



Investment Philosophy and Process

AIM Financial Services Fund

Investment Process

Universe Definition

Financial services companies (approximately 250-300 stocks)

**Intrinsic Value
Estimate Inputs**

**Financial Quality
Screens**

Fundamental Analysis

- Competitive position
- Management execution
- Economic financial analysis
- Capital adequacy
- Return-of-capital prospects

**Undervalued
with 50% upside
potential**

**Reasonably valued,
strong companies
returning capital**

Purchase Candidates

Portfolio Construction

- Improve portfolio upside
- Capture capital discipline
- Control portfolio risk
 - Limit sub-industry concentration
 - Minimize common macro dependence
 - Diversify common business drivers
 - Manage cross-correlation risks

Investment philosophy

Our objective is to create wealth through investment in financial services companies by maintaining a long-term investment horizon and investing in companies that we believe are significantly undervalued on an absolute basis or that exhibit superior capital discipline.

We focus our investments in the two primary investment opportunities that have historically resulted in superior investment performance within the financials sector. These opportunities are represented by:

- Common stocks of financial companies trading at a significant discount to estimated intrinsic value because of excessive short-term investor pessimism.
- Common stocks of reasonably valued financial companies with management teams that demonstrate superior capital discipline as evidenced by an ability and willingness to return excess capital to shareholders in the form of dividends or share repurchases.

While these two opportunities are complementary and occasionally overlap, they are also distinct – requiring the focused research and analysis provided by our process.

Managers believe intrinsic value represents the inherent business value of portfolio holdings during a two- to three-year investment horizon based on their estimates of future cash flow. Intrinsic value estimates are independent of market price and as a result market price may never reflect intrinsic value estimates, especially for an entire portfolio.

Universe definition

The fund's investment universe includes companies that derive a minimum of 50% of revenues or earnings from financial services activities. Such activities include banking, insurance, investment banking and brokerage, credit finance, asset management and administration, and other finance-related services. We maintain a proprietary database of intrinsic value estimates for current and prospective investments and use a customized multifactor quality screen.

Stock selection

To purchase a stock, we require a minimum of 50% upside potential to our estimate of intrinsic value over a two- to three-year investment horizon or the demonstrated ability and willingness to return growing excess capital to shareholders in the form of dividends or share repurchases. Purchase candidates are subject to exhaustive fundamental analysis and an assessment of portfolio suitability, which may include:

- Adjustment for economic distortions permitted by generally accepted accounting principles (GAAP).
- Estimate of sustainable growth and marginal return on economic equity.
- Discounted cash flow model driven by growth and marginal return assumptions.
- Detailed analysis of normalized earnings power.
- Assessment of financial strength and capital adequacy.
- Analysis of historical dividends and share repurchases in the context of our estimate of a company's potential ability to grow capital returned to shareholders in the future.
- Relative valuation analysis versus history and peers.
- Traditional competitive analysis of the company and its industry.
- Intangible considerations such as management execution.

Portfolio construction

Portfolio construction is largely a bottom-up process driven by the two investment opportunities described above, with careful attention to risk management. The result is generally a portfolio of 35 to 50 stocks with investments that are attractive from both a valuation and capital discipline perspective representing top holdings. In constructing the portfolio, we focus on maximizing the return potential of the valuation and return-of-capital opportunities while striving to mitigate absolute investment risk by limiting commonality among investments in the portfolio.

The portfolio is diversified across a matrix of risk factors, including financial sector subindustries, drivers of business performance, macroeconomic variables including cyclical versus less cyclical business concentrations, and a variety of cross-correlation risks. We do not mimic a static benchmark in an attempt to neutralize short-term relative performance variation. Instead, we focus risk management on the more complex nature of overall investment risk – an especially important consideration given the inherent risk concentration of a single-sector portfolio.

Sell discipline

We strongly believe that the key to successful execution of our strategy is a well-honed buy decision. However, a strong sell discipline is an important element of optimizing the prospect for long-term growth in portfolio capital. We sell stocks for four primary reasons:

- A more attractive investment opportunity arises.
- A stock is trading significantly above our estimate of intrinsic value.
- A deterioration in capital adequacy or earnings that threatens a return-of-capital program.
- A change in business fundamentals is inadequately reflected in undervaluation.

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 your investment in the fund.

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 financial services sector is subject to extensive government regulation, which may change frequently. The profitability of businesses in this sector depends heavily on the availability and cost of money and may fluctuate significantly in response to changes to interest rates and general economic conditions.

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.

There is no guarantee that the investment techniques and risk analyses 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.

The fund's investments are concentrated in a comparatively narrow segment of the economy. Consequently, the fund may tend to be more volatile than other mutual funds, and the value of the fund's investments may tend to rise and fall more rapidly.

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.

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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.

Note: Not all products, materials or services available at all firms. Advisors, please contact your home office.

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

Commonality measures the similarity of holdings between two portfolios using the lowest common percentage method. This method looks at the percentage of total net assets each security represents within its respective portfolio and aggregates the lower of the two percentages. Commonality is a determinant of portfolio correlation.

Discounted cash flow is an investment valuation method that considers the time value of money to estimate future cash flow.

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Supplemental Information

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