



Investment Philosophy and Process

AIM Tax-Free Intermediate Fund

Investment philosophy

We believe an actively managed portfolio of municipal bonds can provide a steady stream of tax-exempt income while providing protection of principal. We believe active management can provide the additional benefit of managing capital gains and losses, to minimize taxable income to shareholders and provide competitive income in all market environments.

Universe definition

The fund invests primarily in high-quality municipal debt securities that the portfolio managers believe have favorable prospects for high current income, pay interest excluded from gross income for federal income tax purposes, and do not produce income considered to be an item of preference for purposes of the alternative minimum tax (AMT). Up to 20% of the fund's assets may be invested in municipal debt securities that are determined to be below investment-grade quality.

A portion of the fund's income may be subject to some state and local taxes. This information does not constitute tax advice. Please consult your tax advisor for more complete information.

Portfolio construction

We approach the portfolio construction process with a macro view of the economy and a micro view of the municipal bond market. From that point, the universe of available supply is evaluated on criteria that include price, credit quality, maturity, rich/cheap analysis, taxability, liquidity and sector.

The fund will invest in all maturities but will maintain a weighted average maturity within a range of three to 10 years. This should help stabilize the overall net asset value (NAV) fluctuation.

Security selection

The fund assesses credit worthiness of individual securities based upon financial characteristics and covenants of the issues. Geographic considerations are evaluated to assess the potential for future tax and revenue streams for the municipality or taxing authority backing the bond.

Risk management

The fund seeks to manage risk by maintaining its weighted average maturity within a targeted range of three to 10 years and employing diversification and credit quality requirements. Maintaining a shorter duration structure helps limit NAV risk, while credit quality controls and diversification requirements help reduce the performance impact of a single holding.

Sell discipline

We intend to purchase and hold municipal bonds to maturity to avoid selling-related capital gains. But, there are times when we will sell securities, based on factors such as:

- Degradation in credit quality.
- A conscious decision to shorten or lengthen the fund's duration.
- A decision to limit or reduce exposure to a particular sector or issuer.

Investment Process

Macroeconomic Outlook Municipal Market Outlook

Investment Restrictions

- Bonds rated A or better (80% of the fund)
- Bonds not subject to AMT

Qualitative Research

Items to review:

- Financial statements
- Cash flow analysis
- Market sector
- Taxability

Security Evaluation

Pricing comparison:

- Covenants
- Rich/cheap analysis
- Liquidity
- Price

Portfolio Construction

- Maintain intermediate weighted average maturity
- Seek attractive yield with NAV stability

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.

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; conversely, bond prices generally rise as interest rates fall.

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.

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.

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.

The value of, payment of interest and repayment of principal with respect to, and the ability of the fund to sell, a municipal security may be affected by constitutional amendments, legislative enactments, executive orders, administrative regulations and voter initiatives as well as the economics of the regions in which the issuers in which the fund invests are located.

The tax-exempt character of the interest paid on synthetic municipal securities is based on the tax-exempt income stream from the collateral. The Internal Revenue Service has not ruled on this issue and could deem income derived from synthetic municipal securities to be taxable.

Reinvestment risk is the risk that a bond's cash flows will be reinvested at an interest rate below that of the original bond.

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.

A credit rating is an assessment provided by a nationally recognized statistical rating organization (NRSRO) of the creditworthiness of an issuer with respect to debt obligations, including specific securities, money market instruments or other debts. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest); ratings are subject to change without notice. NR indicates the debtor was not rated and should not be interpreted as indicating low quality.

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