



Investment Philosophy and Process

AIM Mid Cap Core Equity Fund

Investment Process

Universe Definition

Companies in the market-capitalization range of the Russell Midcap Index

Financial Analysis

- Return on invested capital
- Management action
- Capital allocation
- Free cash flow

Business Analysis

- Competitive advantages
- Industry challenges
- Business risks
- Scenario analysis

Valuation

- Discounted cash flow
- Net asset value
- Traditional multiples

Growth/Value Candidate

Portfolio Construction/Risk Management

- Target 65-75 holdings
- Consider downside
- Implement tier weights
- Balance risk and reward
- Diversify fully

Investment philosophy

We believe a portfolio of attractively valued companies, managed by good stewards of capital, may outperform the market over the long term. We seek to invest in good businesses with high or increasing returns on capital and that have strong future growth prospects or are temporarily mispriced.

Universe definition

We begin with the universe of domestic stocks generally defined by the Russell Midcap Index. We then identify companies trading at favorable valuations on both a current and historical basis relative to several measures, including return on invested capital (ROIC), free cash flow, growth potential and operating margin. This defines our universe of potentially undervalued businesses and helps focus our fundamental research efforts.

Stock selection

Through fundamental research, we attempt to gain a thorough understanding of the prospects for each business, its appreciation potential and the degree to which it may sustain or grow ROIC. The overall investment process can be separated into two phases: The deconstructive phase involves forensic analysis of the company and industry, and the constructive phase helps create the overall investment thesis. Both phases of the investment process include the following types of analysis:

- Financial
- Business
- Valuation

Financial analysis provides vital insight into historical and potential ROIC, which we believe is an indicator of the quality of the business and the responsibility of its management. We also consider the sources of capital and the capital intensity of the firm to determine its financial flexibility. The business analysis allows us to understand the key drivers of the company, appreciate the industry challenges and evaluate the sustainability of competitive advantages. The financial and business analyses serve as a basis to construct the valuation models.

We triangulate an estimate of a company's value using a combination of methods. The three primary techniques are:

- Discounted cash flow
- Traditional valuation multiples (price-earnings ratio (P/E), enterprise value/ROIC, etc.)
- Net asset value (sum of the parts)

The combination of these efforts results in the fundamental aspects of our risk management framework. In addition, we diversify across industry and thematic exposures, initiate positions based on conviction tiers and generally limit positions to less than 5% of the portfolio.

Portfolio construction

Our portfolio construction process is designed to manage volatility and preserve and grow capital. We analyze the risk-reward profile of all investment candidates and rank each stock in absolute and industry terms. We also incorporate sector-relative considerations to help ensure the majority of fund returns come from stock selection.

We generally invest in stocks that require 18 to 24 months to reach our price target and determine their position in the portfolio based on their probability of reaching our price target. This is reflected in a four-tiered approach to position weightings. The most

attractive stocks have an initial maximum weight of 2.5%. The remaining three tiers include stocks with decreasing weightings down to a minimum initial position of 0.75%. Smaller weightings imply lower anticipated upside potential and higher downside risks.

We may also maintain a cash position to help limit volatility in narrow markets. The final portfolio is a well-diversified, style-pure, mid-cap core fund of 65 to 75 stocks.

Sell discipline

We will consider a stock for sale for any of the following reasons:

- Price target is exceeded.
- Eighteen- to 24-month time horizon is surpassed without demonstrable improvements in fundamentals.
- Fundamentals deteriorate.
- More compelling investment opportunities exist.

About risk

To the extent the fund holds cash or cash equivalents rather than equity securities for risk management purposes, the fund may not achieve its investment objective.

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.

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.

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.

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

There is no guarantee that the investment techniques and risk analysis used by the fund's portfolio managers will produce the desired results.

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.

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

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.

The prices of securities held by the fund may decline in response to market risks.

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 underlying 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.

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

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