
AIM QUARTERLY



Credit : University of Notre Dame

QUARTER 2, SPRING 2013 In This Issue

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Greetings from AIM XXXVI

The AIM XXXVI analysts recently voted on their changes to the portfolio. After an in depth discussion, we chose to hold 12 stocks, sell 13, and buy 13. Additionally, we decided to enter a long position in a Mexico ETF and short in a Japanese ETF. The analysts are currently busy preparing for the Advisory Board presentation, which will take place on April 29.

The class recently took a trip to Chicago, meeting with AIM alumni and visiting with various professionals around the city (Page 5). As we look ahead to graduation, we would like to thank Professors Langley, McDonald, Reilly, and Trubac, as well as Scott Malpass and the Investment Office. They have truly made our AIM experience one to remember.

“An investment in knowledge pays the best interest.” – Benjamin Franklin.

Economic Outlook: An AIM Perspective

GDP

In late March, the Bureau of Economic Analysis (BEA) released its final report on fourth quarter GDP growth. The report concluded that GDP increased 0.4% from the third quarter which, while weak, is better the previous estimate of an increase of 0.1%. The revision was driven by higher nonresidential fixed income than previously estimated. The BEA noted that the final GDP estimate has not altered the general picture of the economy. The Congressional Budget Office (CBO) projects GDP growth of 1.4% in 2013 and stronger growth of 3.4% to 3.6% in 2014-2018.

The increase in real GDP in the fourth quarter primarily reflected positive contributions from personal consumption expenditures (PCE), nonresidential fixed investment, and residential fixed investment that were partly offset by negative contributions from private inventory investment, federal government spending, exports, and state and local government spending. Imports, which reduce GDP, decreased.

CONSUMER SENTIMENT

On March 26th the Conference Board reported that the consumer confidence index, which had improved to 68.0 in February, declined to 59.7 in March (the index is benchmarked to 1985 = 100). The index had steadily fallen from 72.2 in November to a low of 58.6 in January before climbing in February. This most recent decline was driven by declines in both expectations and the assessment of current conditions. The recent sequester has created uncertainty regarding the economic outlook and lessened consumer confidence. Consumer appraisal of current and future business conditions declined and views on the current and future labor market were mixed.

HOUSING

The Fed reported in its March meeting that conditions in the housing sector have continued to improve but construction activity remains at a

relatively low level, constrained by tight credit standards for mortgages. In their April report, the National Association of Realtors found that existing home sales for the fourth quarter of 2012 were up 12% from the fourth quarter of 2011. Through January the S&P/Case-Shiller 20-City Composite showed home price increases of 8.1% for the prior twelve months; prices rose in all 20 of the cities within the index but still remain 28.4% lower than summer 2006 peaks.

According to the U.S. department of Housing and Urban Development, privately-owned housing starts in February were at a seasonally adjusted annual rate of 917,000, a .8% increase from the revised January estimate of 910,000 and a 27.7% increase above the February 2012 rate of 718,000. Single-family housing starts in February were at a rate of 618,000, .5% above the revised January figure of 615,000. Housing inventory remains at its lowest levels of the past decade, supporting the Fed's observation of a disparity between home sales and construction of new homes. National housing inventory has increased 2.36% from February to March, but remains 15.22% lower than March 2012. Additionally, the median age of inventory decreased 20.41 percent from February to March; the average amount of time that houses stay on the market is 78 days.

Mortgage rates remain at historic lows. Though rates had been rising steadily since October 2012, increases in 2013 were erased in early April. The average rate on a 30-year mortgage has fallen to 3.43%, up from the all-time lows of 3.35% in the fall of 2012, but down from the March 2013 average of 3.57%. Mortgage delinquencies are declining; 10.8% of single-family homes are either past 30 days due or in foreclosure as of December 2012, down from a peak of 14.7% in 2010.

The Fed’s influence on the housing sector remains a large uncertainty going forward. The Fed has stated that they will continue their highly accommodative monetary policy, specifically QE3, and it is currently purchasing \$40 billion of agency mortgage backed securities and \$45 billion of long-term treasury securities every month. Speculation on the ending of QE3 ranges from mid-2013 to early 2014. The program continues to support the mortgage market and the impact that the program’s ending will have remains to be seen.

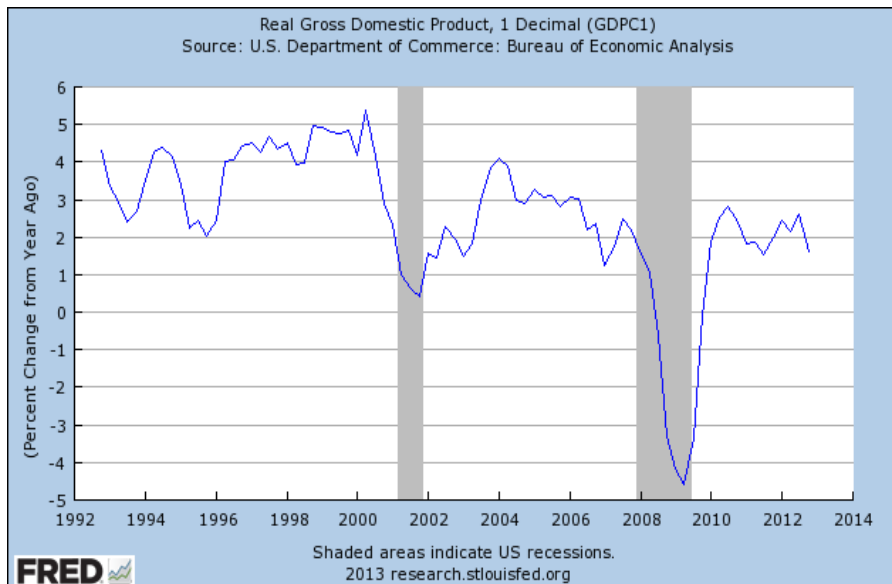
INFLATION

Inflation continues to run at or slightly below the Fed’s mid-term target of 2%. The U.S. Bureau of Labor Statistics reported that the Consumer Price Index for all Urban Consumers increased .7% in February on a seasonally adjusted basis after being unchanged in January. Over the last 12 months, the “all items” index increased 2.0% before seasonal adjustment. The February price increase was driven largely by a 9.1% rise in the gasoline index and to a lesser extent by rises in the indexes for electricity, natural gas, and fuel oil. These gains led to a 5.4% increase in the energy index. The Fed stated in its March minutes that increases in gasoline prices did not appear to pass through to prices of other goods. As of February, the food index had increased .1%

from January and the index for all items less food and energy increased .2%.

EMPLOYMENT

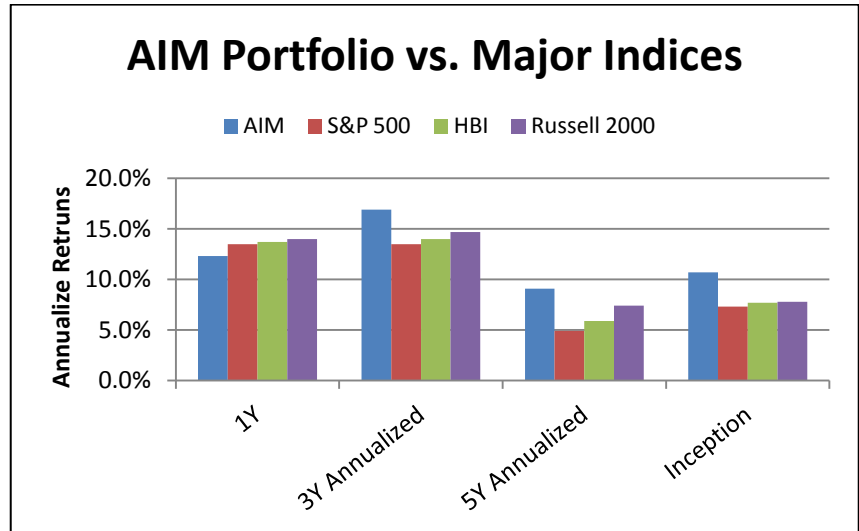
The U.S. Bureau of Labor Statistics reported an expansion of nonfarm payrolls by 88,000 in March (lower than the 12 month average increase of 169,000 per month) and an unemployment rate of 7.6%, down only slightly from 7.7% in February. The Fed continues to expect unemployment levels to vary between 7.4% and 7.7% in 2013. The civilian labor force declined by 496,000 over the month, and the labor force participation rate decreased .2 percentage points from February to 63.3%. Additionally, the percentage of unemployed who have been unemployed for 27 weeks or more remains high—39.6%, down from 40.2% in February. Employment levels rose in professional and business services, health care, construction, and leisure and hospitality and fell in retail trade equipment and government positions (due almost entirely to job losses in U.S. Postal Service). Spending on non-military goods, excluding aircraft, grew 9.8% from November to January, the largest three month increase since 1993. This metric has often been interpreted as an indicator of future business spending and may be a sign of corporations tempering their reluctance to spend cash reserves. Whether this will positively translate to increases in hiring remains to be seen.



Portfolio Performance: The AIM Advantage

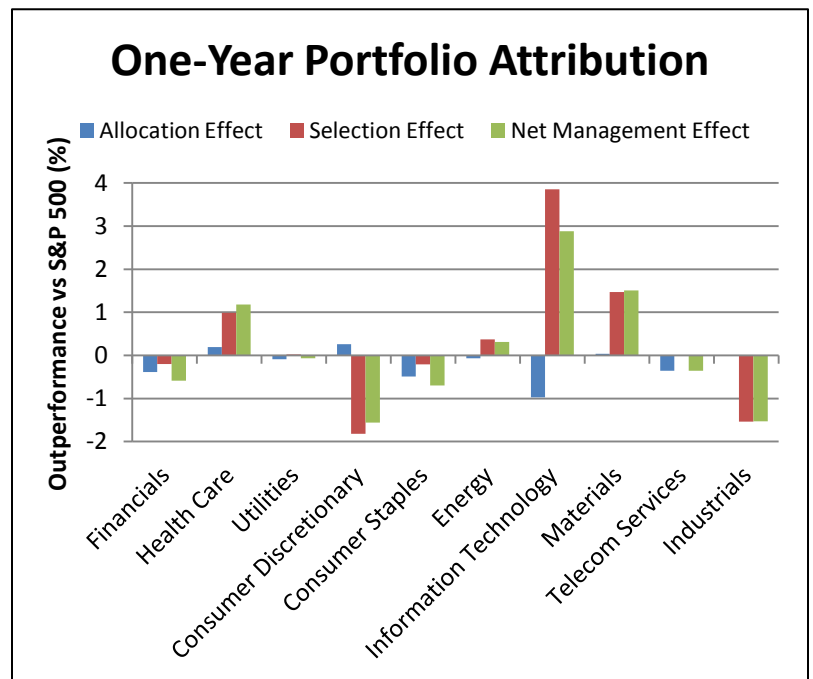
BENCHMARK COMPARISON

The AIM portfolio continues to outperform its benchmarks: the S&P 500, Russell 2000, and HBI (65% S&P 500, 35% Russell 2000) over its long-term horizon (at least three years). Since inception (January, 1996), the AIM portfolio has returned a 10.7% annualized compounded return compared to 7.3% to 7.8% over the same period for the benchmarks.



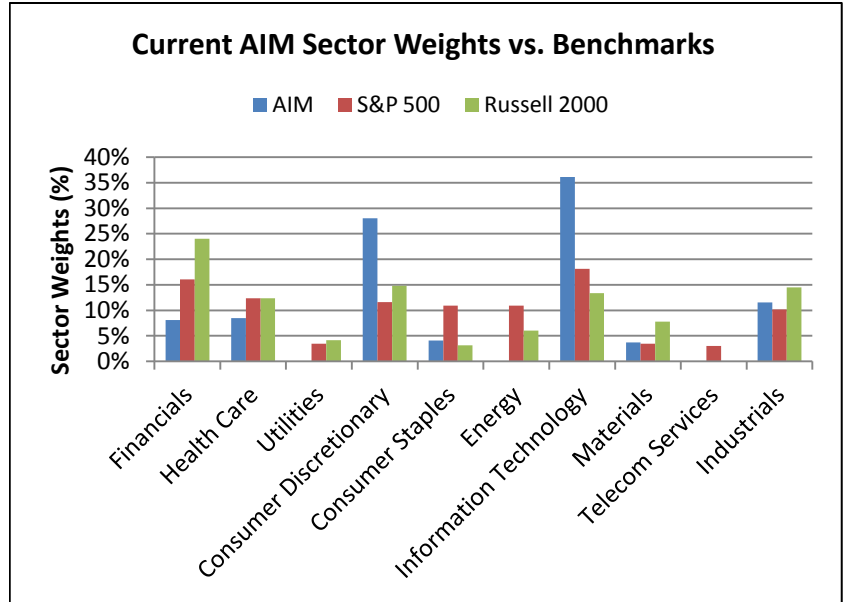
PORTFOLIO ATTRIBUTION ANALYSIS

Over the past one year, the AIM portfolio's largest contributor to outperformance has been in the information technology space, driven by selection effect (with allocation effect acting as a drag on performance). The portfolio's most problematic sector has been consumer discretionary, in which we have seen a net management effect of -1.6%. We note a positive net management effect in four out of the ten sectors in which the AIM portfolio is invested over the past one year. However, this jumps to nine out of ten when looking at the portfolio on a five-year time horizon, with industrials as the only sector in which the net management effect has been negative.



SECTOR ALLOCATION

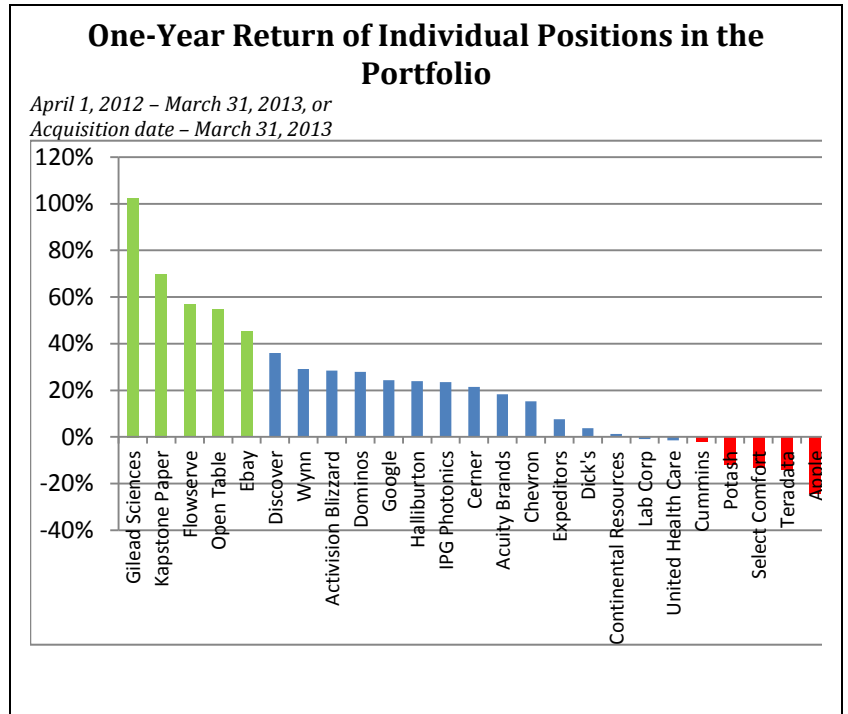
The AIM portfolio seeks to benchmark the S&P 500 and the Russell 2000, but sector allocations between the portfolio and the two benchmarks vary over time. Currently the portfolio is overweighted in the Information Technology, and Consumer Discretionary sectors. The AIM portfolio is currently underweighted in Financials, Health Care Utilities, Consumer Staples, Energy, Materials, and Telecom. The Energy sector has seen the largest allocation drop in the past twelve months as the analysts elected to sell Chevron, Continental Resources, and Halliburton in the most recent round of stock selection.



PORTFOLIO POSITIONS

The largest holdings within the AIM portfolio are Activision Blizzard at 4.59% and Gilead Sciences at 4.52%. Teradata at 2.90% and Expeditors International at 3.58% are the smallest equity positions.

Seven of the positions generated a negative return over the last year (or since acquisition), with Apple (down 24.43%) and Teradata (down 14.12%) the worst performers. Four holdings returned over 50% in the same period; Gilead Sciences (up 102.36%) and Kapstone Paper (up 69.93%) are the top performers.



AIM XXXVI Chicago Trip

The AIM XXXVI class left balmy South Bend in the middle of the afternoon on Thursday, March 21st and headed west towards Chicago. The luxurious bus ride into the Windy City went by quickly as the opening round of the NCAA tournament was playing on the satellite TV on the bus. By the time we checked into the Westin in Chicago, most of our brackets had already been busted.

That night we were treated to a fantastic dinner at Maggiano's Little Italy. Current AIM analysts got the chance to meet and mingle with AIM alumni from years past living in the Chicago area. It was a great opportunity to network for the future as many business cards were exchanged. After dinner was served, everyone shared their current career path as well as the stocks they had to cover while they were in AIM. It was interesting to find out that a handful of companies have been through the portfolio multiple times over the years.

We were up bright and early on Friday morning to meet with Scott Meadow, an Associate Partner with Edgewater Funds and a Professor at the University of Chicago. Scott delivered a great presentation on how to meaningfully research and analyze various financial statement line items. He also then gave some great career advice on the different paths one could take to get into the private equity industry. Afterward, many of the AIM analysts requested a copy of his PowerPoint deck.

Our next meeting on Friday morning was with Dan Nettesheim, the CEO of Barcodes, Inc. Our time with Dan was impactful because after giving us his background, he quickly opened the floor for questions, and given his unique path to becoming CEO at a relatively young age, we did in fact have a lot of questions for him. Dan was able to shed some light on the challenges he has faced formulating, executing, and adapting strategy for Barcodes, Inc.

The third meeting of the day was with '88 Notre Dame grad Dan Reynolds, who currently is a Managing Director for LaSalle Investment Management, a subsidiary of Jones Lang LaSalle.

Dan had all of the AIM analysts introduce themselves and state their undergraduate college. Since his specialty is building and maintaining relationships with clients, Dan seemingly had a connection with every one of us in some form or another, a classic salesman. He then gave an insightful presentation about various real estate investment opportunities in the United States and around the world. Dan closed by describing the different investment vehicles that LaSalle offers to meet their clients' needs.

The final meeting on the Chicago trip was with '98 Notre Dame grad and AIM alum Matt Klody. After leaving Sheffield Asset Management in 2012, Matt founded MCN Capital, an intrinsic value focused long/short equity investment partnership. Matt walked us through the logic behind a handful of his long and short positions, which was valuable insight to those of us looking to get into the investment management world. He also then provided his thoughts on some of the companies currently in the AIM portfolio. Matt's presentation was a great capstone to the trip because a lot of what he covered is directly applicable to our upcoming portfolio selection process.

Ultimately the Chicago trip was a great success! We were treated to great speakers and received some really impactful advice. Perhaps most valuable, however, was getting to make numerous new personal connections. The AIM class would like to thank everyone involved for putting together a first rate experience for us. It was a trip we won't soon forget.



Portfolio Composition

HOLDING	TICKER	SHARES	PRICE	MARKET VALUE	% OF PORTFOLIO
Activision Blizzard	ATVI	21,800	\$15.18	\$330,924	4.24%
Apollo Group	APOL	16,600	\$17.57	\$291,662	3.73%
Apple	AAPL	800	\$449.98	\$359,984	4.61%
Bank of Internet	BOFI	8,000	\$39.47	\$315,760	4.04%
Cinemark	CNK	10,100	\$30.94	\$312,494	4.00%
Coach	COH	5,700	\$58.25	\$332,025	4.25%
ConAgra	CAG	8,200	\$35.66	\$292,412	3.74%
Corning Inc.	GLW	22,300	\$14.87	\$331,601	4.25%
Cummins	CMI	2,700	\$110.60	\$298,620	3.82%
Delphi Automotive	DLPH	7,100	\$45.74	\$324,754	4.16%
Diamondrock Hospitality	DRH	30,500	\$10.00	\$305,000	3.90%
Expeditors International	EXPD	7,400	\$37.11	\$274,614	3.52%
Gilead Sciences	GILD	6,200	\$55.15	\$341,930	4.38%
Google	GOOG	400	\$845.72	\$338,288	4.33%
Intel Corp	INTC	13,100	\$23.96	\$313,876	4.02%
InterActive Corp	IACI	6,600	\$48.22	\$318,252	4.07%
IPG Photonics	IPGP	4,600	\$58.48	\$269,008	3.44%
Joseph A. Banks	JOSB	7,200	\$44.05	\$317,160	4.06%
Microsoft	MSFT	10,100	\$33.49	\$338,249	4.33%
Potash	POT	7,000	\$42.22	\$295,540	3.78%
Select Comfort	SCSS	15,000	\$21.02	\$315,300	4.04%
Teradata	TDC	5,000	\$50.65	\$253,250	3.24%
Titan Machinery	TITN	13,300	\$22.61	\$300,713	3.85%
United Health	UNH	4,800	\$58.92	\$282,816	3.62%
Wynn Resorts	WYNN	2,500	\$138.80	\$347,000	4.44%
iShares MSCI Mexico Capped Instbl Mkt	EWV	70	\$72.56	\$5,079	0.07%
Proshares UltraShort MSCI Japan	EWV	250	\$20.77	\$5,193	0.07%
Total Portfolio				\$7,811,504	

Alumni Updates

Kyle Schneider, CFA (BBA '06, AIM XX)

Originally from Indianapolis, Kyle graduated in 2006 with a degree in Finance and joined the Global Proprietary Credit Group within Morgan Stanley. In this role, he focused on trading commercial mortgage-backed securities in a proprietary fashion as part of an analyst program. In June 2008, Kyle joined Cerberus Capital Management to help build a distressed commercial real estate investment platform. In 2013, after 4.5 years of investing across the capital structure in both US and global CRE markets for Cerberus, Kyle was promoted to Managing Director. He currently lives in the Battery Park area of Manhattan with his wife Nicole and Yorkshire Terrier Gizmo. Kyle spends his free time traveling, mentoring, leading an active lifestyle, and enjoying life with friends and family.

Viral Kothari, CFA (MBA '11, AIM XXXII)

Viral graduated from the MBA program in 2011 and began a Portfolio Associate position with PIMCO in Newport Beach, CA. In this role, Viral assists in portfolio management of PIMCO's Real Return Fund, which is managed by Mihir Worah and controls over \$110 billion, 2nd only to Bill Gross. While at the office, Viral enjoys running into Bill Gross and Mohamed El-Erian on the trading floor for some random but valuable musings. Prior to business school, Viral worked in proprietary trading with equity and commodity options at Flytrading, with the Credit Portfolio Group at JP Morgan, and with the Institutional Sales Group at Goldman Sachs.

David Young (MBA '12, AIM XXXIV)

David graduated from the MBA program in May of 2012 and returned to Lancaster Pollard, where he had spent the summer interning. As an Associate, David provides investment and mortgage banking services to Healthcare Facilities including providing FHA financing for hospitals, senior living, and affordable housing projects. David enjoys the unique approach Lancaster Pollard takes with its employees – one that allows first year Associates to quarterback each deal from engagement to closing. This doesn't just involve pitching or financial due diligence, but also a respectful amount of legal and covenant negotiation as well. In his free time, David enjoys spending time with his wife and two children, as well as grilling, hiking, and running.

Kevin Dunwoodie, CFA (BBA '99, AIM VII)

Kevin works in San Francisco as a Vice President for Pantheon acquiring secondary limited partnership interests in private equity funds. His role is to source, evaluate, structure, and execute transactions for Pantheon's \$3billion secondary fund. Prior to Pantheon, Kevin worked in firm strategy for Morgan Stanley, private equity advisory for Pacific Corporate Group and investment banking for Deutsche Bank. He completed his MBA from Harvard Business School in 2006 and lives in the East Bay with his wife (Karen) and 3 sons (Dean 5, Austin 3, Braden 1).

Chris Wiesehan (MBA '11, AIM XXXII)

Chris graduated from the MBA program in May of 2011 and began a position with Jordan/Zalaznick Advisers, a Chicago-based middle market private equity firm. After spending a little more than a year with the firm, Chris transitioned into a role with Triwater Holdings, a Chicago-based middle market private equity firm who works closely with Jordan/Zalaznick Advisers. In his role with Triwater Holdings, Chris focuses on investment due diligence, sourcing, and modeling for water treatment companies throughout North America. In his free time, Chris enjoys running, biking, and traveling.

Jared Feeney, CFA (BSBA '08, AIM XXV)

Jared is an Associate on the High Yield Credit Research team (sell-side) for J.P. Morgan in New York. He supports a Senior Analyst covering Healthcare and has been with the team for about two years. Last fall, Jared was excited to finally earn his CFA Charter. Prior to moving to New York from Chicago, Jared worked on the Institutional Sales team at J.P. Morgan Asset Management and was previously in the Leveraged Finance team at J.P. Morgan. He has enjoyed covering the Healthcare sector over the past couple years as reform in the U.S. takes shape, forcing his coverage universe to adapt to the new environment. Institutional Investor Magazine also has recognized Jared's healthcare team as one of the best on the Street for the past two years.

Rishi Sadarangani, CFA (MBA '97, AIM IV)

Rishi has 15 years of broad corporate finance and investment experience across a variety of roles encompassing both debt and equity asset classes and multiple industries. He joined Brown Brothers Harriman (BBH) Investment Management in 2011 as a senior research analyst focused on corporate bond [investment grade and high yield] research in the consumer, healthcare, retail and technology industries. Rishi joined BBH Investment Management from AllianceBernstein, where he worked in a similar capacity for the fixed income investments division with a focus on both leveraged bank loan and high yield corporate bond research. Prior to joining AllianceBernstein, he worked as an equity and fixed income research analyst for Mutual of America Capital Management and as a special situations analyst for PricewaterhouseCoopers Corporate Finance. Rishi graduated with a Bachelor of Engineering degree in computer science and engineering (First Class) from the National Institute of Technology.

AIM XXXVI Class Profile

ANALYST	HOMETOWN	EMAIL	1st STOCK	2nd STOCK	POST GRADUATION COMPANY	POST-GRADUATION FUNCTION
Blake Asjes	Kansas City, MO	basjes@nd.edu	Wynn Resorts	Dean Foods	KPMG	Audit
John Baranowski	Bellevue, WA	jbaranow@nd.edu	Discover	Intel	Intel	Corporate Finance Private Wealth
Richard Bariletto	Paramus, NJ	rbarilet@nd.edu	Apple	ADT	JP Morgan	Management
Elie El-Zammar	Vancouver, Canada	eelzamma@nd.edu	Dick's Sporting	Microsoft	Microsoft	Sales Consulting
James Falbe	Longview, TX	jfalbe@nd.edu	eBay	Bank of Internet	Vulcan Value Partners	Equity Research
Brian Griffiths	Brookfield, WI	bgiffi2@nd.edu	Activision	DiamondRock	Northwestern Mutual	Associate
Thomas Hefner	Stockholm, Sweden	thefner@nd.edu	Blizzard	Hospitality	Real Estate Investments	TBD
Michael Hoyer	Methuen, MA	mhoey@nd.edu	Kapstone Paper	Berkshire Hathaway B	TBD	TBD
Dominic Imgrund	St. Louis, MO	dimgrund@nd.edu	Open Table	ConAgra Foods	BMO Capital Markets Reinsurance Group of America	Investment Banking Portfolio Analyst
Jacob Lundberg	Chaska, MN	jlundber@nd.edu	Google	AMN Healthcare	Credit Suisse	Equity Research
John Lytle	Clearfield, PA	jlytle@nd.edu	Cerner Select Comfort	Cinemark	TBD	TBD
Brian Martin	Lake Forest, IL	bmartin1@nd.edu	Cummins Expeditors Int'l	Life Time Fitness	FTI	Restructuring Consulting Finance Executive LDP
Anthony Niemeier	Jamestown, ND	aniemeie@nd.edu	Lab Corp.	Potlatch	Raytheon	Corporate Finance
Brittany Parrish	San Antonio, TX	bparrish@nd.edu	Domino's	InterActiveCorp	IBM	Audit & Assurance
Kevin Prior	Plainview, MN	tpesch@nd.edu	Acuity Brands	La-Z-Boy	TBD	TBD
Zachary Schneider	Breezy Point, NY	kprior2@nd.edu	Flowserve Continental	Under Armour	Twin Bridge Capital Partners	Private Equity
Lucas Taylor	Indianapolis, IN	zschneid@nd.edu	Barstow, CA	Joseph A. Bank	TBD	TBD
Luka Tomljenovic	Barstow, CA	ltaylo14@nd.edu	Buje, Croatia	Delphi Automotive	Delphi	Corporate Finance
Eric Verkuilen	Roselle, IL	ltomljen@nd.edu	Teradata	Halliburton	TBD	TBD
John Paul Visto	Fargo, ND	everkuil@nd.edu	IPG Photonics	Titan Machinery	Citi	Corp. & Investment Banking
James Welsh	New York, NY	jvisto@nd.edu	Chevron	Apollo Group	TBD	TBD
Geoffrey Zabinski	Hinsdale, IL	gwelsh5@nd.edu	United Health Gilead Sciences	Sirius XM	Credit Suisse	Private Wealth Management
Wenjun Zou	Wuzhou, China	gzabinsk@nd.edu	Coach	TBD	TBD	TBD