



Investment Perspective

Cash Management

Regulatory reform and low yields face money markets in 2010

Invesco is managing their money market funds through a historically low interest rate environment and pending regulatory reform while continuing to focus on safety and liquidity into 2010.

Credit crisis impact on money fund industry

In 2009, the global money fund industry navigated through the most pervasive market crisis since the Great Depression following the historic market events and policy responses of 2008. As you may recall, subsequent to the bankruptcy of Lehman Brothers¹ in September 2008, the Reserve Primary Fund, a U.S. registered 2a-7 money market fund “broke the buck” due to its substantial holdings of Lehman debt and the inability of its sponsor to provide financial assistance to help maintain the fund’s \$1.00 net asset value (NAV).² This was an event without precedent for a major money market fund and was only the second time in the nearly 40 year history of the industry in which a money fund broke the buck. The losses in the Reserve Primary Fund caused investors in other money market funds to lose confidence during this period of market panic and generated concerns regarding other money funds on whether they would experience difficulty in maintaining a stable \$1.00 NAV. To further compound problems, broader concerns arose following Lehman’s bankruptcy about the stability of other U.S. and European financial institutions, the creditworthiness of their debt, and the willingness of their respective governments to support those institutions. Money fund investors, especially institutional investors, reacted by redeeming more than \$200 billion from money market funds in the two days following the Lehman and Reserve Primary Fund events.³ This run on money market funds was unprecedented and threatened the orderly functioning of the commercial paper and bank deposit markets and further destabilized already strained global bank funding conditions. On September 19, 2008, U.S. government authorities responded by providing support to the broader short term credit markets and to restore the confidence of money market investors. These government policy responses in our opinion were enormously effective and arguably have been the most successful policy actions taken during the crisis to stabilize the marketplace.

Dawn of a new regulatory environment

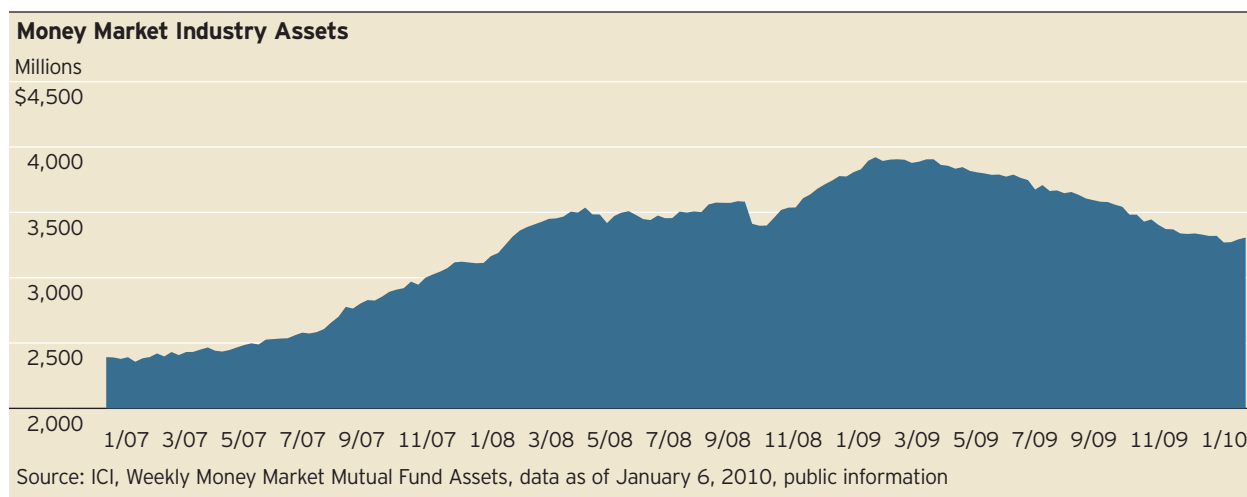
Along with this unprecedented support, policymakers entered 2009 calling for material changes in the regulatory framework for money funds. However, some of these suggestions called for money funds to be organized and supervised like banks, including access to central bank lending windows and regulatory capital requirements. Other proposals called for money funds to abandon the use of stable NAVs and instead require funds to switch to floating NAVs. Neither of these options were attractive for investment advisors who manage money funds or for issuers that rely on the short-term credit markets as a source of capital. But most importantly, some of these policymaker suggestions would be harmful to the millions of investors, both

¹ Lehman Brothers - Lehman Brother Holdings Inc. (Chapter 11), July 2, 2009, public information.

² Crane Data - “Reviewing Reserve’s Fund Attempt to Protect Its \$1.00 Share Price”, January 17, 2009, used with permission.

³ Investment Company Institute (ICI), Report of the Money Market Working Group, Submitted to the Board of Governors of the Investment Company Institute, March 17, 2009, public information.

retail and institutional, that rely on money funds as an investment option for their liquidity needs. Given this external backdrop, we entered 2009 anticipating significant changes in the regulatory structure and oversight for money funds during the year.



Invesco providing thought leadership in regulatory reform

While market events from the credit crisis were certainly painful, it afforded the money fund industry and regulatory authorities the opportunity to reassess the existing regulatory framework that governs this \$5 trillion¹ global market sector, as of March 2009. It also allowed the industry to identify the best practices of select fund advisors, such as Invesco, who managed through the crisis without any credit issues or losses in their money market funds. Towards this endeavor, Invesco has been deeply involved in the current regulatory reform process through the Investment Company Institute's Money Market Working Group, where Marty Flanagan, CEO of Invesco Ltd., was selected as a member and Karen Dunn Kelley, CEO of Invesco Fixed Income, is a senior advisor.

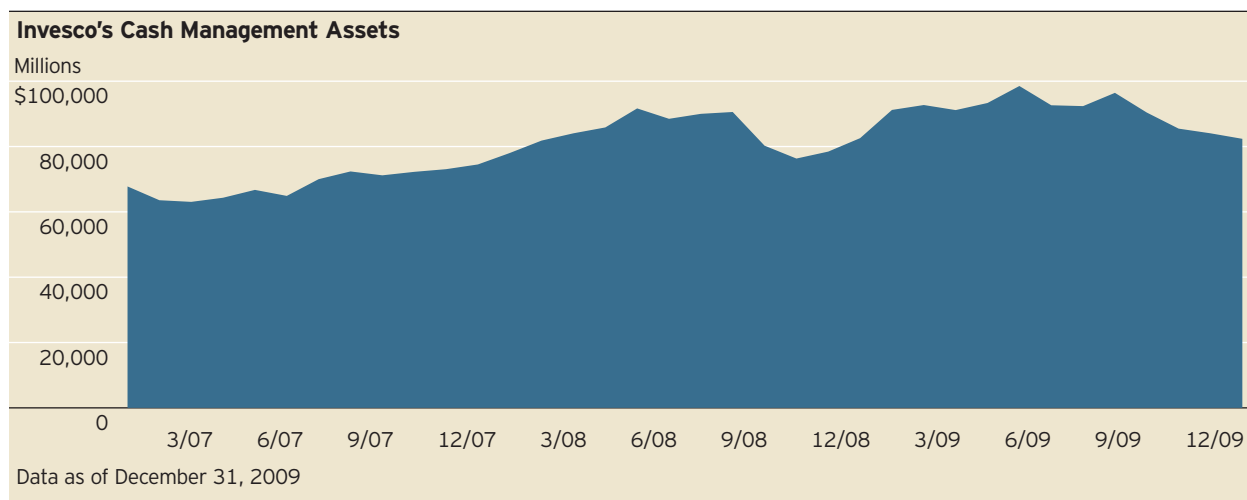
Since late 2008, Invesco spent a considerable amount of time working with the ICI and leading industry peers in formulating our industry's response to U.S. regulators, which culminated in the release of Report of the Money Market Working Group in March 2009. Subsequent to the release of this report, Invesco maintained active correspondence and provided feedback to regulatory authorities leading up to the Securities and Exchange Commission's (SEC) release of their proposed Rule 2a-7 amendments in June 2009. The SEC proposal called for targeted changes in an effort to improve credit quality, mandate minimum levels of portfolio liquidity, shorten portfolio maturities, and to improve the transparency of money fund portfolios amongst its list of recommendations. The SEC sought public comments on these proposals by September 2009. Although not in the proposed amendments, the SEC also requested comments on more controversial issues such as switching money funds to floating NAVs and requiring funds to satisfy redemptions in excess of a certain size with in-kind redemptions.

In September 2009, Invesco submitted a public comment letter to the SEC where we strongly supported their efforts to bolster the long-term resiliency of money funds and to further strengthen investor protections and portfolio transparency. More importantly, we emphasized that modifications to the SEC proposal were necessary in order for cash managers to retain the necessary flexibility to satisfy their fiduciary obligation to manage the safety, liquidity, and yield of their portfolios under ever changing market conditions, and to otherwise preserve the orderly functioning of short-term credit markets.

While Invesco originally anticipated that the SEC would announce its final rules by end of 2009, the timetable of the expected release has been pushed into first quarter of 2010. Additionally, we increasingly believe the Rule 2a-7 reform process will be a multi-step process and that a broader re-examination of the floating NAV concept will occur later in 2010. Alongside the Rule 2a-7 reform process in the U.S., a similar process is occurring in Europe where we submitted formal comments to the Committee of European Securities Regulators in December 2009 regarding their proposal for money market fund reforms. Additionally, Invesco is part of a small group of investment managers invited to engage with the U.S. Treasury, Federal Reserve,

¹ BIS Quarterly Review, US dollar money market funds and non-US banks, March 2009, used with permission.

and other foreign central banks in developing private sector solutions to ensure the long-term safety and resiliency of money funds. Our active involvement with these regulators has elevated our profile as thought leaders within the industry and further enhances our ability to add value as fiduciaries to clients.



Historic low interest rates with limited supply impacting funds

Notwithstanding the regulatory backdrop in 2009, Invesco's money fund portfolios faced the challenges of managing in a zero interest rate environment coupled against a shrinking pool of creditworthy money market instruments and a significant expansion in assets under management. The short-term debt market¹ has fallen from a peak of \$9.0 trillion in 2008 to less than \$5.5 trillion by end of 2009.² Moreover, the contraction in the global market for commercial paper, which is a core security type for prime money funds, was especially notable. In the U.S., the commercial paper market contracted from \$1.7 trillion in 2008 to \$1.2 trillion in 2009, a decline of roughly 30%. This contraction was even more pronounced in the U.S. asset-backed commercial paper sector, which has declined from a peak of \$1.2 trillion in mid-2007 to about \$485 billion at end of 2009.³ Whether this decline in supply of investable instruments is cyclical or secular in nature is worthy of considerable debate, but what is more certain has been the impact on broader market behavior and subsequent reduction in the availability of eligible investments that meet our strict internal credit, portfolio, and return requirements. As noted earlier, this supply decline has coincided with the U.S. money fund industry reaching record assets of nearly \$4.0 trillion and European money funds maintaining assets under management of more than \$600 billion in 2009 as the market crisis caused investors to flee risky assets.⁴

As a consequence of these market conditions, credit spreads and other risk indicators such as the TED spread⁵ and LIBOR-OIS⁶ have retreated back to or broken through pre-crisis levels, which has helped restore, at least temporarily, market confidence and orderly functioning in short term funding markets. However, with more than 85% of U.S. taxable money funds now generating net yields of less than 10 basis points, many funds, particularly those with high expense ratios, are struggling to generate positive net returns without substantial fee waivers.⁷ In response, money funds in aggregate have increased their risk profiles by extending their weighted average maturity and/or by investing in less creditworthy issuers in order to maintain desired returns. As a result, since the second half of 2009 many issuers have been able to maintain access to the market at favorable funding levels and tenor. These issuers include, in our opinion, certain fundamentally challenged banks and asset-backed commercial paper programs that previously lacked investor sponsorship. While these developments have restored market functioning and enabled a phase out the Federal Reserve's emergency facilities, we believe it has contributed to a deterioration in market discipline.

1 The short-term debt market is defined in this report as money market eligible instruments such as agency discount notes, repurchase agreements, commercial paper, asset-backed commercial paper, negotiable certificate of deposits, and corporate notes with maturities of less than 13 months but excluding Treasury bills.

2 J.P.Morgan, US Credit Strategy - Short Duration, 2010 Outlook: The Wall, Excess liquidity and the capital markets, December 2009, used with permission.

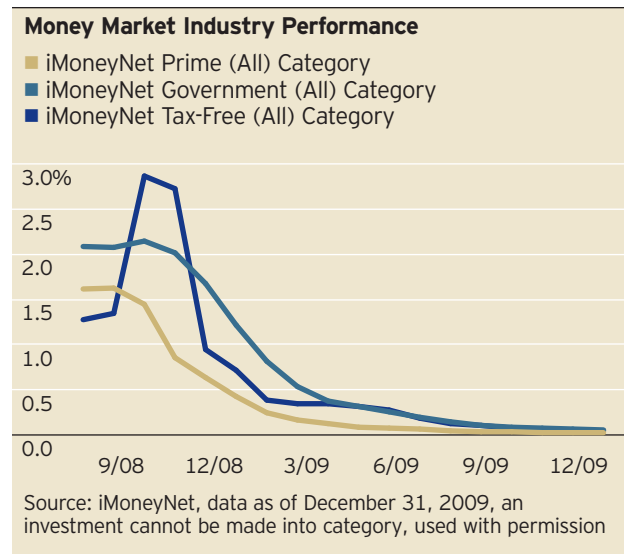
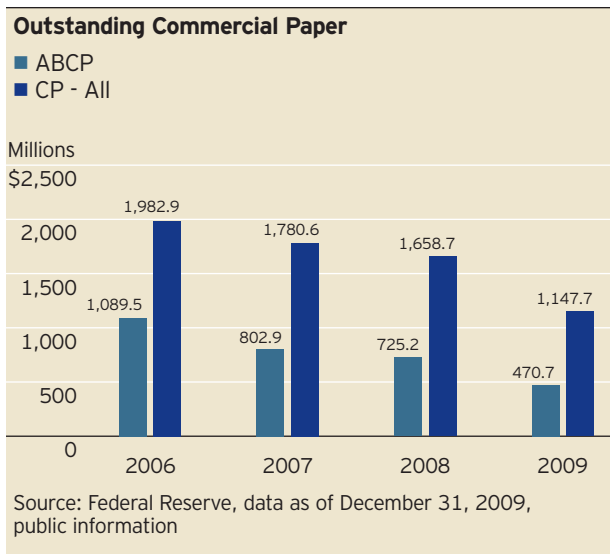
3 The Federal Reserve.

4 Bloomberg L.P.

5 The TED spread is the difference between the interest rates on interbank loans and short-term U.S. government debt ("T-bills"). TED is an acronym formed from T-Bill and ED, the ticker symbol for the Eurodollar futures contract.

6 The LIBOR-OIS is the difference between the LIBOR rate and the overnight indexed swap rate. The spread between the two rates is considered to be a measure of health of the banking system. The LIBOR rate is a daily reference rate based on the interest rates at which banks borrow unsecured funds from other banks in the London wholesale money market or interbank market.

7 iMoneyNet, Inc., an independent performance monitor. An investment cannot be made into the category. Data as of December 31, 2009, used with permission.



2010 Market Themes

As we look forward into 2010, we are actively focusing on the following:

- Portfolio and market implications of pending U.S. and European money fund reforms;
- Assessing impact on credit markets, particularly for financial issuers, following the anticipated unwinding of emergency funding programs worldwide; and
- Maintaining credit discipline given the low short term interest rate environment's impact on risk premiums and the weak outlook on outstandings of money market eligible investments.

Invesco continues to focus on safety and liquidity

In light of these market circumstances, we continued to align our credit and portfolios processes to our 30 year investment philosophy of focusing on safety and liquidity before yield in the money fund portfolios. Despite the challenging external environment, we remained steadfast in our commitment to maintain minimal credit risk in our portfolios and continue to avoid issuers with higher probabilities of event and headline risk for our clients. These time tested credit and risk management processes have enabled us in 2009 to once again avoid having any securities downgraded below Tier 1 (defined as A-1, P-1, and/or F1) while held in any of our money fund portfolios.¹ Market recognition of our competitive investment performance during the crisis and our focused investment strategies were reflected by above industry average growth rates during the year, which allowed us to surpass the \$100 billion assets under management milestone for the first time. We believe our disciplined and consistent investment philosophy has served our clients well during one of the most challenging and difficult market environments in recent history.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency and is not a deposit or other obligation of, or guaranteed by, a depository institution. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

¹ Portfolio composition is subject to change without notice; therefore, current and future holdings may be subject to risk.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

Consider the investment objectives, risks, fees/charges and expenses carefully. For this and other important information about AIM Funds, obtain a prospectus from your financial advisor and read it carefully before investing.

All data provided by Invesco unless otherwise noted.

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. The Funds are actively managed; portfolio holdings and characteristics are subject to change. This does not constitute a recommendation of the suitability of any investment strategy for a particular investor. The opinions expressed herein are based on current market conditions and are subject to change without notice.

Invesco Advisers, Inc. is an investment adviser; it provides investment advisory services to individual and institutional clients and does not sell securities. Invesco AIM Distributors, Inc. is the U.S. distributor for Invesco Ltd.'s retail mutual funds, exchange-traded funds and institutional money market funds. References to Invesco Fixed Income describe a fixed income team comprised from affiliated Invesco entities worldwide. All of entities are wholly owned, indirect subsidiaries of Invesco Ltd.