

AIM International ADR Growth Portfolio

Investment Process

Universe Definition

700-800 ADRs

Quantitative Analysis

Researches each stock on the basis of:

- Earnings screens
- Quality factors
- Valuation metrics

Qualitative Analysis

Looks for strong fundamentals like:

- Solid management track record
- Strong return on capital employed (ROCE) and cash flows
- Superior strategy
- Competitive positioning, favorable industry trends
- Transparent accounting

Final Portfolio (55-75 stocks)

Ongoing risk monitoring and disciplined sell methodology

Investment philosophy

Based on the principle that earnings drive stock prices in the long run, we believe companies generating sustainable, above-average earnings growth may provide long-term growth of capital.

We believe most investors underreact to positive earnings news. This leads us to seek to invest in quality companies that have experienced or exhibit the potential for accelerating/above-average earnings growth but whose price does not fully reflect these attributes.

We believe our team-managed approach to investing, using a disciplined and repeatable investment process, leads to superior equity returns over a long-term investment horizon with below market volatility.

Universe definition

We begin with a universe of about 700 to 800 international ADR stocks with market capitalizations that are typically more than \$2 billion. We choose stocks in at least four countries outside the United States, with emphasis on companies in developed countries of western Europe and the Pacific Basin. Because liquidity is important in global investing, we typically invest in companies in which portfolio positions can be traded in fewer than seven days.

Security selection

We follow a bottom-up stock selection process that seamlessly combines quantitative and qualitative analysis. This rigorous process provides an objective approach to identifying new investment opportunities.

Quantitative analysis

Our quantitative analysis involves researching each stock on the basis of earnings, quality and valuations.

- **Earnings screens.** Because we believe that investors generally underreact to positive earnings news, we focus on unearthing companies that exhibit catalysts (earnings revisions or earnings surprises) that could lead to improving company prospects but have yet to be recognized by the market. Understanding the underlying drivers of this earnings growth is imperative – companies where earnings do not prove to be sustainable or improving are dismissed.
- **Quality factors.** We believe that efficient capital allocation tends to lead to strong value creation over time. This means we look for companies that not only exhibit strong cash flow generation but also successfully allocate these flows toward improving their core business units or returning cash to shareholders.
- **Valuation metrics.** Our valuation analysis focuses on identifying attractively valued stocks given their growth potential over a one- to two-year horizon. We perform multiple checks across various appropriate valuations metrics, including price-earnings ratio (P/E), price-to-book multiple (P/B), price-to-cash flow measures (P/CF) and discounted cash flow (DCF) models. We try to avoid so-called “glamour” stocks – stocks that may be leaders in their field but whose growth prospects are fully reflected in their price.



Qualitative analysis

Stocks that rank favorably through our quantitative analysis are the focus of our qualitative (fundamental) research. In conducting comprehensive fundamental analysis on a company, we strive to identify sustainable growth prospects, capable management teams and competitive positioning.

■ **We look for stocks with strong fundamentals, such as:**

- Management with a solid track record of performance, credibility and shareholder focus.
- Superior strategy – companies focused on high-return businesses and efficient use of capital.
- Return on capital employed (ROCE) that exceeds cost of capital.
- Cash flow generation capable of sustaining growth.
- Competitive positioning and favorable industry trends.
- Transparent accounting.

■ **Warning flags.** We avoid a stock based on poor earnings quality, volatile industry cycles, questionable management track record, lofty valuations or aggressive accounting standards.

We employ forensic accounting services as a final check on company financial statements and balance sheets.

Portfolio construction

Portfolio construction is largely a function of our bottom-up process of identifying discounted growth opportunities combined with carefully analyzing risk attribution. A stock that successfully passes our rigorous quantitative and qualitative stock selection process is a viable candidate for the portfolio.

We seek to lower stock-specific risk by building a diversified portfolio of 55 to 75 quality names, with the top 10 holdings typically making up about 25% of the portfolio's total net assets. In addition to stock-specific diversification, we consistently monitor portfolio exposure, stress testing convictions where material differences exist relative to regional and sector weightings.

We do not typically hedge currencies, as foreign currency exposure may help provide diversification benefits for U.S. investors. In addition, we believe the process of hedging currencies is time consuming and expensive. We typically limit portfolio exposure to emerging markets to less than 20% of assets because of the inherent risk involved.

Sell discipline

We believe that a key determinant of successful growth investing is the sell decision. Therefore, we also employ a rigorous sell discipline, which seeks to reduce risk of capital loss by avoiding companies with deteriorating business prospects, a reduced competitive outlook or slowing earnings growth. We consider selling a security for several reasons, including:

- Deteriorating fundamentals
- Disappointing earnings
- Apparent overvaluation
- A more attractive opportunity

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Invesco Aim Private Asset Management, Inc. ■ 11 Greenway Plaza, Suite 100 ■ Houston, Texas 77046-1173 ■ 713 626 1919

invescoaim.com PAMINT-IP-1-E 02/09

Supplemental Information

As of Sept. 30, 2009, Invesco Aim's assets under management were approximately \$157 billion and Invesco Ltd.'s assets under management were approximately \$417 billion.

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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 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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