



## Investment Philosophy and Process

### AIM China Fund

#### Investment philosophy

We believe there are pockets of inefficiencies in the Chinese equity market that can be capitalized on by applying a disciplined valuation process. That process is based on active management, a consistent framework for decision making and a transparent investment process.

#### Universe definition

The fund's investment universe includes all companies listed in China,<sup>1</sup> Chinese companies listed in Hong Kong (known as H shares and red chips) and other China-related companies listed in Hong Kong and around the globe. We seek to identify stocks that represent growth at a reasonable price, as well as those we categorize as "value + catalyst." These are undervalued quality stocks that may benefit from a pickup in the earnings cycle.

#### Multifactor analysis

Our investment process combines a disciplined bottom-up and top-down multifactor analysis. We have a strong focus on bottom-up stock selection, which is where we believe we can add the most value.

#### Asset and sector allocation

Macroeconomic and industry analyses are conducted to generate asset allocation and sector preferences. In particular, we evaluate domestic economic cycle positioning and how it relates to corporate earnings – for example, analysis of monetary and interest rate trends and forecasting liquidity developments.

#### Stock selection

Our transparent and disciplined stock selection process starts with a systematic screening of the investment universe to identify companies that deserve in-depth research. This step uses quantitative screens – such as earnings-per-share (EPS) revisions from the Institutional Brokers' Estimate System database and market cap – to narrow the list of potential investments to about 150 companies. These companies are included on the monitoring list.

Stocks on the monitoring list undergo in-depth qualitative research and are closely followed by the investment team. Company research is held using a variety of tools, and more than 400 company meetings are held each year.

In particular, four main criteria are evaluated:

- **Valuation.** We consider a number of valuation criteria – including price-earnings (P/E) ratios, price-to-cash flow (P/CF) ratios and return on equity (ROE) – relative to historical, sector and market views.
- **Management and franchise-value determination.** We evaluate a company's management and ownership, and earnings, balance sheet and product quality.
- **Earnings growth.** We examine a company's EPS growth, growth in market share and origin of growth (i.e., whether growth is organic or comes from new projects, asset injections, etc.).
- **Liquidity.** We consider how many days it takes to buy or sell a stock, as well as its total turnover.

<sup>1</sup> Direct investment in A shares is currently not allowed. However, the fund can access the A share market by investing in participation notes (limited to 10% of the portfolio).

#### Investment Process

##### Investment Universe

- All companies listed in China<sup>1</sup>
- Chinese companies listed in Hong Kong
- Other China-related companies



##### Quantitative Stock Screening

EPS revisions, market cap, etc.



##### Monitoring List



##### Company Visits



##### Detailed Qualitative Analysis

- Valuation
- Earnings growth
- Management and franchise-value determination
- Liquidity



##### Prepare Fund Research Report



##### Peer Review



**Portfolio**  
50-80 stocks



**Ongoing Risk Management  
and Disciplined Sell Methodology**

The focus is to identify stocks based on the earnings and valuation cycle of each company where undiscounted changes in fundamentals are not fully reflected in the market price. Target prices are set for stocks on the monitoring list if they are to be included in the fund. The target price is set based on several valuation methods and in-depth research.

When buying stocks for the fund, we look to identify mispriced assets, which may include:

- **Attractively priced growth companies.** Companies with a high return on equity, positive medium-term growth prospects, positive earnings momentum, steady earnings growth and stable and rising dividends.
- **Quality companies that are undervalued (value + catalyst).** Companies that may benefit from a pickup in the earnings cycle.

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### **Portfolio construction**

Stock weights in the fund are determined by the fund managers. We may have sector preferences within the market, but sector allocation is generally a byproduct of stock selection. Holdings in the fund are discussed in one of two formal weekly peer review meetings with the investment team, as well as in open discussions on a day-to-day basis. During the meetings, the team challenges the case for investment; however, the fund manager makes the final decision whether to include a stock in the fund.

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### **Sell discipline**

When selling stocks, we look to identify mispriced assets, which may include:

- Stocks trading significantly above their fair value.
- Stocks that have negative earnings momentum or sequential earnings downgrades (unless their valuation is already very low or distressed).
- Stocks of companies experiencing a permanent, fundamental deterioration in business prospects.

A stock may be sold if we believe there is a more attractive opportunity elsewhere, or if its target price has been reached.

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### **Risk management**

Risk is managed through a number of monitoring systems:

- Barra and FactSet Research Systems analyses are used to monitor stock and sector risks, as well as to identify what drivers affected fund performance.
- An independent risk review committee of senior investment professionals regularly reviews the performance and risk profile of the fund.
- The level and breakdown of tracking error relative to the fund's investment objectives and risk tolerance levels are reviewed regularly.
- Sector and stock exposures relative to the benchmark are also monitored.

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## About risk

The values of convertible securities in which the fund invests may be affected by market interest rates, the risk that the issuer may default on interest or principal payments, and the value of the underlying common stock into which these securities may be converted.

Credit risk is the risk of loss on an investment due to the deterioration of an issuer's financial health. Such a deterioration of financial health may result in a reduction of the credit rating of the issuer's securities and may lead to the issuer's inability to honor its contractual obligations, including making timely payment of interest and principal.

The fund is subject to currency/exchange rate risk because it may buy or sell currencies other than the U.S. dollar.

Investing in developing countries can add additional risk, such as high rates of inflation or sharply devalued currencies against the U.S. dollar. Transaction costs are often higher, and there may be delays in settlement procedures.

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.

Foreign securities have additional risks, including exchange rate changes, political and economic upheaval, relative lack of information, relatively low market liquidity, and the potential lack of strict financial and accounting controls and standards.

Investing in a single-country mutual fund involves greater risk than investing in a more diversified fund due to lack of exposure to other countries.

Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa.

Certain securities issued by companies in China may be less liquid, harder to sell and more volatile than many U.S. securities.

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

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

The fund may invest in A shares, which have limitations to repatriate fund assets back to the U.S.

Political and economic conditions and changes in regulatory, tax or economic policy in China could significantly affect the market in that country and surrounding or related countries.

The fund may engage in active and frequent trading of portfolio securities to achieve its investment objective. If the fund engages in this type of trading, it may incur increased costs, which can lower the actual return of the fund. Active trading may also increase short-term gains and losses, which may affect taxes owed.

The fund's return during certain periods was positively impacted by its investments in initial public offerings (IPOs). There can be no assurance that the fund will have favorable IPO investment opportunities in the future. Moreover, the prices of 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. For additional information regarding the fund's performance, please see the fund's prospectus.

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## 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 adviser and read it carefully before investing.**

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

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

Earnings per share (EPS) is total earnings divided by the number of shares outstanding.

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.

Price-to-cash flow (P/CF) ratio is a stock's capitalization divided by its cash for the fiscal year.

Return on equity (ROE) is net income divided by net worth.