



## Investment Philosophy and Process

### AIM Constellation Fund

#### Investment philosophy

Our investment philosophy seeks to identify companies that generate sustainable revenue, earnings and cash flow growth that is not fully reflected in investor expectations or equity valuations. To accomplish this goal, we use a rigorous three-step selection process designed to generate alpha and a disciplined portfolio construction process designed to manage risk.

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

#### Universe definition

The fund's investable universe includes stocks of all market capitalizations.

#### Stock selection

##### Distilling the universe

To narrow the investment universe, we use a six-factor quantitative model that ranks all stock candidates based on a set of growth, quality and valuation factors. This proprietary model, developed in conjunction with our Quantitative Research Team, provides an objective approach to identifying new investment opportunities.

A second source of investment opportunities is our fundamental research. We often discover new investment opportunities while analyzing customers, suppliers and competitors of potential holdings.

##### Focused security analysis

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

**Fundamental analysis.** Focuses on identifying industries and companies with strong fundamental drivers of high-quality growth in revenues, earnings and cash flow. Attractive industries have a large and addressable market driven by macroeconomic or demographic trends. Other important industry factors we consider include competitive environment, product and service differentiation and pricing flexibility.

Key company-specific attributes we look for include:

- Market leadership positions with potential for additional growth.
- Value-added products or services and pricing power.
- Sustainable, organic growth in revenue, earnings or cash flow.
- Evidence of improving profitability measures and return on capital.
- A strong balance sheet, appropriate financial leverage and a prudent use of capital.

To identify the sources of growth, we build fully integrated models of company financial statements. Additionally, our due diligence efforts include a review of company structures, business models, management teams, competitive environments and market opportunities. Our goal is to identify companies that are organically growing their business revenues by increasing sales of existing or new products. We look skeptically at companies that are not growing organically – growth generated by mergers and acquisitions is considered low-quality growth. Other factors used to determine the quality of growth include balance sheet health, cash-flow use, legal issues, earnings restatements and changes in debt ratings.

#### Investment Process

##### Universe Definition

Stocks of all market capitalizations

##### Stock Selection

###### Distilling the Universe

Six-factor quantitative model narrows investment universe based on:

- **Growth.** Positive earnings revisions and surprises
- **Quality.** Strong return on equity (ROE)
- **Valuation.** Earnings yield, book yield and free cash flow yield

###### Focused Security Analysis

- **Fundamental Analysis.** Identify companies with high growth potential, based on:
  - Revenue growth, earnings growth, margin expansion and cash flow improvement
  - Market leadership with superior products or services
- **Valuation Analysis.** Identify attractively valued stocks based on growth potential over two- to three-year horizon. Valuation metrics include:
  - Price-earnings (P/E) multiples
  - Free cash flow (FCF) yields
  - Discounted cash flow (DCF) analysis
- **Timeliness Analysis.** Identify the timeliness of a stock purchase by analyzing:
  - Overbought/oversold indicators
  - Moving average analysis

##### Portfolio Architecture

- **Sector Level.** Broadly diversified across sectors, industries, countries and market capitalizations
- **Stock Level.** Typically more than 70 holdings; top 10 holdings typically less than 30% of portfolio

**Valuation analysis.** Focuses on identifying attractively valued stocks based on their growth potential over a two- to three-year horizon. The valuation metrics we typically focus on include price-earnings (P/E) multiples, free cash flow (FCF) yield and discounted cash flow (DCF) when appropriate.

**Timeliness analysis.** Growth companies with strong business fundamentals can still outperform or underperform the market, so we employ a moving-average analysis and other selected factors to identify the timeliness of a stock transaction.

Sources of our research include company annual reports, quarterly reports, meetings with senior corporate officers, insights from experienced Wall Street analysts, independent third-party research, industry leaders and practitioners, as well as analysts within our organization.

#### **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. Firms demonstrating long-term, sustainable and high-quality earnings and cash flow growth are candidates for inclusion in the portfolio.

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#### **Portfolio architecture**

We carefully construct the portfolio with a goal to minimize unnecessary risk at both the sector and stock levels:

- **Sector level.** While we monitor sector and industry sizes relative to benchmarks and competitors, we don't allow weight limits to restrict our ability to invest in stocks in which we have strong convictions.
- **Stock level.** We diversify portfolio holdings across countries, sectors, industries and market capitalizations. We expect to hold more than 70 stocks in the portfolio and the top 10 stocks typically represent less than 30% of the fund. Our typical holding period is two to three years.

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#### **Portfolio architecture**

We consider selling a stock when it no longer meets our investment criteria, based on:

- Deterioration in fundamental business prospects.
- Declining quantitative rank.
- Negative changes to the investment thesis.
- A more attractive opportunity in another security.

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## 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.

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 fund that invests in smaller companies involves risks not associated with investing in more established companies, such as business risk, stock price fluctuations and illiquidity.

Leveraging entails risks such as magnifying changes in the value of the portfolio's securities.

Since a large percentage of the fund's assets may be invested in securities of a limited number of companies, each investment has a greater effect on the fund's overall performance, and any change in the value of those securities could significantly affect the value of an investment in the fund.

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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.

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. Free cash flow (FCF) is the amount of cash remaining after a company has paid all expenses related to maintaining and expanding its asset base. Discounted cash flow is an investment valuation method that considers the time value of money to estimate future cash flow. Return on equity (ROE) is net income divided by net worth. Alpha is a measure of performance on a risk-adjusted basis.

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

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