

Beyond Oil Prices

Since 1984, AIM Energy Fund has focused on companies that can benefit from rising oil and gas demand and limited, dwindling supplies. The fund, through its conservative and disciplined approach, looks to invest in energy companies that can increase production while controlling costs. John Segner, who has run the portfolio since 1997, primarily focuses on oil and gas exploration, distribution and services companies.

Q: What is the investment philosophy behind the fund?

A: The fund's philosophy is that over the long term, energy supplies are dwindling and harder to recover. At the same time, demand is rising due to economic growth, both from domestic (U.S.) growth and from rapidly growing, industrializing economies such as China and India. We believe that a diversified portfolio of well-managed, attractively valued companies in the energy sector may outperform the broad stock market over time.

It's important to note that the fund is not all about high oil prices. Today's oil prices are a factor of the market—limited, dwindling supplies, surging worldwide demand, and tightening capacity, the spread between demand and potential supply. There are multiple factors acting as drivers of growth, but worldwide economic expansion, driven largely by emerging economies in India and China, is the primary factor. Lack of exploration activities in the North American region and environmental considerations also play a part. Finally, depletion of existing sources, and the technology used to extract more oil

from existing sources, is another theme driving energy stocks today.

Q: Would you describe the investment strategy of the fund?

A: I look to invest in companies that can grow over the long term despite commodity price volatility. Primarily, I seek companies with increasing production profiles and the ability to control costs, resulting in a high rate of return on equity. These companies should be able to grow revenues and earnings regardless of the commodity price.

Further, we have a hard limit of 40 names in the portfolio. This ceiling allows us to benefit meaningfully if an individual company outperforms. It also allows us to closely monitor all the companies in the fund, visit with company management, and have intimate knowledge of their operations, their processes and their prospects. We also seek companies with financial discipline and shareholder friendliness, rather than companies eager to throw money away on ill-fated ventures.

Q: What are your views on various energy sources?

Fund Facts

Symbol	IENAX
Website	www.aiminvestments.com
Address	AIM Investments 11 Greenway Plaza, Ste. 100 Houston, TX 77046
Tel. No.	800-347-4246
Inception	1/19/1984 - Investor Class Shares

Portfolio

Total Net Assets *	\$ 659.40
Avg Mkt Cap (\$ Weighted) *	\$ 34,839
Average Price/Earnings Ratio	18.94
Average Price/Book Ratio (Wtd)	3.25
Turnover Ratio	123%

Investment Information

New Investment	Open
Min Initial Investment	\$ 1,000
Min Subsequent Investment	\$ 50
Min Initial IRA Investment	\$ 250

Risk (Against S&P 500 - 3 Years)

Alpha	1.36
Beta	0.56
R-Squared	0.20
Ann Std Deviation	19.22
Sharpe Ratio	0.94

Returns vs. Lipper Nat Res Fund Index

	IENAX	Index
1 Year (Cum.)	47.55 %	44.13 %
3 Year (Ann.)	19.49 %	17.89 %
5 Year (Ann.)	---	12.74 %

Returns vs. S&P 500

	IENAX	Index
1 Year (Cum.)	47.55 %	6.69 %
3 Year (Ann.)	19.49 %	2.74 %
5 Year (Ann.)	---	-3.16 %

Fees and Expenses

Max Sales Charge - Front	5.50 %
Max Sales Charge - Deferred	0.00 %
Max Redemption Fee	0.00 %
Total Expense Ratio	1.66 %

Portfolio Manager

John Segner	Feb-1997
* millions	Data through: 03/31/05
Source: Company Documents; Lipper	



TICKER'S Choice

A: Fundamentally, I like cleaner energy, because I believe that cleaner energy is likely part of the long-term solution. That means coal as a source of energy is less attractive than the cleaner energy sources such as LNG (liquefied natural gas). It is also difficult to build additional plants based on hydro electricity or nuclear sources. There is a growing debate in political circles to revive the nuclear-based power plants, but in the near future it is not likely to materialize. Hydrocarbon-based energy sources are only viable sources for the American market.

Q: *Where do you find these companies?*

A: We look globally for companies to invest. However, we like to invest in companies that report and trade based on U.S. stock market requirements. Our significant investments are located in the U.S., Canada, UK, and Italy.

We also look at the oil and gas trade as commodities in U.S. dollars. We extend our investment reach into emerging markets such as Russia through companies in the U.S. and Europe that invest in those regions. We do not invest directly in companies traded on those local stock markets and do not have the currency exposures in those countries.

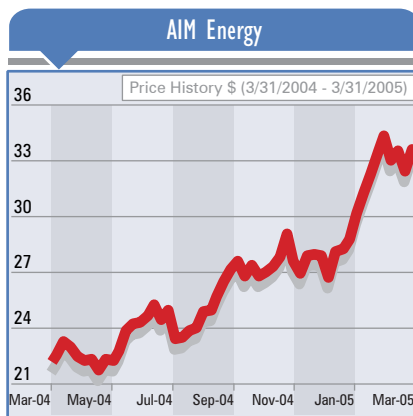
Q: *What sectors are you exposed to and what kind of companies have you invested in?*

A: We have invested in companies involved in the major industries in the energy sector: oil and natural gas exploration and production, equipment & services, refining and marketing, and drilling. We also invest in integrated oil and natural gas companies, those that do more than one of these functions. We look for visibility of earnings and seek to invest in companies where we can quantify their energy assets, their production profile and the cost strategies. That said, we do not look to invest in technology or exploration projects that may generate future profits. We do not invest in alternative energy companies unless they achieve profitability.

We like to analyze, monitor and invest companies that can perform regardless of commodity prices, because over the long term, various industries show very little correlation with either oil prices or the stock market in general. We avoid direct investing in politically sensitive regions of the world such as Russia and Middle East, but we do have indirect exposure to these regions through the companies that we invest in North America and Europe.

Q: *Would you discuss your buy discipline and the allocation process?*

A: Our discipline is based on a bottom-up process that uses both quantitative analysis and fundamental research.



On the quantitative side, we seek companies with earnings growth potential, increasing free cash flow, high returns on capital, a low relative P/E ratio within their industry with greater-than-expected growth opportunities.

Our fundamental research focuses on seeking companies with an increasing production profile that can also manage costs, giving them the ability to grow earnings and cash flow regardless of commodity prices. We seek companies with strong management teams that have a track record of sound strategy, consistent performance, capital discipline and shareholder friendliness.

We will emphasize valuation or growth depending on the particular industry within the energy sector. For example, we emphasize growth rates and production profiles for higher-growth industries such as exploration and pro-

duction. Relative valuation is more important in slower-growth industries such as integrated oils. In either case, we set price targets for our holdings based on the emphasis of the identified factors. In either case, we establish price targets based on our quantitative analysis.

We construct a portfolio of 40 or fewer names, generally maintaining representation in all industries in the energy sector, though we will adjust weightings based on our view of current and future economic conditions. We seek companies with the potential for a 20% upside to current prices over a 12-month period.

Q: *What is your sell discipline?*

A: We may reduce or eliminate a position if the stock reaches its price target, if the valuation becomes excessive compared to other investment opportunities, or if the identified upside potential is not reached in the 12-month holding period. Other fundamental reasons include deterioration in fundamentals, either in the company or in the industry, a change in the company's management team, or decisions by management that are not sound from a financial discipline or shareholder friendliness perspective. Finally, we may sell a position if there are more attractive opportunities elsewhere in the market.

Q: *What is the fund's turnover ratio?*

A: We have a hard limit of 40 companies in the portfolio. This relatively concentrated position provides a balance between diversification and stock picking impact that we prefer. However, this does create a perception of high turnover in the fund. Our annual turnover will range between 25% and 100%; the most recent turnover ratio is 50%, through February 2005.

Q: *Can you please discuss a company that you like that is not in the exploration and marketing area?*

A: Valero Energy, which owns and operates 15 refineries, is one of our

largest holdings. The company serves a crucial bottleneck in the oil production chain—refining crude oil into products for end markets. Crude oil must be refined in order to be sold on the market; despite higher demand for gasoline and other refined products, there hasn't been a new refinery built in the U.S. in nearly a quarter century. Further, the additional capacity that's being brought to market today, and the new discoveries likely to be found tomorrow, are lower-quality heavier crude. Heavier crude typically trades at a 10% to 20% discount to the lighter and sweeter crude in the market. Valero specializes in processing this heavier crude. We believe that the capacity to refine heavy crude gives them an advantage to leverage into higher revenue and profitability. Historically the refining industry has not done well and major oil companies have not done well financially in this sector. As a result, the sector has been under capitalized and underinvested.

Q: *Could you elaborate on your research process?*

A: I spend 35% of my time doing primary research. I visit companies and meet management in formal and informal settings. Analyzing numbers is important, but close monitoring of management is equally important. Our research process is geared towards limiting market surprises and avoiding stock meltdowns. We are looking to invest in companies that have strong balance sheets, cheap P/E ratios and a business that is generating at least a 20% rate of return on investments. In the event if our stock pick does not meet our performance target, then we look for a replacement. We will not sell a stock until we find a replacement.

Q: *What are your risk control measures?*

A: We are diversified across several industry segments, market caps, and geographic segments so that we can avoid market surprises. We do not hedge currencies or participate in purchases of oil futures. We feel that the

companies that we invest in are conducting necessary hedging. We closely monitor the industries and companies in the portfolio, talking directly with management and with industry experts.

"I look to invest in companies that can grow over the long term despite commodity price volatility."



about

John Segner

John Segner serves as portfolio manager of AIM Energy Fund, AIM Gold & Precious Metals Fund, AIM Utilities Fund and AIM V.I. Utilities Fund. He also is co-portfolio manager of AIM Multi-Sector Fund. Prior to joining AIM in 2004, Mr. Segner was a senior vice president and portfolio manager with the Denver Investment Center of INVESCO Institutional (N.A.), Inc.

Mr. Segner has more than 20 years of experience in the energy industry. Before joining INVESCO in 1997, he was managing director and principal with The Mitchell Group, an investment management company focusing exclusively on publicly-traded energy stocks. Prior to that, Mr. Segner held positions with First Tennessee National Corporation, Amerada Hess, and Texaco Chemical. Mr. Segner holds a master's of business administration with a concentration in finance from The University of Texas-Austin. He received his bachelor's in civil engineering from the University of Alabama.

We will maintain a small cash cushion, usually less than 5%, so that we are not forced to sell stock in a market downturn.

Q: *Do you hold macro view for the industry and oil and gas commodity?*

A: Fundamentally, we believe that oil and natural gas commodity prices will be higher this decade than they were in the 1990s. This view is driven by our outlook on supply and demand balances, refining and processing capacities and capacity utilization. We believe that we are depleting energy at a rate faster than the replacement rate. We are forced to look deeper and deeper into the ground and ocean and in areas that were once politically unreachable. So we are constantly looking at new technologies that help us to reach oil and gas fields in the areas that are harder to reach with the conventional technology. It is one of the exciting investing areas that is not linked to energy price volatility.

Q: *Could you provide us with one specific example of a successful stock pick?*

A: Murphy Oil Corp., the fund's top holding, is one of our long-term favorites. It has an increasing production profile through the end of the decade, based on the company's estimates of its latest oil discovery in Malaysia, which should come on line in 2007. Another recent discovery in Congo will likely show results over time.

Second, its joint venture with Wal-Mart should continue to provide high throughput at relatively low cost. While gasoline margins are fairly thin, this deal provides them with the ability to make money from the exploration and production channel as well as the refining and marketing channel. Finally, we believe the management team has developed and executed a strong business strategy, and it has a history of shareholder friendliness. Further, the company is about 20% owned by the Murphy family, which gives us further confidence in the long-term prospects. ■

TICKER Staff