MARQUETTE UNIVERSITY

Applied Investment Management (AIM) Program

AIM Fund Investment Advisory Board Meeting
May 5, 2008

AIM Equity Fund Presentations

Student Presenter	Company Name	Ticker	Price
Ashley Nguyen	Koninklijke Ahold NV	AHONY	$14.75
Lauren Grebe	Bio-Reference Laboratories	BRLI	$25.59
Caitlin Gerdes	Cross Country Health Care	CCRN	$12.14
Katie Wycklendt	China Medical Technologies, Inc.	CMED	$37.72
Steve Briggs	Digi International	DIGII	$25.55
Alison Bettonville	Endesa Chile	EOC	$46.65
Break			
Chris Cebula	US Global Investors, Inc.	GROW	$13.51
Sarah Schmidt	Lancaster Colony Corp.	LANC	$35.23
Tim Kellen	Longtop Financial Technologies	LFT	$20.24
Kevin Roloff	Netgear Corp.	NTGR	$16.91
Kellie Friese	Pearson PLC ORD	PSO	$13.19
David Martin	Senior Housing Properties Trust	SNH	$24.61
Pat Abeln	China Petroleum and Chemical	SNP	$107.56

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Koninklijke Ahold NV

AHONY
Price: $14.85 ($12.50 - $14.75)
Fiscal Year Ends: December 31

April 24, 2008 — Ashley Nguyen
Russell 2000 Index: 39.93 (37.67 – 44.32) — Consumer Services Sector

Koninklijke Ahold (AHONY) is an international group of supermarket and foodservice operators based in the U.S.A. and Europe. AHONY also finances, develops, and manages store sites and shopping centers primarily to support its retail operations. AHONY's retail and foodservice operations are presented in seven business segments: Stop & Shop/Giant-Landover Arena, Giant-Carlisle/Tops Arena, Albert Heijn Arena, Central Europe Arena, Schuitema, Other retail and U.S. Foodservice. Some of Co.'s brands are Stop & Shop, Giant-Landover and Peapod, Etos, Gall & Gal,l and Ahold Coffee Company. AHONY provides an easy, convenient and appealing shopping experience through continuous customer focus. They are committed to offering their customers the best value, the highest quality and healthy choices.

Recommendation

AHONY is one of the world's largest grocery retailer and a leading supermarket operator along the east coast of the U.S. The Company is the number one food retailer in the Netherlands with Albert Heijn and Schuitema. The company was hurt in 2003 by the accounting scandal of it former CEO, but after replacing him, the company has shown strong growth from the disaster. With the Company's knowledge of local markets and consumers, it gives them a strong competitive position. The new plan to reduce cost by 500m will enable them to build two Continental platforms to simplify their structure. The plan to cut cost will make executing their strategy easier. I am recommending the addition of AHONY to the AIM equity portfolio with a $14.00 target price.

Key Statistics	Apr. 24, 2008
Market Cap	$18,092.36m
Shares Outstanding	1,244.54
Average Volume	119,965**
Beta	.820*
EPS (TTM)	$2.75
F2009 Estimated EPS	$1.16
PEG Ratio	0.4
P/E (TTM)	13.6
P/S (TTM)	0.3
WACC	9.11%
Debt/Assets	40.79
ROE	18.57%
Gross Margin	20.82%
Operating Margin	3.29%
Target Price	$14.00

Source: Morningstar, Bloomberg, Yahoo! Finance***

Investment Thesis

- **Improving product and service offering.** Ahold holds a number one position in the United States and Europe with clear prospects for sustainable profitable growth. In saying so, the Company has the resources to excel in fresh foods by improving quality, selection, and presentation. They also have the ability to improve and expand the existing general merchandise assortment.
- **Additional Store Openings.** Ahold will continue to reach new customers in areas where it can achieve an attractive return. It will open stores in new format concepts and upgrade existing stores. The Company will also continue to look at targeted fill-in acquisitions to provide opportunities to reach new customers.

- **Customer Insight.** Their proven repositioning strategy and knowledge of customers, superior to their competition, will help them serve customers better and keep them at the front of the industry. They are able to provide customers with the best choice by focusing on fresh private label and general merchandise.
- **Online Business.** The Company is looking into furthering the development of their online business. The online business is a fast-growing segment where they already have a leading position. This will enable them to reduce cost, simplify the business by improving technology.

Valuation

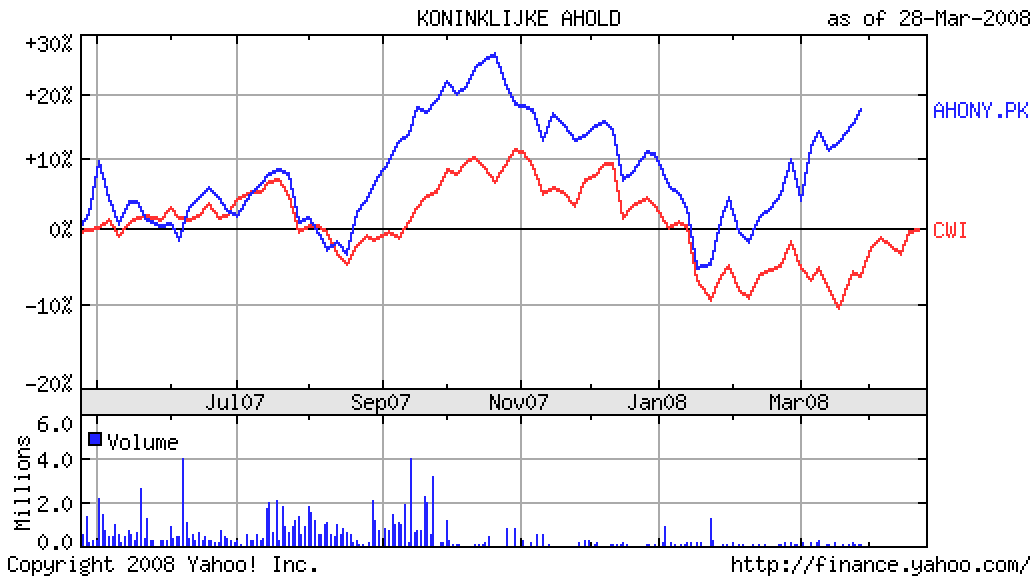
The discounted cash flow valuation for Koninklijke Ahold indicates an implied share price of $13.42, compared to the current price of $13.23. Adjusting for WACC assumptions leads to a price range of $11.34-$14.75 and adjusting for varying scenarios reflects a price range of $12.55-$14.12 for the stock. Taking into account all metrics, a target price of $14.00 is reasonable.

Risks

- **Competitors.** In an increasingly competitive world, people have countless choices about where to shop. To compete in their industry, the company has to be able to make an emotional connection with customers and develop a powerful consumer brand. Falling short of the strategy will cause the company to lose customers to their competitors.
- **Strategic Risks.** The Company adopted a strategy that includes a realignment of its portfolio to focus on core retail business in its restructured continental organizations: the United States and Europe, the continued roll-out of value repositioning programs, and the reduction of costs. They may incur unanticipated costs and may not be able to achieve these targets.
- **Financial Risks.** Ahold is exposed to foreign currency translation risks and currency transaction risks. A substantial portion of its assets and liabilities are denominated in foreign currencies, primarily the U.S. dollar. As a result, the Company is subject to foreign currency exchange risks due to exchange rate movements.
- **Operational Risk.** Ahold is a low-margin business and its operating income is sensitive to price fluctuations. The Company makes a significant portion of its sales at prices that are based on the delivered price of products it sells plus a percentage markup. As a result, Ahold’s absolute levels of profit may decline during periods of food price deflation, even though the gross profit percentage may remain relatively constant.

Management

John Rishton assumed the position of Executive Vice President and CFO on January 2, 2006. Ahold's shareholders appointed him to the Corporate Executive Board in the position of CFO on May 18, 2006. On April 27, 2007 he was appointed President and CEO.



Ownership

% of Shares Held by Insiders:	0%
% of Shares Held by Institutional & Mutual Fund Owners:	100%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Brandes Investment Partners	39,110,412	3.21%
Sasco Capital Inc.	14,596,880	1.20%
Phoenix Investment	2,739,800	0.22%
Contravisory Research & Management	718,693	0.06%
Oechsle International Advisors	625,668	0.05%

Source: Bloomberg

Bio-Reference Laboratories, Inc.

BRLI

Price: $25.02($23.61-$35.80)

Fiscal Year Ends: October 31

April 24, 2008 Lauren Grebe

Russell 2000 Index: 703.71 (643.28- 856.48) Healthcare Sector

Bio-Reference Laboratories, Inc. provides clinical laboratory testing and esoteric testing services primarily to the greater New York area. Their customers are governmental units, clinics, employers, and doctors. Routine clinical tests include cholesterol checks, pap smears, pregnancy tests, and blood cell counts. In 2006 BRLI purchased GeneDx, which uses DNA sequencing technology to diagnose genetic disorders. The GenPath business unit performs esoteric testing in endocrinology, genetics, immunology, microbiology, oncology, serology, and toxicology. CareEvolve is a physician-based connectivity portal for clinical labs, and PSIMedica provides health information analytics for insurers, clinical trial companies, and health plans. BRLI was founded in 1981 in Elmwood Park, New Jersey and currently has 1,243 employees.

Recommendation

Bio-Reference Laboratories, Inc. (BRLI) is the largest regional lab testing corporation of its kind. They have experienced incredible growth, with a 29.2% increase in net income for 2007, as compared to the industry median of 13.9%. ROE of BRLI is 17.8% while the industry median is 10.7%. ROA is 9.8%, compared to the industry median is 2.2%. They intend to further expand laboratory operations through marketing and diversify through acquisitions. GeneDx's esoteric testing will be the main driver of growth as they continue to develop tests for diagnosis of developmental disorders. These new gene tests will create increased margin growth. While core clinical lab testing is continuing to gain regional market share, esoteric testing is taking over lab testing as a percentage of sales. Esoteric testing was 25% of sales in 2001, 45% in 2007, and is expected to surpass clinical lab testing in 2008. Considering the above factors and a target price of $35.91, a recommendation has been made to buy Bio-Reference Laboratories, Inc.

Key Statistics	Apr. 24, 2008
Market Cap	$344.529M
Shares Outstanding	13.781M
Average Volume	106.751 M
Beta	0.55
EPS (TTM)	$1.02
2008 Estimated EPS*	$1.01
P/E (TTM)	24.51
PEG	1.00
WACC	8.79%
Debt/Equity*	40.00%
ROE	17.80%
Gross Margin*	47.81%
Operating Margin	9.84%
Target Price	$31.28

*Source: Yahoo! Finance, *Thompson Financial*

Investment Thesis

- **Growth Potential of GeneDx.** GeneDx has the potential for nationwide expansion in esoteric testing. The unique nature of testing, and experienced clinicians and researchers have made GeneDx the major source of growth in 2007 and is expected to continue in the future. Development of new tests and platforms in esoteric areas will result in a unique product with high margins.

- **Increasing Regional Market Share.** Patient count is up 15% and net revenue per patient is up 9% for the first quarter of 2008 over the first quarter of 2007. They have over 50 clinics in the greater New York area. BRLI attributes their high customer retention to superior marketing representatives and service.
- **Gross Profit Margin.** BRLI has a gross profit margin of 47.81%, as compared to the industry median of 40.8%. This will remain stable or increase over time through the development of new esoteric tests and platforms, and through decreasing costs in clinical lab testing.

Valuation

A discounted cash flow model with a WACC of 8.79% gives a target price of $31.28, and a potential upside of 25.01%. Adjusting the WACC assumptions leads to a price range of $28.50-$34.55.

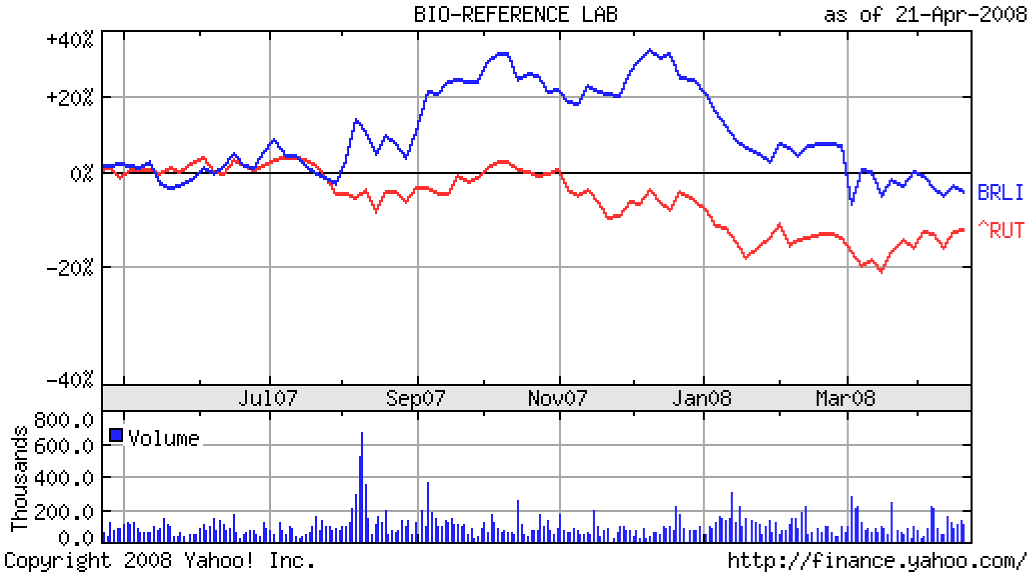
		Terminal Growth Rate				
		2.50%	2.75%	3.00%	3.25%	3.50%
WACC	8.20%	$ 33.05	$ 34.25	$ 35.57	$ 37.02	$ 38.62
	8.50%	$ 31.07	$ 32.13	$ 33.28	$ 34.55	$ 35.93
	8.79%	$ 29.32	$ 30.26	$ 31.28	$ 32.39	$ 33.60
	9.10%	$ 27.66	$ 28.50	$ 29.40	$ 30.37	$ 31.44
	9.40%	$ 26.19	$ 26.93	$ 27.73	$ 28.60	$ 29.54

Risks

- **Accounts Receivable**. BRLI is paid by government entities, insurance companies, Medicare, and Medicaid. The billing system is very complex where kickbacks and uncollectible accounts have been an issue. AR collection time is currently 133 days, making collections a large area for improvement. The industry days for sales' outstanding is 56.
- **Highly Regulated Industry.** Breaking laws or regulations can result in large fines or loss of license. To date, BRLI has no history of compliance issues. Any future issues could result in large losses. Changes in laws regarding Medicare and Medicaid could also negatively impact earnings.
- **Acquisitions.** As BRLI delves further into esoteric testing, nationwide expansion will occur partially through acquisitions. Though management has been very selective in acquiring companies, having recently backed out of an acquisition, smooth integration will be an issue.

Management

Marc Grodman M.D. has been the founder, chairman, CEO, and president since BRLI's founding in 1981. BRLI cites dependence on Gorman as one of their potential weakness if he were ever to leave the corporation.



Ownership

% of Shares Held by All Insider and 5% Owners:	16%
% of Shares Held by Institutional & Mutual Fund Owners:	72%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
ARBOR CAPITAL MANAGEMENT, LLC	732,900	5.32%
NORTHPOINTE CAPITAL LLC	597,306	4.33%
OPPENHEIMER FUNDS, INC.	567,433	4.12%
WASATCH ADVISORS INC	527,135	3.83%
EMERALD ADVISERS	499,660	3.63%

Source: Yahoo! Finance

Cross Country Healthcare

CCRN

Price: $11.99($10.11-20.12)

Fiscal Year Ends: December 31

April 24, 2008 — Caitlin Gerdes

Russell 2000 Index: 708.11 (643.28 – 856.48) — Business Services Sector

Cross Country Healthcare is a leading provider of nurse and allied staffing services (80% of FY07 revenues), clinical trials services (13% FY07 revenues), and other human capital management services (7% FY07 revenues) focused on healthcare. CCRN currently serves a national client base of approximately 4,000 hospitals, healthcare organizations, and other pharmaceutical and biotechnology companies. In July 1999, an affiliate of Charterhouse Group International, Inc. and members of management acquired the assets of Cross Country Staffing. A few months later, they acquired TravCorps and changed the name to Cross Country TravCorps. In 2003, the company changed its name to Cross Country Healthcare. It is currently headquartered in Boca Raton, Florida with additional offices in Massachusetts, Florida, and Pennsylvania.

Recommendation

CCRN has a major advantage over other staffing firms because of its diversification of service segments to the healthcare industry. Over the last year, the company has recorded strong top-line growth while consistently beating guidance and analyst expectations (Q407 EPS up 29.4%, above guidance by 9.4%). Based on a strong demand for professional services, a diversified business product offering, strong acquisition history, and the ongoing demand for medical staff, it is recommended that CCRN be added to the AIM fund with a target price of $15.30.

Key Statistics	Apr. 24, 2008
Market Cap	387.34M*
Shares Outstanding	31.60M*
Average Volume	236,546*
Beta	1.528*
EPS (TTM)	$0.74*
2008 Estimated EPS	$0.83**
P/E (TTM)	14.99
PEG	0.88*
WACC	12.35%**
Debt/Assets	7.37**
ROE(TTM)	6.42%*
Gross Margin	3.42%*
Operating Margin	5.86%*
Target Price	$15.30

Sources: Yahoo! Finance, Bloomberg***

Investment Thesis

- **Nursing Demand.** The demand for registered nurses has been strong for the past ten years due to an increasing demand and an undersupply. In addition, the aging population, including nurses who will soon retire, will require more medical attention, ensuring the continued need for nurses in the upcoming years.
- **Nurse Staffing Regulation.** The Nurse Staffing Standards and Patient Safety Quality Care Act (H.R. 1222) is currently pending a study of licensed practical nurses staffing levels. The bill would establish minimum registered nurse-to-patient ratios in acute care settings that CCRN has contracts with.
- **Acquisitions providing diversified position.** CCRN's recent additions of companies in the human capital management segment, including Assent Consulting in July 2007 for $19.6M

cash, have increased segment revenue by 8% compared to the same period the year before. These recent acquisitions have provided for diversified services to its existing clients.

- **Expansion in Healthcare**. Healthcare spending in the U.S. increased 6.7% in 2006, 31% of which was attributed to hospital services. In order to staff this increased expansion, hospitals are utilizing temporary staffing for more than 5% of their workforce.

Valuation

Currently, Cross Country Healthcare is trading at 15.04x current EPS. Due to CCRN's strong growth and acquisition power, we believe that the company can trade at 18x. Using 18x 2008 estimated EPS of $0.83, a $14.94 target price was yielded. Alternatively, a ten year DCF Model found the price of the stock to be $15.68. The assumptions used in this valuation were an average growth rate of 10% for 2008-2011 and 11% from 2012-2017. A terminal growth rate of 4% and a WACC of 12.35% were used. Under a bullish assumption (5.00% terminal growth, 10.35% WACC), a $23.93 target price was found. On the contrary, a bearish valuation (2.5% terminal growth rate, 14.35% WACC), an $11.51 price was found. A price target of $15.30 is set on CCRN.

Figure 1: Sensitivity Analysis for CCRN

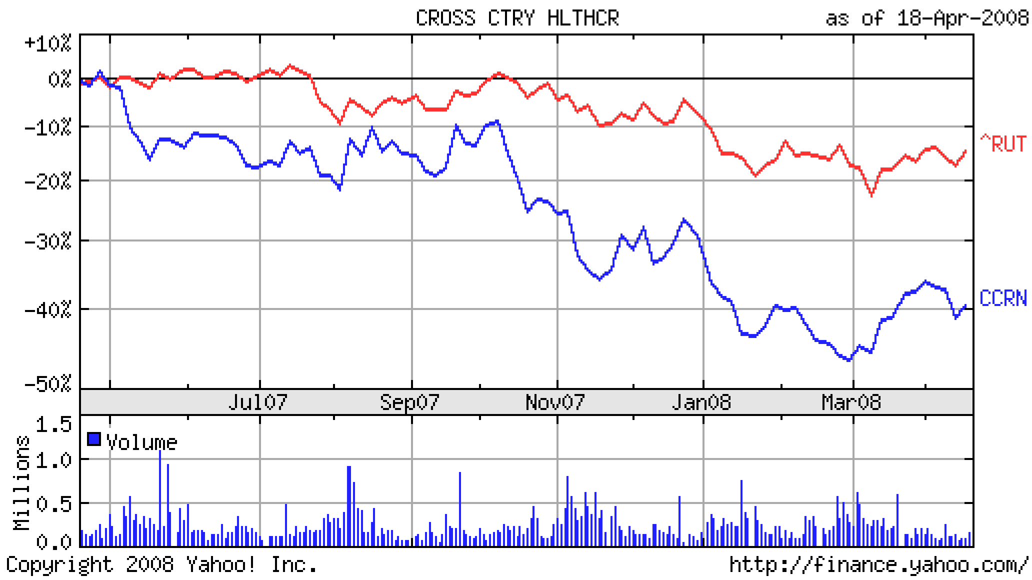
LT-G	WACC				
	10.35%	11.35%	12.35%	13.35%	14.35%
2.50%	$18.56	$16.17	$14.28	$12.76	$11.51
3.00%	$19.34	$16.73	$14.70	$13.08	$11.75
3.50%	$20.24	$17.36	$15.16	$13.42	$12.02
4.00%	$21.27	$18.09	$15.68	$13.81	$12.31
4.50%	$22.49	$18.91	$16.27	$14.24	$12.63
5.00%	$23.93	$19.87	$16.93	$14.72	$12.99

Risks

- **Employee Retention.** CCRN's ability to retain its high experienced professionals and effectively recruit new talent is key to the company's growth and success, which may come at a higher cost of providing more attractive compensation and benefit packages.
- **Inability to satisfy demand.** The continued shortage of nurses will make it difficult for Cross Country Healthcare to fully satisfy the needs that its clients possess.
- **Competition for acquisition.** The competitive environment and low barriers to entry in the nurse and allied staffing segment will make it more difficult for CCRN to acquire new business segments, which has been its major growth strategy for the last few years.
- **Reimbursement from clients.** Some clients are reimbursed under the Medicare and Medicaid programs for the services they provide. In recent years, federal and state governments have made changes in these programs that have reduced the reimbursement rates to healthcare agencies. As a result, CCRN may not receive payment as quickly as desired.

Management & Board Members

Joseph Boshart has served as President and CEO since July 1999. Before becoming President and CEO, he worked for their predecessor, Cross Country Staffing.



Ownership

% of Shares Held by All Insider and 5% Owners:	9%
% of Shares Held by Institutional & Mutual Fund Owners:	102%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Dimensional Fund Advisors Inc.	2,715,610	8.76%
Royce & Associates, Inc.	2,505,100	8.08%
Dawson-Herman Capital Management, Inc.	1,746,395	5.63%
Barclays Global Investors UK Holdings	1,558,782	5.03%
Vanguard Group, Inc.	963,621	3.11%

Source: Yahoo! Finance

China Medical Technologies Inc. (ADR)

CMED

Price: $38.04 ($22.81 – $57.50)
Fiscal Year Ends: March 31

24 April 2008 — Katie Wycklendt
NASDAQ Global Mkt Composite: 921.63 (840.80 – 1,242.77) — International Healthcare Sector

China Medical Technologies is a leading provider of healthcare diagnostic systems and cancer treatment devices in China. Through its wholly owned subsidiaries Beijing Yuande Bio-Medical and Beijing GP Medical Technologies, CMED develops, manufactures, and markets two different product groups. The in-vitro diagnostic (IVD) line includes Enhanced Chemiluminescence Immunoassay (ECLIA) and Florescent in situ *Hybridization (FISH) technologies that detect a wide range of disease and disorders. The second line involves High Intensity Focused Ultrasound (HIFU) commonly used as therapy for solid cancers and benign tumors. Among its customers are large and medium-sized hospitals in China. Incorporated in 1999 in China as Beijing Yuande Bio-Medical Engineering Co. Ltd., CMED was renamed at its 2004 IPO and is headquartered in Beijing, China.*

Recommendation

China Medical Technologies, with its location in the budding Chinese healthcare market, is positioned for major growth. As the standard of living improves in heavily populated China, there will be increased demand for healthcare diagnostics and cancer treatments. With experience in operating in the Chinese environment, CMED is prepared to serve the growing market and may become an attractive takeover target in the future. Given these conditions, a target price of $54.00, and the current market price of $38.04, CMED appears to be highly undervalued. However, commentaries are lacking on the historical information and management of this company. Results for fiscal year 2007 (ended March 31, 2008) will be reported in June 2008. The company's form 20-f should provide insight into the direction of the company as well as the performance of the newly acquired FISH line. Therefore, until FY2007 results can be incorporated into the valuation, it is recommended that CMED be kept on the AIM watch list for possible addition into the international portfolio in fall of 2008.

Key Statistics	Apr. 24, 2008
Market Cap	$1.06b
Shares Outstanding	27.4M
Average Volume	0.674M
Beta	1.20+
EPS (TTM)	$1.69
2007 Estimated EPS	$1.52*
P/E (TTM)	22.97
P/S (TTM)	9.29
PEG Ratio (5 yr exp.)	0.63
WACC	12.36%
Debt/Assets	0.435
ROE	16.48%*
Gross Margin	45.08%
Operating Margin	46.82%
Target Price	$54.00

Source: Yahoo! Finance, Thomson, Bloomberg+*

Investment Thesis

- **Major Growth Opportunities.** The Chinese healthcare sector is one of the fastest growing markets in the world. Easing economic controls are increasing discretionary income available for spending on health assessment services and therapies.

- **Chinese Business Expertise.** CMED is the market leader in China and familiar with the cultural, political, and business environment. Established infrastructure gives CMED cost and distribution advantages within China that larger competitors do not have.
- **Consumable Reagents**. The FISH and ECLIA diagnostic systems require the use of a disposable reagent for each diagnosis. Those used in the ECLIA system must be CMED manufactured. This portion of the business can drive growth even when system sales are weak.
- **Patents and Pipeline.** Current products have overseas patent protection through 2022. At the same time, CMED continues developing new reagents to assess infectious disease, infertility disorders, and cardio-vascular diseases.

Valuation

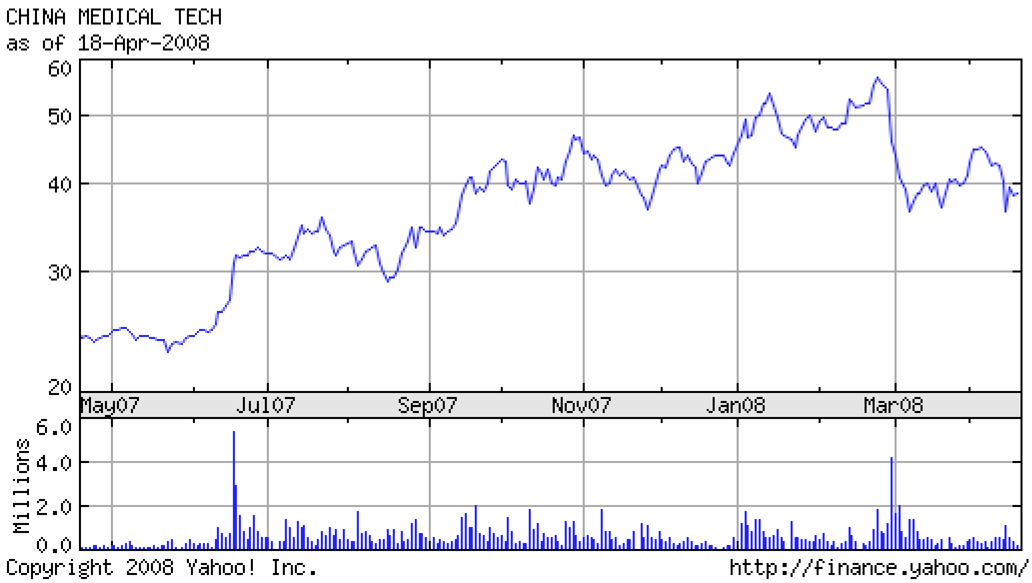
Based upon projected 2008 EPS of 1.82 RMB, the current exchange rate of 0.14 USD/RMB, and an industry multiple of 22.72, a value of $59.22 per ADR (at 10 shares per ADR) is reached. Additionally, using on a discounted cash flow model with a calculated WAAC of 12.36%, a value of $51.28 is reached using a 3.50% terminal growth rate. It should be noted that this valuation uses conservative revenue projections. Adjusting assumptions leads to a price range of $42.08 – 65.82. Accounting for both valuation techniques results in a target price of $54.00.

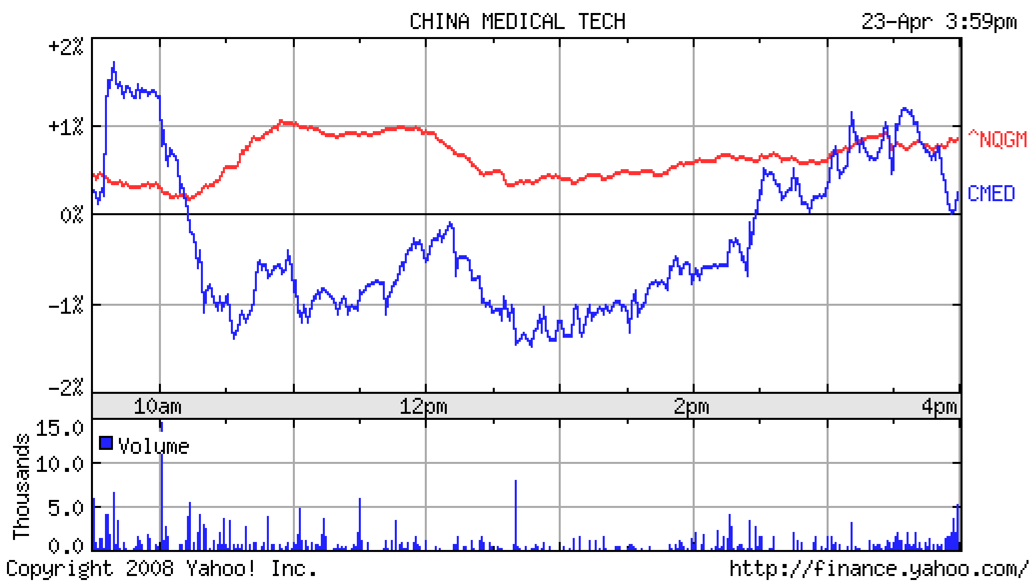
Risks

- **Promotion Efforts.** The growth opportunities available in China also mean the market is highly underdeveloped. Extensive promotion is needed to inform the Chinese public about the benefits of CMED's product lines.
- **Chinese Concentration.** A host of risks are associated with operating almost exclusively in China. These include lack of intellectual property protection, prevalence of kickbacks, government price controls on HIFU treatment fees, and operating in a restricted currency. CMED relies on limited dividends from subsidiaries for cash in foreign currencies.
- **Integration of Acquisitions.** The company is relatively young and made acquisition of their HIFU and FISH lines as recently as 2004 and 2007, respectively. The success of these additions remains to be proven.
- **Lack of Distributor Contracts.** Products are sold on a unit-by-unit basis through a select few distributors. CMED thus assumes all risk in the event that sales slow.
- **High Unit Prices.** The HIFU line is the largest portion of sales and has a high unit price. Thus, a small number of unit sales can have a heavy impact on the top line. This can cause fluctuating and unpredictable results.
- **International Competitors.** CMED has extensive worldwide competition from well-established firms, including Abbot Laboratories, GE, and EDAP. Two of these (ABT and GE) are significantly larger with much greater capital resources than CMED.

Management

Xiaodong Wu founded the company in 1999 and continues to serve as CEO and chairman of the board. He also serves on the board of Beijing Chengxuan, an investment holding company with a major interest in CMED, and two other medical technology companies. CFO and director Takyung (Sam) Tsang, CPA, was an accounting and finance advisor to CMED before joining the company in 2005.





Ownership

% of Shares Held by Insiders:	0.00%
% of Shares Held by Institutional & Mutual Fund Owners:	10.16%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Perry Corp.	3,374,995	12.34%
Capital Research Global Investors	1,395,500	5.10%
AXA	999,411	3.65%
Robeco Fund Management	700,000	2.55%
Hansberger Global Investors, Inc.	654,151	2.39%

Source: Bloomberg

Digi International, Inc

DGII

Price: $8.38 ($7.88-$17.30)
Fiscal Year Ends: September 30

April 24, 2008
Russell 2000 Index: 719.03 (643.28- 856.48)

Steve Briggs
International Hardware Sector

Digi International (DGII) was formed in 1985 with its initial public offering in 1989. Digi designs and manufactures various adapters and network connectivity components for computer networks. The company's product lines provide support for Ethernets, local area networks, and universal serial bus connections. Main product lines include technology to provide connectivity infrastructure for businesses, with embedded and non-embedded lines. Embedded products are used by a developer to build an electronic device (e.g., retail scanner, medical instrument). Non-embedded products are connected externally to a device or larger system (e.g., building access control panel, traffic controller). Digi has its worldwide headquarters in Minnetonka, Minnesota, with regional sales offices throughout North America, Europe, and Asia Pacific, and is listed on the NASDAQ Global Select Market.

Recommendation

I recommend purchasing shares of DGII based on strong sales, gross margin expansion, international growth opportunities, and the possibility of either share buy-backs or growth through acquisitions. In Q108 DGII was $.03 shy of consensus EPS estimates of $.17; however, the company dispelled concerns over a challenging ASP (Application Service Provider) environment through in-line sales of $44.6M ($44.9M consensus), and strong gross profit based on the strongest gross margin in five quarters with a margin of 53.8%. SG&A rose approx. $450K due to the increased investments in international expansion, which drove the drop in EPS, but should begin to pay off 2H08. Q2 was another miss, based on a slight slowdown in enterprise spending. Adding to the miss was the acquisition of UK wireless equipment maker Sarian, which will take a toll on FY08 earning, but will break even on the deal in Q408, and add 6 to 8 cents per share in FY09. Margins are poised to expand with international exposure and enterprise spending pickup, the PEG ratio of .44 (3-year growth rate of 15%) suggests that the company is significantly undervalued, and the cash adjusted P/E ratio of 6.6x earnings is at a drastic discount to the industry average (21.8x). With all these factors considered, along with the fact that only five small equity research firms are covering DGII, the company is flying under the radar, and with a strong 2H08 and FY09, could see significant appreciation in the stock value.

Key Statistics	Apr. 24, 2008
Market Cap	$220.4M
Shares Outstanding*	26.3M
Average Volume*	158,488
Beta*	1.24
EPS (TTM)	$.73
2008 Estimated EPS*	$.50
P/E (TTM)	11.5x
P/E (Cash Adjusted)	6.6x
PEG (Cash Adj.)	0.44
Debt/Assets	0.25%
ROE	8.6%
EBITDA Margin	13.8%
Operating Margin	8.5%
Target Price	$15.00

**Thomson*

Investment Thesis

- **Strong, Expanding Margins.** Due to international investments, Q208 margins were slightly down, but the company still posted strong gross profit based on the best gross margins in six quarters (53.8%). Prior to 1H08, excluding an abnormally strong FY2005, DGII saw Q407 EBIT Margin (16.0%) and Net Profit Margins (12.4%) expanding to the best in over 10 years. Most of the GM expansion was driven by license revenue, while both embedded and non-embedded product lines experienced GM expansion. The street has priced in flat margin growth for FY08; however stock price should appreciate as significant margin expansion occurs due to the increased international investments.
- **International Growth Opportunities.** International revenues account for 35.3% of total sales, and this figure is poised to expand significantly. The main reason EPS was shy of consensus in Q1 was due to management's increased investment in international expansion. DGII has a presence in over 69 countries, many of which are high growth emerging markets. On 4/28 DGII announced the acquisition of UK wireless equipment maker Sarian, whose presence in Africa will increase this exposure. Increased investments in these countries are expected to reap benefits in 2H08.
- **Strong Balance Sheet.** DGII holds basically no debt and approximately $85M in cash, or $3.24 per share. This excess of cash can be used to grow through acquisitions, in line with the several key acquisitions made over the past five years that are consistent with the corporate strategy. Investors could also see returns in the form of stock buy backs.

Valuation

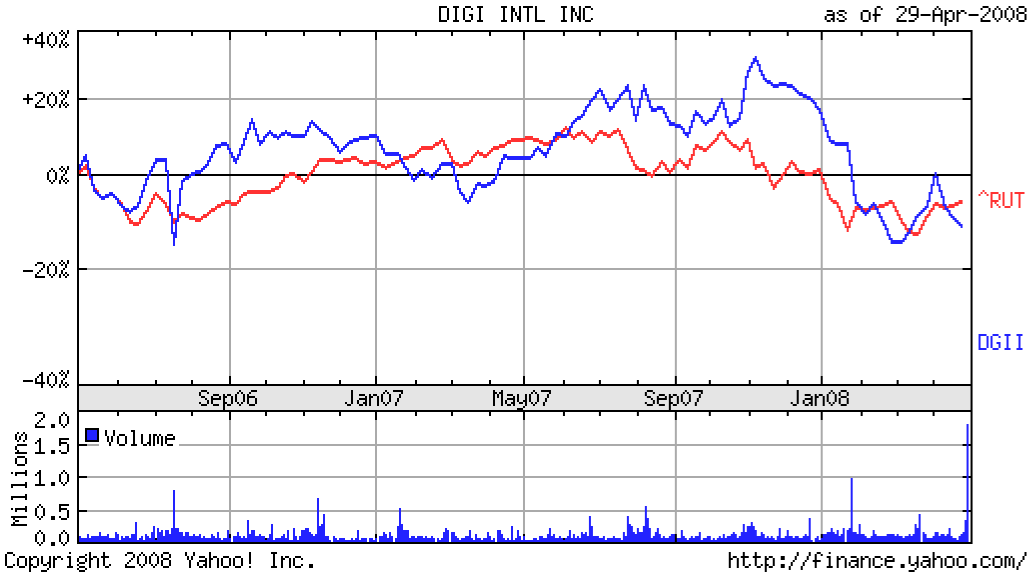
A DCF was applied to DGII, with a weighting on a base, best, and worst case. Discounting the company back at 12% and a heavy weighting on the base case, a valuation of $15.00 was calculated. This was formulated using the conservative side of the street's estimates on growth over the next three years (6%, 17%, 15% respectively) and a terminal multiple of 10x EBITDA. Also, a cash adjusted P/E of 6.6x was calculated, compared to an industry average P/E of 21.8x. A calculated PMV also resulted in a valuation of $24.

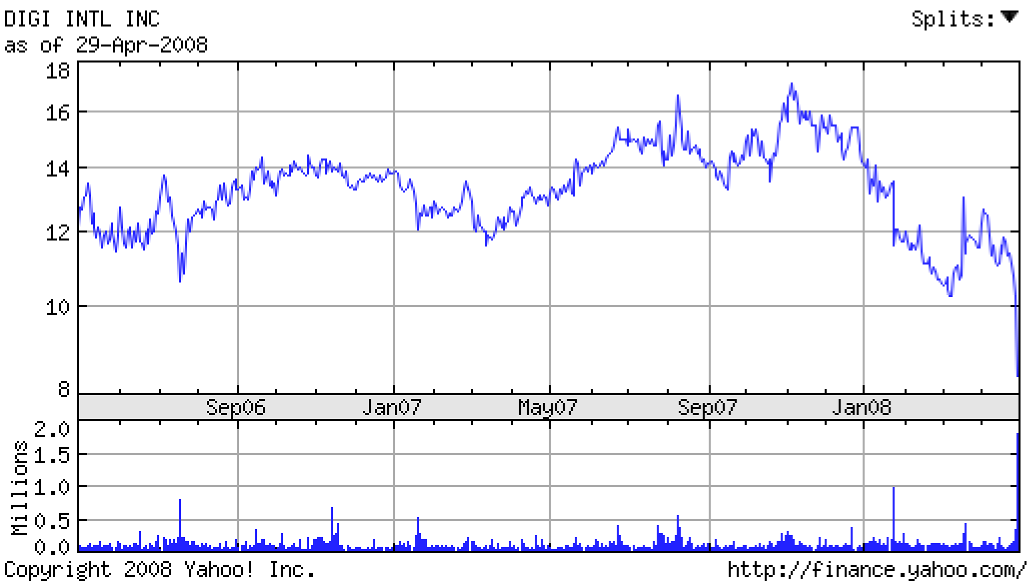
Risks

- **M2M Spending Trends Softening.** The street has some concerns over a weakening enterprising spending environment. Several companies within M2M (Machine-to-Machine) have indicated possible signs of softening spending trends and lengthening sales cycles. The company's average sales cycle of 12-24 months could be prone to slowdown across multiple segments.
- **Continued Declines in Legacy Products.** Legacy products, which are used to provide Ethernet networking interfaces for printers and various other USB peripherals, have trended down approx. 20% year-over-year, and could continue in a sharper decline in the current environment. Legacy products currently account for approx 15% of sales. However, note that the Legacy function is being replaced by the main processor line.

Management

Joseph Dunsmore, who joined the company in 1999 as CEO and a member of the board of directors, was elected Chairman of the Board in May of 2000. He brings with him a significant amount of experience at companies such as 3Com and AT&T.





Ownership

% of Shares Held by All Insider and 5% Owners:	9.67%
% of Shares Held by Institutional & Mutual Fund Owners:	74.9%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Royce & Associates	2,141,144	8.33%
Dimensional Fund Advisors Inc	1,902,156	7.40%
Munder Capital Management, Inc.	1,538,822	5.99%
Barclays Global Investors UK Holdings Ltd	1,450,864	5.65%
Riverbridge Partners LLC	1,338,095	5.21%

Source: Yahoo! Finance

Empresa Nacional de Electricidad S.A. "Endesa" (ADR)

EOC

Price: $49.58 ($31.34-$51.28)
Fiscal Year Ends: December 31

May 1, 2008 — Alison Bettonville

MSCI ACWI (ex-US): 39.84 (33.55-45.39) — International Utilities Sector

Endesa Chile is a multinational electricity generation company that operates in South America via a number of subsidiaries and related companies. Annual output is 12,720MW across four countries. In Chile, Endesa is the largest generation company on the country's main distribution network, which reaches 93% of the population. Internationally, Endesa subsidiaries provide Argentina, Colombia, and Peru with 15%, 21%, and 28%, respectively, of their local system capacity. The firm's recent focus and investments are centered on sustainable and renewable energies such as hydroelectric plants and wind farms; 64.7% of current output is hydroelectricity. Endesa shares trade on the Santiago Stock Exchange, Chilean Electronic Stock Exchange, Valparaíso Stock Exchange, Latibex, and NYSE, with an ADR ratio of 1 to 30 common shares. Endesa is headquartered in Santiago, Chile.

Recommendation

Currently, electricity demand far outpaces the available supply in many South American countries, especially Chile. With Endesa's electricity production concentrated in hydroelectric plants, the firm is a low-cost producer poised to benefit from the higher electricity demand of the growing economies. Additionally, planned capital expenditures of $3.5 billion (USD) over the next 5 years should continue to increase capacity and hold Endesa's position as one of the largest multinational generators in the region. Despite a low current dividend yield, I recommend Endesa for the international portfolio.

Key Statistics	Apr. 24, 2008
Market Cap	$13.25B
Shares Outstanding	273.39M
Average Volume	196,402
Beta	1.067
EPS (TTM)	$1.55
2008 Estimated EPS	$1.98
P/E (TTM)	31.28
Debt/ Equity	1.066
WACC	10.7%
Exchange rate: $1=	Ch$449.80
ROE (TTM)	10.1%
Gross Margin	11.14%
Dividend Yield	$.58 (1.2%)
Operating Margin	33.26%
Target Price	$58.00

Investment Thesis

- **Largest Chilean Producer.** Endesa is the single-largest producer of electricity in Chile. It supplies 49% of the capacity of the SIC, the main electricity distribution network in Chile, as well as 5% of the SING, the distribution network in the north of the country.
- **Low-cost Focus.** 64% of the electricity produced by Endesa and its subsidiaries is hydroelectric. Costs to produce hydroelectricity are much lower than the alternative, thermoelectricity, which can involve costly inputs such as coal or liquid natural gas. Endesa's main competitors, AESGener S.A. and Colbún, produce 80% and 59%, respectively, of their electricity thermally. Additionally, most regulated electricity prices in South America are

based on marginal cost, Endesa's ability to produce at lower costs give the firm a significant advantage over its competitors.

- **Fixed Contracts and Prices.** Over 50% of Chilean sales come from regulated customers, where the price is set by the Chilean National Energy Commission. Set prices, based on marginal cost, are overwhelmingly favorable to Endesa. These customers enter into ten-year contracts with the firm, ensuring long-term revenues. However, as not all customers regulated, Endesa also free to sell electricity on the open market and to negotiate contracts with unregulated customers, which represent over 17% of Endesa's Chilean revenue.
- **Multinational Exposure.** Operating across many different countries gives Endesa a natural hedge against adverse changes in weather conditions, regulation, or currency movements in any one country.

Valuation

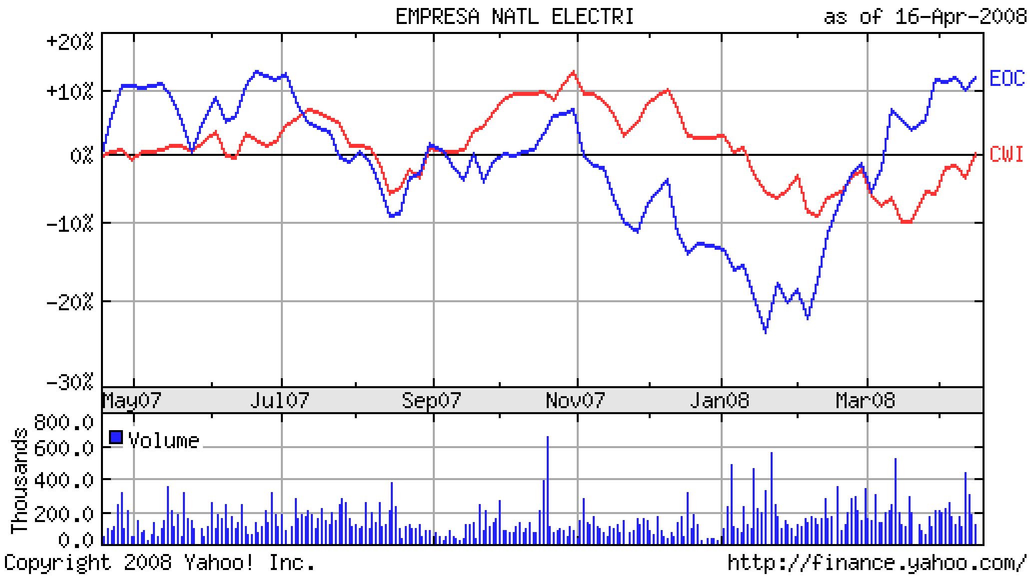
Using a DCF model with a WACC of 10.7%, 6% growth of operating cash flows, and a terminal growth rate of 3%, I found a value of $57.54 for the ADR shares, at current exchange rates. Further, in a dividend model assuming 6% dividend growth and Endesa's gradual movement toward its payout ratio goal of 60%, I found a value of $59.88. As a result, I believe $58 is an appropriate target price for Endesa.

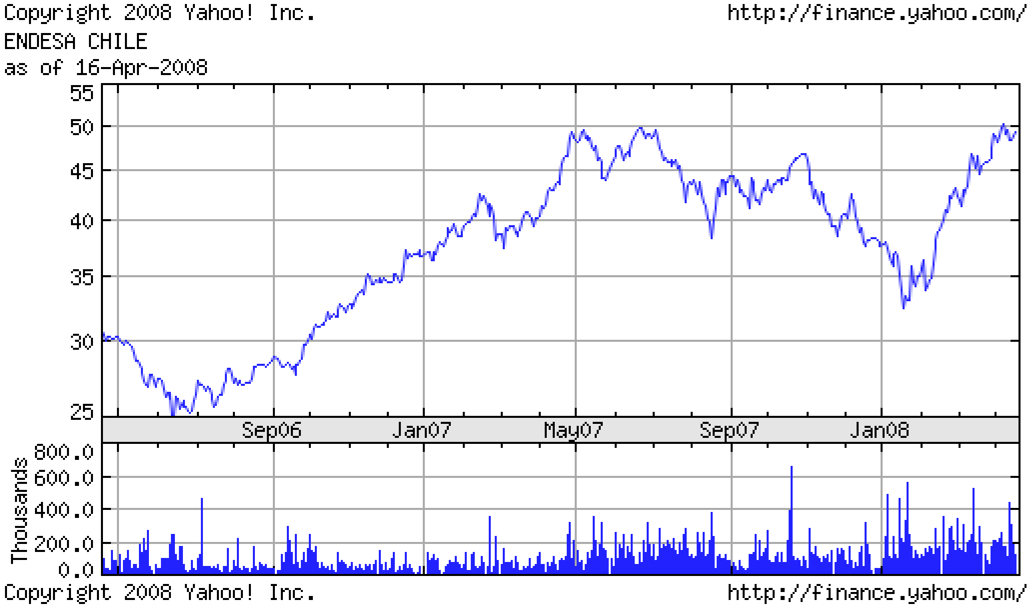
Risks

- **Subject to Weather Fluctuations.** Net income decreased 5.5% from 2006 to 2007, as a result of higher costs due to a lack of rainfall. Hydroelectricity production is very sensitive to weather fluctuations. When water levels are not adequate for sufficient energy production to fulfill contracts, Endesa must either generate more electricity thermally or purchase other firm's excess capacity on the spot market, both more costly than internal production.
- **Volatile Economies.** South American economies have a history of volatility, which has led to currency depreciations and extreme government regulations. Should an economic crisis occur in a country where Endesa operates, the firm could be adversely impacted.
- **Heavy Electricity Industry Regulations.** Electricity generation and distribution is subject to varying laws in each country. Most significantly, generation firms must produce enough electricity to fulfill contracts at all times, which may require Endesa to purchase some electricity on the spot market at a greater cost than internal production.
- **Cross-border Capital Flows.** Some South American countries limit the amount of profit that can be removed from a firm and repatriated, which could restrict Endesa's ability to recognize earnings from its foreign subsidiaries.
- **Debt Denominated in Dollars.** An overwhelming majority of Endesa's debt is priced in dollars. The current appreciation of the Chilean peso has been very beneficial for the company, but should this trend reverse Endesa would see greatly increased financing expenses.

Management

Many members of the management team have strong ties to both subsidiaries and Endesa's parent companies, Enersis and Endesa Spain. Chairman Mario Valcarce Duran was the former CEO and CFO at parent Enersis, an "umbrella company" in the Chilean electricity industry. CEO Rafael Mateo Alcala is also the chairman of the board in the Argentinean subsidiary Endesa Costanera.





Ownership

% of Shares Held by All Insider and 5% Owners:	N/A
% of Shares Held by Institutional & Mutual Fund Owners:	3%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Schroder Investment Management	1,358,387	.5%
BlackRock	984,300	.36%
Prudential	896,703	.33%
JP Morgan Chase & Company	370,157	.14%
Morgan Stanley	327,621	.12%

Source: Yahoo! Finance

US Global Investors, Inc.

GROW

Price: $13.33 ($12.31-$29.50)

Fiscal Year Ends: June 30

April 24, 2008 — Chris Cebula

Russell 2000 Index: $717.07 (643.28 – 856.48) — Financial Services Sector

US Global Investors, Inc. is a publicly owned investment advisor that manages a family of open-end, no load mutual funds. With over $5.5 Billion in assets under management, the firm invests in both fixed income and equity securities and demonstrates expertise in the following areas: natural resources, emerging markets, municipal bonds, short term government securities, and large cap domestic equities. In addition, US Global Investors, Inc. generates revenue by acting as the transfer agent to its funds, which includes providing mailing, distribution, and record-keeping services. The firm was founded in 1968 and is based in San Antonio, Texas.

Recommendation

US Global Investors, Inc. earns a majority of their revenues from investment management fees (85% of total revenue in 2007), which are based on a percentage of total assets under management (AUM). This percentage has grown from .5% in 2003 to about 1% in 2007, due primarily to capital inflows into higher fee funds. AUM have grown at a compound annual growth rate of 38% over the last five years, helping to drive annual revenue growth of almost 50% over the same time period. Currently, the company is poised to take advantage of strong growth prospects in eastern European emerging markets as well as natural resources in order to support future growth in AUM. After superior fund performance led to huge capital inflows in 2006, the stock became significantly overvalued. However, after the recent selloff in financial services, the stock has been trading at a fair discount to its intrinsic value. Even after building in a margin of safety to account for a reasonable amount of uncertainty, I think the stock has the potential to appreciate considerably (~20%). At a target price of $16.00, I am recommending that US Global Investors be added to the AIM portfolio.

Key Statistics	Apr. 24, 2008
Market Cap	$202.02M
Shares Outstanding	15.25M
Avg. Volume	133,331
Assets Under Management	$5.63B
Beta	1.40
EPS (TTM)	$0.90
P/E (TTM)	14.76
WACC	12.60%
ROA	37.18%
ROE	45.41%
Operating Margin	34.71%
Dividend	$0.24
Target Price	$16.00

Source: Yahoo! Finance, Bloomberg

Investment Thesis

- **Strong Historical Performance.** Not only is the net asset value of the thirteen funds concentrated in two areas that have outperformed the broader market in recent years (emerging markets and commodities), but the performance within these areas has been significant as well. 80% of the company's funds are ranked within the top quartile of their peer group over the last 5 years, while 40% are ranked within the top decile, including two funds that make up approximately 55% of the AUM.

- **Low Correlation to the Broader Market.** US Global Investors manages a mix of funds whose returns have a low correlation to one another. Because of this low correlation, the total net asset value of the funds is not directly tied to the market. The monthly returns of the net asset value of the funds over the last 36 months have only a .55 correlation coefficient with the Russell 2000 and a negative .21 correlation coefficient with the Lehman Aggregate Bond Index. This has enabled the AUM to grow 4% during the first quarter at a time when the Russell 2000 lost 10.2%.
- **Adds Diversity and Stability to Financial Services Portfolio.** The AIM Financial Services Portfolio does not currently contain any asset management firms. Adding US Global Investors to the portfolio would diversify our holdings and bring us closer to the normalized weightings of the Russell 2000 Financial Sector.

Valuation

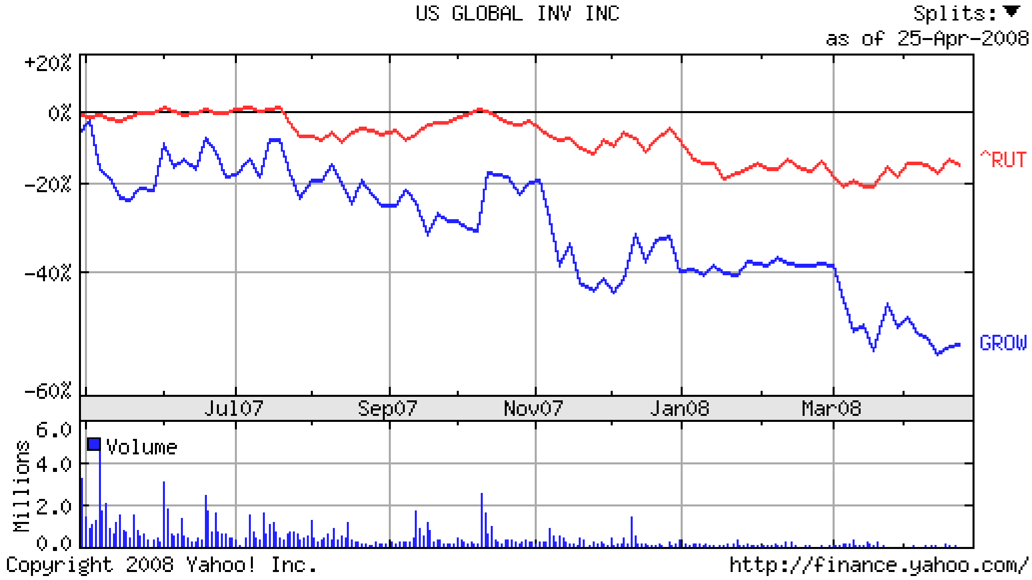
A ten year discounted cash flow valuation with a WACC of 12.60% yielded an intrinsic value of \$16.30 per share. The P/E ratio was also used to determine the relative value of the company. Taking into consideration the five year industry average, the five year company average, and the expected forward P/E for the industry, a price of \$15.50 per share was obtained. All things considered, a price target of \$16.00 is reasonable.

Risks

- **Market Risk.** To some degree, an investment in an asset manager is an indirect investment in the market. While a diversified pool of assets helps to mitigate this risk, there are always unforeseen circumstances that could negatively impact the firm. With 85% of revenues tied to AUM, market risk is a fairly significant risk for the firm.
- **Capital Outflows.** Each of the thirteen funds is an open end, no load mutual fund with a retail client base. Therefore, shares could be redeemed at any time for any reason, negatively impacting the total AUM. Capital inflows have accounted for a significant portion of the growth rate in AUM over the last three years (~70%).
- **Fee Compression Due to Increased Competition.** While the mutual fund industry is already highly competitive, the emergence of index funds and actively managed ETF's has the potential to further reduce asset management fees, which would adversely affect revenue growth.

Management

Frank Holmes is the CEO and CIO of US Global Investors while heading eleven of the thirteen investment teams. Holmes purchased a controlling stake in the company in 1989 and owns 93% of the voting shares. Holmes also serves on the Board of Directors, which includes three other Directors, all of whom are independent of the firm.



Ownership

% of Shares Held by All Insider and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	72 %

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Kinetics Asset Management Inc.	2,889,380	20.91%
Royce & Associates, Inc.	1,517,700	10.98%
Hodges Capital Management, Inc.	1,028,036	7.44%
Horizon Asset Management, Inc.	520,885	3.77%
Southpoint Capital Advisors LP	500,000	3.62%

Source: Yahoo! Finance

Lancaster Colony Corporation

LANC

Price: $38.52 ($32.72 - $44.86)
Fiscal Year Ends: June 30

April 24, 2008 — Sarah Schmidt
Russell 2000 Index: 703.71 (643.28 – 856.48) — Consumer Goods Sector

Lancaster Colony Corporation manufactures and markets three different product groups including Specialty Foods, Glassware, and Automotive. The Specialty Foods product line is LANC's largest and fastest growing division. It manufactures and sells a large variety of products including salad dressings, sauces, vegetable dips, noodles, and frozen hearth-baked breads. The Glassware and Candles product line offers a wide selection of scented and unscented products such as votives and potpourri. LANC's final division is the Automotive line, which operates under the Dee Zee Brand. This line manufactures and sells running boards, tube steps, toolboxes, and other accessories for pickup trucks, vans, and SUVs. LANC mainly sells its products to mass merchandisers, drug stores, department stores, specialty shops, and wholesalers The Company was founded in 1961 and is headquartered in Columbus, Ohio.

Recommendation

LANC sells a variety of products that appeal to wide range of consumers; however it derives virtually all of its operating income from the Specialty Foods division. There continues to be substantial demand for LANC's largest division, Specialty Foods, which was responsible for 66% of net sales in 2007. LANC acquired one of its competitors in this division with the acquisition of Marshall Biscuit Company Inc. The acquisition helped increase overall sales by 1.64% during 2007. Management continues to look for acquisition opportunities to help stimulate growth within the firm. LANC also pays out quarterly dividends, which amounted to $1.07 per share in 2007. The dividend is appealing to many investors during a weak US economy, because it is a reliable and steady cash flow. The Discounted Cash Flow Model and the P/E multiple arrived at a target price of $43.07 showing that LANC is approximately 11.8% undervalued. Therefore I am recommending monitoring LANC for future addition to the AIM portfolio when it becomes more undervalued.

Key Statistics	Apr. 24, 2008
Market Cap	1.17B
Shares Outstanding	29.24M
Average Volume	152,576
Beta	0.83
EPS	1.48
2008 Estimated EPS	2.17*
P/E (TTM)	26.87
PEG	2.021*
WACC	11.49%*
Debt/Asset	25.76%
ROE	13.76%
Gross Margin	17.74%
Operating Margin	8.78%*
Dividend Yield	2.90%
Target Price	$43.07

Sources: Yahoo! Finance, Bloomberg***

Investment Thesis

- **History of Acquisitions.** LANC looks to achieve most of its growth through acquisitions of its competitors. In 2003 LANC acquired Warren Frozen Foods Inc, and more recently acquired Marshall Biscuit Company Inc. in 2007. The acquisition led to an overall increase in net sales of 1.64%. Management continues to look at acquisition opportunities to further the growth of the firm.
- **Product Necessity**
  LANC derives virtually all of its operating income from its largest division, Specialty Foods. The Specialty Foods line accounted for 66% of LANC's total sales in Fiscal year 2007. As a food manufacturer, LANC's demand will continue during a weakening economy. Since the income from LANC's other two product lines are fairly insignificant, LANC will be able to avoid the declining demand many industries in the consumer goods sector are facing.

Valuation

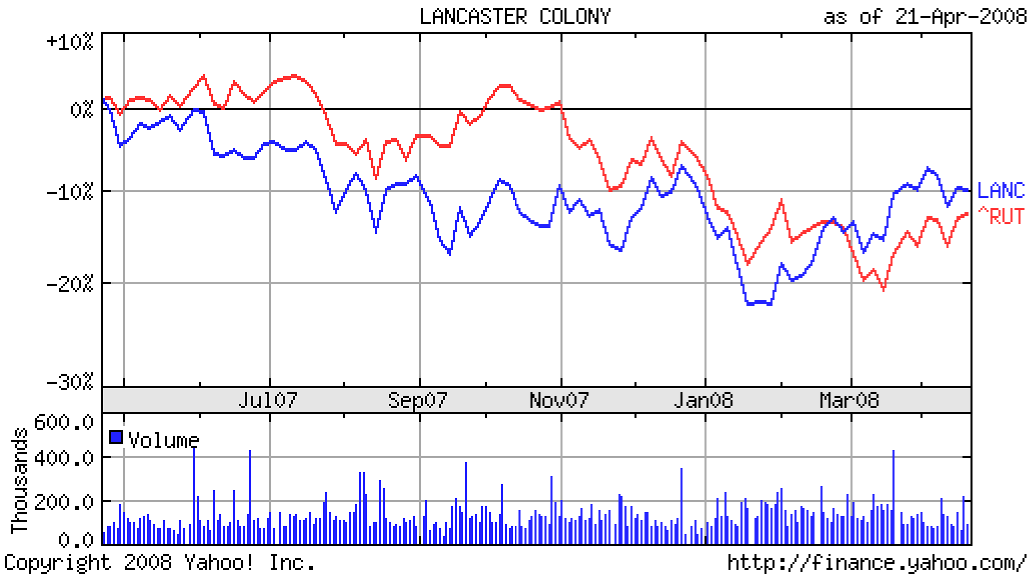
LANC's historical average P/E of 19.4x yielded a value of $42.10. I also performed a 10 year Discounted Cash Flow model, where an intrinsic value of $44.04 was found. This value was calculated by discounting LANC's FCF by its WACC of 11.49%. Based on the two valuation techniques I arrived at a target price of $43.07

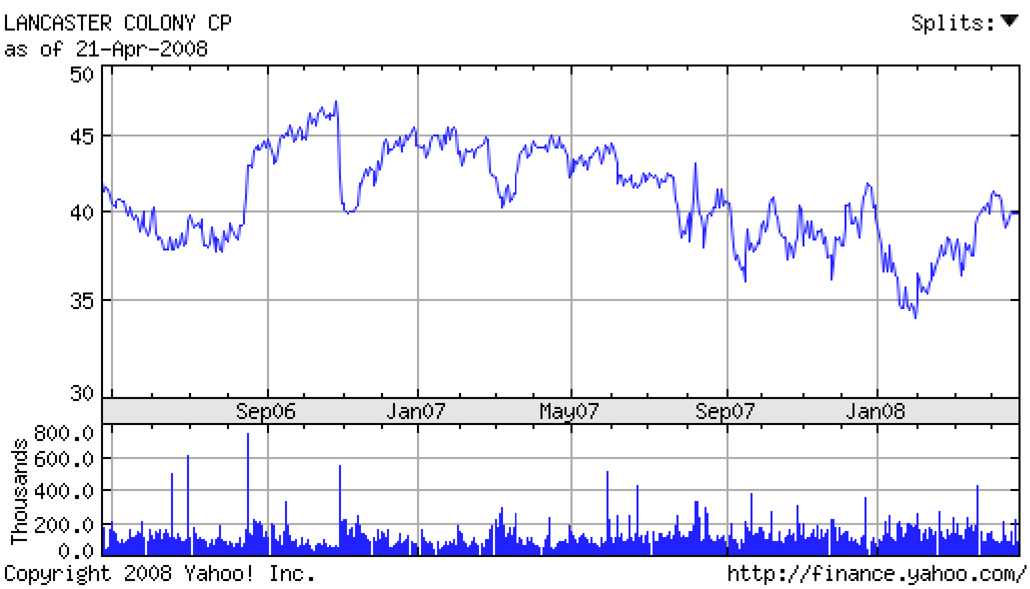
Risks

- **Increased Ingredient and Commodity Costs.** Soybean oil, dairy-derived product, eggs, flour, and oil have all hit record high prices over the past couple of months. As a result, LANC's Cost of Goods Sold has increased over 300 bps from 2006 to 2007. In an attempt to improve its profit margins, LANC has slightly increased the prices of its products going into 2008.
- **Competitive Market.** The barriers to entry into the retail market are relatively low, which has caused competition within LANC's three markets to be extremely intense. Management does not foresee the high level of competition changing anytime soon. The strong competition in the market could lead to a significant downward pressure of the price of LANC's products, which would have a negative impact on LANC's overall revenues and profitability.
- **Reliance on a Major Customer.** Wal-Mart is LANC's largest customer, accounting for approximately 15% of total sales during 2007. Loss of Wal-Mart's business could cause LANC's sales and net income to decrease significantly. While management currently feels their relationship with Wal-Mart is healthy, they cannot assure it will remain that way in the future.
- **Subject to Product Recalls.** LANC's operations could be affected by both genuine and fictitious claims regarding its own products or goods that are compliments to LANC's products. A claim or product recall could result in noncompliance with FDA regulations, which could force LANC to stop selling its products. Such claims could also result in a huge loss to LANC's credibility, and decrease consumers' acceptance of its products. This could result in substantial costs if lawsuits would follow such claims.

Management

Lancaster Colony Corp.'s management is experienced and has been with the firm for over ten years. LANC is led by John B. Gerlach, Jr., who has been the CEO and President of the firm since 1997. John Boylan has been LANC's CFO and Vice President since 1996.





Ownership

% of Shares Held by All Insiders and 5% Owners:	32%
% of Shares Held by Institutional & Mutual Fund Owners	55%

Source: Yahoo! Finance

Top 5 Share Holders

Holder Name	Shares Held	Percent of Share Outstanding
Barington Capital Group	1,526,601	5.22%
Yacktman Asset Management Company	1,306,490	4.47%
Barclays Global Investors UK Holdings	1,203,117	4.11%
Allianz Global Investors of America	1,178,150	4.03%
Royce & Associates Inc.	957,000	3.27%

Source: Yahoo! Finance

Longtop Financial Technologies Limited (ADR)

LFT

Price: $19.32 ($13.03-$35.22)
Fiscal Year Ends: March 31

April 24, 2008 — Tim Kellen
S&P ADR Index: $1912.75 (1653.50-2148.84) — International Business Services Sector

Longtop Financial Technologies is a leader in the Chinese IT industry and is the industry's largest domestic company. Founded in 1996 as Xiamen Longtop System Co. by current Chairman Xiaogong Jia and CEO Weizhou Lian, the company specializes in providing software solutions for the Chinese financial industry and went public on October 2007. The company has three main segments that generate its revenues, which include management software, channel software, and business software. This software allows banks to manage ATM's, call centers, and share data to provide better service to their customers

Recommendation

Longtop Financial Technologies provides an opportunity to diversify into the Chinese market, obtain access to a growing Chinese financial industry, and avoid the current sub-prime problems that have plagued American and European financial sectors. Longtop's stock is trading just 10% higher than its IPO price after trading up 85% on its first day of trading. The company is well established as a software provider for three of the Big 5 Chinese banks and is proving its ability to generate growth in other sectors including the regional banking, asset management, and insurance industries. In a fragmented market where no company holds more than 4% of the market share and given the expansion that will take place in the Chinese financial services industry, significant growth opportunities are available for Longtop. In addition, the company is currently trading at $19.32, $8.68 under its intrinsic value of $28. This provides an upside of 45.6% and thus, it is recommended that Longtop be added to the AIM International portfolio.

Key Statistics	Apr. 24, 2008
Market Cap	$971.30M
Shares Outstanding	50.274M
Average Volume	72,939
Beta	1.806
EPS (TTM)	$.34
2008 Estimated EPS	$.558
P/E (TTM)	$57.15
WACC	16.80%
Debt/Assets	7.38%
ROE	25.36%
Gross Margin	83.28%
Operating Margin	29.54%
Target Price	$28.00

Source: Bloomberg

Investment Thesis

- **Increased IT Spending from the Financial Sector.** Currently, the Chinese financial sector is spending 9% of total US bank IT expenditures, even though the Chinese banking industry is 47% of the size of the US banking industry. This indicates significant room for growth in IT expenditures in the banking industry that would benefit Longtop. In addition, intensifying competition in the banking industry should serve as a catalyst for increased spending.
- **Expansion into New Industries.** Over the past six months, Longtop has begun expanding into new industries through contracts and acquisitions including the asset management business with China AMC through its Fenet acquisition, the insurance industry through its agreement with Ping An Insurance, and the tobacco industry. Penetration into these

industries will provide for solid growth and diversification opportunities, as well as the experience necessary to continue expanding into new industries.

- **Strong Margins.** While Longtop's margins are expected to decline in the coming years due to increased production of software solutions, they will still be extremely strong. The company should have profit margins near 65% and operating margins near 45% in the coming years. This will provide strong cash flows for the firm and provide the cash flows necessary for expansion.
- **Protection from Western Credit Problems.** Longtop only provides software solutions to Chinese financial companies which have minimal sub-prime exposure. As a result, Longtop's revenues should not be adversely affected by continued problems in the American and European financial markets.
- **Weakening Exchange Rate.** Since Longtop earns all of its revenues in the Chinese Renminbi, the depreciation of the dollar from 7.30 Renminbi per dollar in January to 7.00 in April should continue to provide a boost to the company's financial results.

Valuation

Based on a combination of discounted cash flow and various P/E valuations, a stock price of $28 is obtained for Longtop Financial Technologies. The discounted cash flow yielded a target price of $22.00 based off a range of $17.67 to $29.35, and the industry PEG of 1.98x provides a target price of $35.00. Combining these valuations with the results of the P/E valuation methods, the weighted target price is $28.00 per share taking into account the relevance of each method.

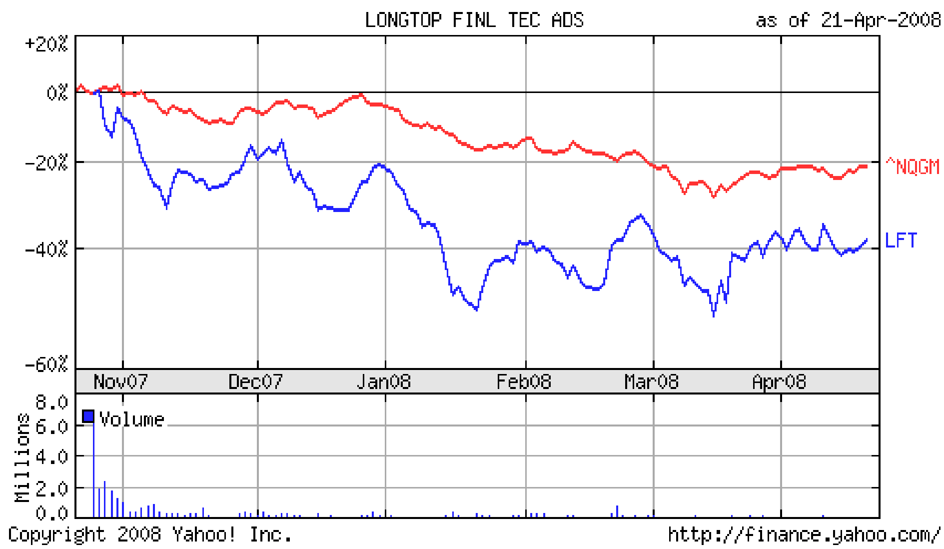
		Terminal Growth Rate				
		11.00%	12.00%	13.00%	14.00%	15.00%
WACC	18.00%	15.43	16.45	17.87	20.01	23.56
	17.50%	16.43	17.67	19.46	22.28	27.35
	17.00%	17.57	19.11	**21.41**	25.25	32.94
	16.50%	18.89	20.83	23.87	29.35	42.12
	16.00%	20.45	22.94	27.09	35.39	60.29

Risks

- **Competition from International Companies.** The growth opportunities that are available in the Chinese financial industry are sure to bring increased competition to the IT industry from abroad. LFT's ability to differentiate itself from those competitors and to take advantage of its knowledge of the Chinese financial industry and local regulation will be important to its future success.
- **Acquisition and Integration Risk.** Longtop has already made a number of acquisitions and has been able to successfully integrate those transactions. Since the Chinese IT services sector is very fragmented, acquisitions will be a key driver of Longtop's movement into different sectors. The ability to continue to integrate its acquisitions will be key to the company's future growth.
- **Exposure to the Big 5.** The strong business relationships with the big Chinese banks are critical to the success of Longtop. Although LFT has worked to diversify into regional banks and other financial services industry, approximately half of Longtop's revenues come from those banks and any cut in IT spending could be an obstacle for LFT.

Management

Longtop is led by Chairman Xiaogong Jia and CEO Weizhou Lian, who have been in their current positions since the company was founded in 1996. Both directors have substantial experience in China's IT industry with 49 combined years of experience and are surrounded by a veteran team of leaders.



Ownership

% of Shares Held by All Insider and 5% Owners:	20.00%
% of Shares Held by Institutional & Mutual Fund Owners:	52.00 %

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Tiger Global Management LLC	10,083,165	20.06%
Morgan Stanley	2,064,568	4.11%
Level Global Investors LP	1,413,147	2.81%
Fidelity Management & Research	977,800	1.93%
Mazama Capital Management INC	900,952	1.79%

Source: Bloomberg

Netgear, Inc.
NTGR
Price: $19.60 ($18.15 – $41.33)
Fiscal Year Ends: December 31

April 23, 2008 | Kevin Roloff
Russell 2000 Index: 703.71 (643.28 - 856.48) | Hardware Sector

Netgear Inc. designs, develops and markets networking products for homes and small businesses of less than 250 people. Their product offering contains both wired and wireless products in three major classes: Ethernet Networking, Broadband, and Wireless Networking. Their products enable customers to share Internet access, files, multimedia, content, and applications across local area networks (internal) and the World Wide Web (external). To appeal to homes and small businesses, Netgear produces products that are easy to use, reliable, and affordable. Products are sold through traditional retailers (Best Buy, CompUSA, and Staples), online retailers (Amazon.com and eBay), wholesale distributors, and broadband service providers (Time-Warner Cable, Comcast, and Charter Communications). The company was incorporated in Delaware in 1996, and its headquarters are located in Santa Clara, CA. NTGR went public on the NASDAQ exchange in 2003.

Recommendation

Though most of Netgear's competitors (Linksys, 3Com, D-Link, Dell) were founded in the 1980s, Netgear has caught up to them in a hurry and is currently number one or number two in all the markets it competes in. NTGR's RangeMax product line vaulted them to the top spot in market share position worldwide for high speed wireless networking. Aside from growing the top line, management has continued to expand margins and build brand recognition. Gross margin and operating margin have increased by 9% and 7%, respectively, over that last 5 years. This is due in part to the continued emphasis NTGR has on innovation. An example of such innovation is embodied by a new product introduced for internet service providers. This device includes a DSL modem, wired router, wireless router, print server; and it is VOIP enabled, connects to mobile phones and has a SIM card slot. This innovation would enable service providers to grab 100% of a consumer's telecommunications budget with one device. Based on the assumption that NTGR stock is undervalued and the fact that the AIM portfolio does not include a company with activities in the data networking industry, I recommend adding this stock to the portfolio at its current market price.

Key Statistics	Apr. 23, 2008
Market Cap	$702.3M
Shares Outstanding	35.327M
Average Volume	491,168
Beta	1.47
EPS (TTM)	$1.28
2008 Estimated EPS	$1.80
P/E (TTM)	15.29
P/E (Forward)	9
PEG (5 yr expected)	.64
WACC	12.56%
Debt	0
ROE	13.80%
Gross Margin	35.00%
Operating Margin	12.00%
Target Price	$30.00
Dividend yield	0%

Investment Thesis

- **Market Expansion.** Sales in the networking hardware and equipment market totaled $9 billion in 2004. The market is expected to grow to $21 billion by 2009, which is an annualized growth rate of 26%. Since 1999, NTGR has experienced a CAGR of 26%. Growth is fueled by the desire of customers for perpetual internet connectivity, faster connections, increased network security, and mobility.

- **Trends in networking.** NTGR is poised to capitalize on the newest trends in technology, especially those related to the transfer of music, movies, and applications over the internet. Also, they have embraced the development of VOIP communication by creating phones that use wireless internet to connect users. Furthermore, analysts predict that future home networks will include stereos, telephones, digital video recorders, and home appliances, in addition to computers. Given their dedication to innovation, this could be a market that NTGR chooses to exploit.

- **International Revenue.** The majority of NTGR's revenue comes from international sales: 62% in 2006 and 65% in 2007. Sales in EMEA grew 50% from '05 to '06 and 28% from '06 to '07. APAC sales grew 34% from '06 to '07. With a weakening US Dollar, increased foreign dependence should boost revenues.

Valuation

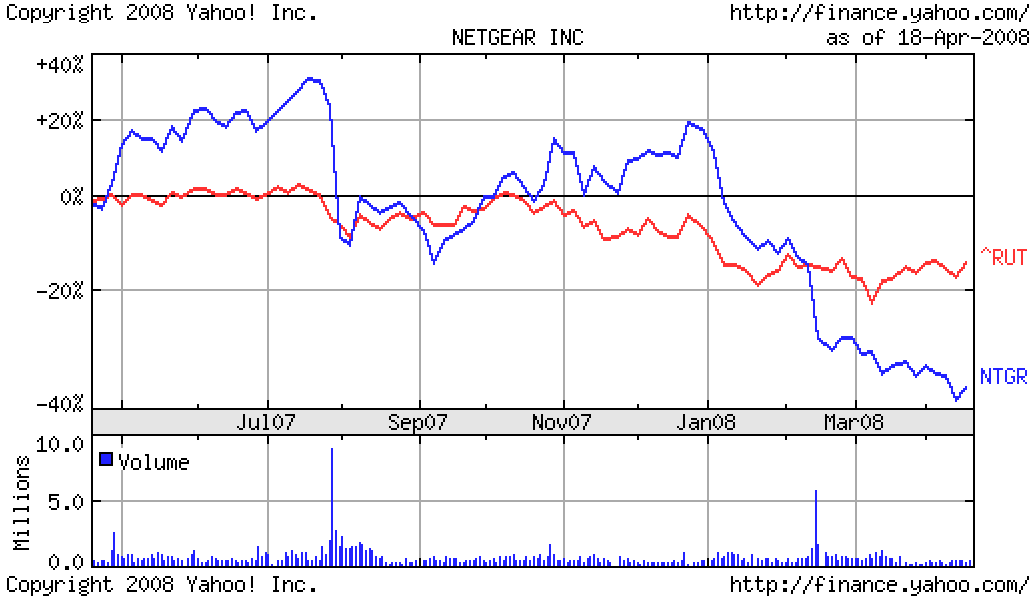
Using a WACC of 12.6%, the DCF model yielded an intrinsic value of $32.38. Comparing the current industry PE of 20.9 to NTGR's 2007 earnings of $1.68, a price of $35.11/share is derived. After comparing these estimates of intrinsic value, a target price of $30 was established. NTGR currently trades at $19.60, which suggests an upside of 53%.

Risks

- **Competition is fierce.** A lot of competitors have longer histories, greater name recognition, and substantially greater resources than NTGR. NTGR anticipates competitors to intensify their efforts to gain share in NTGR's current markets. This may reduce NTGR's revenues due to loss of market share or price slashing.
- **Revenue Concentration.** At the end of 2007, Ingram Micro, Inc and Tech Data Corporation (IT distributors) accounted for 17% and 14% of revenues, respectively. However, these percentages have declined from 19% and 16% in 2006, respectively.
- **Freight Costs.** Increased operating expenses, mainly due to higher than anticipated freight costs, caused NTGR to miss EPS in Q4F07 and may adversely affect future earnings. In addition to increased operating costs due to rising oil prices, high gas prices may also lead to reduced consumer spending.

Management

NTGR is lead by Patrick Lo, Chairman and CEO, who has been with the company since the inception of the business. Michael Falcon, Senior VP of Operations joined NTGR in 2002 after serving as VP of Operations at Quantum Corporation since 1999. Christine Gorjanc was promoted to CFO from VP of Finance in November of 2006. Christine has been with the company since November 2005.



Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	102%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Fidelity Low Priced Stock Fund	3,461,327	9.80%
Bank of New York Mellon Corporation	2,351,132	6.66%
AXA	2,072,366	5.87%
Barclay's Global Investors UK Holdings LTD	1,924,723	5.45%
Columbia Wanger Asset Management, L.P.	405,314	3.36%

Source: Yahoo! Finance

Pearson PLC ORD (ADR)

PSO

Price: $12.87 ($12.30-18.31)

Fiscal Year Ended: December 31

April 24, 2008 — Kellie Friese

MSCI World ex USA: 39.81 (33.55 - 45.39) — International Media Sector

Pearson Longman plc was originally two separate construction companies founded in the 19th and 18th centuries respectfully. They were building leaders during the Industrial Revolution and did not become a media based company until 1921. Today, Pearson is an international media company with market-leading businesses in education, business information and consumer publishing; it has three major business lines: Pearson Education, Financial Times Group, and Penguin Group. It owns well known brands such as the Financial Times, Penguin, Dorling Kindersley, Scott Foresman, Prentice Hall, Addison Wesley and Longman. In recent years, the company has kept its focus on education while introducing technology to change how people learn. The company employs more than 32,000 people in 60 countries. The firm trades on the London and New York Stock Exchanges and has its main headquarters in London and New York.

Recommendation

Pearson Longman has a solid position as a leader in traditional educational, business and consumer publishing. However, in recent years it has refreshed its image by adding new products and becoming more in line with the needs of its customers. Looking back at the last five years, it has had very constant sales and dividend growth of about 13.71% and 7.64% respectfully, but its EPS growth has fluctuated quite a bit. Therefore, the payout ratio is difficult to predict. However, with a steady ROE (9.07%) and dividend history, I recommend this stock for inclusion to the IAIM portfolio with a calculated intrinsic value of $14.53.

Key Statistics	Apr. 24, 2008
Market Cap*	$10.49 B
Shares Outstanding*	796.80 M
Average Volume*	212,890
Beta	1.14
Diluted EPS (TTM)*	$0.71
2008 Est. EPS*	$1.00
P/E (TTM)*	18.52
P/S (TTM)*	1.27
Debt/Assets	.24
ROE	9.07%
Price/Book*	1.43
Gross Margin	54%
Operating Margin*	13.48%
Target Price	$14.00
*Source: Yahoo**	

Investment Thesis

- **International Growth.** Pearson Education is already the world leader in publishing, and their unrivalled strength in the US market is increasingly being replicated on an international scale. International business is now three times the size of its closest competitor, and the company is well placed to benefit from global trends such as the growing number of full-time education enrolments, increased use of technology and the growth of English as the language of international commerce and communication. Already, half a billion people are learning English with Pearson Longman materials including 9 million students in Latin America and 80% of the English language students in Hong Kong. Attempts at increased market penetration have been initiated in South Africa, Australia and India.

- **Technology.** While content has always been the priority at Pearson, it currently prides itself on being a leader in education and business technology. It has been profitable by introducing new products such as myLab. It is currently working on innovative audio learning products for college students which would be compatible with iPods, PDAs, and other devices. These technology products are generally more profitable that traditional print materials and Pearson has benefited from being an industry frontrunner in this area.
- **Restructuring.** Pearson is steadily shifting capital towards their most attractive growth opportunities. This includes selling parts of their business that are no longer central to long term strategies along with acquiring brands and companies that have valuable content with international and technological growth potential

Valuation

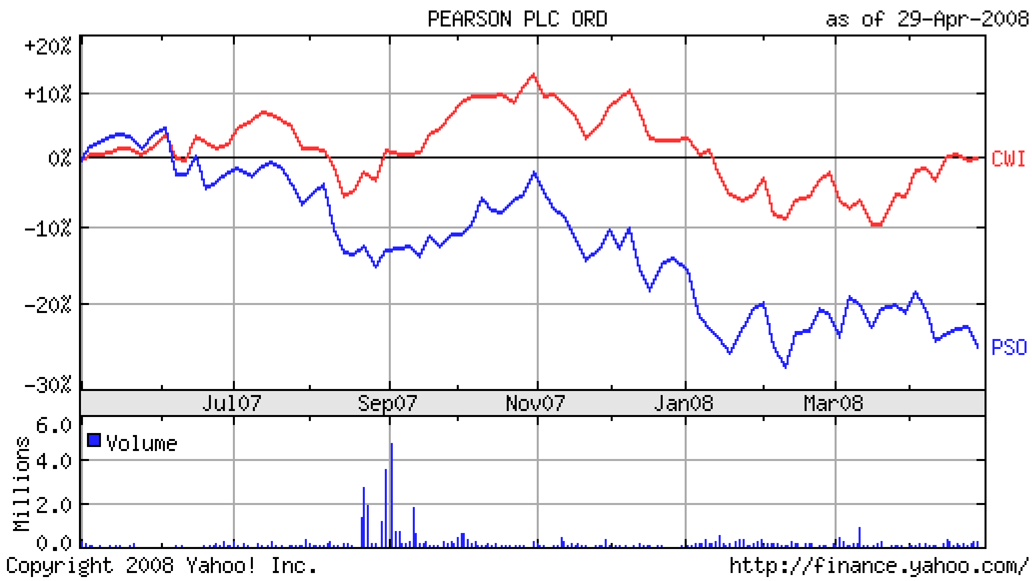
Three valuation methods were used for PSO. The first was a DCF model growing dividends at long term rates between 7-9% with terminal growth between 3.6-4.6% while using a 9.49% cost of capital. The average value from this approach was $13.68. The second DCF model was a three stage growth model using 9% as the intermediate rate. It again used 9.49% as the cost of capital and resulted in a value of $14.00. Finally, a Damadoran P/E model derived a P/E ratio of 17.1 and an intrinsic value of $15.91. Based on all three valuation techniques, I arrived at a price target of $14.53.

Risks

- **Currency Exchange Risk.** Pearson generates about 60% of its sales in the U.S. and each $0.05 change in the average pound/dollar exchange rate would have an impact of 1p on adjusted earnings per share. The company estimates that its 2007 sales figures would have been 6% higher had there not been a 9% decline in the value of the US dollar. The lagging dollar is likely to negatively impact Pearson’s numbers into the future.
- **Government.** The results and growth of the traditional educational textbook and assessment business lines are largely dependent on the US markets. Further, the markets in the US rely almost entirely on governmental funding from the local, state, and national levels. Finances could be adversely affected from a recession or from the subprime mortgage crisis which has lowered property values and hence the amount of property tax that states are able to collect. The market here could also be affected by federal and or state legislation such as the No Child Left Behind Act.

Management

Each member of Pearson’s Board of Directors has been with the company for four to twelve years. Marjorie Scardino, Chief Executive, has been with Pearson since 1997. Prior to Pearson, she was chief executive of The Economist Group. Other members have a wide range of applicable backgrounds including law, business, publishing, and journalism. All were born in either the United States or England and most received their education at universities within these countries. There is a good mix of male and female executives. Pearson believes its people are its greatest asset and has therefore put management through extensive training programs. This year, they will begin more intensive international development.



Ownership

% of Shares Held by All Insider and 5% Owners:	0%
% of Shares Held by Institutional & Mutual Fund Owners:	2%

Source: Yahoo! Finance

Top 3 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Templeton Global Advisors Ltd	56,508,060	6.99%
Aviva plc	1,803,734	.4.96%
Legal & General Group plc	1,405,127	4.12%

Source: Pearson Longman 10k

Senior Housing Properties Trust

SNH
Price: $24.97 ($16.22-$25.21)
Fiscal Year Ends: December 31

April 24, 2008 — David Martin
Russell 2000 Index: $721.88 (643.28-856.48) — Financial Services Sector

Senior Housing Properties Trust is a real estate investment trust (REIT) which invests in senior housing properties in the United States. The trust invests in a geographically diverse portfolio which includes hospitals, nursing homes, senior apartments, independent living properties, and assisted living properties. The company focuses on upscale senior living properties which are valued at $1.9B in 32 states as of December 31, 2007. The majority of the properties are located in the northeast and southeast, which are specifically concentrated in Florida, Georgia, Virginia, and Tennessee. As a REIT, SNH is exempt from federal and state income taxes since it distributes at least 90% of its REIT taxable income to shareholders. SNH was established in 1998 and is currently based in Newton, Massachusetts.

Recommendation

Senior Housing Properties Trust plans to capitalize on the increased demand for senior housing brought by the aging U.S. population. By owning senior housing properties, SNH is able to hedge against the current market environment. SNH invests in a wide variety of properties to limit its exposure to only specific areas of senior housing, which reduces the effect of changing consumer demand. Senior citizens can benefit from many services, ranging from senior apartments marketed towards residents who can care for themselves to assisted living centers and hospitals. All of SNH's properties are triple net leased, which allows the trust to charge lower rents while obtaining expense reimbursements. Another benefit of SNH's business model is its concentration of rent which is derived from private payment sources. About 70% of rental revenue came from the residents' private resources in 2007, thereby helping to reduce the trust's exposure to changes in Medicare and Medicaid reimbursements. When SNH acquires a property, its primary and secondary objectives are for income and price appreciation, respectively. While other REITs are assessing their portfolios because of liquidity issues, SNH plans to acquire new products with its large revolving credit line. Although the AIM fund already has a health care REIT (MPW) that invests mainly in hospitals, SNH focuses more on apartment properties catered to senior citizens. Although SNH has a stable dividend of 5.91%, I recommend SNH to be put on the watch list because it is trading relative to its current fair value and 52 week high.

Key Statistics	Apr. 24, 2008
Market Cap	$2.23B
Shares Outstanding	94.29M
Average Volume	1.17M
Beta	1.31
EPS (TTM)	$1.03
2009 Estimated EPS	$1.13
P/E (TTM)	23.04
P/E (2009 Estimated)	20.75
WACC	11.72%
Debt/Assets	25.08%
ROE	7.52%
Dividend Yield	5.91%
Operating Margin	47.19%
Target Price	$28.00

Source: Bloomberg

Investment Thesis

- **Defensive Nature.** By investing in the healthcare REIT sector, SNH offers a wide variety of properties for the aging baby boomers. According to the Urban Land Institute (ULI), the number of senior citizens who are 65 and older will double to 70 million over the next 35 years. SNH's portfolio of properties offers low risk through economic cycles while preparing for future demand.
- **Acquisition Growth.** After no activity from 1Q07 to 3Q07, SNH had $155M of deals in 4Q07. Earlier in 2008, SNH acquired eight senior living properties for $86.2 million. SNH plans to continue to expand this year, as it expects to close on 16 additional senior living properties through three separate transactions for $197.6 million.
- **Revolving Credit.** SNH has over $500 million under its credit facility, which is useful if the trust chooses to acquire new properties in the near future. As the credit markets continue to struggle, SNH is in a position to capitalize and create opportunities for growth by acquiring new properties.

Valuation

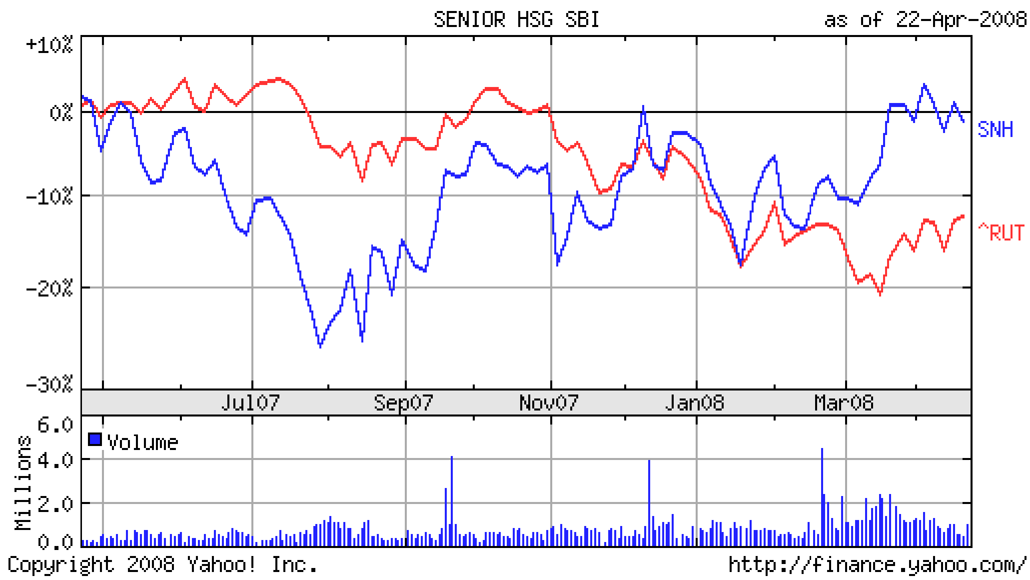
Three valuation methods were used for SNH. The 10 year discounted cash flow valuation for SNH with an estimated WACC of 10.92% and a terminal growth rate of 3.0% leads to an intrinsic value of $21.47, compared to the current price of $24.97. Adjusting for WACC assumptions between 9.50%-12.00% and terminal growth rate assumptions between 2.00%-4.00%, leads to a price range of $16.39-$32.66. Based on an industry average P/E of 31.11x for senior living and healthcare REITs, the stock should be valued at $34.22. In addition, a price to book valuation yields an intrinsic value of $29.95, using an industry median P/B of 2.26. Taking into account all metrics, a conservative target price of $28.00 is reasonable.

Risks

- **Tenant Concentration**. About 70% of SNH's aggregate rents come from Five Star Quality Care. This high tenant concentration hurts the company's risk profile, as one loss from a customer can be significant. With SNH's $500M revolving line of credit, it needs to become more diverse when choosing tenants.
- **Competitors.** With the current market conditions, other REITs have been struggling to access capital to own properties which rival SNH. If more competitors enter the senior living REIT sector, this could increase SNH's vacancy rate and limit future acquisitions.
- **Higher potential interest rates.** SNH's acquisitions will be negatively impacted by a rise in interest rates. If interest rates increase, other income generating securities with fewer risk factors become more attractive than REITs. Increasing interest rates will lead to a higher cost of financing which will cut into SNH's cash flow.

Management

Senior Housing Properties Trust is managed by Reit Management & Research LLC (RMR). RMR is a private company which is owned by two Managing Trustees of SNH (Barry Portnoy and Adam Portnoy). This could pose a risk to SNH's shareholders because management may want to increase SNH's size instead of its shareholder value. However, RMR currently oversees one of the largest portfolios of publicly owned real estate in the U.S with over 1,300 properties in 45 states. RMR also allows SNH to have a competitive advantage offering lower corporate expenses and access to the capital markets.



Ownership

% of Shares Held by All Insider and 5% Owners:	0%
% of Shares Held by Institutional & Mutual Fund Owners:	78%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Deutsche Bank Aktiengesellschaft	7,666,262	8.08%
Morgan Stanley	7,519,172	7.92%
FMR LLC	7,234,715	7.62%
Cohen & Steers Capital Management, Inc.	6,389,435	6.73%
Vanguard Group, Inc.	5,836,132	6.15%

Source: Yahoo! Finance

China Petroleum and Chemical Corporation (ADR)

SNP

Price: $91.20 ($78.00 - $178.91)

Fiscal Year Ends: December 31

Date: April 19, 2008 — Patrick Abeln

Hang Seng Index: 24,789.46 (19,386.70 - 31,958.40) — International Energy Sector

China Petroleum and Chemical Corporation (SNP), or "Sinopec", is an integrated oil, gas, and chemical company which operates in the People's Republic of China and Hong Kong. The company's core operations include the exploration, development, and production of crude oil and natural gas, as well as the transportation, refinement, and marketing of both products. As of December 31, 2007, the company had proved reserves of approximately 2,651 million barrels of oil and 6,331 billion cubic feet of natural gas. Sinopec, along with PetroChina, is one of the largest oil companies in China. SNP also has a chemical operation which focuses on the production and marketing of various petrochemicals for industrial use. These include: organic chemicals, intermediates, monomers and polymers for synthetic fiber, resin, rubber, and chemical fertilizers.

Recommendation

China Petroleum and Chemical Corporation is one of two major oil companies operating in China. This area has experienced tremendous growth in recent years, which has fueled demand for petroleum products. The company has seen revenues increase by 19-40% each year since 2004, a trend which has driven positive economic profits. This has also allowed SNP to strengthen all areas of operations, including oil, gas, and chemical development. Although rising oil prices have diminished margins over the past couple of years, the company has been able to generate sufficient cash through strong core operations and government subsidies. At this point, I would recommend adding China Petroleum and Chemical Corporation to the list of companies being considered for addition into the new International AIM portfolio.

Key Statistics	Apr. 24, 2008
Market Cap	$79.07B
Shares Outstanding	867.02M
Average Volume	708,084
Beta	1.279*
EPS (TTM)	$9.30
F2009 Estimated EPS	$8.75
P/E (TTM)	9.81
P/S (TTM)	0.47
PEG Ratio (5 yr expected)	0.40
WACC	10.18%
Debt/Assets	.2503
ROE	19.77%
Gross Margin	10.68%
Operating Margin	4.46%
Target Price	$113.70

*Source: Yahoo! Finance, Bloomberg**

Investment Thesis

- **Rapid economic and industrial growth in China.** Sinopec has seen revenues grow significantly as China's oil consumption has doubled to 5.4 million barrels a day since 1992. The country currently consumes 8% of the world's oil. As China develops into a more industrialized nation this demand is likely to remain high in the foreseeable future.
- **Limited competition.** Sinopec is one of two major oil companies operating in China. This has allowed the company to develop a very strong share of the market. Also, Sinopec has

ties with the Chinese government, which has made them the top candidate to receive government subsidies.

- **Proven reserves of oil and natural gas.** Sinopec's proven reserves in two major commodities will help the company diversify risk and sustain earnings. Also, SNP has begun to acquire overseas assets in Iran and Canada. Lastly, the Chinese government has over a trillion U.S. dollars in foreign reserves, which provides the firepower necessary to acquire new oil reserves in the event that future exploration efforts are unsuccessful.
- **Inelastic demand.** It is highly unlikely that this particular industry will see a major decline in demand in the future. Advances made in alternative energy sources/uses are not expected to be enough to stop the demand for oil. Lastly, China is becoming one of the world's leading producers, which further increases the country's need for petroleum products.

Valuation

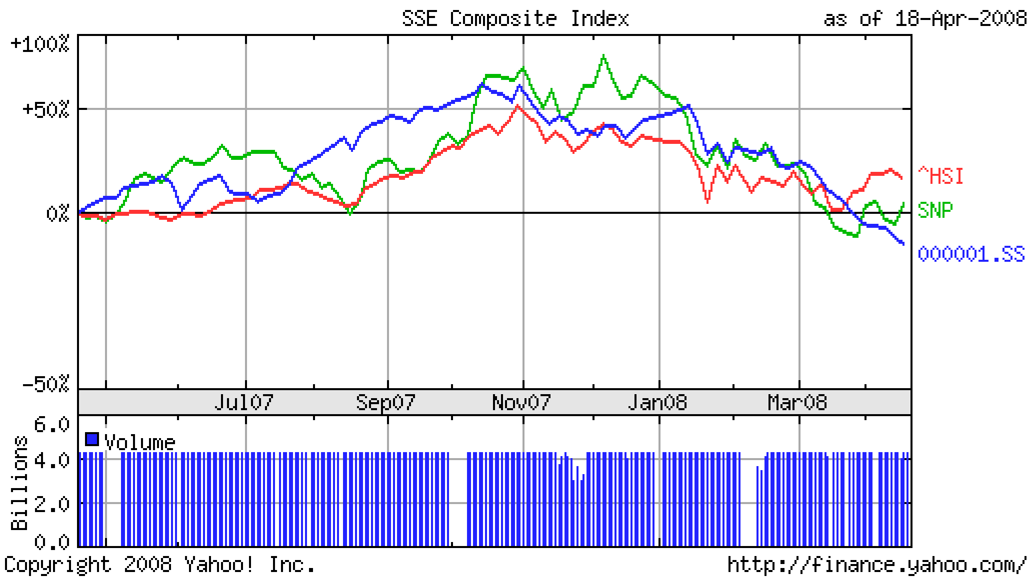
Based on a DCF valuation (using a WACC of 10.18% and terminal growth of 3%), I have found a target price of $113.67, which is 24.64% above the current market price. Also, I have used an Enterprise Value / EBITDA multiple valuation, which has generated an intrinsic value of $109.92. Lastly, Sinopec is currently trading at 8-8.5x forecasted earnings, while BP, Exxon Mobil, and PetroChina trade at 10x, 11x, and 12x, respectively. Taking all of this into account, including a conservative 10x multiple, I have generated a target price of $113.70.

Risks

- **Strict government regulation.** This prevents the company from raising the price of their products in spite of the rapidly rising price of crude oil. In essence, this has distorted the correlation between the price of crude oil and the refined products. As a result, Sinopec has seen profit margins tighten and overall company performance has declined.
- **Ability to find new sources of oil.** China currently has roughly 18.3 billion barrels of proven reserves, which is only a five year supply. The sustainability of long term profits will rely heavily on Sinopec's ability to secure new sources of oil. However, as mentioned, the Chinese government appears to have the power necessary to acquire new reserves and Sinopec would likely be a major beneficiary of such actions.
- **Sustainability of growth in China.** China has experienced tremendous growth in recent years, which will be difficult to maintain over the long run. On the other hand, it appears as though the country has become developed enough to maintain its need for oil even if overall economic growth begins to slow.
- **Instability in the oil market.** While many oil companies continue to post strong performances, the market could change significantly with fluctuations in the price of oil. As a major refining company, Sinopec also stands to lose a major portion of its profits if oil prices continue to rise. However, the government has made multiple commitments to provide subsidies in an effort to relieve this situation.

Management

The President of Sinopec is Mr. Wang Tianpu. He has held a management position with the Sinopec Group since 1999, and has been the President of Sinopec Corporation since 2005. Mr. Tianpu is assisted by Joint Vice President and CFO Zhang Jiaren. Also, the company has won multiple awards for outstanding corporate governance and investor relations.



Ownership

% of Shares Held by Insiders and 5% Holders:	61.48%
% of Shares Held by Institutional & Mutual Fund Owners:	7.29%

Source: MSN Money

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Barclay's Global Investors, N.A.	4,375,000	2.6%
AllianceBernstein L.P.	1,035,144	0.6%
Thornburg Investment Management, Inc.	592,073	0.4%
Renaissance Technologies Corp.	457,300	0.3%
ClearBridge Advisors	383,718	0.2%

Source: MSN Money