



Investment Philosophy and Process

AIM European Small Company Fund

EQV: Investment philosophy

Our investment philosophy is based on the following:

- **Stock selection.** Portfolio construction is driven by a bottom-up approach.
- **Active management.** The portfolio is managed with generally low benchmark index overlap.
- **Long-term horizon.** Stocks are generally purchased with a two- to three-year investment horizon.

We also believe:

- **Earnings (E).** Earnings growth drives stock prices in the long run, and investors underreact to positive earnings news.
- **Quality (Q).** Companies with efficient capital allocation create long-term value.
- **Valuation (V).** Companies with underappreciated growth prospects provide relatively attractive risk-reward opportunities.

EQV: Bottom-up Investment Process

European Equity Universe
Market cap of less than \$2 billion

Step 1: Idea Generation

- Qualitative and quantitative analysis
- Focus on earnings, quality, valuation

**Step 2:
Fundamental
Research**
In-depth/
bottom up

**Risk
Management
and Sell
Discipline**

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**Step 3:
Portfolio
Construction**
60-100
holdings

Universe definition

We begin with the universe of European equities (across both developed and emerging markets) and narrow it to those with market capitalizations less than \$2 billion. Liquidity is important in global investing; therefore, our international team typically invests in companies in which fund positions can be traded in fewer than eight days.

Security selection

Step 1 – Idea generation: New ideas are identified (and researched on an ongoing basis) using numerous qualitative and quantitative sources.

- **Qualitative idea generation.** We spend a significant amount of time on global research-based travel. The team jointly travels more than five months each year for research and meets with more than 300 company management teams. We also leverage global and local sell-side analysts and other third-party research services to better understand company and industry dynamics.
- **Quantitative idea generation.** We leverage technology by using quantitative screens to help identify potential new ideas and monitor existing holdings. These screens focus on measuring and ranking several key criteria that are central to our earnings, quality and valuation (EQV) investment process.

Step 2 – Fundamental research: In-depth fundamental research is the cornerstone of our investment process. In this step, we focus on building a deeper understanding of the EQV profile of each investment opportunity identified in Step 1.

- **Earnings (E).** We seek companies with earnings growth catalysts and improving earnings news. We then thoroughly analyze the fundamental drivers of the positive trends (e.g., revenue growth, cost savings and new products).
- **Quality (Q).** We analyze the likely sustainability of these earnings growth trends. For example, we like companies with strong balance sheets and proven management teams that have allocated capital in efficient and profitable ways.
- **Valuation (V).** We analyze numerous valuation metrics to identify stocks that appear to have underappreciated growth prospects. We focus on not overpaying for growth by avoiding expensive glamour stocks.

Portfolio Construction

- 60 to 100 holdings
- Position size typically 0.75% to 3%
- Maximum position size less than 5%
- Top 10 holdings typically 15% to 30%
- Emerging markets generally less than 10% (limited to 35% by prospectus)
- Cash generally kept to less than 10%
- Currencies unhedged

Step 3 – Portfolio construction: The key portfolio construction objective is to establish a portfolio of 60 to 100 stocks broadly and prudently diversified across sectors, countries and developed and emerging European markets. A focus on actively managed, bottom-up stock selection drives sector and country allocations. The resultant portfolio does not seek to mimic the benchmark index.

Risk management

The portfolio construction process incorporates several risk management techniques to monitor and manage risk within the fund, including:

- Broad portfolio diversification.
- Stock selection that focuses on identifying companies with attractive quality and valuation characteristics.
- Maintaining stock liquidity criteria.
- Use of forensic accounting criteria.
- Performance and risk attribution analysis.
- Portfolio oversight.

Sell discipline

We believe a key determinant of successful growth investing is the sell decision. We employ a rigorous sell discipline, again based on the EQV profile of a company. Stocks are sold due to:

- **Earnings (E).** Deteriorating earnings growth, disappointing earnings revisions or surprises due to poor fundamentals.
- **Quality (Q).** Deteriorating company and industry fundamentals, reduced competitive outlook and accounting errors.
- **Valuation (V).** Excess valuation.

We may also sell if:

- A more attractive opportunity is identified.
- Risk considerations emerge (e.g., a position becomes too large).

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.

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.

Nondiversification increases the risk that the value of the fund's shares may vary more widely, and the fund may be subject to greater investment and credit risk than if it invested more broadly.

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.

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.

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.

Diversification and asset allocation do not guarantee a profit or eliminate the risk of loss.