



Investment Philosophy and Process

AIM Real Estate Fund

Investment philosophy

We believe the relative success of property-linked investments depends on their underlying property mix, management ability and asset quality. By identifying securities with favorable characteristics in these areas and buying them at attractive prices, we seek to create a portfolio that will perform at or above index levels with a comparable level of risk.

Universe definition

We begin with the investable universe of about 200 real estate equities. We filter for the companies that meet our target liquidity, risk and diversification profiles (at least \$100 million in market capitalization and sufficient daily trading volume to provide liquidity).

Stock selection

We narrow the field by identifying property types we believe will benefit from long-term sector trends. We rely heavily on fundamental research when evaluating potential fund holdings, including property market cycle analysis, property evaluation, and management and structure review.

Our research includes a variety of hands-on methods, including interviews with property management teams, visits to property locations and market intelligence data from our field offices involved with direct purchase of properties for institutions. This research helps us identify REITs operating in the most attractive markets that we believe represent quality underlying properties, strong management teams with the ability to effectively manage capital structure decisions, and attractive valuations relative to peer investment alternatives. This also helps us avoid weaker or higher risk companies.

We use proprietary quantitative models when evaluating stocks, which allow us to assess valuations relative to one another and relative to our assessment of their underlying asset value.

The main objectives of our securities analysis are to:

- Systematically evaluate and rank stocks according to relative value.
- Efficiently survey the entire investment universe and identify occasions when investors may be overreacting to short-term market or industry events.
- Thoroughly analyze return potential by testing and using multiple valuation criteria.

Portfolio construction

When constructing the portfolio, we consider each security's relative value and its contribution to the fund's overall risk profile.

We seek to continuously manage risk within the portfolio by:

- Performing fundamental research to mitigate firm-specific and metropolitan market-level risk, and using earnings models to identify possible downward earnings revisions.
- Employing a comprehensive model to assess relative stock values, using multiple valuation metrics.
- Using an optimizer to help assess risk characteristics. We target market risk consistent with the fund's index and maintain property type and geographic diversification.
- Limiting exposure to individual companies.

The resulting portfolio typically holds 40 to 80 securities, although we may occasionally increase or decrease the number of holdings to maintain our desired risk profile.

Investment Process

Universe Definition

Real estate securities

Qualified Universe

- At least \$100 million in market capitalization
- Sufficient trading volume to provide necessary liquidity
- Equity REIT focus

Real Estate Analysis

- Sound balance sheet and dividend coverage
- Assets in stronger markets
- Lower-risk profile relative to similar property types

Portfolio Construction

- Attractive valuation
- Diversification by region and property type
- Higher/more consistent earnings-growth potential

Target Portfolio

40-80 holdings

Sell discipline

We will consider selling a holding when:

- Relative valuation falls below the desired levels.
- The risk-return relationship changes significantly.
- Company fundamentals change (e.g., property, geography or management changes).
- A more attractive investment opportunity is identified.

About risk

Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal securities market and 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.

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.

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.

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

Because the fund concentrates its assets in the real estate industry, an investment in the fund will be closely linked to the performance of the real estate markets.

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 an investment in the fund.

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.

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 short sales. Short sales carry the risk of buying a security back at a higher price at which the fund's exposure is unlimited.

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.

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