ALTMAN INVESTMENT MANAGEMENT

EQUITY STRATEGY FOCUS

NOVEMBER, 2012

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IN VIEW: An Economic Backdrop

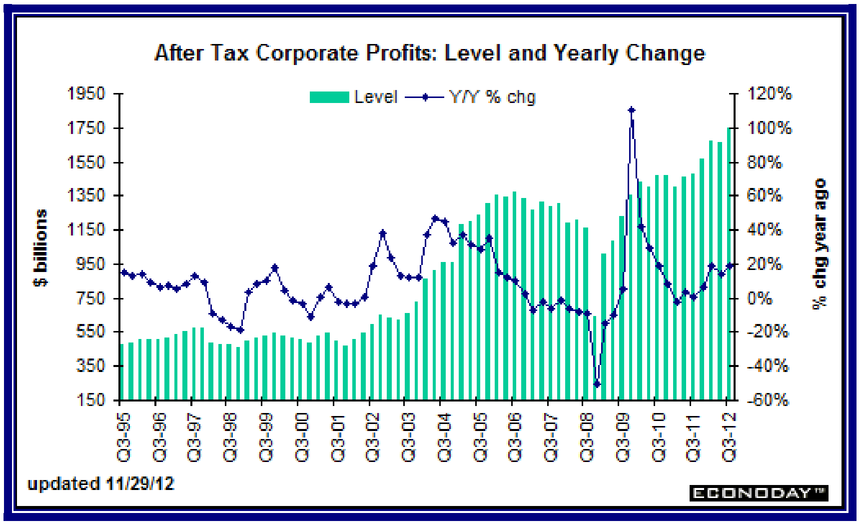
GDP for the 3rd quarter of 2012 was revised upwards from 2.0% to 2.7% but was slightly below the 2.8% expected by economists. The revision consisted of upward adjustments to inventories, non-residential structures and exports, while consumer spending and business equipment were revised lower. The shift away from consumer spending in the most recent figure underscores the importance of unemployment within the realm of a sustainable recovery. While we continue to expect economic growth to regain its footing at a level of approximately 2.3% for the year, we recognize that the aftermath of Hurricane Sandy will most likely have an adverse impact on 4th quarter business activity. Specifically we estimate the Hurricane's potential drag on 4th quarter GDP growth of approximately 0.2-0.3%.

The rise in the US ISM non-manufacturing index in November to an eight-month high of 54.7, from 54.2 in October, suggests that activity in the services sector has not really been hit by either fiscal cliff concerns or Hurricane Sandy. Admittedly, the employment index fell (to 50.3 from 54.9), which doesn't bode well for November's payrolls data (due Friday). But the new orders (58.1 vs. 54.8) and business activity indices (61.2 vs. 55.4) both rose. What's more, Sandy may actually have supported the index. Deliveries of emergency supplies and equipment are reported to have boosted wholesale trade activity. The rise in the non-manufacturing index contrasts with the fall in the manufacturing index in November, which appeared to be due to concerns over the fiscal cliff. The cliff and Sandy are therefore having different impacts on different industries. The bottom line, though, is that the impact will be fleeting. It still looks as though annualized GDP growth in the fourth quarter will be close to 1%. But this survey supports our view that conditions should look a bit better in a few months' time when all the distortions have unwound.

The impending resolution of the fiscal cliff continues to be the focus for investors. Any progress towards a compromise between Congressional Democrats and Republicans would be received as a positive for the financial markets. In the last year, core capital spending orders dropped 10% in a reaction to the uncertainty surrounding the much anticipated fiscal cliff. We believe corporations are in good position to resume capital spending in a timely manner once this issue is resolved. Some commentators argue that the recent build-up of non-financial corporations' liquid assets in many countries is impeding business investment. However, the rise in cash balances dates back a couple of decades and does not appear to be closely related to changes in the level of investment according to many economists.

Next year could be a year in which a number of factors that have been holding back the US economic recovery are removed. This doesn't mean the economy will soon start firing on all cylinders but it does mean that the foundation for faster growth in a couple of years' time is falling into place. A deal to avoid the fiscal cliff and to address the medium-term fiscal problems would remove the risk of falling back into recession.

During the quarter, corporate profits grew at a rate of 18.6% year over year or 5% over the second quarter. Financials saw the largest improvement in earnings per share growth while the more cyclical sectors such as materials and energy companies reported the largest decreases.



Source: Barclay's economics

For November, consumer confidence reached a new recovery high of 73.7 up from 73.1 in October on improving expectations on the employment front, although fewer of those surveyed expect incomes to rise over the next several months. Continued improvements in the housing sector also added to consumer confidence in November.

IN BRIEF: Equity Investment Strategy

PERFORMANCE HIGHLIGHTS FOR THE THIRD QUARTER

- The S&P 500 rallied 6.34% during the third quarter of 2012. Cyclical stocks lead the rally as Central Bank policy in both Europe and the U.S. eased investor concerns. Please refer to Exhibit I.
- Large cap stocks finished the quarter ahead of small caps despite small cap out performance in the month of September. Value stocks lead growth stocks by 100 bps in September both ending the quarter up just shy of 6.5% (measured using S&P 500 Growth and S&P 500 Value index). At current levels, value stocks continue to appear undervalued relative to growth, lending support to a continuation of value stock out performance.
- After posting strong returns in Qtr 1 and Qtr 3, Consumer Discretionary, Financials, and Information Technology were the largest contributors to S&P performance year to date. Please refer to Exhibit I and II. It is important to note however, that the 57% of the performance contribution from the Information Technology sector (the largest sector contributor to YTD performance) came from Apple and Google alone.

Exhibit I

3rd Qtr Sector Performance

Sector	Sector Wgt. As % of S&P as of 09/28/12	% Return QTD 06/30/12 – 09/28/12	Contribution QTD 06/30/12 – 09/28/12
Consumer Discretionary	11.0	7.4	0.8
Consumer Staples	10.9	3.7	0.4
Energy	11.3	10.1	1.1
Financials	14.6	6.9	1.0
Healthcare	12.0	6.2	0.7
Industrials	9.8	3.6	0.4
Information Tech	20.1	7.4	1.5
Materials	3.5	5.1	0.2
Telecom	3.3	8.1	0.3
Utilities	3.5	-0.4	-0.0

Source: Bloomberg

Exhibit II
YTD Sector Performance

Sector	Sector Wgt. As % of S&P as of 09/28/12	% Return YTD 12/31/11 – 09/28/12	Contribution YTD 12/31/11 – 09/28/12
Consumer Discretionary	11.0	21.3	2.2
Consumer Staples	10.9	12.6	1.4
Energy	11.3	7.2	0.9
Financials	14.6	21.6	3.0
Healthcare	12.0	17.4	2.0
Industrials	9.8	11.3	1.2
Information Tech	20.1	21.8	4.1
Materials	3.5	12.0	0.4
Telecom	3.3	25.9	0.8
Utilities	3.5	4.3	1.2

Source: Bloomberg

ATTRIBUTION HIGHLIGHTS FOR THE THIRD QUARTER

- Pfizer and Merck were both up 9% during the 3rd quarter supporting Healthcare as the largest positive contributor to our relative performance.
- The top 5 contributors to AIM relative performance on an individual stock basis were Accenture, Philips Electronics, Marathon Oil, Cisco Systems and MetLife.
- Information Technology was our worst relative performing sector. Ownership of Intel, HPQ, and AMAT accounted for -88 bps of underperformance. 68% of the S&P 500 3rd quarter technology sector return was attributable to Apple and Google alone. During the month of September we eliminated our position in HPQ swapping the holding for shares in Oracle, lowering our portfolio exposure to the weakening PC cycle.

S&P 500 –SECTOR VALUATION CHARACTERISTICS

Exhibit III

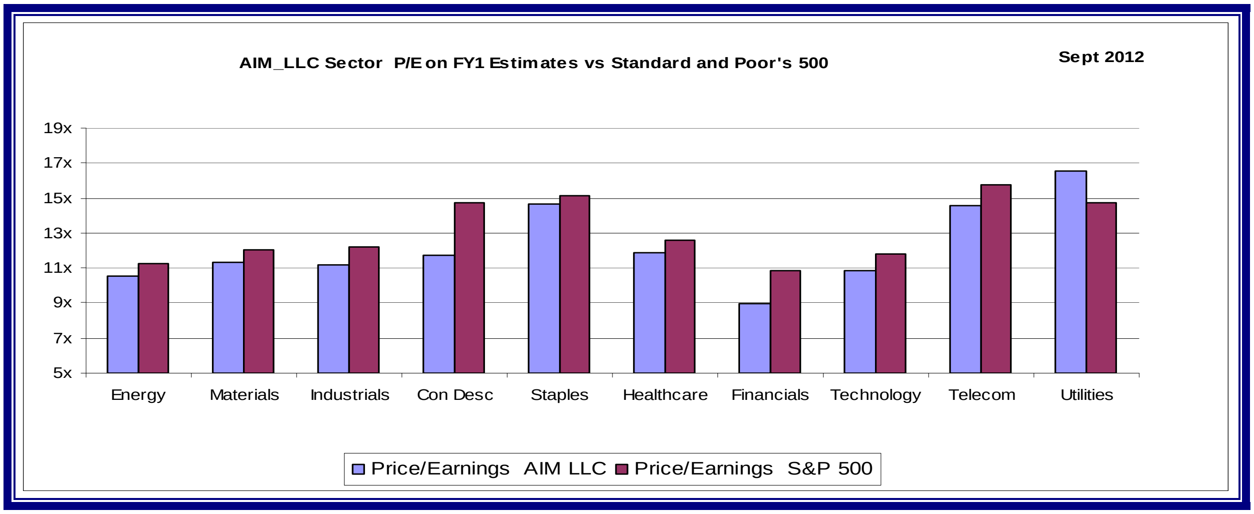
	SPX	Energy	Materials	Industrials	Con Desc	Staples	Healthcare	Fincl	Tech	Telecom	Utilities
# holdings	499	44	31	62	79	41	52	86	70	8	31
Beta	1.00	1.20	1.28	1.16	1.03	0.48	0.71	1.32	1.06	0.61	0.43
P/B	2.25	1.90	2.57	2.71	3.63	3.96	2.79	1.02	3.52	2.34	1.56
TTM P/E	14.52	11.93	14.34	13.69	18.07	16.97	14.02	13.07	14.95	18.58	14.64
P/E cur	13.85	12.14	14.43	13.65	16.89	16.56	13.57	12.09	13.29	17.27	15.06
P/E FY1	12.48	11.21	12.01	12.23	14.70	15.14	12.57	10.82	11.82	15.74	14.71
P/S TTM	1.34	1.00	1.11	1.17	1.18	1.01	1.37	1.50	2.49	1.37	1.38
Div yield	2.23%	2.19%	2.47%	2.45%	1.57%	2.90%	2.18%	1.92%	1.61%	4.45%	4.20%
P/CF	8.30	6.95	9.49	9.57	10.95	12.63	10.90	4.95	10.40	5.29	5.93

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

➢ The current multiple on the S&P 500 Index expanded by 6% to 13.8x on the backdrop of rising equity prices and declining earnings growth.

➢ In exhibit IV, we illustrate our low price-to-earnings discipline relative to the market. We address this not only on the portfolio level but at the sector level throughout the investment portfolio. We remain overweight in the Financial and Industrial sectors while moving to an overweight position in Energy during the quarter with a purchase in Halliburton. We are positioned with a relative underweight in Consumer Discretionary, Consumer Staples, and Information Technology sectors.

Exhibit IV

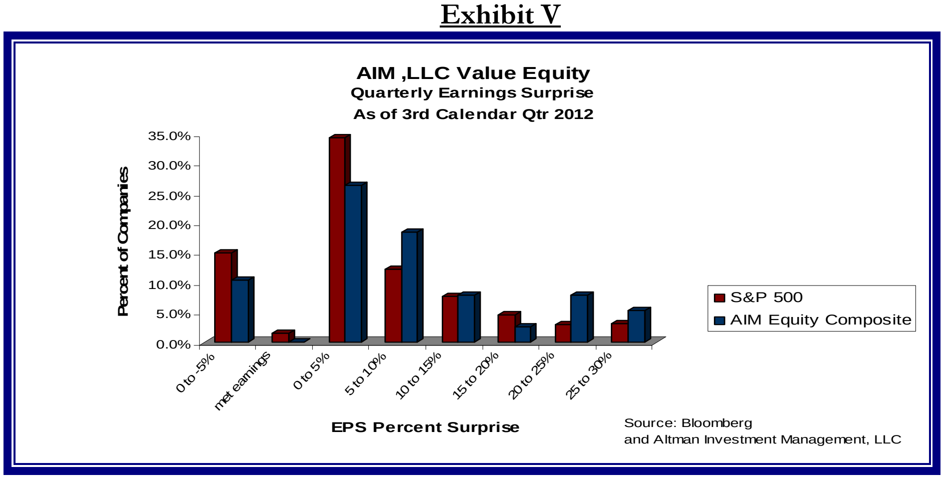


Source: Bloomberg and Altman Investment Management, LLC

THE QUARTERLY COMPANY PERFORMANCE RECORD

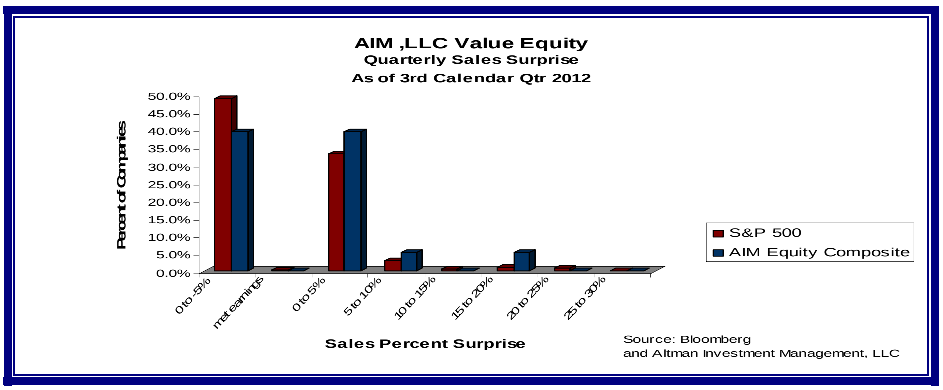
➢ Exhibit V illustrates the percentage of investment holdings within our value portfolio that exceeded street earnings estimates during the 3rd calendar quarter of 2012. Most notably, 76% of our investments exceeded street estimates and 71% of the companies in the S&P 500 exceeded street estimates. As of Nov. 8th 2012, 90% of the AIM composite and 88% of the S&P companies have reported.

Exhibit V



- The EPS year over year growth rate for the benchmark index of 1.24%, is up marginally from the .06% growth rate in the second quarter. This statistic remains well below the 50% growth levels experienced in 2010.
- The chart below illustrates the percentage of investment holdings within our value portfolio that exceeded street sales estimates during the 3rd calendar quarter of 2012. Looking at top line sales, 52.6% of our investments exceeded street estimates as compared to 39% for the S&P.
- Although the earnings season is not entirely complete, the level of revenue beats continues to decline from the 70% rate seen in the 2nd qtr of 2011, confirming our previous conclusion that margins are becoming increasingly important to bottom line growth. Profit margins are currently at 13.5% for the S&P Index which puts them near peak levels.

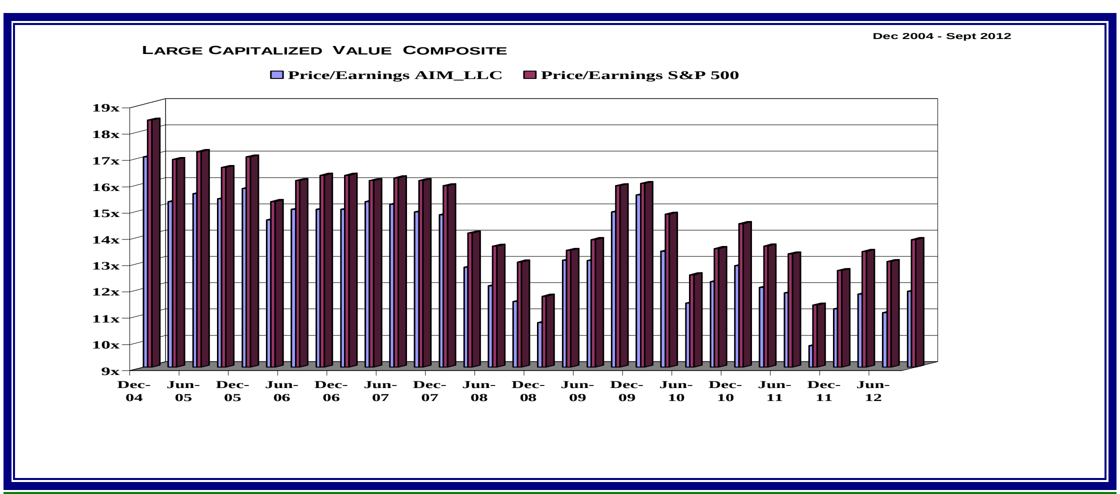
<u>Exhibit VI</u>



IN SUMMARY:

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 13.8 times 2012 earnings for the S&P 500 estimated at $103 - and interest rates historically low - we believe markets are poised to move higher in 2013 coupled with multiple expansion.

<u>Exhibit VII</u>



Source: Bloomberg and Altman Investment Management, LLC

Exhibit VIII

ALTMAN INVESTMENT MANAGEMENT

AIM PORTFOLIO CHARACTERISTICS

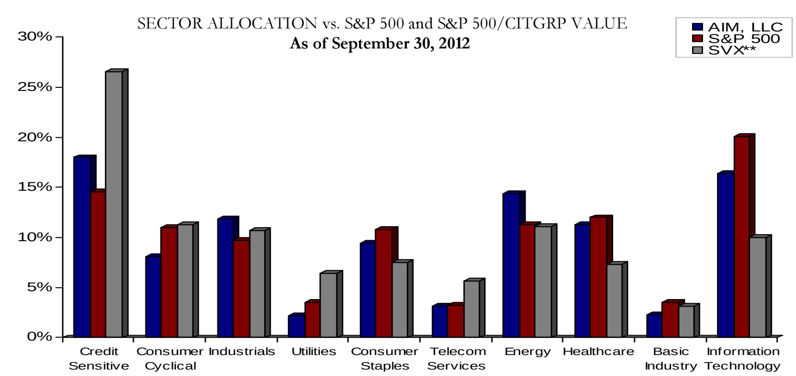
As of September 30, 2012

	Value Equity	S&P 500
# of Holdings	39 stocks	500 stocks
Portfolio Beta	1.00	1.00
Wtd. Avg. Price to Book	1.71x	2.25x
Wtd. Avg. Price-Earnings (Current)	11.89x	13.85x
Wtd. Avg. Price-Earnings (FY1)	10.89x	12.48x
Wtd. Avg. Price/Sales Latest 4 Qtrs	1.04x	1.34x
Wtd. Avg. Dividend Yield	2.91%	2.23%
Price to Cash Flow	7.27x	8.30x
Market Cap.	$93.1 Billion	$121.2 Billion
Ten Largest Holdings (% total)	34%	21%
Approx. Portfolio Turnover	30%-40% per annum	--
Maximum Cash Position	10%	--

Exhibit IX

ALTMAN INVESTMENT MANAGEMENT

CORE VALUE EQUITY PORTFOLIO



AIM,LLC	18.0%	8.1%	11.9%	2.2%	9.4%	3.1%	14.4%	11.3%	2.3%	16.4%
S&P 500	14.6%	11.0%	9.7%	3.5%	10.8%	3.2%	11.3%	12.0%	3.5%	20.1%
SVX **	26.6%	11.3%	10.7%	6.4%	7.5%	5.7%	11.1%	7.3%	3.1%	10.0%

Source: Bloomberg as of 9/30/12 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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