Applied Investment Management (AIM) Program

AIM Class of 2013 Equity Fund Reports
Spring 2012

Date: **Friday, May 4th** ***Location: AIM Research Room*** ***Time: 10:00 am***

Student Presenter	Company Name	Ticker	Price	Page No.
Kobe Park	Barclays PLC ADR	BCS	$14.52	2
Atena Liu	Clicksoftware	CKSW	$10.85	5
Timothy Maturo	Robbins & Myers Inc	RBN	$50.08	8
Varun Varma	Assured Guaranty Ltd.	AGO	$14.49	11

These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A.

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Barclays PLC ADR (BCS)
May 4, 2012

Kobe Park International Financial Services

Barclays PLC (NYSE: BCS) is a British multinational banking and financial services company headquartered in London. It operates in over 50 countries and territories across Africa, Asia, Europe, North America, and South America. The bank operates mainly in four business segments: corporate banking, investment banking, wealth management, and retail banking. It derives about half of its revenue from UK, 20% from North and South America, 15% from Africa, and 13% from Europe. Among the three largest banks in the UK, only Barclays did not seek government help during European credit crisis. BCS has 300 years of history in banking and currently employs over 140,000 people worldwide.

Price ($) : (03/07/12)	14.52	Beta:	1.75	FY: Sep	2011A	2012E	2013E
Price target ($) :	18.75	WACC (%)	16.54	Revenue (Mil)	47705.21	48565.85	49944.83
52 WK H-L ($) :	8.4 - 19.2	L-Term Rev. Gr Rate east (%):	2.00	% Growth	3.58	1.80	2.84
Market Cap (mil):	44292	L-Term EPS Gr Rate east (%):	2.00	Net Interest Margin (%)	3.12	2.96	2.96
Float (mil):	3050	Financial Leverage	28.52	Pretax Margin (%)	19.10	19.60	19.62
Short Interest (%) :	N/A	ROA (%):	0.20	EPS (Cal) ($)	1.65	1.92	2.07
Avg. Daily Vol (mil) :	5.82	ROE (%):	5.65	P/E (Cal)	8.89	7.56	7.01
Dividend ($) :	0.19	Tier 1 Capital Ratio (%)	12.90	BVPS ($)	29.63	31.55	33.62
Yield (%) :	2.62	Credit Provisions/Loans (%)	8.01	P/B	0.49	0.46	0.43

Recommendation

Many European financial institutions started a decline in 2007 and most have not fully recovered. Although some of the largest banks have valuations near historical levels, others remain at unreasonably low relative share prices. As the European economy appears to be near the bottom of the current economic cycle, now is an attractive entry point to purchase shares in selected European financial institutions with strong balance sheets and recovering profitability. In such case, financial institutions from more stable countries like Germany, Switzerland, and the United Kingdom are most likely to lead the rally. Barclays fits this description the best as it offers the highest upside potential. BCS has posted a strong balance sheet, kept its revenue from falling, and decreased its costs to maintain profitable even under the new financial regulations. Barclays reported a 22% YoY gain in 1Q net profit last week, exceeding market expectations. For such reasons, it is recommended that Barclays PLC be added to the AIM International Equity Fund with a target price of $18.75, which offers a potential upside of nearly 30% with a 2.62% dividend.

Investment Thesis

- **Growth based on strong balance sheet.** For four consecutive quarters, BCS has been able to report earnings at a level higher than expectations. On April 26, Barclays reported Q1 EPS of $0.88 that beat the market expectation by 40%. Barclays accomplished this by increasing total income by 5% and improving impairment charges by 16%. Meanwhile, BCS also successfully decreased sovereign exposures to Spain, Italy, Portugal, Ireland and Greece (reducing exposure by 16% to £6.0B). BCS is expected to continue to decrease its exposure to European sovereign debt. BCS' exposure to Greece and the domestic Irish banks remains minimal. Additionally, among its competitors, except for the Royal Bank of Scotland, BCS boasts the highest Tier 1 capital ratio of 12.9%. BCS raised £12B of term funding in the first quarter, about half of its requirement for 2012.
- **Decreases in fear factor.** Ever since Lehman Brothers collapsed in 2008 and the subsequent European credit crisis occurred, the market has been very cautious with financial risks. As a result, some financial institutions have been valued at historically low levels. While the European crisis is not over, small signs of recovery have started to show. For example, the IMF increased

its outlook for global growth in 2012 to 3.5% from 3.3%. German's ZEW survey of investor confidence unexpectedly rose recently to a two-year high. In Q3 2011, the maturing GISPI (Greece, Italy, Spain, Portugal, and Ireland) bonds were at an all-time high of £221B. This April, about £80B of sovereign debt matured. Europe seems to have passed this April hurdle without many struggles and starting in Q3 2012, the amount of maturing European debt will begin to decrease. As Eurozone countries are likely to stick together and prevent any country from defaulting, the threat of further credit crunch is likely to diminish.

- **Strong market position in UK.** After a wipe out of banks during the European crisis, a few of the major banks survived. These institutions ended up building stronger market positions as the number of competitors decreased significantly. While its main two competitors, RBS and Lloyds, still struggle and watch their revenue fall, BCS has been able to increase its profit in UK. Q1 2012 UK profit increased 16% YoY, while the UK segment reported a strong 15% ROE. RBS and Lloyds are heavily owned by the UK government as they received help during the crisis – and they also have a big exposure to Irish mortgages, while BCS only carries £90M of Irish residential mortgages.

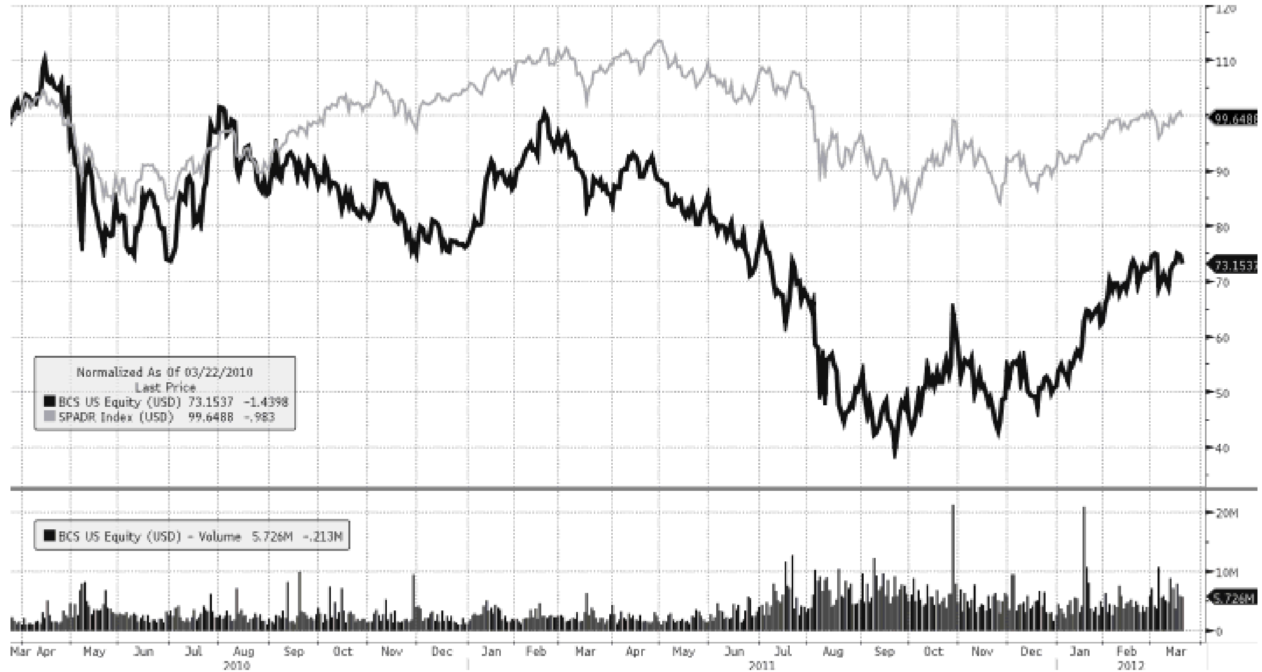
Valuation

To find the intrinsic value of BCS, P/E and P/B methods were used. Since many other peers seemed undervalued as well and it was hard to find true competitors with many parts that BCS operates, historical multiples were used. BCS has been traded at an average P/E ratio of 10.3x historically. Except for the year 2008, P/E ratio has been fairly constant. Therefore, P/E ratio of 10.3x and 2013 estimated EPS of $1.92, estimated by sum of the seven different parts, was used to find an intrinsic value of $21.28. For a P/B multiple, a little different approach was applied. Starting in 2008, previous historical P/B multiples lost much meaning as it changed structurally. Until 2007, BCS had been traded at an average P/B ratio of 2.17. In the past four years, it has been traded at P/B multiple of .51. As the European market starts to get better and investors start to find confidence, BCS is expected to be traded at more reasonable level. Under such assumption, P/B ratio of .55x and 2013 BVPS of $31.55 were used to find an intrinsic value of $17.35. Weighing P/E 35% and P/B 65%, a price target of $18.75 was established, providing 29% upside from the current price. The company pays a 2.62% dividend yield.

Risks

- **Spain exposures.** The main concern for sovereign debt comes from Spain. BCS has about £25B exposure in Spain. As Spanish housing market might drop further down, BCS will have to write off more debt in these countries. About £14bn comes from residential mortgages. Although Spanish housing market is expected to have hit the bottom, it might drop a little further. BCS contains only £90M exposure in Greece, mostly in corporate. Portugal accounts for £9B and Italy accounts for £24B.
- **Slow recovery in Europe and UK.** Spain and UK just reported that they are officially back in recession again. Although no countries or banks are likely to default under current system in Europe, real economic growth can decrease regardless. With a current beta of 1.75, the performance of BCS can be heavily influenced by the market situation.
- **Political risk lowering investors' confidence**. Although some signs of economic recovery started to show and surveys show positive measures, political risks can lower investors' confidence. To factor this into the valuation, a sensitivity analysis for different possible P/B multiples (from .49x to .61x) and different 2013 estimated EPS (from 1.11 to 2.7) was performed. This resulted in a price range of $15.06 to $19.72.

Management
American born Bob Diamond became Chief Executive on 1 January 2011, having previously held the position of President of Barclays PLC. He has been with the company since 1997. Before joining Barclays, he was Vice Chairman and Head of Global Fixed Income and Foreign Exchange at CS First Boston. Prior to that, he spent 11 years at Morgan Stanley.



Ownership

% of Shares Held by All Insider and 5% Owners:	19.5%
% of Shares Held by Institutional & Mutual Fund Owners:	74.1%

Source: Bloomberg

Top 5 Shareholders

Shareholder	Shares	% Out
Qatar Investment Authority	813,964,552	6.66
BlackRock Advisors (IK) Limited	797,965,930	6.52
Al Nahyan (Strategic Entity)	758,437,618	6.20
Legal & General Investment	480,805,132	3.93
Norges Bank Investment	316,953,482	2.59

Source: Thomson One

Clicksoftware (CKSW)
May 4, 2012

Atena Liu International Information Technology

Clicksoftware (NASDAQ: CKSW) is a global leader in providing software solutions and services for workforce management (WFS) and field service management (FSM).The goal of WFS is to reduce the inefficiencies in a workforce, while FSM allows companies to optimize and dispatch information needed to technicians who are serving the customers out in the field. In fiscal year 2011, the North American market and the EMEA market accounted for 46% and 45% of revenues respectively and APAC accounted for the remaining 9%. Aimed at helping companies in the service sector improve efficiency, CKSW provides a wide range of software solutions such as Mobility Solutions, Cloud Solutions, Service Chain Optimization, etc. Utilities (38%) and communication (35%) end markets together account for 73% of total revenue. Software Licensing takes up 36.2% of CKSW's total revenues, while the rest come from Service/Maintenance Provision. They made three acquisitions in 2009: Manchitra Services ($2.65mil), AST ($1.7mil), and AiPoint Assets ($1.5mil). CKSW was recognized as an industry leader by Gartner Reports in Field Service Management in 2011. Founded in 1979, CKSW is headquartered in Petah Tiqwa, Israel.

Price ($) (4/27/12)	10.85	Beta:	0.98
Price Taget ($):	13.79	WACC	10.1%
52WK Range ($):	7.12-13.07	M-Term Rev. Gr Rate Est:	12.5%
Market Cap:	332.4M	M-Term EPS Gr Rate Est:	15.1%
Float	25.6M	Debt/Equity	0.0%
Short Interest (%):	1.2%	ROA:	14.3%
Avg. Daily Vol (K):	168.50	ROE:	21.6%
Dividend ($):	$ 0.32		
Yield (%):	2.95%		

FY: December	2011A	2012E	2013E
Revenue (Mil)	87	103	119
% Growth	16.00%	15.50%	14.60%
Gross Margin	63.60%	64.80%	65.50%
Operating Margin	17.92%	16.00%	18.00%
EPS (Cal)	$0.39A	$0.47E	$0.55E
FCF/Share	0.32	0.46	0.18
EV/S(Cal)	6.3x	5.3x	4.6X
EV/EBITDA(Cal)	15.5x	12.4x	10.2x

Recommendation

As a leader in the area of Field Service Management (FSM) software providers, CKSW provides best-of-breed software with the highest level of customization and functionality in the industry. Gartner estimates that FSM applications have reached 20% of the addressable market and that the licensing revenues for packaged field service dispatch and workforce management should reach $325B in 2012 from $300B in 2010. Overall, CKSW experienced a CAGR of 17% for the past ten years and 22% for the past five years. CKSW ended FY2012 with 210 customers (increased from180 FY2010), among which 75 have signed contracts for the Mobility Suite. For the past three years, CKSW's has seen an average gross margin of 90.4% in software licensing and 50.3% in service/maintenance. Clicksoftware plans to focus on expanding through enhancing mobility, cloud services, and shift planning. VDC research estimates that there is $1.6B of potential market for mobile apps for FSM. CKSW is also hoping to expand their market presence in Latin America, Eastern Europe, and Africa. For FY2012, they are looking to accelerate strategic partnership with the leading CRM and ERP venders. With a book-to-bill ratio greater than one and a growing number of sales representatives (increased 25% to 42 in 2011), a 9% year over year increase in backlog and 30% year over year increase in bookings, CKSW's Q1 2012 results validate this growth thesis. CKSW currently issues a dividend ratio of 2.49%. It is recommended that CKSW be added to the AIM International Equity Fund with a potential upside of 27%.

Investment Thesis

- **Leader in field service management.** Gartner report expects the best-of-breed software to be a popular choice for companies that need high customization for their projects. CKSW maintains its reputation with its breadth and depth of product offerings and industry experience. With strong brand name for scheduling and planning algorithms, CKSW is able to deliver its solutions in just over two months with end-to-end decision support. Serving customers of all sizes and all

verticals, there is an estimated total of $30 million in their backlog for 2012. CKSW has been winning over customers from competitors who failed to deliver customer demands.

- **Diversified regions and product portfolios.** In FY 2011, CKSW saw 21% increase in revenues from EMEA area. They have also signed contracts with two government enterprises in Russia (Sberbank and MGTS) in the first quarter of 2012. ClickSchedule is CKSW's most popular product. Yet they are aggressively expanding into mobility solutions, cloud solutions, and shift-planning. Some categories that are already protected by patents are workforce management, data capture, and field service. In 2011, bookings for products other than ClickSchedule doubled to 35% of the mix.
- **Enterprise's need to optimize service chain.** With the recession and an uncertain global economy, it is crucial for service oriented companies to cut down cost and improve efficiency. Yet the area of field service management still remains under-optimized with a low field workforce utilization level (56% according to Aberdeen Group's Mobile Report). Clicksoftware's leadership position in this field helps them to lead the trend.

Valuation

To find the intrinsic value of CKSW, a ten-year DCF was conducted. Sales growth rates were varied year-to-year to account for the increased competition and unpredictability in this industry. The sensitivity analysis below accounted for variations in WACC and also in COGS as a percent of total sales. A WACC of 10.05% and a terminal growth of 3% was used (peer WACC 9.05%) and yielded an intrinsic value of $11.22. An EV/EBITDA multiple approach was also used. With an EV/EBITDA of 15.55x (ttm), an intrinsic value of $16.35 was generated. Weighing the two values at 50/50, a price target of $13.79 was established, representing a 27% upside.

Risks

- **Reliance on major customers.** Clicksoftware is a small company with limited name recognition and capital resources. As of FY 2011, five of CKSW's largest customers account for 37% of their total revenues. To attract bigger deals, it chooses to partner with big venders and distributors such as SAP and Accenture to benefit from their established network and reputation. The reliance on large partners, who brings them large deals, also directly determines CKSW's revenues and therefore causes volatile sale cycles. This problem is already improved as CKSW expands their total number of customers.
- **Higher domicile country risk.** Israel is frequently affected by drastic political changes and potential violent conflicts. Headquartered in Israel, CKSW has a higher possibility to be negatively affected by an uncontrollable external factor. Also, Israel has different accounting standards from the U.S. GAAP. As a result, the information disclosed is less regulated and less transparent.

Management

Moshe BenBassat is founder, CEO, and Chairman of Clicksoftware. He held academic positions at USC, Tel Aviv University, UCLA, and his research work has been supported by DARPA, NIH, NASA, etc. He also coined the term "service chain optimization" in 1996, and is considered a guru in the field. Shmuel Arvatz joined Clicksoftware in 2002 and served as the CFO since then. Prior to this position, he was the CFO of Shrem, Fudim, Kelner Technologies. He also served as VP and CFO for several technology companies. Hannan Carmeli became the COO in 2006, after 10 years of working experience in the company. He has extensive experience in both sales and marketing areas and technical areas.

Ownership

% of Shares Held by All Insider and 5% Owners:	5%
% of Shares Held by Institutional & Mutual Fund Owners:	42%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Management and Research	2,679,698	9.35%
Parnassus Investments	1,350,000	4.71%
Perimeter Capital Investments	893,869	3.12%
Soros Fund Management	866,666	3.02%
Renaissance Technologies	703,000	2.45%

Source: Yahoo! Finance

Robbins & Myers Inc. (RBN)
Date: May 4, 2012

Timothy Maturo Industrials

Robbins & Myers (NYSE:RBN) is engaged in the design and manufacture of equipment for the energy, pharmaceutical, and chemical markets. RBN is divided into two segments: fluid management and process solutions. Robbins & Myers' fluid segment is a world-wide leading producer of oil well equipment including hydraulic drilling power sections, blow-out preventers (BOPs) and pressure control systems. Robbins & Myers' process solution segment is the global leader in glass-lined reactors. In fiscal year 2011, the US accounted for 53% of revenues and foreign countries 47%. The Fluid Management segment accounted for 74% of sales and process solutions accounted for 26% of sales. RBN was founded in 1878 in Dayton, Ohio and employs 3,387 employees worldwide. Robbins & Myers has operational facilities located in North America, South America, Europe, and Asia.

Price ($): (4/27/12)	$ 50.08	Beta:	1.45	FY: Dec	2011 A	2012 E	2013 E
Price Target ($):	$ 65.65	WACC	13.6%	Revenue (Mil)	$ 820.64	$1,025.80	$1,169.41
52WK H-L ($):	31.54 - 55.63	M-Term Rev. Gr Rate Est:	14.0%	% Growth	71.6%	25.0%	14.0%
Market Cap (mil):	2,257	L-Term Rev. Gr Rate Est:	7.0%	Gross Margin	41.3%	42.0%	44.0%
Float (mil):	38.09	Terminal Gr Rate Est:	3.0%	Oper. Margin	18.1%	22.0%	24.0%
Short Interest (%):	3.70%	Debt/Equity:	0	EPS (Cal)	$ 3.24	$ 3.75	$ 4.47
Avg. Daily Vol:	539,536	ROA:	11.99%	FCF/Share	$ 1.66	$ 3.13	$ 4.17
Dividend ($):	$ 0.20	ROE:	16.67%	P/E (Cal)	15.49	13.39	11.24
Yield (%):	0.40%			EV/EBITDA	8.71	7.82	6.59

Recommendation

Hydraulic fracturing and horizontal drilling have grown rapidly in recent years and will continue to be important as unconventional oil resources become a larger piece of global production. Baker Hughes rig count in the US remains at a near decade high of 1,945; which is up from a low of 876 reached in 2009. Additionally, the number of horizontal rigs is at all-time highs making up around 60% of active rigs. Robbins & Myers product portfolio has been strongly positioned to take advantage of horizontal drilling. In January 2011, RBN completed their acquisition of T-3 energy solutions for $618.4M. The focus on the energy segment has enabled Robbins & Myers to capture high operating margins (13.8% in 2010 to 18.1% in 2011). Additionally, RBN has had strong top-line and bottom-line growth in the first two quarters of fiscal year 2012. Robbins and Myers pays a quarterly dividend of $0.05 per share and trades for a favorable P/E multiple of 12.78x and EV/EBITDA multiple of 8.71x. Robbins & Myers has a record orders backlog of $301M versus $251M a year ago. Because of a strong product portfolio and a favorable valuation, it is recommended that Robbins & Myers be added to the AIM Equity Fund with a target price of $65.65, which offers a potential upside of 31.1%.

Investment Thesis

- **Acquisition Synergies of T-3 Energies.** The addition of T-3 creates a stronger and larger portfolio of energy products which will allow RBN to achieve a larger scale benefit. Additionally the T-3 acquisition gives Robbins & Myers a larger more balanced exposure in energy drilling, production, and pipeline transmission. Management has attained $11M of annualized cost savings through corporate, supply chain, and operational benefits. Additionally, this larger portfolio will enable incremental sales to common customers.
- **Growth in Horizontal Drilling.** In April 2011, the EIA released a report estimating the world-wide opportunities for shale gas. The shale gas resource the EIA estimated to be 6,609 trillion cubic feet. This increased the world's technically recoverable reserves by over 40 percent to 22,600 trillion cubic feet. As the world relies more on natural gas a source of fuel, the use of

advanced drilling technologies manufactured by Robbins & Myers becomes necessary to unlock these resources.

- **Global Market Position in Products.** Robbins & Myers products have leading market positions in the products that it sells. RBN hydraulic drilling power sections and down-hole pups hold the number one or number two worldwide positions. Additionally, T-3 is a top global competitor in the blowout preventer market. Robbins & Myers' glass-lined reactor business, Pfaudler has approximately a 50% global market share.

Valuation

To find the intrinsic value of RBN, a ten-year DCF was conducted. Revenue growth of 7.0% was used 2015-2022. A WACC of 13.6% was used and yielded an intrinsic value of $ $64.94. A sensitivity analysis was conducted to account for variations in WACC (11.6%-15.6%) and medium term revenue growth (12% - 16%) which yielded a price range of $51.33 - $85.78. Additionally, an EV/EBITDA valuation was conducted with a multiple of 10.8 which yielded an intrinsic value of $66.71. Combining these two methods with 60% weighting on the DCF and 40% on the EV/EBITDA a composite price of $65.65 was determined representing a 31.1% upside with a dividend yield of 0.4%.

Risks

- **Global Energy Prices.** Robbins & Myers majority of sales come from the production of energy equipment. A decline in energy prices will lower the amount integrated oil companies spend on exploration and production. A decline in this spending may lead to a glut in drilling machinery and as a result the demand for new drilling parts would be lower. Furthermore, demand for Robbins & Myer's drilling products could be affected by the historically low natural gas prices in the United States. If these rigs are not shifted to oil drilling, a glut could be created in the drilling industry.
- **Exposure to Chemical Market.** During the financial crisis the chemical market collapsed. In subsequent years the chemical market has still recovered to 2008 levels. Global chemical capacity is currently ~86% below the 2007 highs of ~94%. With around an 18% exposure to this industry, downturns in this industry could negatively affect Robbins & Myers' results.
- **Regulation Limiting Hydraulic Fracturing.** Some states have adopted laws attempting to restrict hydraulic fracturing requiring disclosure of chemicals used. New York has enacted legislation for a moratorium on hydraulic fracturing. Additionally the EPA is currently investigating hydraulic fracturing to be released the end of 2012. Government responses to these studies or further regulations could negatively impact Robbins & Myers.

Management

Peter C Wallace has been the President and the Chief Executive Office of RBN since 2004. Prior to Robbins & Myers Mr. Wallace served as President and CEO of IMI Norgren Group a motion and fluid control systems and President of Rexnord Corporation, a manufacturer of power transmission and conveying components. Mr. Wallace is currently a director of Applied Industrial Technologies and Rogers Corporation. Mr. Wallace's compensation was $2.9 million in 2010.

Thomas P. Loftis has been the Chairman of the Board of Robbins & Myers since 2004. Prior to serving as the Chairman, Mr. Loftis served as the Vice Chairman for Robbins & Myers. Additionally Mr. Loftis has engaged in commercial real estate development, asset management, and consulting for Midland Properties since 1981. Mr. Loftis compensation for 2010 was $140,000.

Ownership

% of Shares Held by All Insider and 5% Owners:	12%
% of Shares Held by Institutional & Mutual Fund Owners:	85%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
The Vanguard Group, Inc.	2,213,348	5.04
BlackRock Fund Advisors	1,828,793	4.17
Heartland Advisors	1,718,060	3.91
Lord Abbett & Co	1,592,736	3.63
Ameriprise Financial, Inc.	1,440,943	3.28

Source: Yahoo! Finance

Assured Guaranty Ltd. (AGO)
May 4, 2012

Varun Varma International Financial Services Sector

Assured Guaranty Ltd. (NYSE: AGO) is a global provider of financial guaranty insurance, reinsurance, and mortgage guaranty coverage. They provide insurance products on global municipal finance, infrastructure and structured finance, and corporate bonds. AGO has three principal operating subsidiaries: Assured Guaranty Municipal Corp. (AGM), Assured Guaranty Corp. (AGC), and Assured Guaranty Re Ltd (AG Re). The company operates globally and recognizes revenue from North America (73%), Europe (25%), and Australia (2%). In 2009, AGO acquired Financial Security Assurance Holdings Ltd, which provides public finance and global infrastructure guaranties. Since 2008, AGO has been the most active provider of financial guaranty credit protection. Incorporated in 2003, after being spun-off from ACE Ltd., a property and casualty insurance company, AGO is headquartered in Bermuda.

Price 3/23/12 ($):	14.49	Beta:	1.64	FY: Dec 31	2011A	2012E	2013E
Price Target ($):	20.00	Discount Rate:	11.90%	Revenue ($mil):	1,819.3	1,318.4	1,336.8
52 WK L-H ($):	9.16- 19.04	M-Term Rev. Gr Rate Est:	5.9%	Rev. Growth (%):	38.5%	-27.5%	1.4%
Market Cap:	2.64B	M-Term EPS Gr Rate Est:	9.5%	Operating Margin (%)	62.3%	56.0%	55.0%
Float (M):	159.9M	Debt/Equity	60.0%	Pretax Margin (%)	56.9%	49.0%	48.0%
Short Interest (%):	3.10%	ROA:	4.10%	EPS (S):	4.18	2.90	2.80
Avg. 3 Month Vol:	1.974M	ROE:	18.30%	BVPS ($):	25.90	27.75	29.39
Dividend ($):	0.36			P/B:	0.56x	0.52x	0.49x
Yield (%):	2.48%			P/E	3.47x	5.00x	5.18x

Recommendation:

As the only active municipal bond insurance company over the past two years, AGO has created a niche providing credit enhancement to smaller municipalities. The ability to be the only active provider to these markets has allowed AGO to expand their operating margins from about 40% in 2009 to 60% 2011. AGO's recently achieved top market position and low competitive opposition will allow for growth despite the macroeconomic conditions. In addition, in March 2012, Moody's placed a warning to AGO that it had decided to put their debt obligations and financial strength rating on 'watch' for a potential downgrade from Aa3 to A1 This is similar to the same process that occurred last year with S&P regarding a potential downgrade of AGO. Ultimately, AGO was able to work with S&P to maintain a strong credit rating and avoid any capital charges or increase capital adequacy requirement with a stable outlook. In the short term, the recent drop in stock price (-20%) is due to uncertainties over the macroeconomic conditions over the last year along with Moody's 'watch'. In all, AGO's financial position remains stable, and with the low price this is a good buying opportunity. That being said, the current P/B ratio for AGO is low compared to its competitors (0.9x) and historical average (0.8x). In addition, as new regulations on the municipal bond market become clearer under the Dodd-Frank Act, it should present an opportunity for increased issuance in municipal bonds by local governments and increased coverage to lower credited issuances. By nature, municipal bonds issued by local governments are exempt from new proprietary trading rules imposed on banks and other financial firms. Due to the recent stock price pull back on short term news and with favorable long-term prospects, AGO is recommended as an addition to the AIM International Equity Fund at a price target of $20.00 providing an upside of 38%.

Investment Thesis

- **Small to Mid-Size Municipality Insurance Niche.** AGO has been able to establish a niche for itself by providing services to small and mid-sized municipalities. AGO's margins have benefited by providing to smaller municipalities with lower than AA credit ratings. AGO provides wraps, which allow municipalities to pay almost 20-30 basis points lower than if they issued the debt themselves. As a result, AGO helped save an estimated $150M in financing costs to its customers' in 2011. The backing of AGO allows them to enhance their credit, which

provides protection in an uncertain credit environment and increases liquidity in the marketplace. In addition, AGO has been able to increase its penetration into the A-rated municipalities from 35.3% in 2010 to 37.8% in 2011. Of the 37.8% penetration of the market, AGO accounted for 15.8% of the share of the total A-rated par bond issuance, which is by far the largest share. AGO is able to add value in smaller muni deals rather than larger higher credit rated bond issuance because there is no perceived need of insurance for high quality issuance since the recession.

- **Growing Structured Product and International Segments.** AGO has increased their U.S. structured premiums by 98% from $30.2M in 2010 to $59.8M in 2011. This included its first insurance of a primary market transaction since late 2010. In addition, the company closed out its first significant international transaction since 2009. It allows them to fill gaps left void by the limited ability banks have to lend. This increase in insurance should allow them to take advantage in the form of future deals internationally and penetrate that market.
- **Recent Increased Barriers to Entry.** AGO is the only company that is generating new business by issuing insurance on municipal bonds. There was no other insurance company that even attempted to wrap new muni bonds this year. This has allowed AGO to have a near monopoly on the muni bond insurance market. Its competitors have suffered great losses due to the mortgage-related insurance products, which have lowered their credit ratings. The lower credit ratings of their competitors have essentially prohibited them from writing new muni bond insurance - also, others have tried to enter the insurance market, but failed.

Valuation

To value AGO, a P/B methodology was use by applying a conservative weighted AGO historical and peer multiple of 0.76x to AGO 2012-2013 blended BVPS, which implied an intrinsic value of $21.70. A Dividend Discount Model was also used with a historical 5-year growth rate of 9.0% and discount rate of 11.9%. This method generated an intrinsic value of $12.40. Weighing the P/B methodology at 80% and DDM at 20%, the final intrinsic value was $20.00, which presents 38% upside. AGO pays a $0.36 per share annual dividend, which is currently yielding 2.6%.

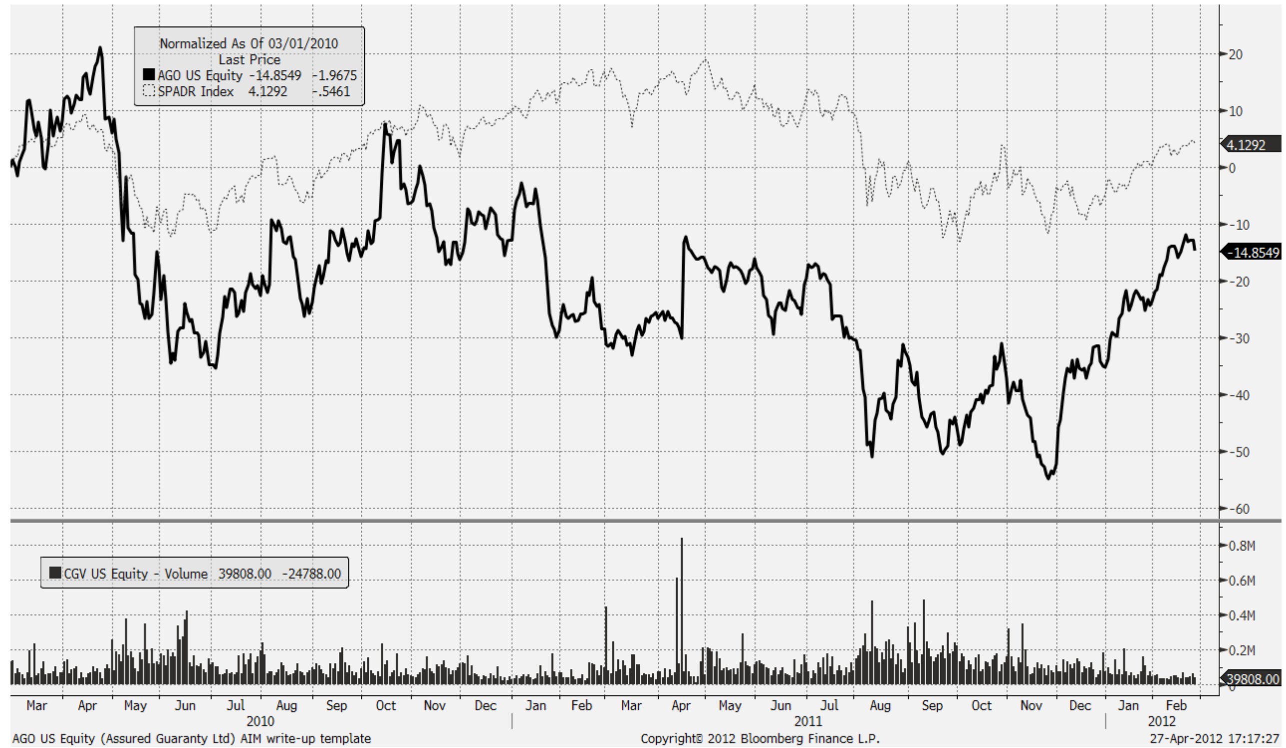
Risks

- **Lack of Certainty on Financial Strength Rating.** A potential downgrade of AGO's financial strength could have an adverse effect. Its future business opportunities would be hindered because of the premiums that it could charge for its insurance policies and would make it harder to sell coverage in certain transactions. In addition, the downgrade could trigger early termination claims by bondholders and CDS counterparties, where AGO would have to post collateral, if the rating fell below a certain level. Therefore, AGO would be required to increase the amount of capital raised and held.
- **Maintaining Market Penetration.** Since the 2008 financial crisis there has been an adverse effect on the growth of market penetration by bond insurance firms. There has been a decrease the activity of new wrappings being issued by the industry. The decline in insurance on the market declined from 55% in 2005 to 5% in 2011.
- **Exposure to Troubled RMBS.** Since 2007, adverse developments in the credit and financial guaranty markets have substantially increased uncertainty and may affect its financial condition. The RMBS transactions conducted in 2005-2007 have generated higher losses than expected and higher than experienced historically. The higher losses have resulted in a decrease in demand for financial guaranties in fixed income markets because of the increased concerns.

Management

Dominic Frederico has been the President, CEO and Deputy Chairman since the company's IPO in 2004. Before his tenure at Assured Guaranty, he served as President and COO of ACE Limited from 1999 to 2003. Mr. Frederico has over 30 years of experience in the insurance industry, which has been integral to his. Mr. Walter Scott (age 74) is an Independent Chairman of the Board. Mr. Scott was President and

CEO of ACE from 1989 to 1994, and has served as a Director until 2005. In addition, he is on the board of founding trustee of the Bermuda Foundation for Insurance Studies.



Ownership (AGO)

% of Shares Held by All Insider and 5% Owners:	12%
% of Shares Held by Institutional & Mutual Fund Owners:	88%

Source: Yahoo Finance

Top 5 Shareholders (AGO)

Holder	Shares	% Out
Wellington Management Company, LLP	17,433,424	9.49
FMR LLC	12,180,783	6.63
Putnam Investment Management, LLC	11,839,400	6.44
Elm Ridge Management, LLC	7,006,953	3.81
Fine Capital Partners, L.P.	6,660,245	3.62

Source: Yahoo Finance