen by an

average of 139,000 per month this year, inferior to the 153,000 average in 2011. The main sectors of growth were the food, healthcare, and professional and technical industries. The largest decline in jobs was in the manufacturing industry, which was down 15,000, offset by a 28,000 worker increase in food services and drinking places. The unemployment rate drop seems to be misleading however as it was mainly due to the decrease in the amount of people looking for jobs. With a labor force participation rate of 63.5%, the percentage of people in the workforce fell to its lowest level in 31 years. Some of the concern for this jobs report comes from the source of new jobs, where higher-level income jobs are being cut, with added positions being created in lower-level fields. In a recent September 2012 meeting, Fed officials estimated unemployment will average between 7.6% and 7.9% over the last 3 months of the year, adjusted from the 7.5% to 8% prediction in June. The unemployment rate will be a key issue for the upcoming election as no President since Franklin D. Roosevelt has been re-elected with a jobless rate above 8 percent.

## *Alumni Updates*

### *Valerie Lee, AIM XV*

Valerie is a Senior Director at Apollo Global, a joint venture between Apollo Group Inc. and the Carlyle Group focused on acquiring education assets. She has been with the group for four years and is focused on the international higher education sector. Valerie started her career in IB with Houlihan Lokey, and then moved to the private equity team of Allied Capital. She recently moved to Manhattan from Chicago and is getting married next May. She is truly thankful for her AIM experience, which has provided opportunities and opened doors in every step of her career.

## *Ryan Shestak, AIM XXVIII*

Upon graduation, Ryan worked as an Investment Banking analyst in the European Industrials Group of Bank of America Merrill Lynch in London for 2.5 years. This month, he will start his next job in finance with the Global Equities group of Citadel covering European Industrials stocks. Ryan will remain based in London. In his free time, he is an avid traveler who, over the past 2.5 years, has visited cities throughout Asia, Africa, Europe and North America, having taken over 60 days of vacation while at Bank of America Merrill Lynch.

## *Ty DeBoer, AIM XXXI*

Ty is currently a 2nd year investment banking analyst at Credit Suisse in Chicago focusing on diversified industrials and business services. Next year Ty will be going to work at Watershed Asset Management in San Francisco. Watershed is an alternative investment firm that focuses on the debt and equity securities of companies, industries, and assets that are inefficiently held or financed, undergoing change, or misunderstood. In his free time, Ty actively assists under-privileged communities in the Chicago area with financial planning.

## *John Sherman, AIM XVII*

John currently works at DDJ Capital Management as a Senior Research Analyst overseeing healthcare, media and business services investments. DDJ Capital is a high yield and special situation investment manager with approx. \$4 bn of assets under management. Before joining DDJ, he worked at Thoma Cressey Equity Partners and Citigroup Global Investment Banking both within their healthcare groups.

# Portfolio Performance: The AIM Advantage

## *Benchmark Comparison*

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

## *Portfolio Attribution Analysis*

For time periods of one year or less, the AIM portfolio's superior performance to the S&P 500 is largely attributed to the selection effect. The selection effect shows the value added by choosing securities that outperform the benchmark at each sector level, while the allocation effect shows the comparative value added by over or underweighting sectors relative to benchmark. For all time periods, the selection effect still dominates the allocation effect, but allocation in sectors such as the underweighting of financials contributed more to the net management effect for three and five year time horizons. The selection effect contributing more to the portfolio's performance is a testament to the AIM analysts' abilities to properly value companies and choose stocks.

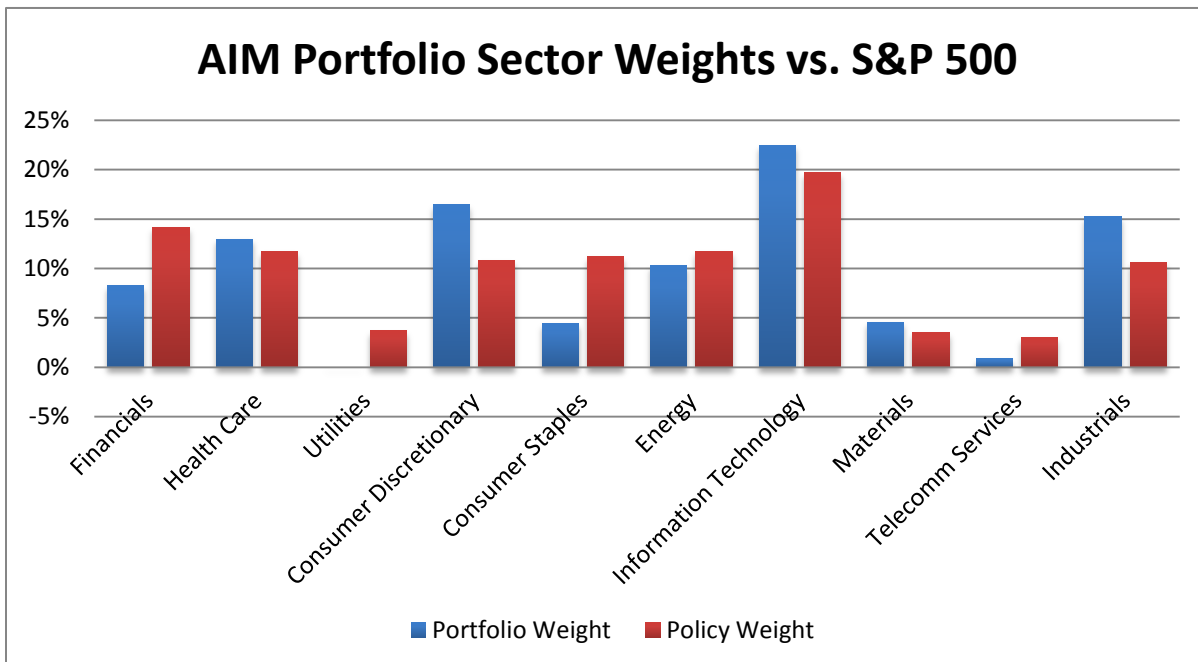
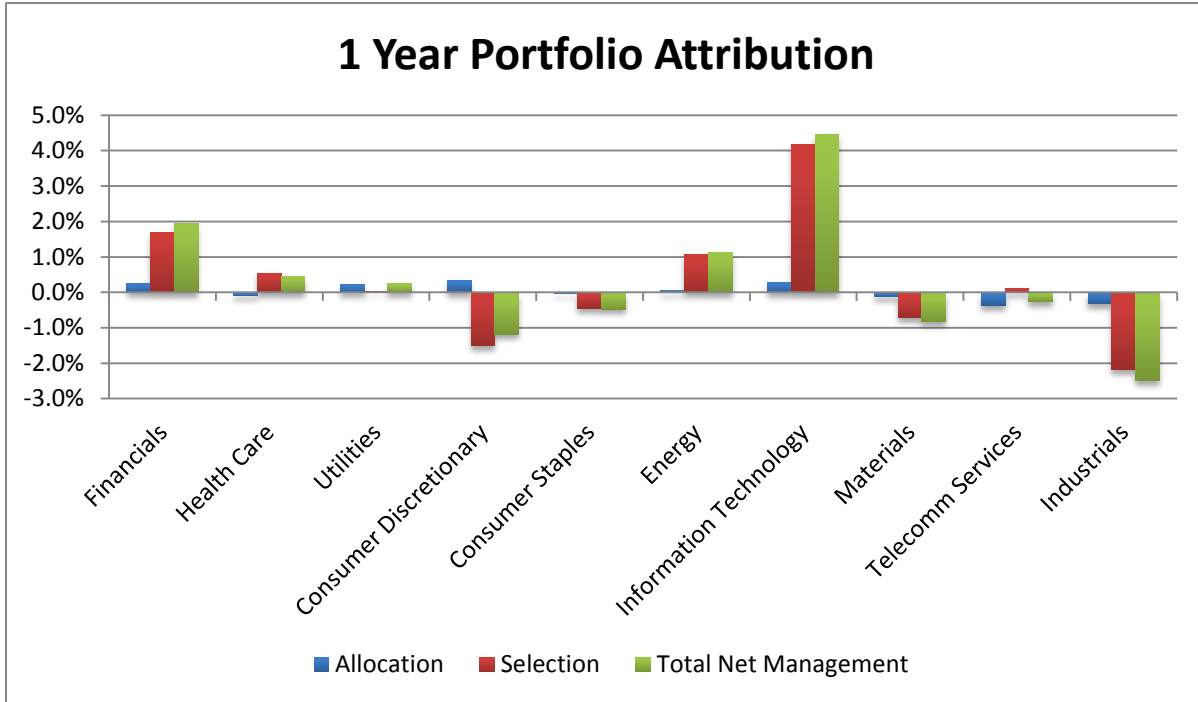
## *Portfolio Positions*

The AIM portfolio's composition is listed on the following page. Its largest positions are Discover Financial Services at 4.97% and eBay at 4.82%. The smallest holdings are Potash at 3.06% and Caterpillar at 3.18%. Potash currently has the largest unrealized loss in the portfolio.

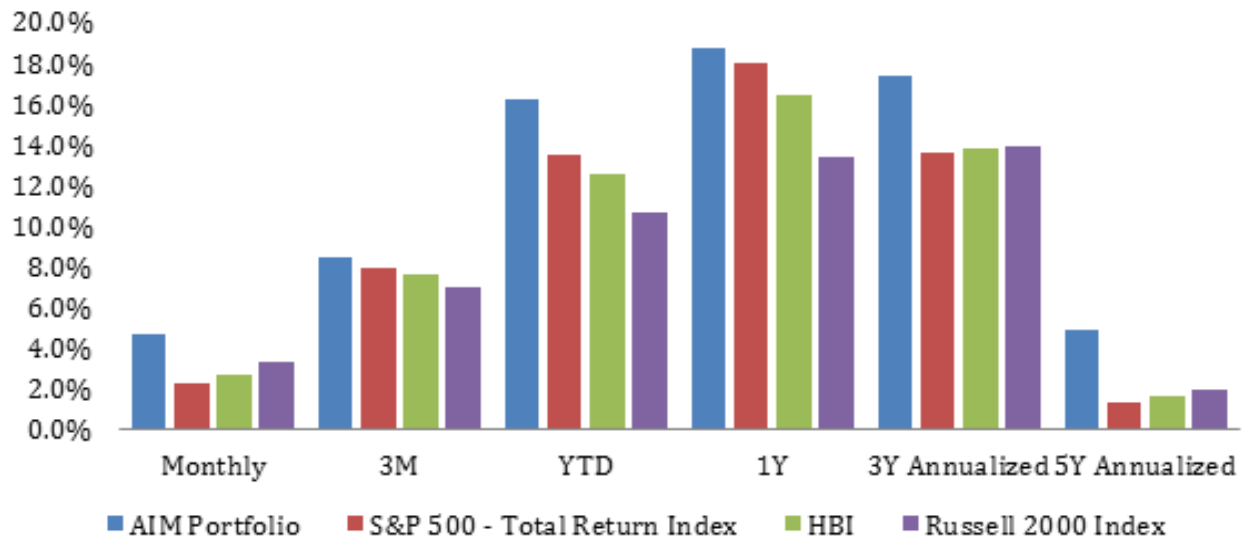
## Sector Allocation

The AIM portfolio uses the S&P 500 as an overall benchmark. The graph on the next page shows the portfolio's allocation by sector. Information technology stocks comprise the largest portion of the portfolio, as a result of the perceived growth potential for many firms in the industry. Industrials are also

weighted higher than the benchmark, but the AIM portfolio's selections have historically underperformed in that sector. Utilities and telecomm have historically been very small positions in the portfolio, due to both perceived lack of growth potential and being less interesting businesses to evaluate in those sectors.



## AIM Portfolio vs. Major Indices



Holding	Ticker	Shares	Price (\$)	Market Value	% of Portfolio
Activision Blizzard	ATVI	21,000	\$11.76	\$246,960.00	3.69%
Aerovironment	AVAV	10,600	\$23.86	\$252,916.00	3.77%
Alliant Techsystems	ATK	4,600	\$48.99	\$225,354.00	3.36%
Apple	AAPL	400	\$665.24	\$266,096.00	3.97%
CarMax	KMX	7,900	\$30.59	\$241,661.00	3.61%
Caterpillar	CAT	2,500	\$85.33	\$213,325.00	3.18%
Chevron	CVX	2,250	\$112.16	\$252,360.00	3.77%
Coca-Cola	KO	6,200	\$37.40	\$231,880.00	3.46%
Continental Resources	CLR	3,200	\$74.06	\$236,992.00	3.54%
Cummins	CMI	2,400	\$97.11	\$233,064.00	3.48%
Dick's Sporting Goods	DKS	4,900	\$49.76	\$243,824.00	3.64%
Discover Financial Services	DFS	8,600	\$38.73	\$333,078.00	4.97%
Dollar Tree	DLTR	5,000	\$48.17	\$240,850.00	3.59%
eBay	EBAY	6,800	\$47.47	\$322,796.00	4.82%
Flowserve Corp	FLS	2,300	\$127.66	\$293,618.00	4.38%
Gilead Sciences	GILD	5,500	\$57.69	\$317,295.00	4.74%
Google	GOOG	340	\$685.09	\$232,930.60	3.48%
Halliburton	HAL	7,500	\$32.76	\$245,700.00	3.67%
KeyCorp	KEY	28,000	\$8.43	\$236,040.00	3.52%
Lab Corp	LH	2,500	\$87.95	\$219,875.00	3.28%
PNC Financial Services	PNC	4,300	\$62.16	\$267,288.00	3.99%
Potash	POT	5,000	\$41.07	\$205,350.00	3.06%
Qualcomm	QCOM	4,100	\$61.46	\$251,986.00	3.76%
Teradata	TDC	4,000	\$76.38	\$305,520.00	4.56%
UnitedHealth Group	UNH	4,800	\$54.30	\$260,640.00	3.89%
Williams-Sonoma	WSM	6,900	\$41.02	\$283,038.00	4.22%
iShares Dow Jones US Financial	IYF	45	\$56.94	\$2,562.30	0.04%
SPDR S&P 500 ETF Trust	SPY	50	\$141.16	\$7,058.00	0.11%
Proshares Short S&P 500	SH	70	\$35.06	\$2,454.20	0.04%
Cash				\$27,421.66	0.41%
<b>Total</b>				<b>\$6,699,932.76</b>	<b>100.00%</b>

Data as of August 31, 2012.

## September 10-11<sup>th</sup> Chicago Trip

On September 10, the AIM class traveled to Chicago. We arrived at the Palmer House Hilton that afternoon and then moved on to Maggiano's Little Italy for dinner. At dinner we had the great fortune of being able to meet with about 40 AIM Alumni who shared their Notre Dame and industry experiences with the class. At the end of the dinner, the Alumni took turns speaking to the class and giving a few words of advice about the AIM class, the finance industry, and life in general.

The following day, we visited several firms. Our first meeting was with David Koo from RoundTable HealthCare Partners. David was kind enough to walk us through the investment process his firm undertakes when looking at an opportunity as well as share some of his past experiences in the private equity industry. We then moved on to visit Roxanne Martino at Aurora Investment Management. Roxanne explained to the

class about the in-depth process her firm uses to assess potential managers and the variety of investment strategies her firm employs including fixed income, long-short equity, real estate, and private equity. After Aurora, we then visited Sam Zell and Gary Garrabrant at Equity International. Sam was kind enough to talk to the class about some of his past experiences and his perspective on life. We then heard from Gary who spoke to us about international real estate investments and some exciting new prospects in emerging markets. Our last stop was the Notre Dame executive MBA classroom in the Santa Fe building where we heard from Mat Klody about his new long-short equity fund MCN Capital. Mat walked us through his investment philosophy and then took the time to give each class member advice on their portfolio stock. AIM XXXV had a great trip to Chicago and is extremely grateful to everyone who contributed to its success.



# AIM XXXV Class Profile

Name (Last Name, First Name)	Hometown	Email	First Stock	Summer Employment	Next Year Plans
<b>Asuncion, Justin</b>	Omaha, NE	jasuncio@nd.edu	AeroVironment (AVAV)	Goldman, Sachs & Co. (IBD)	Goldman, Sachs & Co. (IBD)
<b>Barnes, Justin</b>	Los Angeles, CA	jbarnes7@nd.edu	Activision Blizzard (ATVI)	Spotlight Funds	Undecided
<b>Beres, Sam</b>	Brookfield, WI	sberes@nd.edu	Apple, Inc. (AAPL)	McGladrey LLP (Valuation Consulting)	Undecided
<b>Cameron, John</b>	Rolling Meadows, IL	jcameron2@nd.edu	Caterpillar (CAT)	William Blair (IBD)	William Blair (IBD)
<b>Cappello, Shawn</b>	Monmouth Beach, NJ	scappell@nd.edu	Cummins (CMI)	Credit Suisse (IBD)	Credit Suisse (IBD)
<b>Charnesky, Andrew</b>	Grosse Pointe, MI	acharnes@nd.edu	Harley-Davidson (HOG)	Goldman, Sachs & Co. (IBD)	McKinsey & Company (BA)
<b>Cochran, Michael</b>	Oceanside, NY	mcochra3@nd.edu	Chevron (CVX)	Barclays (IBD)	Barclays (IBD)
<b>Cox, Adam</b>	New Palestine, IN	acox6@nd.edu	PNC Financial Services Group (PNC)	BlackRock (HY FI)	BlackRock (HY FI)
<b>Crow, Robert</b>	Champaign, IL	rcrow@nd.edu	LabCorp (LH)	Citigroup (IBD)	Undecided
<b>Donnelly, Michael</b>	Rochester, NY	mdonnel7@nd.edu	Halliburton (HAL)	Constellation Brands, Inc.	Undecided
<b>Draime, Alex</b>	Warren, OH	ddraime@nd.edu	Google Inc. (GOOG)	Citigroup (IBD)	Citigroup (IBD)
<b>Elizondo, Alberto</b>	Monterrey, Mexico	aelizond@nd.edu	Qualcomm (QCOM)	Goldman, Sachs & Co. (IBD)	Undecided
<b>Holenstein, Bradley</b>	Newton, NJ	bholenst@nd.edu	Potash Corp (POT)	Blackstone (Advisory M&A)	Blackstone (Advisory M&A)
<b>Kimball, Alex</b>	St. Paul, MN	akimball@nd.edu	Dick's Sporting Goods (DKS)	Deutsche Bank (IBD)	Undecided
<b>Lavelle, Chad</b>	Louisville, KY	clavell1@nd.edu	UnitedHealth Group (UNH)	Lazard	Undecided
<b>Marek, Joseph</b>	St. Paul, MN	jmarek1@nd.edu	eBay (EBAY)	Morgan Stanley (S&T FI)	Morgan Stanley (S&T FI)
<b>Rampino, Joseph</b>	Long Beach, CA	jrampino@nd.edu	Continental Resources (CLR)	HFP Capital Markets (IBD)	Undecided
<b>Rocheleau, Brett</b>	Naperville, IL	brochele@nd.edu	Flowserve (FLS)	Credit Suisse (IBD)	Credit Suisse (IBD)
<b>Roesch, Matt</b>	West Chester, OH	mroesch1@nd.edu	Discover Financial Services (DFS)	Credit Suisse (IBD)	Credit Suisse (IBD)
<b>Rossetto, Matt</b>	Frankfort, IL	mrossett@nd.edu	Williams-Sonoma (WSM)	William Blair (Operations)	Undecided
<b>Schmitz, Adam</b>	Highlands Ranch, CO	aschmit2@nd.edu	Dollar Tree (DLTR)	Robert W. Baird (Equity Research)	Robert W. Baird (Equity Research)
<b>Si, Richard</b>	Montreal, Quebec	rsi@nd.edu	CarMax (KMX)	Deutsche Bank (IBD)	Undecided
<b>Smith, Tyler</b>	Carlisle, MA	tsmith25@nd.edu	ATK	Eaton Vance (Equity Research)	Eaton Vance (Equity Research)
<b>Thomas, Michael</b>	St. Clair Shores, MI	thomas.268@nd.edu	Teradata Corporation (TDC)	Morgan Stanley (IBD)	Morgan Stanley (IBD)
<b>Tompkins, Allison</b>	Jackson, MI	atompki1@nd.edu	Gilead Sciences (GILD)	Barclays (IBD)	Morgan Stanley (IBD)
<b>Vander Linde, Alex</b>	Hinsdale, IL	avanderl@nd.edu	Coca-Cola (KO)	Greenhill (IBD)	Greenhill (IBD)
<b>Welcenbach, Erin</b>	Menomonee Falls, WI	ewelcenb@nd.edu	KeyCorp (KEY)	Eaton Corp.	Undecided