Investment Philosophy and Process

AIM Select Equity Fund

Investment philosophy

We believe we can add value for our clients through the systematic application of fundamental and behavioral insights. To apply this philosophy to our quantitative stock selection model, each factor employed must have a sustainable investment rationale and be quantifiable, predictive and complementary. We seek to achieve a consistent and competitive long-term return relative to an appropriate benchmark, but at lower levels of index-relative volatility (risk).

Our strategy combines an active research-based stock selection process with rigorous risk management. The strategy uses a proprietary model designed to consistently capture alpha through the systematic application of:

- **Key financial indicators.** Improving earnings, long-term price strength, cash flow yield, etc.
- **Behavioral concepts.** We attempt to take advantage of investor over/underreaction to market news; models remove human sentiment from the equation.
- **Active risk management.** The degree of acceptable risk is predetermined; models help allocate risk to stock selection and guide buy/sell decisions.
- **Low transaction costs.** A specialized trading process helps minimize costs so portfolio alpha may be maximized.

The portfolio is structured to capitalize on stock selection while minimizing exposure to other residual risks, such as beta, sector/industry exposures and style (growth, value and size). Disciplined portfolio construction and cost-effective trading are integral to our investment process, helping us maintain the value added from stock selection and reduce the probability of significant underperformance.

Universe definition

Invesco Global Quantitative Equity focuses on holdings within the Russell 3000 Index and liquid investments outside the benchmark.

Stock selection

Our stock selection model is based on four concepts that are supported by several factors. Each concept is weighted based on its forecasting reliability. Each of the stocks in the universe is evaluated based on these indications. The result is a forecast of the expected one-year return potential in excess of the benchmark for each stock.

Favorable stock factors include:

- Improving earnings that suggest further upside potential.
- Expectations reflected in higher stock price.
- Management action that supports shareholder value.
- Reasonable stock price relative to earnings and cash-generating ability.

Portfolio architecture

We input the return, risk and transaction cost forecasts into an optimizer. The objective is to maximize expected return, while minimizing expected risk and cost, given a target tracking error. The portfolio construction and trading team and the research team review the output to ensure the optimization is reasonable. After each team approves the optimization, we aggregate the generated transactions and trade the portfolio.

Investment Process

Universe Definition
A multicap universe that includes Russell 3000 Index holdings and liquid investments outside the benchmark

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Stock Selection

- Earnings momentum
- Price trend
- Management action
- Relative value

Forecast Return

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Risk Assessment
(by risk factor model)

Risks captured:

- Region
- Sector
- Interest rates
- Oil prices
- Currency
- Value/growth
- Company size
- Multiple proprietary factors

Risks not captured:

- Litigation
- Regulatory investigations
- Subindustry risk
- Liquidity risk

Stock Risk Forecast

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Portfolio Construction
Construct portfolio to meet desired return-risk characteristics

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Trading
Preserve value added through cost-effective trading

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Portfolio Holdings
Typically 70–120 holdings

AIM Select Equity Fund process: inputs and targets

Alpha, tracking error and beta targets are inputs in the portfolio construction process. While actual alpha, tracking error and beta may be greater or less than the targets listed, over the long term, fund managers target the ranges defined below.

		Targets		
	Benchmark Index	Alpha	Tracking Error	Beta
Benchmark Index	Russell 3000 Index	2.5%	4.0%	0.9 to 1.1

Targets are gross of fees.

Sell discipline

Sell decisions are also driven by our stock selection model. A stock will be sold when more highly rated stocks are available, taking into account the trade-off between alpha pick-up and trading costs. We will also sell a stock for risk management purposes or if a corporate action such as a takeover bid has occurred and the stock will no longer respond to the model.

About risk

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.

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

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.

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

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.

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.

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

Portfolio turnover is greater than most funds, which may affect the fund's performance due to higher brokerage commissions. Active trading may also increase short-term gains and losses, which may result in taxable gain distributions to the fund's shareholders.

The Russell 3000® Index is an unmanaged index considered representative of the U.S. stock market. The Russell 3000 Index is a trademark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co. An investment cannot be made directly in an index.

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

Tracking error measures the difference between returns of a portfolio and its benchmark index.

Beta (cash adjusted) is a measure of relative risk and the slope of regression.

It is anticipated that on or about the end of the fourth quarter of 2009, Invesco Aim Advisors, Inc., Invesco Aim Capital Management, Inc., Invesco Aim Private Asset Management, Inc. and Invesco Global Asset Management (N.A.), Inc. will be merged into Invesco Institutional (N.A.), Inc., and the consolidated adviser firm will be renamed Invesco Advisers, Inc. Additional information will be posted at invescoaim.com on or about the end of the fourth quarter of 2009.

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