



## Investment Philosophy and Process

### AIM Income 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.

#### Investment Process

##### Universe Definition

Bonds that include:

- Corporate bonds
- Mortgage-backed bonds
- Asset-backed bonds
- High-yield bonds
- Convertible securities
- Foreign securities
- Government securities



##### Fund Design

Duration and risk characteristics similar to those of the Barclays Capital U.S. Credit Index



##### Sector Allocation

Sector specialists evaluate macroeconomic conditions to identify relative value including:

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



##### Security Selection

Analysts evaluate opportunities within issuers based upon evaluation of:

- Credit quality
- Security structure
- Cash flow analysis
- Relative value
- 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

#### Universe definition

We invest primarily in fixed-rate U.S. dollar-denominated corporate bonds. We may also invest up to 40% of total assets in foreign securities. Fifteen percent of the fund's net assets may be emerging market debt securities. Up to 35% of the fund's net assets may be invested in lower quality debt securities commonly known as "junk bonds" and unrated debt securities. We may invest in domestic and foreign government obligations, mortgage-backed and asset-backed securities, money market securities and convertible corporate debt.

We may also invest in derivative instruments such as futures contracts and swap agreements, including, but not limited to, credit default swaps. These transactions may be used for hedging or non-hedging purposes.

#### 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.

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## **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)

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## **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.

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## About risk

The fund may engage in active and frequent trading of portfolio securities to achieve its investment objective. If the fund engages in this type of trading, it may incur increased costs, which can lower the actual return of the fund. Active trading may also increase short-term gains and losses, which may affect taxes owed.

Foreign securities have additional risks, including exchange rate changes, political and economic upheaval, relative lack of information about these companies, relatively low market liquidity, and the potential lack of strict financial and accounting controls and standards.

Credit risk is the risk of loss on an investment due to the deterioration of an issuer's financial health. Such a deterioration of financial health may result in a reduction of the credit rating of the issuer's securities and may lead to the issuer's inability to honor its contractual obligations, including making timely payment of interest and principal.

The fund may use enhanced investment techniques such as derivatives. The principal risk of derivatives is that the fluctuations in their values may not correlate perfectly with the overall securities markets. Derivatives are subject to counterparty risk – the risk that the other party will not complete the transaction with the fund.

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.

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.

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 issuer might not be able to recover its investment from the U.S. government.

Lower rated securities may be more susceptible to real or perceived adverse economic and competitive industry conditions, and the secondary markets in which lower rated securities are traded may be less liquid than higher grade securities. The loans in which the fund may invest are typically noninvestment-grade and involve a greater risk of default on interest and principal payments and of price changes due to the changes in the credit quality of the issuer.

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## 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. Credit Index is an unmanaged index considered representative of publicly issued, SEC-registered U.S. corporate and specified foreign debentures and secured notes. An investment cannot be made directly in an index.

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