Applied Investment Management (AIM) Program

AIM Class of 2012 Equity Fund Reports
Fall 2011

Date: Friday, September 16th Time: 3:00 pm – 4:30 pm
Road Show Location: Cleary Gull Advisors Inc.

Student Presenter	Company Name	Ticker	Price	Page No.
Thomas Kelly	Two Harbors Investment Corp.	TWO	\$9.39	2
Dan Leibforth	Koppers Holdings Inc.	KOP	\$30.54	5
Jeffery Hoffmeyer	Amtrust Financial Services, Inc.	AFSI	\$24.08	8
Bronson Wetsch	Novo-Nordisk A/S ADR	NVO	\$106.31	11
Leonard Hartanto	Bank of Montreal	BMO	\$60.33	14

Thank you for taking the time today and participating in the AIM 'road show' at Cleary Gull Advisors Inc. These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Today, each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A. Again, thank you for allowing us the opportunity to present at Cleary Gull.

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Two Harbors Investment Corp. (TWO)
September 16, 2011

Tom Kelly Real Estate

Two Harbors Investment Corp. (NYSE:TWO) is a real estate investment trust (REIT) focusing on residential mortgage-backed securities (RMBS). The company owns, operates, and manages both Agency and non-Agency RMBS, with the allocation being 60%/40% respectively. Financial assets other than RMBS make up 5%-10% of TWO's portfolio. Two Harbors' strategy focuses on managing the various risks of RMBS investments, including prepayment, interest rate, mortgage spread, financing, and credit risk. TWO is managed and advised by PRCM Advisers, LLC, which is a subsidiary of Pine River Capital Management. PRCM Advisors is paid a 1.5% annual management fee. The company is headquartered in Minnetonka, Minnesota and was founded in 2009.

				FY: Dec	2010A	2011E	2012E
Price ($): (4/21/11)	9.39	Beta:	0.58				
Price Target ($):	11.25	WACC	1.48%	Net Interest ($mil)	35.70	110.47	226.06
52WK H-L ($):	8.58-11.51	Mid-Term Rev. Gr Rate Est:	8.00%	% Growth	1232.1%	875.0%	104.6%
Market Cap (mil):	1,300.00	Mid-Term EPS Gr Rate Est:	5.48%	Operating Margin	85.40%	83.85%	88.55%
Float (mil):	139.7	Financial Leverage:	4.63x	EPS ($Cal)	1.60	0.94	1.62
Short Interest (%):	5.28%	ROA:	3.06%	Dividend ($)	1.48	1.60	1.60
Avg. Daily Vol (mil):	4.03	ROE:	14.18%	BVPS	9.44	10.02	10.32
Dividend ($):	1.60						
Yield (%):	17.4%						

Recommendation. During the recent mortgage crisis, Two Harbors saw a great opportunity in the RMBS industry and took full advantage of it. The Fed's auction of Maiden Lane assets opened a door in the non-Agency sector as asset prices depreciated 5%-20% due to uncertainty, especially in the subprime mortgage sector. The company recently had total capital raises in excess of $700 million in May and July. TWO has already put over half of its most recent capital raise to work and hopes to increase its non-Agency allocation and increase leverage slightly, up to a target of 6-7x. The company also announced its intention to begin a securitization program in partnership with Barclays, though not expected to be material until after 2011. The current investing environment, with a relatively steep yield curve, should allow TWO to continue its strong ROE of 14.18% and stay well above the peer average of 6.4%. Market price appreciation and its current dividend yield of over 17% give TWO an upside potential of over 35% at a target price of $11.25. Consequently, because of TWO's ability to switch strategies and their lucrative dividend, it is recommended that Two Harbors be added to the AIM Equity Fund.

Investment Thesis

- **Strong Infrastructure and Risk Measures.** Two Harbors has a unique investment approach, which seeks to obtain value in a variety of segments across the entire mortgage market, rather than focusing on narrow subsets. The company is able to effectively execute a hybrid model (investing in both Agency and non-Agency RMBS). Non-Agency investments are not guaranteed by Government National Mortgage Association (Ginnie Mae), the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac), and thus require more risk management. TWO has the resources to ensure that each RMBS investment is only made after extensive analysis.
- **Steep Yield Curve.** The REIT industry is currently enjoying the benefits of a steep yield curve. With short-term rates at an all-time low, REITs are able to increase their spreads by borrowing at much lower rates than they are earning. Currently, TWO has an annualized yield on its average portfolio of 5.4% and a total liability cost of 1.3%. Over the last quarter, TWO was able to increase their spread from 3.8% to 4.1%. With Chairman Bernanke recently announcing that

short-term rates will continue to be kept low through the middle of 2013, TWO should be able to keep up its high dividend yield (currently 17%).

- **Superior Strategy and Management.** The recent pullback in the non-Agency market has created a great opportunity to invest and TWO's management has seized the opportunity. Two Harbors quickly responded to the opportunity with its recent capital raises - with the intention of directing more resources to non-Agency assets. The internal managers have a strong history and expertise with RMBS. Security selection is one of TWOs top strengths and they have demonstrated this by having the lowest prepayment speeds in the industry. In addition to the Two Harbors management team, the external management of Pine River Capital Management provides further resources. Pine River has 15 employees specializing in non-Agency investments and the skills necessary to analyze potential investments.

Valuation

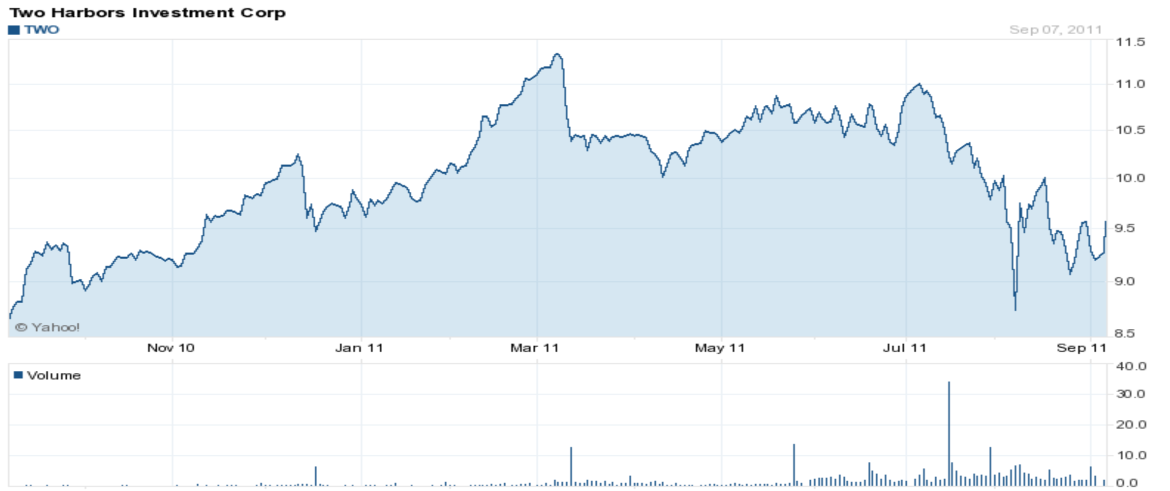
To find the intrinsic value of TWO, a mixture of valuation methods were used. A Price/BVPS valuation was executed using a 1.12x multiple on the estimated 2011 BVPS, yielding an intrinsic value of $11.22. Additionally, a dividend discount valuation analysis was performed. Using a 16% discount rate and 2% terminal growth rate, an intrinsic value of $11.43 was obtained from the $1.60 dividend. Taking both valuation techniques into consideration, a target price of $11.25 was established, representing a 20% upside. Currently, TWO pays a yearly dividend of $1.60 per share yielding 17.4%.

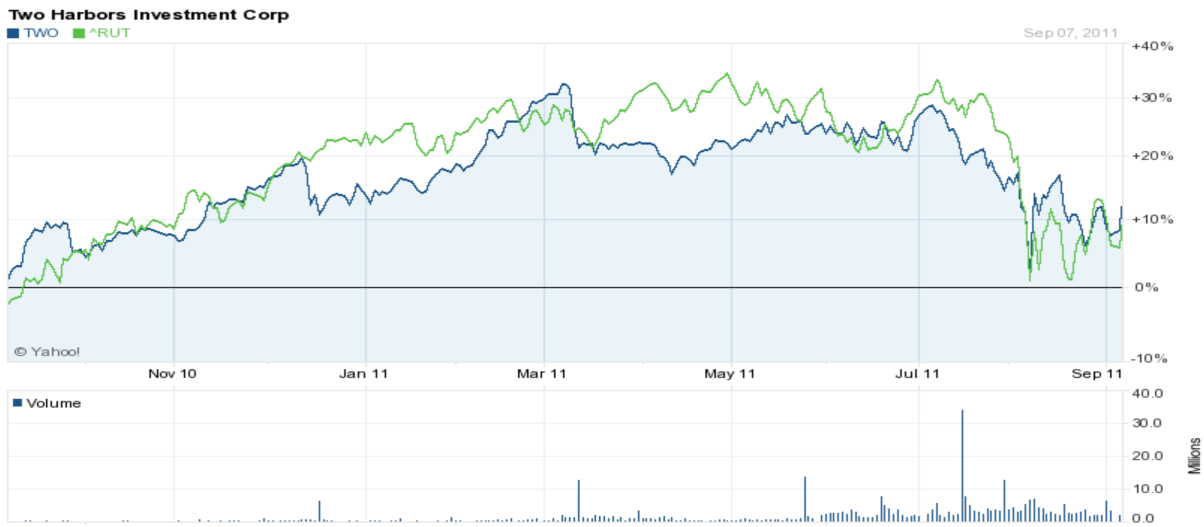
Risks

- **Changes in REIT Status under SEC.** Currently REITs are excluded from section 3 (c) 5(c) of the Investment Company Act, allowing REITs to lever higher and gain non-taxed statuses. If REITs lost their exclusion under the Act, they would have to either lose their ability to lever or lose their tax advantaged status. Losing their exclusion is seen as an unlikely event due to the fact that REITs provide liquidity to the mortgage market, and there is not another area that could pick up the slack, as the Fed is reducing their involvement.
- **Credit Risk.** Since Two Harbors operates non-Agency RMBS, credit quality plays a large factor in their book. The company could suffer a decrease in book value if credit quality weakens more than expected.
- **Interest Rate Risk.** As noted earlier, interest rates are important to the REIT industry. Spreads could contract greatly if short-term interest rates rise or long-term rates decrease. While TWO attempts to hedge these risks by swap agreements, they are not always able to achieve low duration exposure wanted.

Management

Thomas E. Siering is the President and CEO of Two Harbors, where he has served since the company's incorporation in 2009. He joined Pine Ridge Capital Management in 2006 as a partner, where he also serves as Head of Fundamental Strategies. Previously, Siering was a portfolio manager of distressed, credit, and value strategies at Merced Partners, LP and Tamarack International Limited. Siering attended the University of Iowa, receiving his Bachelor of Business Administration degree with a major in Finance. The company also recently hired Christine Battist as Managing Director of TWO. Battist previously was Director of Investor Relations at Mosaic Company, and was seen as a Top 10 Investor Relations Professional in 2010 by Institutional Investor magazine.





Ownership

% of Shares Held by All Insider and 5% Owners:	7%
% of Shares Held by Institutional & Mutual Fund Owners:	40%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Wellington Management Company, LLP	5,898,465	4.20
Vanguard Group, INC	3,239,717	2.30
BlackRock Fund Advisors	2,128,343	1.51
Goldman Sachs Group, INC	2,125,681	1.51
State Street Corporation	1,963,976	1.40

Source: Yahoo! Finance

Koppers Holdings Inc. (KOP)
September 16, 2011

Dan Leibforth | Basic Materials

Koppers Holdings, Inc. is the world's largest provider of carbon compounds for the aluminum, specialty chemical, rubber, concrete and steel industries. KOP is also the largest supplier of wooden railroad crossties in North America. It is the market leader in 60% of its businesses. A third of their sales are in the aluminum market which has seen rapid pricing growth (over 36%) in the past two years. Another third of their sales come from the railroad crosstie market which has proven to be one of the most reliable, consistent markets overtime, especially in the last few years. KOP operates in two business segments- Carbon Materials and Chemicals (CM&C) and Railroad and Utility Products (R&UP) which account for 60% and 40% of sales respectively. CM&C distills coal tar, a by-product of the transformation of coal into coke, into carbon pitch for the various end markets. R&UP harvests, treats and sells treated and untreated railroad crossties and wooden utility poles used in the electric and telecommunications industries. They operate in 4 different major global markets – North America, Australia, Europe and China. Koppers was founded in 1912, LBO'ed in 1988 and was taken public in 2006and is headquartered in Pittsburgh, Pennsylvania.

				FY: Dec	2010A	2011E	2012E
Price ($): (9/08/11)	30.54	Beta:	1.80				
Price Target ($):	48.62	WACC	13.58%	Revenue (Mil)	$ 1,245.50	$ 1,426.80	$ 1,545.10
52WK H-L ($):	46.14 - 22.53	Mid-Term Rev. Gr Rate Est:	7.0%	% Growth	10.80%	14.60%	8.30%
Market Cap (mil):	629.22	Mid-Term EPS Gr Rate Est:	7.0%	Gross Margin	15.30%	16.00%	16.50%
Float (mil):	20.11	Debt/Equity:	28.40%	Operating Margin	7.90%	7.50%	8.50%
Short Interest (%):	6.0%	ROA:	6.7%	EPS (Cal)	$ 2.16	$ 2.25	$ 2.93
Avg. Daily Vol:	179,712	ROE:	66.6%	FCF/Share	$3.30	$3.40	$4.10
Dividend ($):	0.22			P/E (Cal)	14.12	13.55	10.43
Yield (%):	2.9%			EV/EBITDA	7.94	6.66	5.39

Recommendation

Over the last year the basic materials sector has grown 26.4% - and the industrial metals and minerals sub-sector has grown by 15.3% over that same time span. Koppers has uniquely positioned itself within the market and has outperformed competitors for several reasons. Their diversified products, acquisition strategy, a focus on margin improvement and a strong global presence all have driven KOP to the top of the industry. Koppers has engaged in several acquisitions recently including Portec, Stella Jones, and Cindu. All of these acquisitions of key competitors have helped maintain strong market share in their various markets. The acquisition strategy remains a key aspect of the business as management continues to look for attractive targets to expand their products and remain the market leader. KOP has entered into several long-term contracts with end market producers which should ensure sales well into the future. KOP has demonstrated the ability to pass on input cost increases to the consumer and maintain margins in a very hostile environment. With favorable price increases across KOP's products, specifically aluminum, KOP will be able to see margins increase as utilization rates and capacity continues to grow. Margins will be the key area to monitor going forward and a lack of expansion would constitute a thesis violation. Revenue will grow to 15% in 2011 as operating margins climb to just below 10% in the near term. Due to these factors, it is recommended that KOP is added to the AIM Equity Fund with a price target of $48.62 representing a 59% upside. The company offers a nearly 3% dividend yield.

Investment Thesis

- **Improved Pricing.** The company intends to raise pitch prices in all regions, which they have done in the past with great success. The price increase is intended to offset the 28% increase in coal tar costs in Q1 2011. As pricing improves, utilization rates (currently at 75%) will grow towards 85% - 90%. This will grow EDITDA margins close to their peak levels of 14.5% which they last achieved in 2008.

- **Economic Moat.** Koppers is the market leader in 60% of the markets they operate in. They are number one in North America for crossties, carbon pitch and creosote (used for plastic and rubber). KOP has also been the market leader in the railroad crosstie and carbon pitch markets in Australia. KOP's demonstrated ability to not only maintain, but grow their market share in these markets proves they have a sustainable business and strong management team.

- **Diversified Products.** KOP has diversified their CM&C (~11% operating margin) products by offering carbon compounds to several different end markets including aluminum, plastics and rubber products. R&UP operates with a margin ~8% which has grown from ~5% in 2010. Their improved margins demonstrate their ability to be a low cost producer, while maintaining sales growth. Due to their wide variety of products, KOP is able to mitigate their risk on cost increases as well as reductions in demand.

Valuation

To find the intrinsic value of KOP, a 5 year DCF analysis was conducted. Revenue growth rates were estimated based on management guidance, historical growth and industry growth. A WACC of 13.58% was calculated, which included a 1.0% risk premium for commodity price fluctuation. A sensitivity analysis was also conducted based on variations in WACC and long term growth. This yielded an intrinsic value of $51.13. An EV/EBITDA multiple of 7x was also used based on historical levels, which yielded an intrinsic value of $46.10. With the DCF and EV/EBITDA weighted equally, a $48.62 price target was established, providing a potential upside of 59%.

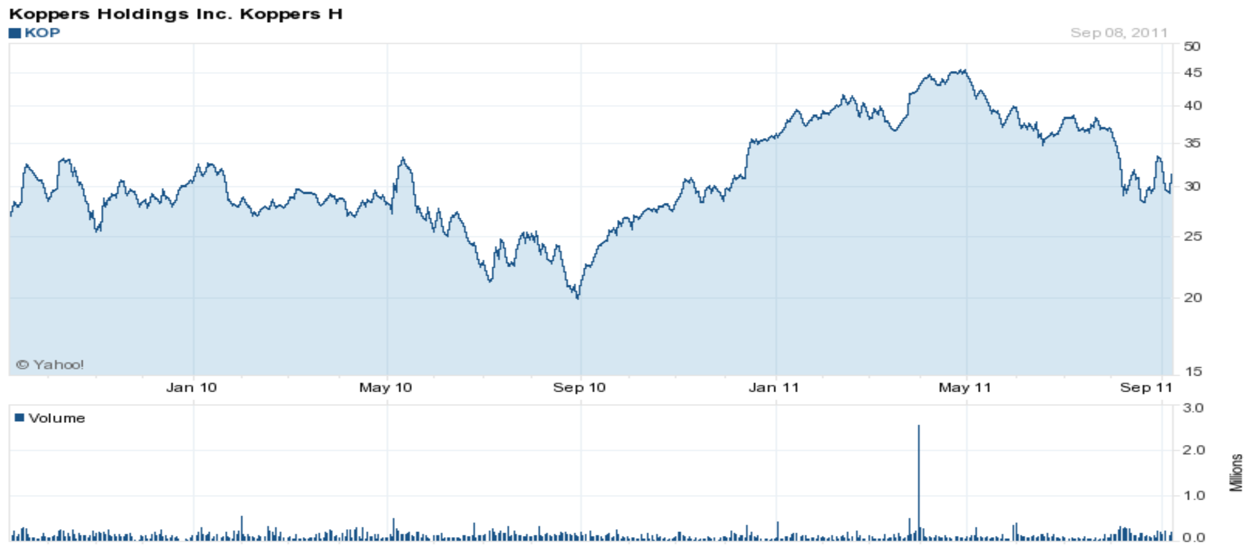
Risks

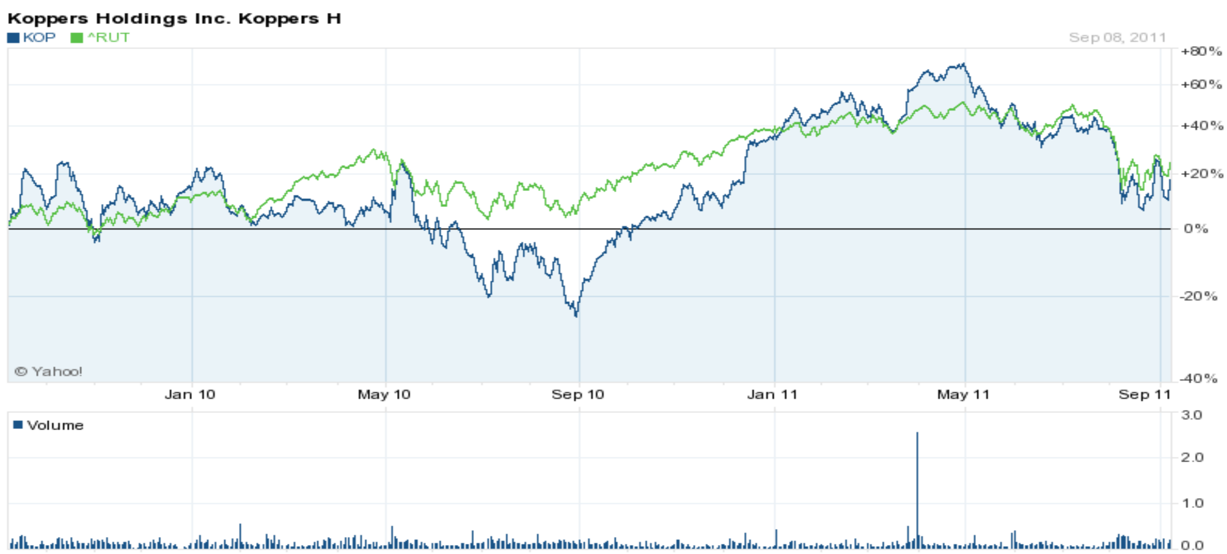
- **Increased Competition and Costs.** As stated, one of KOP's strongest aspects is their economic moat. If KOP began to see their market share decline, a thesis violation may occur. This is an aspect to monitor going forward and potentially signal a time to reevaluate the investment thesis. Similarly, if coal tar and crosstie costs continue to rise, this could present a serious issue for KOP as their margins would suffer.

- **Highly Cyclical Metals Industry.** Negative industry cycles reflect changes in macroeconomic conditions, levels of industry capacity, and availability of usable raw materials. The overall levels of demand for products containing zinc or nickel reflect fluctuations in levels of end-user demand, which depend on general macroeconomic conditions. If any of these situations arise, ZINC would experience negative growth especially due to their niche business model.

Management

Walter W. Turner, 64, has been the CEO since 2004 and has been with the company since 1992. He has served as president and CEO of several KOP subsidiaries before taking over full control of the firm. Leroy M. Ball, 42, has been the CFO since 2010 and is also the principle accounting officer. Prior to KOP, Ball was the CFO of a competitor, Calgon Carbon Corp.





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Ownership		
% of Shares Held by All Insider and 5% Owners		2.0%
% of Shares Held by Institutional and Mutual Fund Owners		90.0%
Top 5 Shareholders		
Shareholder	**Shares**	**% Out**
T Rowe Price Associates	2,694,910	13.08
Lord Abbett & Co. LLC	2,528,820	12.27
Southernsun Asset Management	2,208,513	10.72
Keeley Asset Management	1,230,212	5.97
Vanguard Group Inc.	1,096,986	5.32

Source: Yahoo Finance

Amtrust Financial Services, Inc. (AFSI)
September 12, 2011

Jeffrey Hoffmeyer — Financial Services

Amtrust Financial Services, Inc. (AFSI) is a specialty property and casualty insurance underwriter and provider. The company operates through four main business segments. The Small Commercial Business line provides workers' compensation to small businesses that operate in low to medium hazard classes (approximately 34% of the net premiums earned). The Specialty Risk and Extended Warranty division offers coverage for consumer and commercial goods. This is Amtrust's largest segment and represents about 41% of net premiums. The Specialty Program Business line provides commercial property and casualty insurance to companies that require in-depth knowledge of a specific industry and contributes to about 19% of net premiums. Amtrust recently added a Personal Lines Reinsurance division by acquiring part of GMAC Insurance Holdings, Inc. This division reinsures GMAC's premiums and makes up the remaining 6% of Amtrust's premiums. The company operates in all 50 states and the Specialty Risk and Extended Warranty segment also does business in the Europe. Amtrust was formed in 1998 and is based in Delaware.

				FY: Dec.	2010A	2011E	2012E
Price ($): (9/7/11)	24.08	Beta:	0.91				
Price Target ($):	32.29	WACC	7.38%	Revenue (Mil)	1,002.46	1,242.81	1,488.98
52WK H-L ($):	24-13	M-Term Rev. Gr. Rate Est:	10%	% Growth	35.42%	23.98%	19.81%
Market Cap (mil):	1,368	M-Term EPS Gr. Rate Est:	10%	Operating Margin	17.10%	17.44%	16.70%
Float (mil):	24.29	Financial Leverage	5.9x	EPS (Cal)	2.38	2.85	3.20
Short Interest (%):	12.7%	ROA:	3.8%	P/E (Cal)	10.13	8.45	7.52
Avg. Daily Vol:	242,919	ROE:	22.9%	BVPS	$12.03	$14.49	$17.34
Dividend ($):	0.29	Dividend Yield (%):	1.56%	P/B	2.00	1.66	1.39

Recommendation

Amtrust has experienced rapidly growing earnings over the past five years, with net income being $142 million in 2010, up from $103 million in 2009 and $48 million in 2006. The company has earned income of $95 million through the first six months of 2011, a 37% increase from 2010. This rise is the result of Amtrust's expansions into new markets and growth in their Specialty Risk and Extended Warranty division. The company's recent acquisitions, including the segment of GMAC, have enabled Amtrust to expand their network and increase premiums. Gross premiums have had a 31.25% compound annual growth rate (CAGR) since 2006 and operating earnings had a 36.9% CAGR. Because of the firm's continued expansion while avoiding significant risk, it is recommended that Amtrust Financial Services be added the AIM Equity Fund with a target price of $32.29, representing a 34.1% upside. The company also pays a $.29 dividend, a 1.56% yield.

Investment Thesis

- **Continuous Expansion into Europe.** Amtrust's Specialty Risk and Extended Warranty segment has grown rapidly over the past few years thanks to its increasing European presence. In 2010, the European Union accounted for approximately 72% of the division's business, compared to 2008 when it represented only 47%. Italy has been the biggest contributor to this increase, and in 2010 represented 25% of the segment's revenue, up from 8% in 2009. As a result of this increased business in Europe, net premiums in this segment have risen from $153.9 million in 2008 and $190.2 million in 2009 to $303.5 million in 2010, a 40.4% CAGR. Through June 2011 the division has earned $194.2 million, putting on pace to reach almost $400 million for 2011.
- **Diverse and Underserved Markets.** The focus of Amtrust is to target specialty niche markets that are often ignored by other insurance companies. These markets often require specific

industry expertise which allows Amtrust to avoid significant competition in these areas. The markets that the company targets are also generally less hazardous and have lower volatility, which results in less claims being filed against Amtrust. Lastly, Amtrust operates in a diverse range of markets. This lowers its overall risk by limiting losses that are specific to certain industries. As a result, the company has maintained a low, stable net loss ratio, which has ranged from 57.1%-65.7% during 2006-2010.

- **Growth Through Acquisitions.** Amtrust has continuously grown and improved their business through acquisitions and strategic investments. Typically these acquisitions have been the purchase of distribution networks and renewal rights from other insurance companies. Generally Amtrust pays the seller a combination of an initial purchase price and a percentage of the premiums received from renewed business. Because Amtrust has a very high renewal rate, over 80% on recently acquired premiums, the transactions tend to be more cost effective than traditional acquisitions. The company has made ten investments of this nature since 2006 and continues to look for similar acquisitions that can be accretive to return on equity.

Valuation

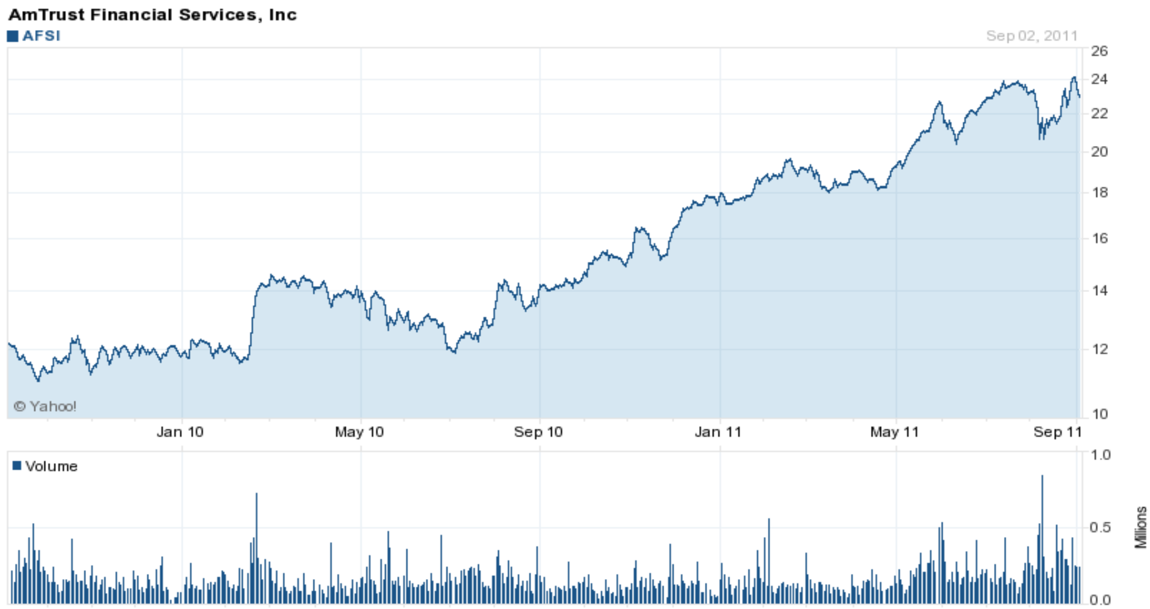
To value Amtrust Financial Services, a discounted cash flow analysis was used find the present value of the company's free cash flows. Using a WACC of 7.38% and a terminal growth rate of 3%, an intrinsic value of $35.33 was found. A sensitivity analysis was conducted using a WACC ranging from 7-7.75% and a terminal growth rate ranging from 2-4% to get a price range of $25.57-$54.18. An excess equity model was also used, with a cost of equity of 10.19% to arrive at an intrinsic value of $29.25. The two approaches were equally weighted to arrive at an intrinsic stock price of $32.29, representing a 34.1% upside. Amtrust also pays a $.29 dividend, which is a 1.56% yield.

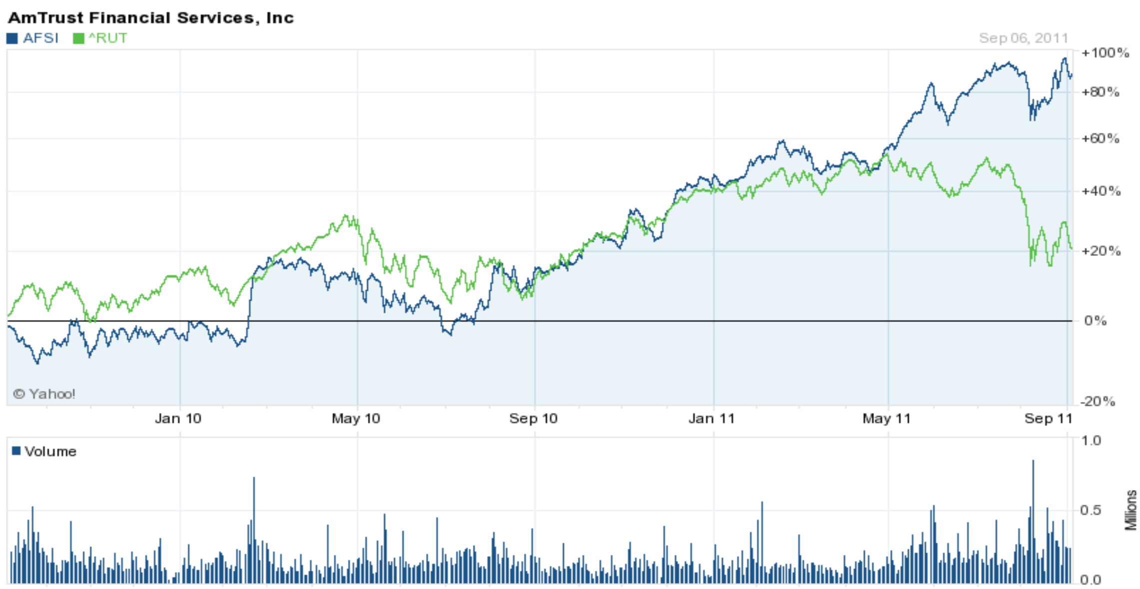
Risks

- **High Competition.** The insurance industry is generally very competitive and there is considerable competition in the commercial business sector. Many of the firm's that Amtrust competes with are much larger and have greater financial and marketing resources. These companies include Travelers, W. R. Berkley, P&C group, and CNA Financial. In addition to other insurance companies, Amtrust must also compete with state insurance pools and self-insurance funds. The company generally serves niche markets that are less developed where Amtrust can differentiate itself from the competition, but they still face a significant number of competitors.
- **Possibility of Inadequate Loss Reserves.** Amtrust is responsible for losses and loss adjustment expenses through the insurance policies that they underwrite. To cover these claims, Amtrust maintains reserves based on their estimated liability. Currently the loss reserve is 1.6 billion, compared to 2010's loss expense of $471 million. However, since future liabilities are always uncertain, there is a chance actual claims will exceed the reserves. This could result from the company inaccurately assessing the risks of certain policies or from some unforeseen catastrophe in which there is significant property losses or casualties. If Amtrust is unable to cover these losses, or is forced to raise its reserves, it could greatly hurt the business and its earnings.

Management

Barry Zyskind has been with the company since its inception in 1998, and is the current Chief Executive Officer and President. Mr. Zyskind also serves as an officer and director for many of Amtrust's wholly owned subsidiaries. Prior to joining Amtrust, he was an investment banker at Janney Montgomery Scott and received his M.B.A from New York University. Michael Karfunkel has been the Chairman of the Board since the company's beginning. Mr. Karfunkel and his brother are also the co-owners of Worldwide TechServices, and previously owned American Stock Transfer & Trust Company which they sold to a private equity firm.





Ownership

% of Shares Held by Institutional & Mutual Fund Owners:	35%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Invesco	2,682,945	4.48
AllianceBernstein, L.P.	2,145,349	3.58
Vanguard Group, Inc. (The)	1,237,089	2.06
Luther King Capital Management	978,839	1.63
Dimensional Fund Advisors LP	905,987	1.51

Source: Yahoo! Finance

Novo-Nordisk A/S ADR (NVO)
September 16, 2011

Bronson Wetsch — International Healthcare

Novo-Nordisk A/S (NYSE: NVO) is a world leader in diabetes care and has one of the broadest diabetes product portfolios in the industry, including an advanced portfolio of modern insulins and the first human once-daily GLP-1 analog, Victoza. NVO is also positioned in tactical areas such as hemophilia, growth hormone therapy, and hormone replacement therapy. Additionally, NVO manufactures and markets its pharmaceutical products and services. The firm operates in two main business segments: Diabetes Care (75% of 2010 revenue) and Biopharmaceuticals (25%). European sales account for 31% of net revenue, North American sales contribute 39%, and the rest of world sales represent 30%. The company is the world's leading provider of insulin and sustains a long-term competitive advantage through its highly innovative pipeline and high barriers to entry. Headquartered in Denmark, NVO employs more than 30,000 employees in 74 countries and markets its products in 180 countries.

Price: (09/08/11)	$106.31	Beta:	0.75	FY: Dec	2010A	2011E	2012E
Price Target:	$146.00	WACC	7.59%	Revenue ($) (Mil)	$10,827	$11,870	$13,186
52WK H-L:	87.18-$132.88	M-Term Rev. Gr Rate Est:	9.4%	% Growth	13.18%	9.63%	11.09%
Market Cap ($) (bil):	61.31	M-Term EPS Gr Rate Est:	14.4%	Gross Margin	80.78%	81.24%	81.93%
Float (mil):	413.59	Debt/Equity:	4.0%	Operating Margin	31.09%	32.44%	33.12%
Short Interest:	1.40%	ROA:	21.14%	EPS (Cal)	$4.38	$5.23	$6.10
Avg. Daily Vol (K):	459,732	ROE:	44.58%	FCF/Share	4.3	4.8	5.4
Dividend:	$1.89			P/E (Cal)	25.4	20.3	17.4
Yield:	1.77%			EV/EBITDA	16.2	13.5	11.6

Recommendation

It is estimated that over 350 million people worldwide have diabetes. Due to rising health concerns associated with obesity, lack of exercise, poor dieting practices, and unhealthy lifestyles, global sales within the diabetes space (~$35 billion in 2010) is expected to grow at a 10% CAGR over the next 10 years. Through its 51% global insulin market share and proven line of products in the insulin space, NVO's wide moat has led the firm to post CAGRs of 12% and 20% in total revenue and EPS over the past six years, respectively. The firm exhibits a clean balance sheet with no net debt and nearly $3 billion in free cash flow. NVO's latest blockbuster diabetes drug, Victoza, already captures 60% market share within the GLP-1 space and is expected to reach peak sales of $3.5 billion by 2018. NVO's next stage of growth will come from Degludec, DegludecPlus, and other mixed modern insulins. Similar to Victoza, Degludec will likely achieve similar blockbuster status (upwards of $1+ billion annually by 2016) given its matched efficacy to Sanofi's Lantus, coupled with an enhanced safety profile with reduced hypoglycemia levels. NVO's robust late-stage pipeline will mitigate recent austerity-related pricing pressures and continue to generate substantial cash flow long-term. It is recommended that NVO be added to the International AIM Fund with a target of $146, representing a potential upside of 39%.

Investment Thesis

- **Compelling Demographics.** Estimates indicate that if current trends persist, nearly 1 in 3 U.S. adults could have diabetes by 2050. Obesity has doubled since 1980 and emerging markets are likely to account for most insulin growth in the future. 51% of all absolute diabetes growth comes from the Western Pacific and Southeast Asia regions alone. Emerging markets offer NVO ~15% top-line growth: with 7-8% coming from volume growth and 7-8% on pricing/mix. A 30% international sales breakdown (excluding Europe) and the introduction of Victoza in China (~95 million diabetes cases) in the coming months illustrate management's continued focus in emerging market growth.
- **Dominant Market Share.** While the barriers to entry within pharmaceuticals are generally high, the diabetes care segment demonstrates even more resilience than others. Biologics (i.e., insulin) are much more difficult to define and manufacture than the majority of drugs (i.e., small molecules); insulin is a culmination of 20+ processes in

which biosimilars will never achieve the exact replication of the actual drug. Three firms (Novo Nordisk, Ely Lilly, and Sanofi) control 97% of all insulin volumes worldwide with NVO capturing the majority (51%). NVO also controls 24% of the total worldwide market for all diabetes sales. NVO has the manufacturing capabilities and large economies of scale within the insulin space to fend off the limited abilities of impeding competitors.

- **Dynamic Product Pipeline.** Paired with a dominant position in terms of market share, NVO exhibits a wide, diversified, and innovative diabetes pipeline. One of the most salient news items for NVO is their next-generation insulin, Degludec, which is currently in Phase-III trials (expected to launch 2H12). Head-to-head data presented at an ADA conference in June predicts Degludec to compete heavily with Sanofi's Lantus ($4.5 billion sales in 2010). In terms of efficacy, Degludec matched Lantus; however, Degludec proved to reduce hypoglycemia levels (23% more effective) and nocturnal hypoglycemia levels (25% more effective) at a better rate than Lantus. 25% of NVO's sales also come from its Biopharmaceuticals division—driven mainly by its hemophilia drug, NovoSeven (13% revenue CAGR over the past six years), which could potentially reach $1.8 billion in sales by 2015.

Valuation

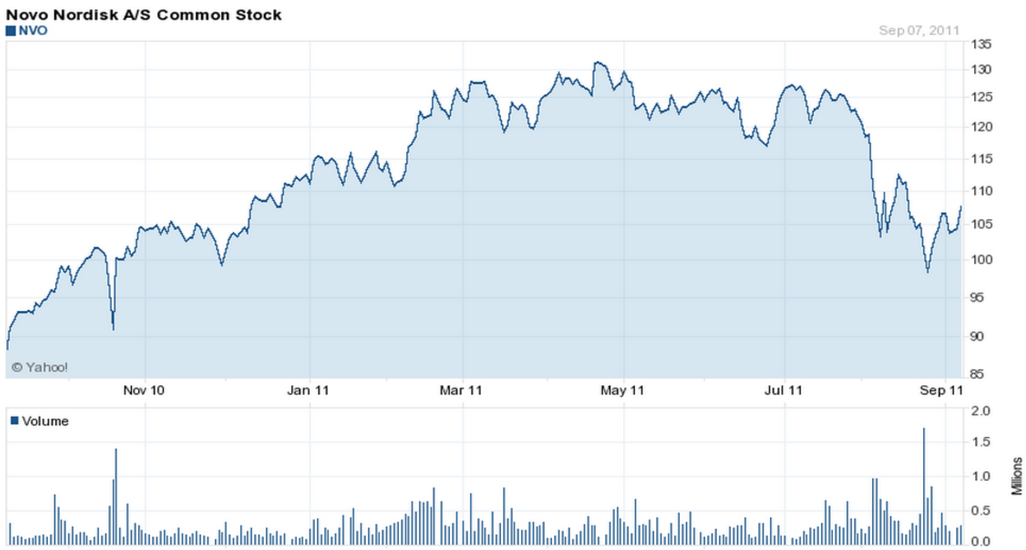
To find the intrinsic value of NVO, a ten-year DCF analysis was conducted. Based on a calculated WACC of 7.59% and terminal growth rate of 3.00%, a value of $152 was obtained. Using a sensitivity analysis with WACC ranging from 7.09% to 8.09% and terminal growth rate of 2.50% to 3.50% yields a range of values from $125.06 to $193.59. Applying a 14x historical average EV/EBITDA multiple to the 2012E EBIDTA derives a price target of $127. A final price target of $146—a potential upside of nearly 39%—was obtained by weighting the DCF analysis (75%) and the EV/EBITDA multiple approach (25%). The price target includes the firm's annual dividend of $1.89 that yields 1.77%.

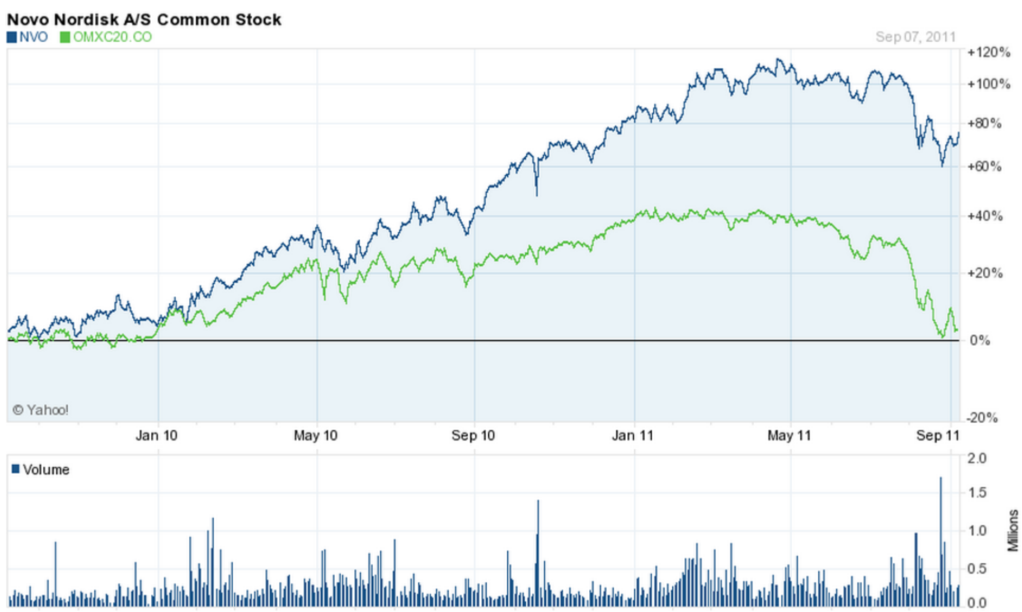
Risks

- **Increasingly Competitive Landscape.** Victoza may face additional competition from other GLP-1 launches in coming years. Amylin and Lilly are seeking approval of Bydureon, a once-weekly formulation of their current GLP-1, Byetta. GlaxoSmithKline also has the Phase-III drug, Albiglutide, which is slated for a head-to-head comparison with Victoza in 2H11. Biosimilars in the modern insulin space also pose a potential risk for NVO going forward. Main competitor, Ely Lilly, is expected to launch a biosimilar Lantus in 2015 that could potentially hurt NVO more than Lilly given the blockbuster launch of Degludec coming in the latter half of 2012.
- **Pricing Pressure.** Price pressure is likely to continue given financially stressed governments worldwide and continued austerity measures (especially Europe & US). In a recent attempt to gain market share from NVO, for instance, LLY cut prices in the European region by as much as 25% within the human insulin segment (19% of NVO '10 net sales). As a result, 2Q11 growth in Europe for NVO was -1% YoY, vs. 4% for the prior year. The rise of cost-conscious private and state payers in the US is also likely to induce less favorable pricing outcomes in the future.

Management

NVO has a two-tiered management system: Executive Management and the Board of Directors—eliminating overlap from the two segments. Lars Sorensen has been the President and CEO of NVO since 2000. Sorenson sits on the board of several multinational firms across various industries in the US, Denmark, and Germany. Jesper Brandgaard has been the CFO since 2000 and received his MS in Economics and Auditing, as well as a MBA from Copenhagen Business School in Denmark. The Board of Directors has 12 members: 4 internal, and 8 externally from NVO.





Ownership

% of Shares Held by All Insider and 5% Owners:	25%
% of Shares Held by Institutional & Mutual Fund Owners:	7%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Jennison Associates LLC	4,476,596	0.77
FMR LLC	3,112,386	0.54
Ameriprise Financial, Inc.	2,734,408	0.47
Macquarie Group Limited	2,481,425	0.43
Sarofim, Fayez	1,961,592	0.34

Source: Yahoo! Finance

Bank of Montreal
September 16, 2011

Leonard Hartanto Int'l Financial Services

Bank of Montreal (NYSE: BMO). BMO is a highly diversified financial services organization with total assets of $477billion and more than 47,000 employees. BMO is made up of 3 operating groups: Personal and Commercial Banking (P&C) (58% of net income); Private Client Group (PCG) (12.24% of NI); and BMO Capital Markets (29.76% of NI). P&C offers solutions for everyday banking, financing, investing, credit cards and creditor insurance, as well as a full suite of integrated commercial and capital markets products and financial advisory services. PCG is BMO's wealth management business, serving from mainstream to ultra-high net worth as well as select institutional market. Capital Markets is the investment banking arm of BMO, serving corporate, institutional, and government clients. BMO mainly operates in Canada and the United States, while trying to grow overseas. In October 2010, BMO opened an incorporated subsidiary in Beijing, China, making them the only Canadian bank with a Chinese presence. BMO recently finalized the acquisition of Milwaukee-based Marshall & Ilsley (M&I) on July 5, 2011. In the next 16 months, M&I and Harris Bank will be integrated to form BMO Harris Bank N.A. BMO is headquartered in Toronto, Canada.

Price ($) (9/8/11):	$60.33	Beta	0.826	FY: October	2010 A	2011 E	2012 E
Price Target:	$79	CAPM	9.48%	Revenue (mil)	$12,055	$13,114	$13,770
52WK H-L:	$66.64-$55.07	M-Term Rev Gr. Rate Est:	10%	% Growth	10.36%	8.79%	5.00%
Market Cap (mil):	$38,450	M-Term EPS Gr. Rate Est:	10%	NIM	1.91%	1.81%	1.89%
Float (mil):	$636.12	Financial Leverage:	21.66x	Pretax Margin	29.25%	31.80%	30.83%
Short Interest (%):	3.30%	ROA:	0.81%	EPS (cal)	$4.75	$5.29	$5.25
Avg. Daily Vol:	1,056,690	ROE:	14.60%	P/E (cal)	12.70	11.41	11.49
Dividend Quarterly:	$0.70	Tier 1 Capital Ratio	11.48%	BVPS	38.13	41.03	41.45
Yield (%):	4.70%	Credit Provisions/Loans	0.28%	P/B	1.59	1.45	1.44

Recommendation

BMO's recent acquisition of M&I is a solid strategic acquisition for the bank allowing them to grow their U.S. business in the Midwest, where BMO already owns Harris Bank and AMCORE Bank. BMO acquired M&I for $4.1 billion (paid in stock with a conversation rate of 0.1257 per M&I common share). This acquisition amounted to a multiple of 1.29x sales and 0.61x P/B, compared to the average of 3.2x sales and 2.52x P/B for the average bank. BMO still needs to repay TARP in the amount of $1.7b. This acquisition boosts BMO AUM by $33 billion and adds $34 billion to deposits. The combined operations will put BMO as the 11th largest bank by branches in N.A. and the 15th largest by assets in the U.S. (BMO's net revenues have been growing at a 5 year CAGR of 4.41%). The firm's net interest income (NII) growth on a 5 year CAGR has been 5.43%. BMO has also implemented a growth strategy in Asia and are currently expanding organically in China. They acquired Hong Kong based Lloyd George Management (LGM), which adds $5 billion of assets in China and $1 billion in India. BMO investment in Asia might not be fruitful in the short-term, but in the long-term should turn out to be a solid growth strategy. BMO strictly monitors their expenses and management - and places an emphasis in strictly controlling their expenses. Without the M&I acquisition, BMO's non-interest expense would have risen 3.9% Y/Y. Based on the reasons above, it is recommended that BMO be added to AIM International Fund with a target price of $79, providing a 31% upside. BMO currently pays dividend yield of 4.70%.

Investment Thesis

- **Strategic Acquisition.** With the acquisition of M&I, BMO's capital position still remains very strong despite the drop of 234 bps in their Tier 1 capital ratio from Q2 '11 to Q3 '11. The pro-forma for Basel III with the adoption IFRS is 8.8%, which allows BMO to remain well positioned to meet Basel III capital requirements in the near term. The acquisition of M&I adds $29B of loans, after adjustment for future expected losses, and it doubles their U.S. branch count to 688. It also adds 2 million individuals to BMO's customer base. In Q3 M&I contributed net income of $26M to P&C and $4M to PCG. The most important part of the acquisition that cannot be measured by numbers alone is that the management culture of BMO and M&I are similar, making the integration easier and faster.

- **Miniscule European Crisis Exposure.** BMO has a small exposure to the European sovereign debt crisis. During the most recent earnings call, the CRO mentioned that BMO has less than $300 million exposure to the stressed European banks. In BMO's trading book, there is some exposure to European countries, but it is largely in AAA rated securities. The exposure to those securities that are not as highly rated is under $200 million.
- **Going Global.** BMO is the only Canadian bank that has an incorporated subsidiary in China. BMO is also the only Canadian bank chosen as market maker for FX trading and they are the first foreign bank permitted to invest in a Chinese mutual fund company. BMO currently operates branches in Beijing, Shanghai, Guangzhou and Hong Kong. BMO's acquisition of LGM increased their AUM by $6 billion. This acquisition complements BMO's established presence in China and enhances their Asia growth strategy.

Valuation

To find the intrinsic value of BMO four techniques were used and weighted equally. A P/TB multiple of 2.4 was applied against TBV/Share of $37.26 resulting a valuation of $89.42. A P/B multiple of 1.90 was applied against BV/Share of $45.55 yielding a valuation of $86.57. A 5-year excess equity return was used with a terminal growth rate of 2%, giving a valuation of $81.91. Using a dividend growth model with a terminal growth of 5.5% yields a valuation of $65.64. Weighting all four techniques equally an intrinsic valuation of $79 was determined, providing a 31% upside. BMO pays dividend yield of 4.70%

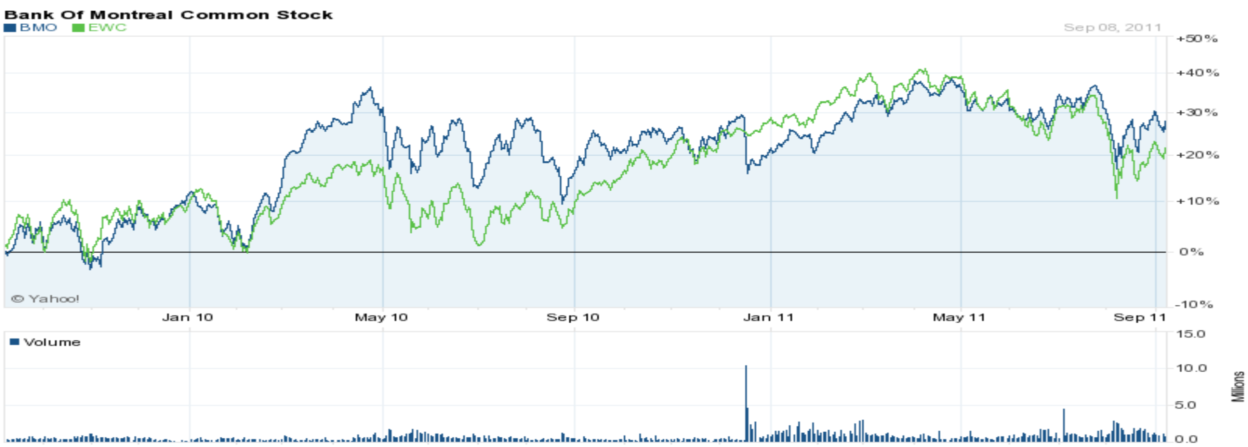
Risks

- **Double Edged Sword.** With the new acquisition there is always the risk of a rocky integration. It is always possible that M&I might not mix well with the current culture of the parent company, which under this scenario might make the acquisition more costly (i.e. integration and restructuring costs have gone up from an estimated $540m to $600m); although management has reiterated that the integration process of M&I is on target and running smoothly. Management repeatedly reiterated that M&I and BMO have very similar management cultures.
- **Macroeconomic Headwind.** With the acquisition of M&I, BMO is betting that the American economy will grow. Unfortunately there is a lot of uncertainty concerning the near-term growth of the American economy. This slowdown will not only impact BMO's American operations, but also its Canadian operations. The Canadian economy could be negatively impacted which ultimately would lead to lower earnings for BMO.
- **Regulatory Risk.** The finance industry always carries the risk of changing regulation. The biggest regulatory threat at the moment is Dodd-Frank and the impact of this regulation might hamper future BMO profits in the United States.

Management

William Downe is the current President and CEO of BMO. He has held this position since March 1, 2007. He is the only Canadian member of the International Business Leaders Advisory Council of the mayor of Beijing. He holds a Bachelor of Arts degree from Wilfrid Laurier University and MBA from University of Toronto. Thomas E. Flynn is the current CFO, and was appointed in March 2011. Before holding this position he served as the CRO. He obtained his MBA from the Ivey School of Business at the University of Western Ontario.

Source: Yahoo! Finance



Source: Yahoo! Finance

Ownership

% of Shares Held by All Insider and 5% Owners:	N/A%
% of Shares Held by Institutional & Mutual Fund Owners:	N/A%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Royal Bank of Canada	23,392,878	3.67
Toronto Dominion	23,068,866	3.62
TD Asset Management	19,669,805	3.09
The Bank of Nova Scotia	19,481,304	3.06
CIBC World Market	18,610,478	2.92

Source: Bloomberg