

AIM Capital Development Fund

Investment Process

Universe Definition

Stocks with market capitalizations of \$1 billion-\$15 billion and adequate trading liquidity



Stock Selection

Distilling the Universe

Multifactor quantitative model narrows the investment universe based on a series of fundamental, valuation and timeliness factors

Focused Security Analysis

■ Fundamental Analysis

- Develop and analyze a fully integrated financial model
- Identify companies with management teams capable of growing revenues and cash flows and prudently allocating cash flows to high-return projects

■ Valuation Analysis

- Determine potential for capital appreciation and target buy price
- Focus on price-to-cash flow

■ Timeliness Analysis

- Analyze technical and sentiment-driven measures, including insider buying and selling, to determine best time to purchase or sell a stock



Portfolio Architecture

■ Sector Level

- Sector limits

- **Large sectors:** 50%-150% of the Russell Midcap Growth Index sector weight
- **Small sectors:** 0%-300% of the Russell Midcap Growth Index sector weight

■ Stock Level

- Target 100 holdings with an approximate weight of 1% each

Investment philosophy

We believe the fund's combination of a fundamentals-based stock selection process with disciplined portfolio construction may lead to strong equity returns with below-market volatility over a long-term investment horizon.

We seek attractively valued, mid-cap companies with high growth potential, demonstrated by sustainable earnings and cash flow growth.

Universe definition

The fund's investable universe includes mid-cap stocks with market capitalizations between \$1 billion and \$15 billion and adequate trading liquidity (volume of at least \$15 million per day).

Stock selection

Distilling the universe

To narrow the investment universe, we use a quantitative model that ranks all stock candidates based on a set of fundamental, valuation and timeliness factors. This proprietary model, developed in conjunction with our Quantitative Research Team, is designed to identify stocks with the highest probability of meeting our team's investment criteria. The highest ranked stocks become the primary focus of our research efforts.

Focused security analysis

Our stock selection strategy is based on a rigorous three-step process that includes fundamental, valuation and timeliness analysis.

Fundamental analysis. The first step in our security research involves the development and analysis of a fully integrated financial model that includes the income statement, statement of cash flows and balance sheet. This fundamental research allows team members to build a more complete understanding of the financial health of each investment candidate.

Next, we perform a complete due diligence of the company and the industry. We seek companies operating in industries that exhibit one or more of the following positive characteristics:

- **Company fundamentals.** We look for leading companies with value-added and dependable products or services, strong revenue gains through unit growth or pricing power, potential to expand margins and improve profitability, strong earnings-per-share (EPS) growth, improving balance sheets, sustainable free cash flow generation, prudent capital allocation decisions and proven management teams that can deliver on their strategy.
- **Industry fundamentals.** We look for growth industries with high purchaser demand, industries driven by macroeconomic or demographic trends, industry niches taking market share from fragmented or mature industries, and industries that allow for differentiation, added value and pricing flexibility.

Our due diligence includes an analysis of external themes. Our goal is to identify macroeconomic, demographic, political, secular, credit, natural, social or other forces that may influence the outlook for a company and its stock.

Sources of our due diligence include extensive, in-depth meetings with senior corporate officers, and insight from experienced Wall Street analysts, independent third-party research, industry leaders and practitioners.



Valuation analysis. Through our valuation analysis, we seek to determine the potential for capital appreciation as well as a target buy price. While we assess multiple factors, our valuation analysis focuses most heavily on price-to-cash flow. Other factors analyzed include price-to-earnings and enterprise value (EV) to earnings before interest, taxes, depreciation and amortization (EV/EBITDA).

Timeliness analysis. We analyze technical and sentiment-driven measures, including insider buying and selling, to help determine the best time to purchase or sell a stock.

Delineating the investment thesis

The conclusion of our focused security analysis is the development of an investment thesis for each potential holding. The investment thesis clearly articulates the outlook for the company and the stock, the critical drivers of growth, upside potential, an attractive purchase price and the macro, industry and stock-specific risk. To be added to the portfolio, stocks must be attractive based on fundamentals, valuation, timeliness, outlook and risk/reward.

Portfolio architecture

Because our target portfolio attempts to manage volatility and downside risk, risk management plays an important role in portfolio construction at the sector and security levels:

- **Sector level.** We seek to manage sector-specific risk by following sector weight guidelines. Our sector exposure ranges between 50% and 150% of the Russell Midcap Growth Index sector weights in large sectors (e.g., a 10% to 30% weight in a sector with a 20% weight in the Russell Midcap Growth Index) and between 0% and 300% in small sectors (e.g., a 0% to 9% weight in a sector with a 3% weight in the Russell Midcap Growth Index).
- **Stock level.** We seek to manage stock-specific risk by building a diversified portfolio of typically 100 stocks with an approximate weight of 1% each at the time of purchase. We set price targets for each stock and increase or decrease our standard 1% average positions based on liquidity considerations and a stock's upside potential.

Sell discipline

We consider selling a stock if:

- There is a change in fundamentals, market capitalization or a deterioration in the technical profile.
- The current price target provides little appreciation potential.
- The investment thesis is no longer valid.
- Insider selling indicates potential issues.

About risk

Prices of equity securities change in response to many factors, including the historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates, investor perceptions and market liquidity.

The fund invests in “growth” stocks, which may be more volatile than other investment styles because growth stocks are more sensitive to investor perceptions of an issuing company’s growth potential.

There is no guarantee that the investment techniques and risk analysis used by the fund’s portfolio managers will produce the desired results.

Stocks fall into three broad market capitalization categories – large, medium and small. Investing primarily in one category carries the risk that, due to current market conditions, the category may be out of favor with investors. Small and mid-sized companies may tend to be more vulnerable to adverse developments and more volatile than larger companies. Investments in small and mid-sized companies may involve special risks, including those associated with dependence on a small management group; little or no operating history; little or no track record of success; and limited product lines, market and financial resources. Also, there may be less publicly available information about the issuers of the securities or less market interest in such securities than in the case of larger companies, which can each cause significant price volatility. The securities of small and mid-sized companies may be illiquid, restricted as to resale or trade less frequently and in smaller volume than more widely held securities, which may make it difficult for an underlying fund to establish or close out a position in these securities at prevailing market prices.

The prices of securities held by the fund may decline in response to market risks.

Portfolio turnover is greater than most funds, which may affect the fund’s performance due to higher brokerage commissions. Active trading may also increase short-term gains and losses, which may result in taxable gain distributions to the fund’s shareholders.

The prices of initial public offering (IPO) securities may go up and down more than prices of equity securities of companies with longer trading histories. In addition, companies offering securities in IPOs may have less experienced management or limited operating histories. There can be no assurance that the fund will have favorable IPO investment opportunities.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

Consider the investment objectives, risks, and charges and expenses carefully. For this and other information about AIM funds, obtain a prospectus from your financial advisor and read it carefully before investing.

Note: Not all products, materials or services available at all firms. Advisors, please contact your home office.

EPS is total earnings divided by the number of shares outstanding. The price-earnings (P/E) ratio, the most common measure of how expensive a stock is, is equal to a stock’s market capitalization divided by its after-tax earnings over a 12-month period. Discretionary cash flow is any money left over once all possible capital projects with positive net present values have been financed, and all mandatory payments have been paid. The capital can be used to pay for other responsibilities such as giving out cash dividends to stockholders, buying back common stock and paying off any outstanding debt. Enterprise value (EV) is an economic measure reflecting the market value of the whole business. It is a sum of claims of all the security holders. EV/EBITDA is a valuation multiple that is often used in parallel with, or as an alternative to, the P/E ratio. This ratio can also be used as proxy for cash flow. EBITDA is an approximate measure of a company’s operating cash flow based on data from the company’s income statement.

The Russell Midcap® Growth Index is an unmanaged index considered representative of mid-cap growth stocks. The Russell Midcap Growth Index is a trademark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co. An investment cannot be made directly in an index.

Diversification does not guarantee a profit or eliminate the risk of loss.

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Supplemental Information

After the close of business on Dec. 31, 2009, Invesco Aim Advisors, Inc., Invesco Aim Capital Management, Inc., Invesco Aim Private Asset Management, Inc. and Invesco Global Asset Management (N.A.), Inc. merged into Invesco Institutional (N.A.), Inc., which was renamed Invesco Advisers, Inc.

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