Altman Investment Management

Equity Strategy Focus

July, 2012

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IN VIEW: An Economic Backdrop

THE PAUSE THAT REFRESHES

- **After a positive start of the year, stock markets around the globe pulled back broadly in the second quarter, even after producing stronger than expected corporate profits for the first quarter.** Headlines coming out of the euro-zone drove much of the selling pressure during the second quarter, macro-economic global indicators pointed to a slowdown in growth - or in the case of Europe, a double dip or outright recession. In addition to Europe trying to preserve a fragile currency union, China reported slowing growth projection and a troublesome political transition. Although the U.S. faces similar challenges as the rest of the world, we do have the capacity to solve our problems with the advantage of controlling the world's reserve currency. However, investors remain skeptical that our politicians don't have the political will to make the necessary difficult choices in front of a national election.

- **Despite all these negative crosscurrents, based on long term valuations U.S. equities appear to have priced in much of the potential negatives and remain the investment of choice against fixed income alternatives.** Rising gold prices are already inflating nominal stock prices, similar to the previous two quantitative easing cycles when higher gold correlated by more than 90% to a higher S&P 500. We remain cautiously optimistic and are encouraged that this next phase of the bull market will validate our overweight position in the cyclicals enhancing your portfolio performance on an absolute and relative basis.

THE OUTLOOK FOR INTEREST RATES

- **At the time we wrote our last quarterly newsletter, the ten year Treasury was trading at slightly above 2.0%.** Based on our expectations of a modest economic growth and the assumption that investors would eventually tire of committing funds to investments providing negative real returns, we suggested that interest rates would probably not move significantly lower and more likely trend higher over time. That was not quite the way it happened in the second quarter. Renewed euro-zone pressures coupled with additional signs of a sluggish U.S. growth as the first quarter GDP was revised downward, retail growth simmered and job gains dropped below expectations all have encouraged investors to again favor the safety of the Treasury market. The ten year Treasury yield fell to 1.47% at the beginning of June before reversing modestly to the current 1.55%.

- **Are further rate declines in the cards?** We don't believe so unless economic activity retreats substantially and deflationary concerns reemerge, of which the probability is low. Additional euro-zone shocks are perhaps still likely and will continue to unsettle markets. However we believe much of this uncertainty is already in the markets and reflected in current interest rate levels.

- **The threat of the fiscal cliff, higher taxes and reduced federal spending at the start of 2013 is also very real but we expect Washington to dampen these potential drags.** Comprehensive budget and tax reforms seem relatively unlikely in the face of an upcoming election. We would expect continuing resolutions that maintain the status quo until after the election of both the presidency and the Congress. While fiscal policy is somewhat uncertain, monetary policy remains accommodative. We believe that short rates will be maintained near zero for several quarters, while Operation Twist has been extended and Chairman Bernanke has indicated that the Fed will take further action if it is called for. Given the recent sluggish job growth we would expect that the third round of quantitative easing (QE3) remains in the Fed's playbook.

IN BRIEF: Equity Investment Strategy

PERFORMANCE HIGHLIGHTS FOR THE SECOND QUARTER

- During the second quarter the composite trailed the benchmark by -98 basis points. Despite the rally in June, the S&P 500 index finished the quarter down -2.8%. Once again large cap stocks out-performed small caps, while growth out-performed value in the second quarter. It is interesting to note that value stocks are trading at a multi year low of 49% relative to growth stocks (calculated using the ratio of Russell 1000 Value Index / SPX Index). Having reached a level of 58% in the years before the financial crisis began indicates value stocks are oversold and due for a rally.
- Concerns over the global slowdown, the U.S. fiscal cliff, and the fate of the Euro contributed to the rally in defensive sectors which took the lead during the second quarter. See Exhibit II.
- However, due to strong 1st quarter performance financials and industrial sectors are still among the top 3 performing sectors year to date. See Exhibit III.
- On the fixed income side, U.S. Treasuries traded up 5.8% and U.S. corporate bonds returned 2.4% for the quarter. The second quarter investors preferred the safe havens of treasury securities over lower credits and stocks. However for the entire first half it was the risk on trade that prevailed.

Exhibit I
2nd Qtr Sector Performance

Sector	Sector Wgt. As % of S&P as of 06/30/12	% Return QTD 03/31/12 – 06/30/12	Contribution QTD 03/31/12 – 06/30/12
Consumer Discretionary	10.96	-2.61	-0.30
Consumer Staples	11.29	2.88	0.32
Energy	10.8	-6.18	-0.67
Financials	14.41	-6.83	-1.03
Healthcare	11.99	1.62	0.20
Industrials	10.46	-3.56	-0.38
Information Tech	19.74	-6.73	-1.39
Materials	3.41	-4.19	-0.14
Telecom	3.22	14.13	0.40
Utilities	3.73	6.55	0.23

Source: Bloomberg

Exhibit II

YTD Sector Performance

Sector	Sector Wgt. As % of S&P as of 06/30/12	% Return YTD 12/31/11 – 06/30/12	Contribution YTD 12/31/11 – 06/30/12
Consumer Discretionary	10.96	12.94	1.36
Consumer Staples	11.29	8.58	0.94
Energy	10.8	-2.64	-0.23
Financials	14.41	13.72	1.88
Healthcare	11.99	10.54	1.21
Industrials	10.46	7.35	0.82
Information Tech	19.74	13.39	2.52
Materials	3.41	6.53	0.25
Telecom	3.22	16.50	0.48
Utilities	3.73	4.94	0.18

Source: Bloomberg

ATTRIBUTION HIGHLIGHTS FOR THE SECOND QUARTER

- Merck, Abbott, and Pfizer up 9.9%, 6.1%, and 2.6%, during the quarter, supported healthcare as the largest positive contributor to our relative performance.
- Northrop Grumman led our industrial sector to relative out performance as well.
- Overall our top 5 positive contributors to relative performance included Travelers Cos, Edison International, AT&T, Merck, and Northrop Grumman.
- Negative contributors included Cisco, Transocean, Metlife, JPMorgan, and Marathon Oil.
- Although poor performance across the energy sector was exacerbated by Transocean (RIG) in the second quarter, RIG's 44% uptick in the first quarter carried the stock through the first half contributing positively to absolute and relative performance.

S&P 500 –SECTOR VALUATION CHARACTERISTICS

Exhibit III

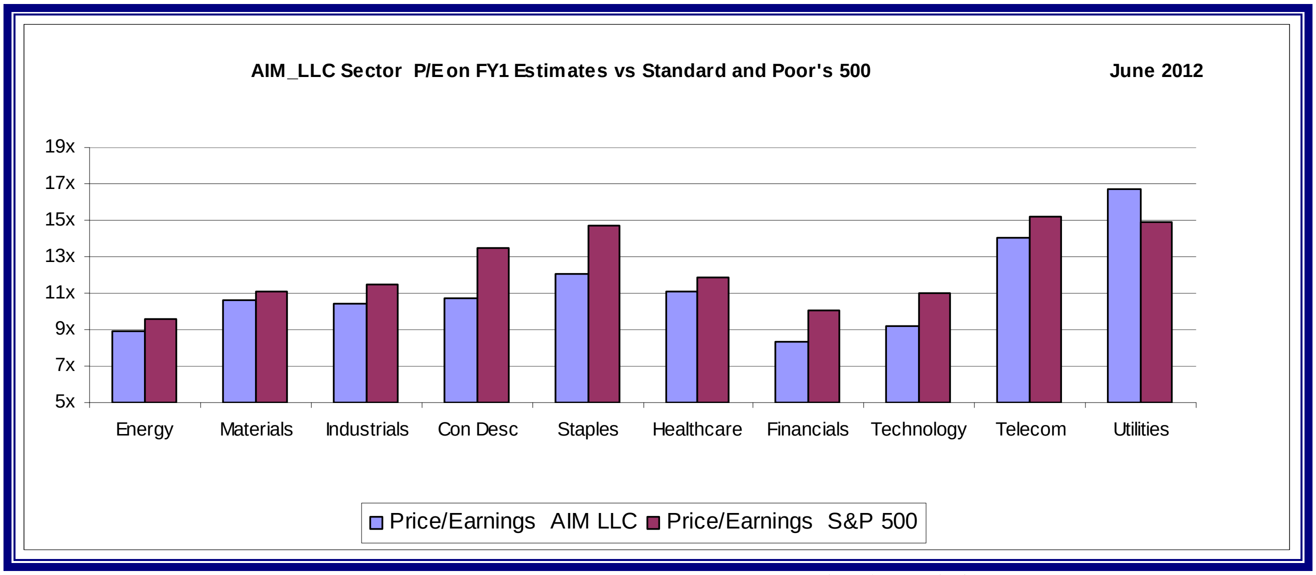
	SPX	Energy	Materials	Industrials	Con Desc	Staples	Healthcare	Fincl	Tech	Telecom	Utilities
# holdings	500	44	30	61	81	41	52	86	70	8	32
Beta	1.00	1.18	1.26	1.17	1.03	0.50	0.70	1.29	1.06	0.56	0.46
P/B	2.16	1.73	2.48	2.68	3.36	3.85	2.71	0.97	3.30	2.16	1.65
TTM P/E	13.67	10.31	13.20	13.77	16.89	16.64	13.38	11.90	13.95	18.24	14.75
P/E cur	13.02	10.60	13.16	13.01	15.69	15.98	12.85	11.55	12.38	16.49	15.37
P/E FY1	11.61	9.60	11.10	11.49	13.46	14.67	11.86	10.06	10.96	15.22	14.90
P/S TTM	1.27	0.86	1.12	1.17	1.08	1.00	1.33	1.40	2.36	1.29	1.37
Div yield	2.28%	2.35%	2.46%	2.47%	1.65%	2.94%	2.29%	2.02%	1.60%	4.71%	3.96%
P/CF	7.63	6.07	9.24	9.22	10.18	12.18	10.30	4.15	9.77	5.05	6.15

Data as of June 30, 2012. Source: Bloomberg and Altman Investment Management, LLC

- Weaker equity prices in the second quarter caused the P/E multiple for the S&P 500 on a trailing basis to contract by approximately 5.4% after expanding 10% in the first quarter. The level of earnings per share continues to improve, albeit at a slower pace.

- Exhibit III shows that we continue to emphasize our value-oriented philosophy. Exhibit IV isolates one characteristic, our low price-to-earnings discipline at the sector level throughout the investment portfolio. We remain overweight in the Financial and Industrial sectors with an equal weight in Energy. We are positioned with a relative underweight in Consumer Staples and Consumer Discretionary sectors.

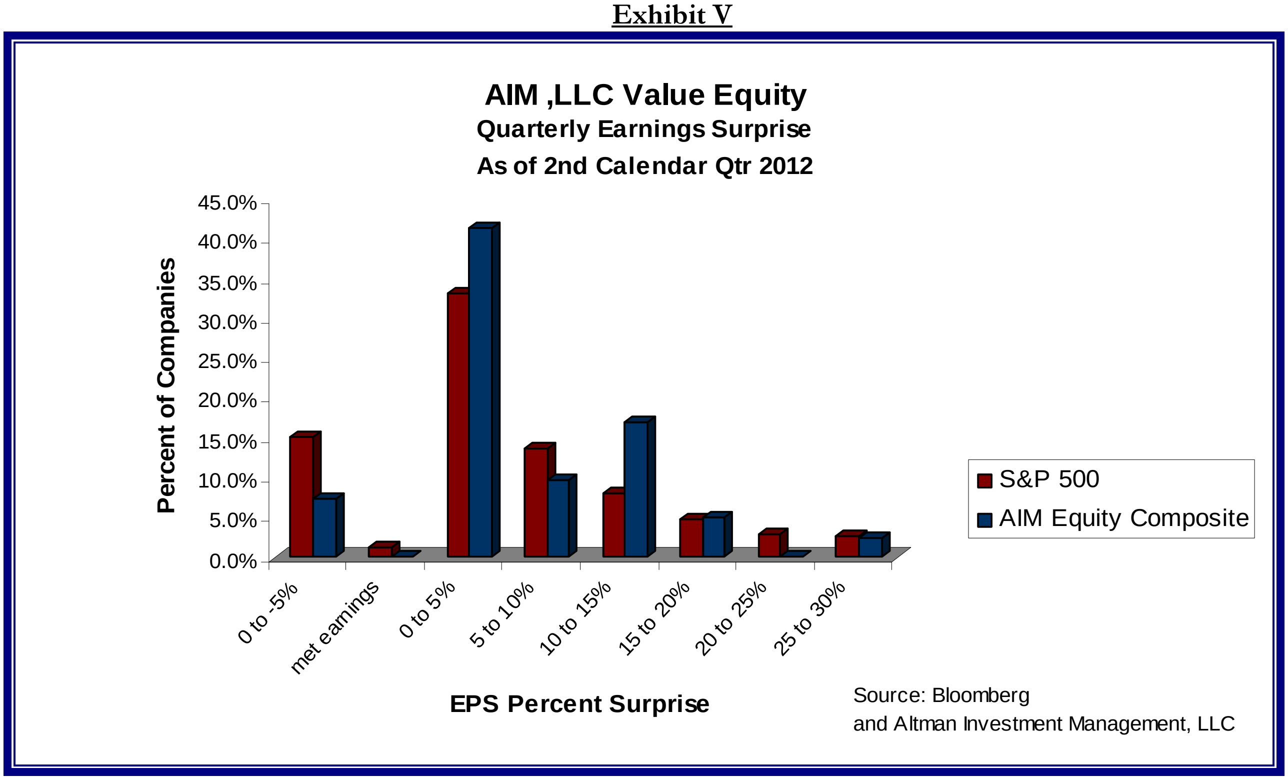
Exhibit IV



Source: Bloomberg and Altman Investment Management, LLC

THE QUARTERLY COMPANY PERFORMANCE RECORD

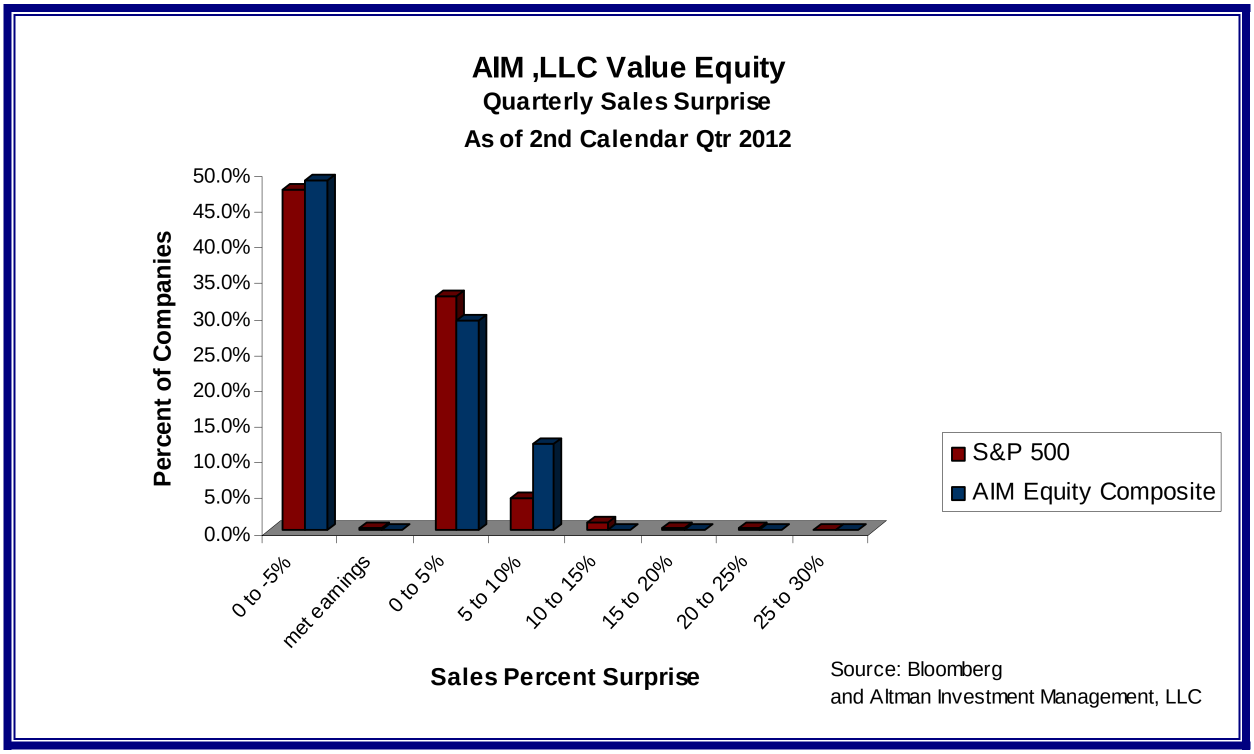
Exhibit V



- This chart illustrates the percentage of investment holdings within our value portfolio that exceeded street estimates during the 2nd calendar quarter of 2012. Most notably, 80% of our investments exceeded street estimates and 71% of the companies in the S&P 500 exceeded street estimates. The 0.06% growth rate of quarterly earnings per share on a year over year basis for the S&P index continued its decline from the 50% growth levels witnessed in 2010.

- The chart below illustrates the percentage of investment holdings within our value portfolio that exceeded street sales estimates during the 2nd calendar quarter of 2012. Overall, 43.9% of our investments exceeded street estimates as compared to 40.4% for the S&P. The trend of revenue beats has been on a decline, down from 72% in 2nd qtr 2011 indicating profit margins are becoming ever so important to the bottom line. Profit margins are currently at 13.6% for the S&P Index which puts them near peak levels.

Exhibit VI

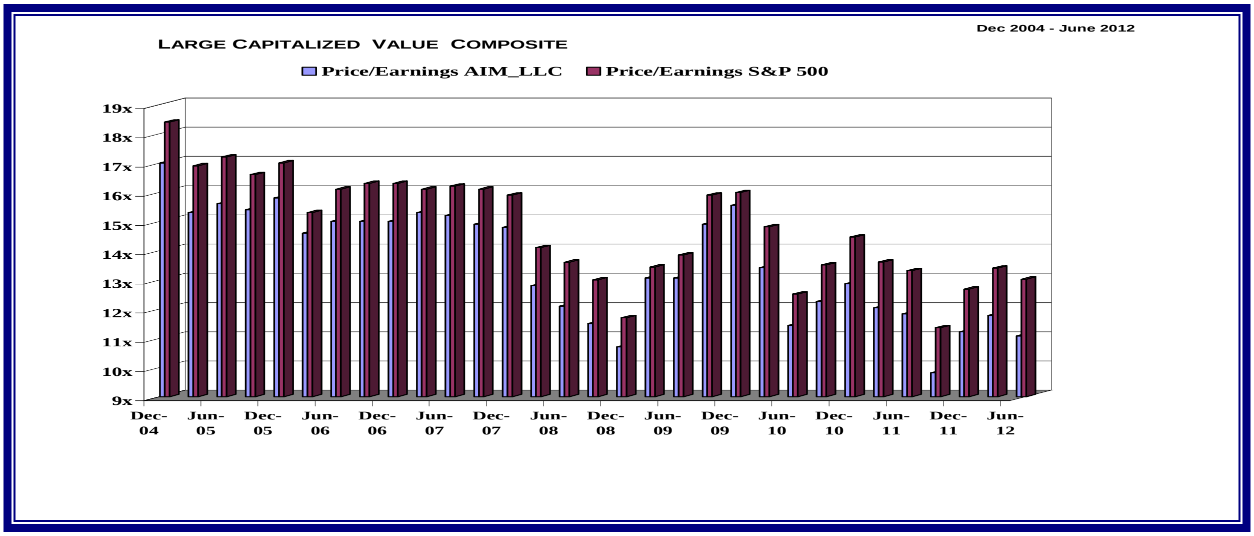


IN SUMMARY:

As the second quarter season for corporate earnings comes to a close, roughly 70% of the S&P 500 companies modestly beat the Wall Street analysts' estimates. However, top line sales exceeding estimates were unimpressive and the lowest rate since 2008. Despite this underwhelming report, especially for cyclical stocks, expectations for business growth in 2013 appear to be reflected in current market valuations. This sets the equity markets up for a positive upward bias for the second half of the year, as aggregate corporate earnings continue to rise, albeit modestly.

As a fundamentally-driven portfolio manager, we believe that earnings do matter. As market sentiment continues to reflect an environment of deceleration/tepid growth, investors have flocked toward the most defensive sectors of the markets and put a ceiling on equity valuations. Despite recent negative headlines, a very different message is emerging—one of profit improvement. We have positioned portfolios accordingly, supported by the fact that any disappointing economic news will encourage the Fed to stay accommodative. At 13.3 times 2012 earnings - and interest rates historically low - we believe markets are poised to move higher in the second half of an election year.

Exhibit VII



Source: Bloomberg and Altman Investment Management, LLC

Exhibit VIII

ALTMAN INVESTMENT MANAGEMENT

AIM PORTFOLIO CHARACTERISTICS

As of June 30, 2012

	Value Equity	S&P 500
# of Holdings	39 stocks	500 stocks
Portfolio Beta	.99	1.00
Wtd. Avg. Price to Book	1.63x	2.16x
Wtd. Avg. Price-Earnings (Current)	11.08x	13.02x
Wtd. Avg. Price-Earnings (FY1)	9.94x	11.61x
Wtd. Avg. Price/Sales Latest 4 Qtrs	.99x	1.27x
Wtd. Avg. Dividend Yield	2.89%	2.28%
Price to Cash Flow	6.61x	7.63x
Market Cap.	$90.1 Billion	$110.7 Billion
Ten Largest Holdings (% total)	34%	21%
Approx. Portfolio Turnover	30%-40% per annum	--
Maximum Cash Position	10%	--

Sources: AIM, LLC and S&P 500 characteristics are utilizing a Bloomberg as of June 30, 2012 for weighted average book value, price/earnings, price/cash flow, and price/sales figures.

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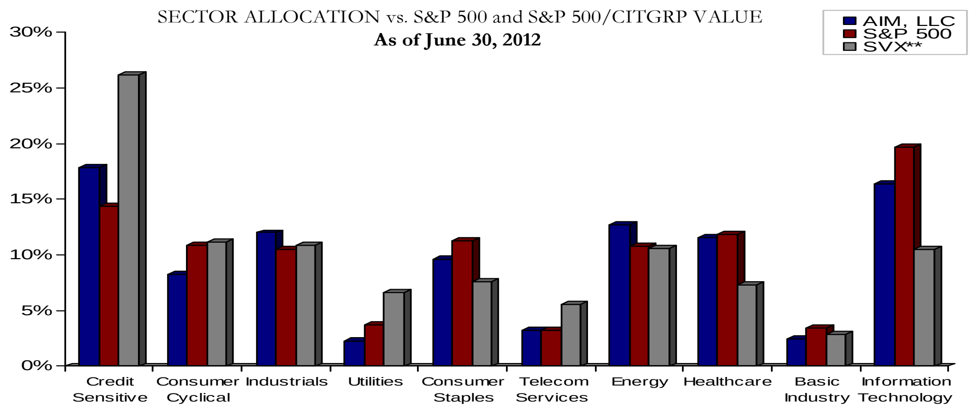
Exhibit IX

ALTMAN INVESTMENT MANAGEMENT

CORE VALUE EQUITY PORTFOLIO



AIM,LLC	17.9%	8.3%	12.0%	2.3%	9.6%	3.2%	12.7%	11.6%	2.5%	16.4%
S&P 500	14.4%	10.9%	10.5%	3.7%	11.3%	3.2%	10.8%	11.9%	3.4%	19.7%
SVX **	26.2%	11.2%	10.9%	6.6%	7.6%	5.6%	10.6%	7.3%	2.9%	10.5%

Source: Bloomberg as of 6/30/12 consolidated into the GICS sectors. Numbers rounded to the nearest hundredth.
Note: Numbers reflect portfolio allocation, not returns.
* Percentages do not total 100% due to rounding, and equity sector weights take into consideration the composite's cash allocation.
** S&P Citigroup Value Index

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