



Investment Philosophy and Process

AIM U.S. Government Fund

Investment philosophy

We believe increasingly dynamic and complex fixed-income markets create investor opportunities that are best captured by independent specialist decision makers interconnected as a global team.

Timely investment decisions, made by specialists, result from a rigorous and effective portfolio construction process designed to maximize each opportunity. Our approach to decision making and portfolio construction sets us apart from other managers. We use this philosophy to generate total return, composed of current income and capital appreciation, for investors.

Universe definition

We invest primarily in debt securities issued, guaranteed or otherwise backed by the U.S. government or its agencies and instrumentalities. These securities include: U.S. Treasury obligations and obligations issued or guaranteed by U.S. government agencies and instrumentalities and supported by (a) the full faith and credit of the U.S. Treasury, (b) the right of the issuer to borrow from the U.S. Treasury, or (c) the credit of the agency or instrumentality. We may also invest in derivative instruments, such as U.S. Treasury futures and options on U.S. Treasury futures.

Security selection

Consistent with the belief that markets are increasingly complex, we use a distributed approach to decision making that gives the proven specialists closest to the information the authority to make decisions. Investment decisions are made continuously and shared instantly for timely implementation in our portfolios. This is true for fundamental research decisions, macro decisions and security selection decisions, which are all made by specialists.

We track the results of every investment decision to develop a detailed understanding of the quality and skill of our decision makers and help us enhance quality control.

Portfolio construction

Portfolio managers implement investment decisions made by specialists into portfolios. We believe this separation of construction from decision making promotes objectivity in the investment process by removing behavioral biases linked to historic performance that may arise in portfolios where there is a sole decision maker also responsible for portfolio positioning. The primary role of the portfolio manager is the efficient implementation of investment decisions within portfolios. The portfolio managers work closely with sector specialists and traders to determine how best to express each investment decision at the security level.

Risk management

Our risk management process combines the evaluation of initial portfolio risks, a strong commitment to portfolio construction oversight and analysis of actual performance and risk oversight. Four key components of the investment risk management process are applied by Invesco Fixed Income:

- Design: portfolio design calculator and alpha source oversight
- Decisions: decision quality analysis
- Portfolio construction: portfolio management oversight
- Invesco Fixed Income oversight: Global Investment Policy Committee (GIPC)

Investment Process

Universe Definition

Issues of U.S. government and its agencies (80% of total fund assets) that include:

- U.S. Treasury bills, notes and bonds
- Agency debentures
- Agency mortgage-backed securities

Fund Design

- The fund may invest in securities of any maturity, but will maintain an average effective portfolio maturity of between three and 10 years.
- The fund is benchmarked to the Barclays Capital U.S. Government Index.

Sector Allocation

Sector specialists evaluate macroeconomic conditions to identify relative value including:

- Fiscal and monetary policy
- Economic growth
- Corporate outlook
- Global economic conditions

Security Selection

Analysts evaluate opportunities within issuers based upon evaluation of:

- Security structure
- Relative value
- Cash flow analysis
- Liquidity

Portfolio Construction

Portfolio managers implement investment decisions from analysts and sector specialists within the context of the fund design to determine the timing and amount of each recommendation for the fund.

Evaluation

Several layers of ongoing oversight:

- Design
- Decisions
- Portfolio construction
- Invesco Fixed Income oversight

Clear buy-sell disciplines

Each investment decision is assigned to an individual within the firm. He or she uses an independent, distributed approach to decision making that gives the proven specialists closest to the information the authority to make decisions. Specialists are required to explain the rationale behind every investment decision, thereby enabling the firm to distinguish skill from good fortune.

Each investment decision includes pricing review levels. The upper level is the objective that the trade is expected to reach, and the lower level is the point at which the rationale for maintaining the position must be reevaluated by the specialist. Specialists receive alerts from our proprietary investment system when the investment decision is approaching or has reached these levels. While specialists are not forced to sell when these levels are reached, the investment decision must be reevaluated. Pricing levels are monitored continuously by senior management, which is integral to the firm's risk management oversight.

In addition to the realignment of a security's valuation targets, sell decisions may also be based on:

- A conscious decision to alter the fund's macro risk exposure (e.g., duration, yield curve positioning, sector exposure).
- The need to limit or reduce exposure to a particular sector or issuer.
- Degradation of an issuer's credit quality.
- The presentation of a better relative value opportunity.

About risk

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.

Dollar-roll transactions involve the risk that the market value of securities to be purchased by the fund may decline below the price at which the fund is obligated to repurchase them, or that the other party may default on its obligation such that the fund is delayed or prevented from completing the transaction.

High-coupon, U.S. government agency mortgage-backed securities provide a higher coupon than current prevailing market interest rates, and the fund may purchase such securities at a premium. If these securities experience a faster-than-expected principal prepayment rate, both the market value and income from such securities will decrease.

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

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

Reinvestment risk is the risk that a bond's cash flows will be reinvested at an interest rate below that of the original bond.

Reverse repurchase agreements and dollar-roll transactions involve the risk that the market value of securities to be purchased by the fund may decline below the price at which the fund is obligated to repurchase them, or that the other party may default on its obligation such that the fund is delayed or prevented from completing the transaction.

The fund may invest in obligations issued by agencies and instrumentalities of the U.S. government that may vary in the level of support they receive from the U.S. government. The U.S. government may choose not to provide financial support to U.S.-government-sponsored agencies or instrumentalities if it is not legally obligated to do so. In this case, if the issuer defaulted, the fund holding securities of such an issuer might not be able to recover its investment from the U.S. government.

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.

The Barclays Capital U.S. Government Index is an unmanaged index considered representative of intermediate-term fixed-income obligations issued by the U.S. Treasury, government agencies and quasi-federal corporations. An investment cannot be made directly in an index.

Alpha (cash adjusted) is a measure of performance on a risk-adjusted basis.