



## Investment Philosophy and Process

### AIM Diversified Dividend Fund

#### Investment Process

##### Universe Definition

U.S. dividend-paying stocks

##### Multifactor Quality Screen

Identify financial health and profit sustainability characteristics:

- High interest coverage
- Low debt to capitalization
- Free cash flow
- Earnings stability
- High returns on invested capital

##### Strong Companies Returning Capital to Shareholders

##### Fundamental Analysis

Estimate fair value and dividend prospects:

- Dividend discount and discounted cash flow models
- Current valuation multiples relative to history and peers
- Estimated total return potential from capital appreciation and dividends

##### Purchase Candidates

##### Portfolio Construction

- Purchase stocks with greatest total return potential relative to expected volatility (24 months)
- Invest in all broad market sectors
- Analyze risk exposure reports

##### Final Portfolio

About 75-90 stocks

#### Investment philosophy

We believe a portfolio of attractively valued companies that pay dividends sustained by strong capital structures may outperform over the long term.

Dividends are one of several key indicators of a company's financial health and earnings power. We therefore apply fundamental research to assess other factors that contribute to a firm's long-term ability to generate free cash flow and make dividend payments. Our research enables us to differentiate between strong, undervalued companies returning capital to shareholders and ailing companies offering higher, yet more volatile, yields.

#### Universe definition

We screen the equity universe for dividend-paying stocks with financial health and profit sustainability. Factors indicative of financial health include strong senior debt ratings, high interest coverage ratios, low debt-to-capitalization ratios and cash surpluses relative to capital expenditures. Attributes implying profit sustainability include earnings stability and high returns on invested capital (ROIC). We customize the use of these factors to the unique nature of each industry to arrive at a group of stocks for further analysis.

#### Security selection

We then subject remaining stocks to in-depth fundamental research, which includes:

- Discounted cash flow and dividend discount model analysis.
- Historical valuation measure comparisons.
- Peer valuation comparisons.

Our assessment of these three factors helps us "triangulate" a fair value for each stock. We compare this valuation to the stock's current trading level to arrive at an estimate of price appreciation potential over the next 24 months. At the same time, we analyze each company's ability to maintain or raise dividends in the future. This includes an analysis of historical dividend payment patterns as well as a determination of the firm's ability to produce high returns on invested capital that could be distributed to shareholders. The result is an estimate of each stock's potential future return from dividends.

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## Portfolio construction

We next rank all stocks by combining our two sources of expected return:

- Price appreciation potential
- Dividend return potential

Stocks offering the greatest total return potential from price appreciation and dividends are most likely to be included in the portfolio. We consider the expected volatility of each stock relative to its peers and construct a portfolio with exposure to all market sectors. The result is a well-diversified portfolio of 75 to 90 stocks that offers the potential for above-market total returns with higher yield and less risk.

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## Sell discipline

We review a stock for sale for any of the following reasons:

- There is deterioration in capital structure or earnings that jeopardizes the dividend.
- The target price set at purchase is met.
- There is a significant decline in price.
- A more compelling investment opportunity exists.

In all cases, the member of the portfolio management team who initially recommended the stock to the lead portfolio manager must reevaluate his or her investment thesis and review it with the other members of the team. We then reach a consensus on whether to maintain, reduce or sell the position.

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## About risk

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.

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 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.

The fund may invest in debt securities, such as notes and bonds, which carry interest rate and credit risk.

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

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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 advisor and read it carefully before investing.**

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

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