

AIM Diversified Dividend A LCEAX

Morningstar's Take | 09-10-09 | by Ryan Leggio

AIM Diversified Dividend has earned its all-weather stripes in the past couple of years.

For the most part, dividends are the name of the game here. This large-value fund buys companies with the goal of its overall portfolio having a dividend yield greater than the Russell 1000 Index's average (currently about 2%). But manager Meggan Walsh also insists on companies trading at big discounts to her assessments of their intrinsic values and demands asymmetrical risk/reward (at least three to one upside to downside).

As might be expected, funds with above-average dividend yields, like this one, held up relatively well in 2008 as they were filled predominantly with firms with sufficient free cash flow and strong balance sheets that could support those payouts. Many of these funds have lagged since the market bottomed in March and as lower-quality fare has been in favor, but not this fund: It is up 55.5% from March 9 through Aug. 31 while the S&P 500 is up about 51%. Walsh's willingness to hold large, credit-sensitive holdings like SunTrust Banks STI and Capital One COF during the darkest periods of the market earlier this year has helped, as these holdings have sharply rebounded. In addition, tech stocks with hefty cash balances, including International Game Technology IGT, have also been big winners. The research staff backing Walsh is also passing a big test so far this year, one of the worst on record for dividend cuts. About 13% of S&P 500 companies have cut their dividends this year, while less than 10% of the fund's holdings have. In addition, the fund has collected 22 dividend raises for the year to date, compared with seven large reductions.

There's another benefit to the long-used approach. The fund hasn't always landed ahead of its index during Walsh's tenure, but it's notched better-than-average Morningstar Risk ratings, thanks in part to its ability to protect on the downside. Its longer-term returns are also impressive.

Ryan Leggio, Esq., is a fund analyst with Morningstar.

Morningstar Rating

★★★★

Stewardship Grade

This fund is supported by a strong board and a sensible manager-compensation structure. Its corporate culture, after a bad stumble in the early 2000s, is finally on the mend.

Kudos

- Reasonable expense ratio.
- Fundamentally sound approach that blends long-term fundamentals with near-term catalysts.
- Low turnover.
- Rock-bottom volatility.
- Good downside protection.

Risks

- Competition is fierce in the large-cap universe, and this fund has a moderate strategy, so it may have a hard time pulling past its peers at times, especially in strong rallies.

Strategy

This fund focuses on firms with steady growth potential trading at reasonable valuations. Manager Meggan Walsh uses discounted cash-flow analysis that considers a firm's long-term prospects. She couples that with a two-year outlook to pinpoint companies with at least 30% upside potential in the near term. Firms that pass those hurdles and also pay solid dividends or have strong share-buyback programs are likely targets for the portfolio's core.

Management

Meggan Walsh has managed this fund since the end of 2002. She has also managed AIM Financial Services IFSAX since 2004. Jonathan Harrington, who was an investment analyst at various firms before joining AIM in 2001, became a comanager in April 2008. Four analysts round out the team.

Inside Scoop

This fund is unlike the aggressive-growth funds that brought AIM fame in the late 1990s. Manager Meggan Walsh favors dividend-paying stalwarts that have sturdy long-term prospects.

Role in Portfolio

Core

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Year	Total Return (%)	+/-Category
YTD	17.90	-0.56
2009	—	—
2008	-26.95	10.14
2007	0.36	-1.06
2006	16.41	-1.74

Data through 09-30-09

Important Disclosure Information

Performance quoted is past performance and cannot guarantee comparable future results; current performance may be lower or higher. Visit invescoaim.com for the most recent month-end performance. Performance figures reflect reinvested distributions and changes in net asset value (NAV). Investment return and principal value will vary so that you may have a gain or a loss when you sell shares. Performance shown at NAV does not include applicable front-end sales charges, which would have reduced the performance.

AIM Diversified Dividend Fund Class A Shares

Average Annual Total Returns (%) as of September 30, 2009

Period	Max Load	5.5%	NAV
Inception (12/31/01)	3.02		3.77
5 Years	1.55		2.71
3 Years	-4.52		-2.71
1 Year	-10.75		-5.52

Expense Ratio (%)	Net*	Total
Per the current prospectus.	1.01	1.02

*Total annual operating expenses less any contractual fee waivers and/or expense reimbursements by the advisor in effect through at least June 30, 2010. See current prospectus for more information.

There is no guarantee that AIM Diversified Dividend Fund will continue to hold any one particular security. Holdings are subject to change. As of September 30, 2009, the fund's top 10 equity holdings and percentage weights were: 1. Johnson Controls, 3.01%; 2. Kimberly Clark Corp., 2.91%; 3. Capital One Financial Corp., 2.86%; 4. Marsh & McLennan Cos., 2.60%; 5. SunTrust Banks Inc., 2.55%; 6. Pentair Inc., 2.52%; 7. Automatic Data Processing Inc., 2.43%; 8. Fifth Third Bancorp, 2.40%; 9. International Game Technology, 2.40%; 10. Marriott International, 2.06%.

**** Overall Morningstar Rating

Class A shares among 1133 large value funds. Ratings are based on a risk-adjusted return measure that accounts for variation in a fund's monthly performance (including the effect of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The overall rating is derived from a weighted average of three-, five- and 10-year rating metrics, as applicable. ©2009 Morningstar Inc. All rights reserved. The information contained herein is proprietary to Morningstar and/or its content providers. It may not be copied or distributed and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance does not guarantee future results. Class A shares received four stars for three years among 1133 large value funds and four stars for five years among 933 large value funds. Ratings are as of September 30, 2009, and are subject to change every month. A fund is eligible for a Morningstar Rating three years after inception. The top 10% of funds in a category receive five stars, the next 22.5% four stars, the next 35% three stars, the next 22.5% two stars and the bottom 10% one star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) Ratings for other share classes may differ due to different performance characteristics.

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

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, the relative lack of information, relatively low market liquidity, and the potential lack of strict financial and accounting controls and standards.

The value 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 **Russell 1000[®] Index** is comprised of 1000 of the largest capitalized U.S. domiciled companies whose common stock is traded in the United States. The Russell 1000 Index is a trademark/service mark of the Frank Russell Company. Russell[®] is a trademark of the Frank Russell Company. The **S&P 500[®] Index** is a market capitalization-weighted index covering all major areas of the U.S. economy. It is not the 500 largest companies, but rather the most widely held 500 companies chosen with respect to market size, liquidity and their industry.

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.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

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