



Investment Philosophy and Process

AIM Global Small & Mid Cap Growth Fund

EQV: Investment philosophy

Our investment philosophy is based upon 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

Global Universe

Market cap of less than \$10 billion (developed and emerging stocks)

Step 1: Idea Generation

- Qualitative/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 70-100 holdings

Universe definition

We begin with the universe of about 10,000 domestic and international stocks and narrow it by selecting those with market capitalizations between \$1 billion and \$10 billion. The \$10 billion ceiling is flexible, as we allow winners to run. 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 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 12 months each year for research and meets with more than 500 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 may have underappreciated growth prospects. We focus on not overpaying for growth by avoiding expensive “glamour” stocks.

Portfolio Construction

- 70 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 limited to less than 35%
- Cash generally kept to less than 10%
- Currencies unhedged

Step 3 – Portfolio construction: Three investment teams – Mid Cap Growth, Asia Pacific/Latin America and Europe/Canada – work together to construct the overall portfolio. Allocation of assets between each team is determined by investment opportunities and is primarily based on bottom-up stock selection. The key portfolio construction objective is to establish a portfolio of 70 to 100 stocks that is broadly and prudently diversified across mid and small-caps, sectors, countries, regions and developed and emerging markets. A focus on actively managed, bottom-up stock selection drives sector and country allocations and the resultant portfolio does not seek to mimic the benchmark index.

Risk management

The portfolio construction process also incorporates 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 or 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

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.

Stocks fall into three broad market capitalization categories – large, medium and small. Investing primarily in one category carries the risk that, due to current market conditions, the category may be out of favor with investors. Small and mid-sized companies may tend to be more vulnerable to adverse developments and more volatile than larger companies. Investments in small and mid-sized companies may involve special risks, including those associated with dependence on a management group; little or no operating history; little or no track record of success; and limited product lines, market and financial resources. Also, there may be less publicly available information about the issuers of the securities or less market interest in such securities than in the case of larger companies, which can each cause significant price volatility. The securities of small and mid-sized companies may be illiquid, restricted as to resale or trade less frequently and in smaller volume than more widely held securities, which may make it difficult for an underlying fund to establish or close out a position in these securities at prevailing market prices.

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 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. Discounted cash flow (DCF) analysis is a method of evaluating an investment by estimating future cash flows and taking into consideration the time value of money.

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

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