Applied Investment Management Program
Student Managed Fund

2006 - 2007 AIM Fund Annual Report
Period Ending March 31, 2007
College of Business Administration

Applied Investment Management Program 2006 - 2007 Annual Report

Table of Contents

Letter from the Dean of the College of Business Administration	**1**
Letter from the Chair of the Finance Department	**2**
Letter from the Director of the AIM Program	**3**
The AIM Program Class of 2007	**4**
AIM Fund Overview	**6**
AIM Fund Operations	**8**
AIM Fund Portfolio Performance	**9**
AIM Fund Transactions	**16**
AIM Equity Fund	**17**
AIM Fund Relative Return Performance	**60**
AIM Equity Fund Sector Performance	**61**
AIM Equity Fund Top 10 Holdings	**61**
AIM Equity Fund Statement of Operations	**62**
AIM Fixed Income Fund	**63**
AIM Fixed Income Fund Statement of Operations	**67**

Contact:
Dr. David S. Krause
Director, AIM Program
College of Business Administration
Finance Department
Marquette University
P.O. Box 1881
Milwaukee, WI 53201-1881
Telephone: (414) 288-1457
Email: david.krause@marquette.edu

April 27, 2007

In the very short time it has been in place, the Applied Investment Management (AIM) program has become a leading example of where we are moving in the Marquette University College of Business Administration. The AIM program provides a quality education in investment management that is firmly grounded in Catholic Jesuit intellectual values. It addresses a major business need by combining academic and practical investment training at the undergraduate level. The program embodies the College of Business Administration's core mission of enabling our graduates to function effectively and ethically in a diverse workplace and global economy.

We actively solicit the input of top professionals in the investment community, many of whom are College alumni, to sustain and enhance the AIM program. This past year we also sought feedback from the AIM Class of 2006 regarding how the program best prepared them for their new investment industry careers. As you will see in this annual report, I believe we are succeeding in creating a world-class program.

The AIM program continues to evolve, having grown from 12 to 18 students over the past two years. In January, the International Applied Investment Management (IAIM) option was introduced. This new program provides an opportunity for students with a passion for AIM and international business to combine these studies through an overseas internship or state-side internship with an international investment management focus.

I am impressed by the success of the AIM program and I know that Drs. Krause and Peck are looking forward to working closely with Marquette's alumni and the investment community to further enhance the learning experience of our students. Congratulations to the AIM Class of 2007!

David L. Shrock
Dean

April 27, 2007

This year marks the 125th Anniversary of Marquette University and I am pleased to say that the AIM program had another successful year. The students in the AIM Class of 2007 all had meaningful internship experiences last summer, have secured entry level positions in the investment industry, and now are busy preparing to take the Chartered Financial Analysts Level I exam. AIM has become one of the leading undergraduate applied finance programs by serving the need for well-educated and ethical investment research analysts.

While only a select group of finance majors participate in AIM, the program has benefited all finance majors. The AIM Program has re-energized Marquette's students, faculty, alumni, and the business community. The Financial Management Association has been active and numerous outside speakers have visited our campus. During the past year, our students again traveled to Wall Street and the R.I.S.E. Forum at the University of Dayton. Professional development seminars have been hosted on campus and the Investment Club continues to allow non-AIM students to also have the experience of managing money.

All of those events have allowed our faculty to help place more students within the financial industry. Additionally, the curriculum requirements of the AIM program have created more finance electives that are open to all majors. One such course addresses investment ethics, corporate governance, and social responsibility. Finally, the research tools in the AIM research lab have stimulated new research projects for the faculty and students.

The Applied Investment Management program has served as a model for innovative financial education. The Department of Finance will continue to seek ways to develop other "niche" applied programs with a strong emphasis on ethics and social responsibility that help to create a truly transformational educational experience for our students. We appreciate your support in this important mission.

Dr. Sarah W. Peck
Chair, Department of Finance

April 27, 2007

On behalf of the students in the Applied Investment Management program's Class of 2007, I am pleased to present the second AIM Fund Annual Report for the period ending March 31, 2007. Unlike the first year of the AIM program, when the students began with a clean slate, this group inherited two portfolios with over sixty existing securities. The challenge was not only to evaluate new investments to include in the funds, but to determine which existing securities to hold or sell.

Since the beginning of the Fall 2006 semester, the AIM students have been actively managing the equity and fixed income portfolios. They have been responsible for essentially all aspects of portfolio management: establishing the process for screening and evaluating potential stocks and fixed income securities; preparing and presenting recommendations to the AIM Investment Advisory Board; and implementing portfolio trading strategies. In summary, the AIM students were accountable for organizing and managing two 'real' portfolios with a market value in excess of $1 million.

Again, special thanks go to Marquette University's Office of Treasury Services for allowing the AIM program to manage a portion of the endowment. John Hansen and Sean Gissal provided valuable experience and guidance – not to mention considerable patience – during the second year of our operations. The support of the professional investment community also has been outstanding. Many individuals have shared their time and knowledge with our students in the classroom and during our AIM Fund Investment Advisory Board meetings.

It has been a rewarding year for me working with the students in the AIM Class of 2007. In addition to being intellectually inquisitive, they were deeply committed to the responsibilities associated with running a student-managed fund. Like the preceding class, we experienced the challenges involved in managing small capitalization equities – and we also learned about the impact an inverted yield curve can have on a fixed income portfolio. Despite the ongoing uncertainty of the investment climate, we are confident that the AIM Fund will provide invaluable opportunities for learning as students in future classes apply their training to managing a portion of Marquette's endowment funds. We are truly grateful to all of the supporters of the AIM program.

David S. Krause

Dr. David S. Krause
Director, AIM Program

The AIM Program Class of 2007

We would like to thank the following investment professionals who have taken time out of their busy schedules during the past year to meet with our class and offer their insight and expertise.

Brian Andrew – B.C. Ziegler & Co.
Ray Auth – Mason Street Advisors
Jon Baranko – Wells Capital Mgmt
Rod Bare – Morningstar
Josh Beck – Wells Capital Mgmt
Valarie Beech – Marquette University
Ryan Berg – Northwestern Mutual
Peg Bernhard – Marquette University
Mike Blonski – Artisan Partners
John Boritzke – M&I
Greg Branson – Wells Fargo
Pat Brown – Citigroup
Matt Bruno – Morgan Stanley
Jon Bruss – Fortress Partners
Maureen Busby Oster – MBO Cleary
Joseph Cesarz – Lakeview Equity
Lucia Cronin – Wells Capital Mgmt
Frank Cumberbatch – Trinidad Group
Matt D'Attilio – Reinhart & Mahoney
Ryan Davies – Cortina Asset Mgmt.
Jeff DeAngelis – Mason Street Advisors
Walt Dewey – U.S. Bank
Tom Digenan – UBS
Patrick Dorsey – Morningstar
Dan Dujmic – M&I
Timothy Dunbar – Principal Global Inv.
Tom Eck – Cortina Asset Management
Frank Espositio – Wells Capital Mgmt
Matt Fahey – M&I
Faraz Farzam – Broadview Advisors
Mike Ferris — Wachovia
Doug Fry – Reinhart & Mahoney
Dan Fuss – Loomis Sayles
Dan Geigler – Morgan Stanley
Sean Gissal – Marquette University
Doug Guffy – R.W. Baird & Co.
Pat Halter – Principal Global Investors
John Hansen – Marquette University
William Heard – Stark Investments
Tao Huang – Morningstar
Ken Heller – True Bearing Asset Mgmt
Ken Hemauer – Baird Investment Mgmt
Charles Holzencht – Banc of America
Jaclyn Jensen – Stark Investments
Dr. Bob Johnson – CFA Institute
Brad Kalscheur – Michael Best & Friedrich
Dan Keegan – Keegan House
Connie Keller – Arcataur Capital Mgmt.
Bob Kemp – Capital Growth Management
Sean Kennedy – Wells Capital Mgmt
Mike Ketter – Merrill Lynch
James Kitzinger – Kitzinger Lautmann Cap.
Thomas Kramer – LightPoint
Chuck Lamb – Marquette University
Zach Larkin – Wasatch Advisors
Pete Lautmann – Kitzinger Lautmann
Dennis Long – Principal Global Investors
John Malooly– Wasatch Advisors
Susan Marshall – Executive Advisor
Edward Martin – H.J. Martin & Son
Ed McIlveen – Francis Investment Counsel
Dr. Bob McLean – CFA Institute
David McHugh – Northern Trust
Barry Mendelson – Capital Market Consul.
Andrew Moore – Wells Fargo
Mark Nagle – Dominican H.S.
Jeff Nelson – MBO Cleary
Jeff Netols – Netols Asset Mgmt.
Quinn Noel – Mason Street Advisors
Matt Notarianni – R.W. Baird & Co.
Bob Ollech – Fortress Partners
Kyle O'Meara – R.W. Baird & Co.
Bob Organ – Northwestern Mutual
Ulice Payne Jr. – Addison-Clifton
Roger Radke – Pius XI H.S.
Greg Rawls – Calamos
Dave Reichart – Principal Global Investors
Dan Renouard – R.W. Baird & Co.
Mike Rems – Goldman Sachs
Scott Roberts – Deerfield
Jim Runde – Morgan Stanley Dean Witter
Maureen Schuerman – Dominican H.S.
Eric Schlipf – R.W. Baird & Co.
Jay Schwister – R.W. Baird & Co.
Ben Somers – JPMorgan
Sarah Somers – Morgan Stanley
Mike Steppe – Brookfield Investment
John Taphorn – Deutsche Asset Mgmt.
Jason Toellner – Travelers
Dan Tranchita – R.W. Baird & Co.
Dave Trotter – Pennant Mgmt
Nicole Troug – Marquette University
Guia Trutter – LightPoint
W. Kent Velde – Lakeview Equity
Joe Waldron – Netols Asset Mgmt.
Bill Walker – Mason Street Advisors
Ronald White – Citigroup Global Markets
Jason Weiner – M&I
John Weitzer – CFA Society of Milwaukee
Dan Williams – Banc of America
Kristen Williams – Banc of America
Tim Wojs – R.W. Baird & Co.
Dr. Robert Yahr, Marquette University
Paul Zandt – MBO Cleary
Mark Zellmer – Northern Oak

In addition we would like to thank the Marquette faculty – especially Drs. David Krause, Sarah Peck, Michaël DeWally, George Kutner, Mateo Arena, Mark Eppli, Jim McGibany, David Shrock, Anthony Pennington-Cross, Jamshid Hosseini, Marq Stankowski, Cheryl Maranto, and Don Giacomino. We would like to extend a special thank you to Christina Gasser, Graduate Assistant, for her service to the AIM program.

We would like to wish good luck to the classes that follow us and hope that they help continue the tradition of excellence in the AIM program. With the ongoing support and guidance of the faculty and advisors, we believe this will happen. Thank you.

The AIM Program Class of 2007

Applied Investment Management Program
Marquette University
Class of 2007

Back Row Standing (left to right): Patrick Jesse, Matthew Rose, Timothy Fotsch, Oleg Gurin

Middle Row Standing (left to right): Uri Soroka, Matthew Grimm, Michael D'Agostino, Ryan Denton, Jeffrey Ehman, Thomas Kruse, Adam Bordner, Zachary Bloom

Front Row Seated (left to right): Nicole Roden, Christina Mirarchi, Amie Brouillard, Kristina Cerjak, Sarah Tobolski, Ashley Beckner

AIM Fund Overview

The AIM program was established in 2004 to provide Marquette University's undergraduate students the opportunity to integrate the financial principles they are learning in the classroom, along with relevant internships and investment experiences, so that they may become proficient and ethical investment research analysts. The first two classes of students enrolled in the AIM program gained valuable experience by managing a portion of the University's endowment fund. The University initially contributed $500,000 of endowment funds in September 2005 to establish the AIM Equity Fund. In January 2006, an additional $500,000 was contributed allowing for the creation of the AIM Fixed Income Fund.

The AIM Fund student managers were required to comply with the same policies and performance guidelines as the other money managers retained to invest Marquette University's endowment funds. In keeping with these requirements, the student managers sought to achieve excess rates of return while assuming risks similar to those of the Russell 2000 and the Lehman Brothers Aggregate Bond Indexes. The AIM Fund student managers held two widely diversified portfolios of common stocks and fixed income securities. They sought to invest in well-managed, profitable businesses without unnecessarily exposing the University's funds to imprudent risks.

The investment objective of the AIM Equity Fund was to achieve a long-term capital return in excess of 200 annualized basis points of the benchmark (Russell 2000 Index) by investing in small market capitalization companies ($250 million to $1.5 billion market value). Initial common stock positions were not allowed to exceed 2% of the total market value of the AIM Equity Fund at the time of purchase and no investment position was allowed to exceed 5% of the portfolio's value at any time. Over 97.5% of the equity portfolio was required to be invested at all times in marketable equities with a risk profile similar to that of the market benchmark. The students were allowed to invest in American Depository Receipts (ADRs); however, these combined investments could not exceed 10% of the portfolio's market value at any time.

The AIM Equity Fund was well diversified with respect to exposure to different economic sectors, industry segments, and individual stocks. This was accomplished by implementing a 'sector neutral' policy, which restricted the maximum (minimum) allocation to any industry sector (as defined by the Russell 2000 Index) to be no more (or less) than the lesser of: 2% above (below) the Index's market value weighting of the AIM Equity Fund or 1.5 times above (below) the Index's market value weighting of the portfolio's equity investment. This policy promoted a 'bottoms-up' or fundamental analysis approach, which involved stock evaluation methods that used financial and economic analyses to identify mispriced securities. Students in the AIM program learned to evaluate fundamental information which included a company's financial reports and non-financial information, such as estimates of the growth of revenue and earnings; industry comparisons; analysis of the effects of new regulations or demographic changes; and economy-wide trends. Discounted cash flow models and relative valuation techniques were employed to identify potentially mispriced securities.

The investment objective of the AIM Fixed Income Fund was to achieve a total return in excess of 20 annualized basis points of the benchmark (Lehman Brothers Aggregate Bond Index). The duration of the fixed income portfolio was not allowed to exceed that of the benchmark by more or less than 20% at any time. The fixed income portfolio followed a 'core plus' investment management style, which permitted the student managers to add debt instruments with slightly greater risk and return potential than found in the Lehman Brothers Aggregate Bond Index. These investments could include the addition of high yield and global debt securities to the core portfolio of investment-grade bonds – provided that the percentage of assets invested in extended non-benchmark investments was not greater than 20% of the fixed income portfolio's market value.

The AIM students utilized a 'top-down' approach in establishing the fixed income portfolio. Basing their investment strategy on economic and interest rate forecasts, they established fixed income sector allocations based on the expected future movements of interest rates and the yield curve. The student managers of the AIM Fixed Income Fund employed a 'fund of funds' strategy which combined low-cost fixed income index mutual funds and exchange traded funds (ETFs) to benefit from anticipated future trends. This strategy provided excellent diversification and low transaction costs.

ACADEMIC ADVISORS
David Krause, PhD
Sarah Peck, PhD

MARQUETTE UNIVERSITY ENDOWMENT LIAISONS
John Hansen
Sean Gissal

BROKERAGE SERVICES
Robert W. Baird & Company

CASH MANAGEMENT SERVICES
Marshall & Ilsley Bank

AIM Fund Operations

The AIM Fund was divided into two autonomous funds: the Equity Fund and the Fixed Income Fund. While the goal of each fund was to identify and acquire under-valued securities within its respective investment universe, the student managers were free to determine the best way to identify those opportunities within the investment policy guidelines. Throughout the holding period, the AIM Fund student managers sought to improve their common stock and fixed income selection processes by applying their academic experiences, learning from their peers, and building upon the existing knowledge base of professional investors and the faculty.

The AIM Fund management consisted of the student managers, the AIM Program Director, and the AIM Investment Advisory Board. The Board members contained representatives from the University's Office of Treasury Services, Department of Finance and Accounting faculty, and various members of the investment community selected on the basis of their availability and ability to enhance the educational benefits of the student-managed portfolio experience. The function of the AIM Investment Advisory Board was to serve as counsel to the student members of the AIM Fund. The Board met seven times during the academic year with the students.

The role of the AIM Program Director was to help the students develop and enhance best practices in order to position the overall portfolio for continued success. In addition to teaching investment courses, the Director also served as the contact with Marquette's Office of Treasury Services to insure that the students were developing and maintaining risk profiles consistent with the University's policy. As well as helping place the AIM students in their summer internships and post-graduation investment positions, the Director is responsible for overseeing that the AIM Fund is rebalanced in a timely manner; monitoring the Fund during the summer months; and coordinating external relations through monthly newsletters, receptions, and outside visits. The Director works closely with the investment management community and the Marquette alumni network, as well as with University Admissions and the Office of Career Services.

To maintain the safety of the portfolio, limit orders are established prior to the end of the fall semester and at the conclusion of the school year. The AIM Program Director, with the approval of the Office of financial services, has the authority to execute trades during breaks in the school year, if necessary. The proceeds of securities sold during the semester breaks are invested in the exchange traded funds of the respective benchmarks. The next class of AIM Fund student managers will begin actively managing the portfolio at the start of their fall semester.

AIM Fund Portfolio Performance

As noted earlier, the AIM Fund's benchmarks are the Russell 2000 Index and the Lehman Brothers Aggregate Bond Index for the equity and fixed income portfolios. The inception dates for the equity and fixed income funds were September 28, 2005 and January 30, 2006, respectively. The funds' total return performance since inception and for the 12 month holding period ended March 31, 2007 versus their benchmark is presented below.

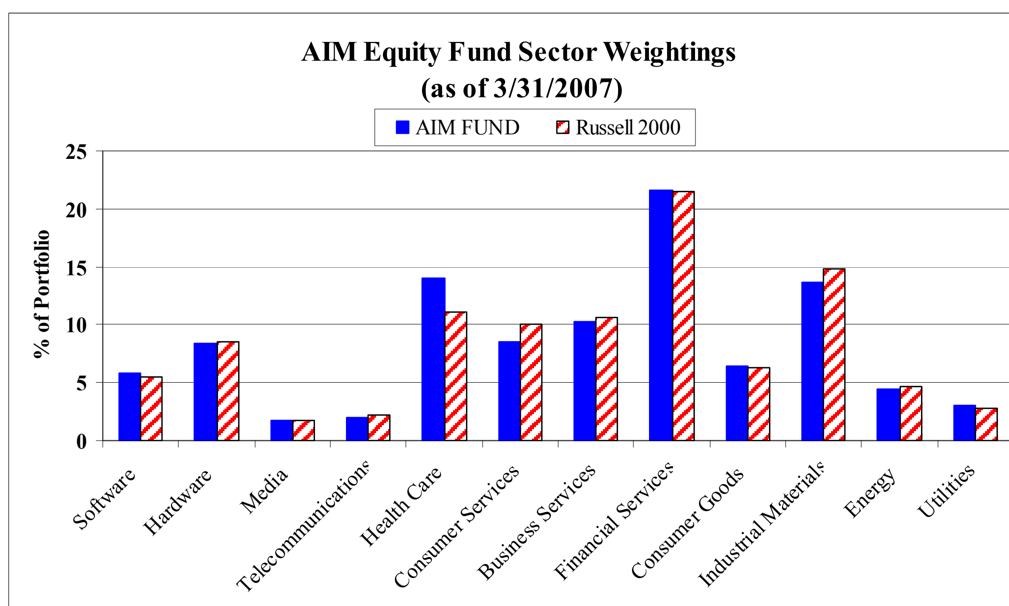
		12 Month Holding Period Return (as of 3/31/2007)		
Fund	**Benchmark**	**AIM Fund**	**Index**	**Over/(Under) Performance**
Equity	**Russell 2000 Index**	**3.56%**	**5.91%**	**-2.35%**
Fixed Income	**Lehman Aggregate Bond Index**	**6.61%**	**6.59%**	**0.02%**

		Holding Period Return Since Inception (as of 3/31/2007)		
Fund	**Benchmark**	**AIM Fund**	**Index**	**Over/(Under) Performance**
Equity*	**Russell 2000 Index**	**22.18%**	**22.04%**	**0.14%**
Fixed Income**	**Lehman Aggregate Bond Index**	**6.24%**	**5.88%**	**0.36%**

* 9/28/2005 Inception ** 1/30/2006 Inception

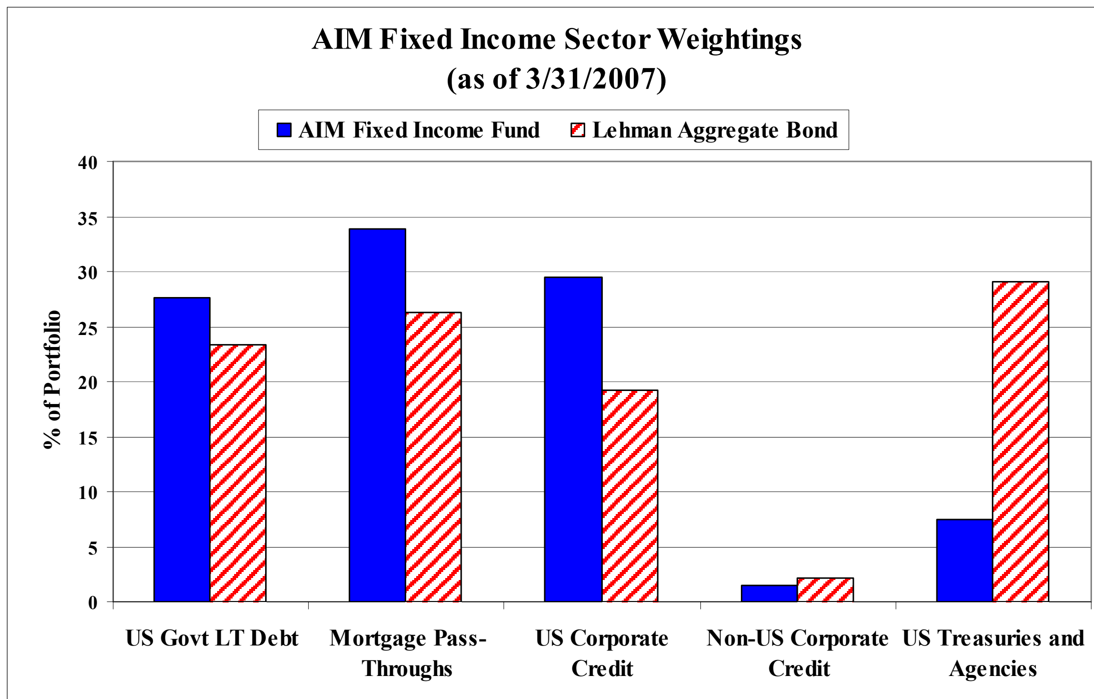
For the holding period ended March 31, 2007, the AIM Equity Fund returned 3.56%, under performing its benchmark by 235 basis points (bps). Since inception, the AIM Equity Fund has returned 22.18% or 14 bps above the benchmark as of March 31, 2007. The AIM Fixed Income Fund returned 6.61% during the holding period, over performing its benchmark by 2 basis points. Since inception, the AIM Fixed Income Fund has returned 6.24% or 36 bps above the benchmark.

In accordance with the AIM Fund's investment policy, the equity portfolio was 'sector neutral' during the holding period. Shown below are the AIM Equity Fund's industry sector weightings versus the Russell 2000 benchmark at the end of the holding period. The health care sector was slightly overweighted because of a recent tender for one of the firms in the sector.



AIM
APPLIED INVESTMENT MANAGEMENT

The AIM Fund's investment policy allows for up to 20% of the fixed income portfolio to be invested in non-investment grade bonds. As shown below, the fixed income portfolio was more heavily weighted in long-term governments, mortgage pass-throughs, and corporate bonds than the Lehman Aggregate Bond benchmark. At the end of March 2007, 12.5% of the portfolio was invested in high yield bonds.



The following table shows a risk-return snapshot of the AIM Fund over its history and the 12 month period ending March 31, 2007. As measured by the standard deviation of returns over the holding period since inception, the AIM Equity Fund was slightly more risky than its benchmark, but less risky during the past 12 months. The equity fund's Sharpe ratio (a risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk) was .80, which was similar to the benchmark. The Sharpe ratio was –.16 for the 12 months ended on March 31, 2007. The AIM Equity Fund's beta was 1.28 – less than the Russell 2000 Index's beta – which was computed relative to the Standard & Poor 500 Index. Jensen's alpha (the average excess return versus that predicted from the portfolio's beta and the average benchmark return) was –2.31%, which was below the return objective. Since inception, the AIM Equity Fund's alpha was +19 bps.

The AIM Fixed Income Fund's standard deviation was lower than the benchmark during the holding period and since inception. The Sharpe ratio for the fixed income portfolio was .67 and above the Lehman Aggregate Bond Index. The AIM Fixed Income Fund's average duration, the most commonly used measure of risk in bond investing, was 4.58 or about 8 bps above the benchmark at the end of the holding period. Duration incorporates a bond's yield, coupon, final maturity, and call features into one number, expressed in years, that indicates how price-sensitive a fixed income security or portfolio is to changes in interest rates. The excess return for the AIM Fixed Income Fund since inception was 36 basis points above the benchmark, while it was 2 bps above the Lehman Index for the 12 months ended March 31, 2007.

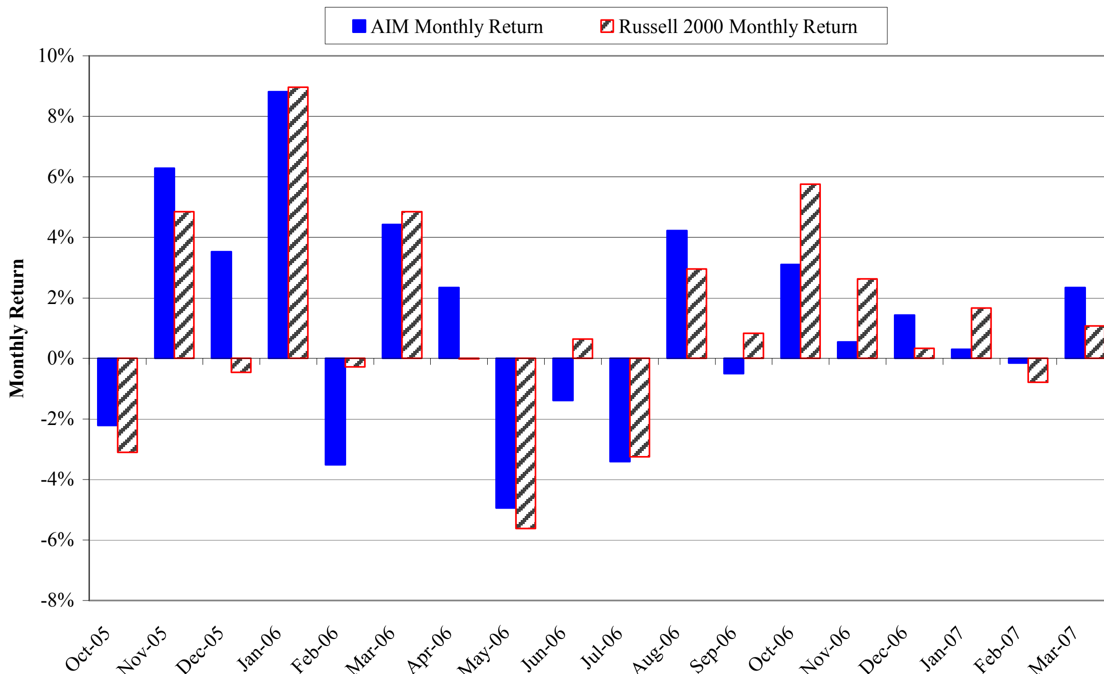
AIM Fund Holding Period Risk-Return Measures (as of 3/31/2007)

12 Month Period	Holding Period Std. Deviation (annualized)	Sharpe Ratio	Beta*	Alpha**
Equity Fund	9.22%	-0.16	1.28	-2.31%
Russell 2000 Index	10.10%	0.09	1.35	
Since Inception (9/28/2005)	**Holding Period Std. Deviation (annualized)**	**Sharpe Ratio**	**Beta***	**Alpha****
Equity Fund	12.48%	0.80	1.19	0.19%
Russell 2000 Index	12.16%	0.81	1.35	

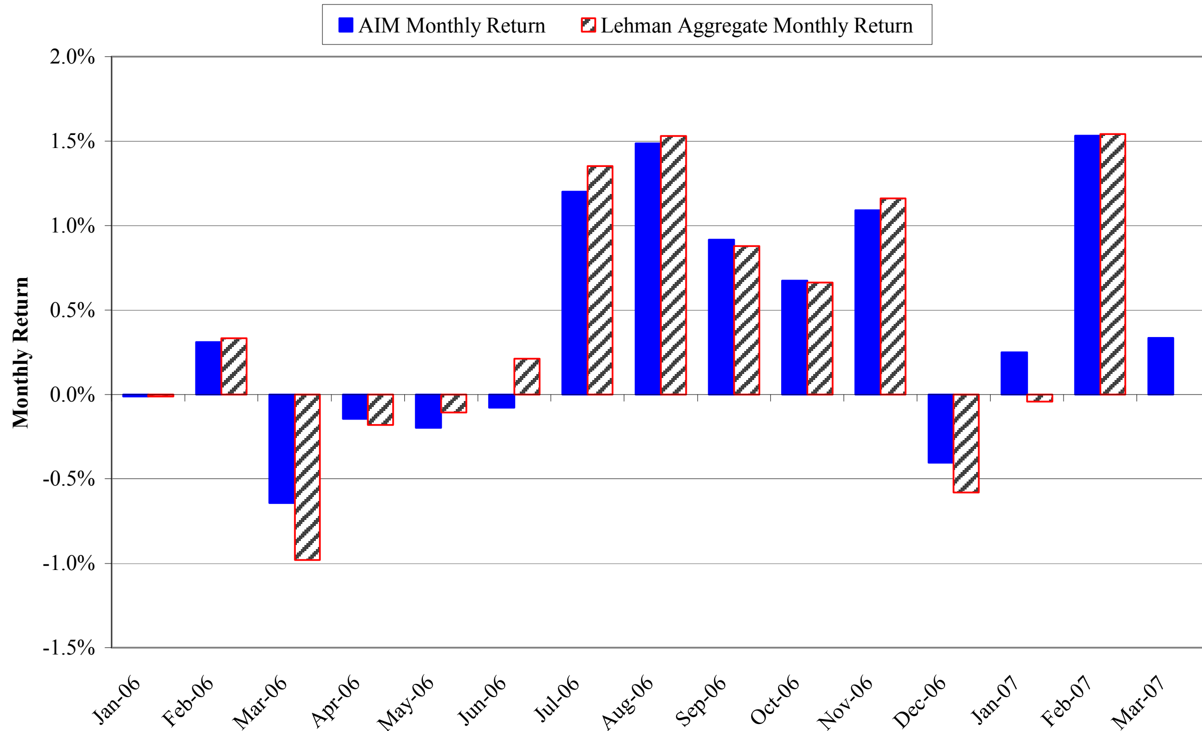
12 Month Period	Holding Period Std. Deviation (annualized)	Sharpe Ratio	Average Duration	Excess Return**
Fixed Income Fund	2.41%	0.67	4.58	0.02%
Lehmann Aggregrate Bond Index	2.58%	0.62	4.50	
Since Inception (1/30/2006)	**Holding Period Std. Deviation (annualized)**	**Sharpe Ratio**	**Average Duration**	**Excess Return****
Fixed Income Fund	2.42%	0.01	4.58	0.36%
Lehmann Aggregrate Bond Index	2.68%	-0.10	4.50	

* Computed on S&P 500 Index ** Relative to benchmark

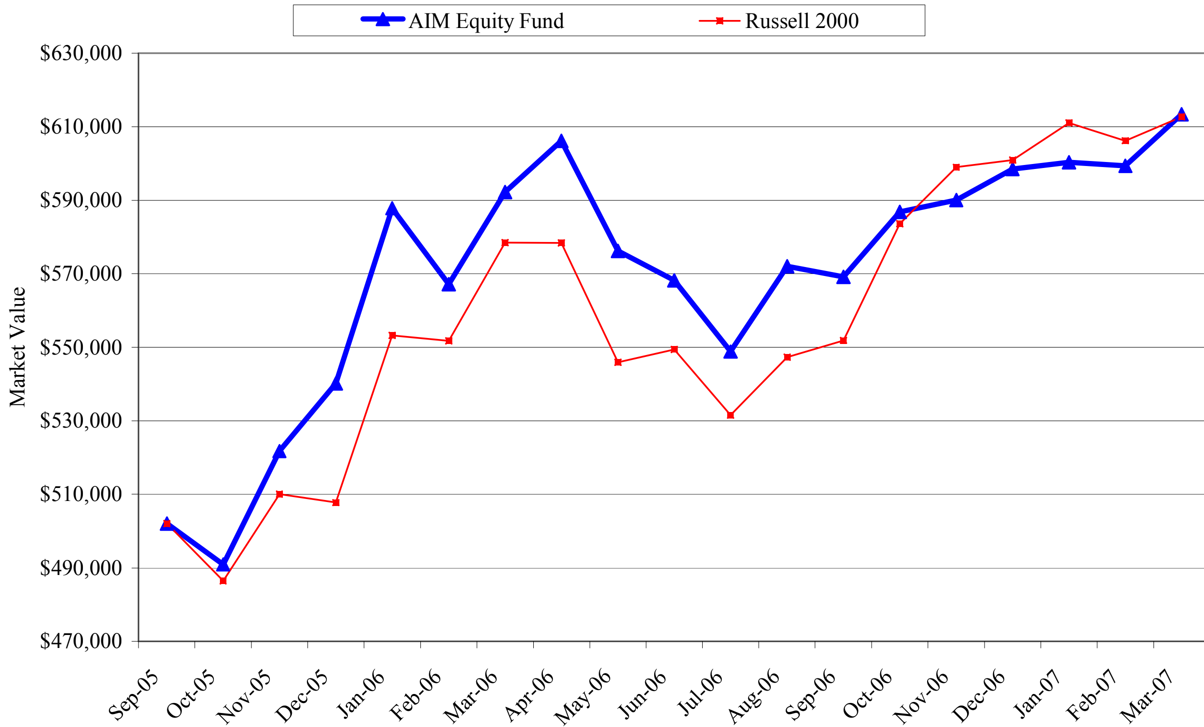
The following chart shows the monthly total return figures for the AIM Equity Fund and the Russell 2000 Index since the inception of the fund. The AIM Fund had positive returns during 11 of the 18 months in the holding period and excess returns for half of the months. Three of the last four months of the holding period produced excess returns.

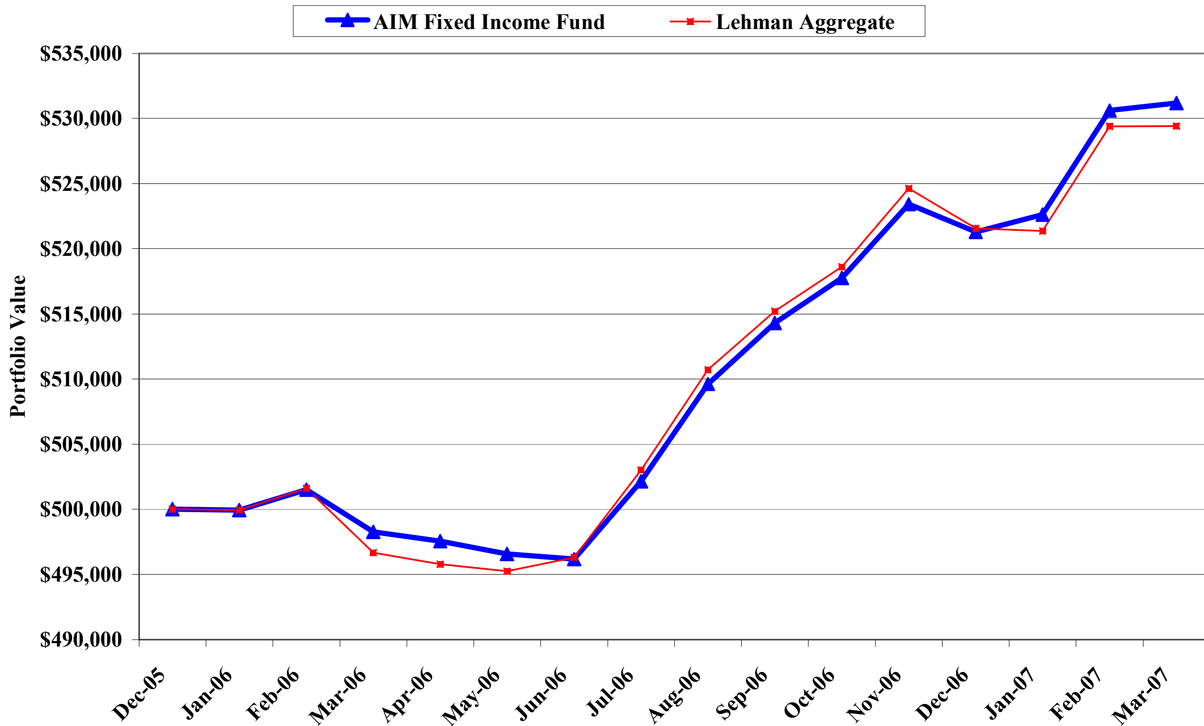


The following chart shows the monthly total returns for the AIM Fixed Income Fund and the Lehman Brothers Aggregate Bond Index since the inception of the fund. The AIM Fund outperformed the benchmark in three of the last four months of the holding period. The AIM Fund was positive in eight of the past nine months; a period of falling long-term interest rates.



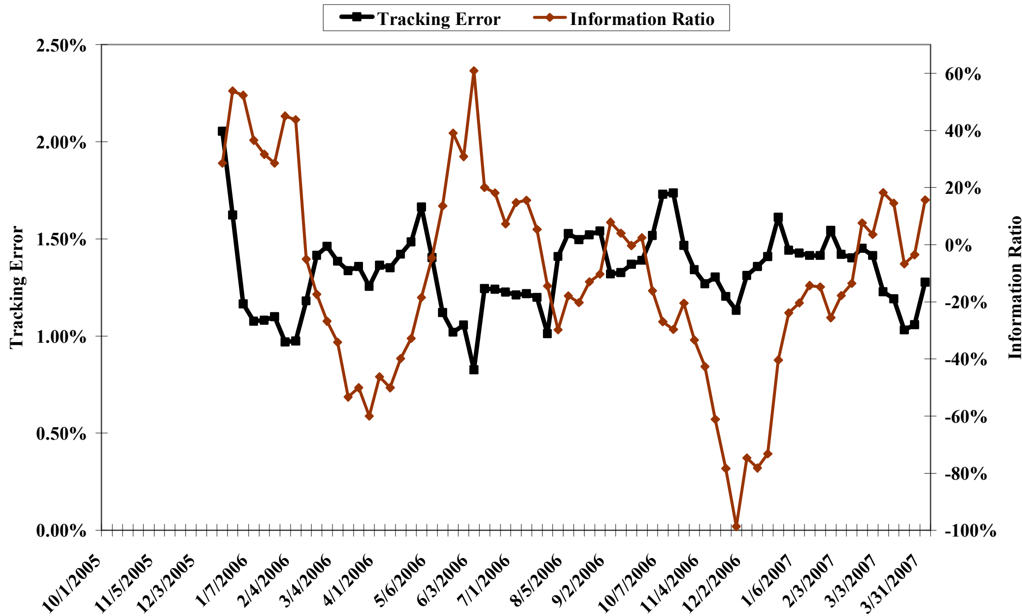
The following charts track the time series performance of the two AIM Fund portfolios. The AIM Equity Fund matched the performance of the Russell 2000 during the holding period ended March 31, 2007. The AIM Fixed Income Fund has tracked more favorably than the Lehman Brothers Aggregate Bond Index since its inception. The total returns of both AIM portfolios included brokerage fees, which depressed the equity and fixed income returns during the holding period by about 10 and 5 basis points, respectively. These fees were lower than the first year when each portfolio had to be fully invested from an initial cash position of $500,000.

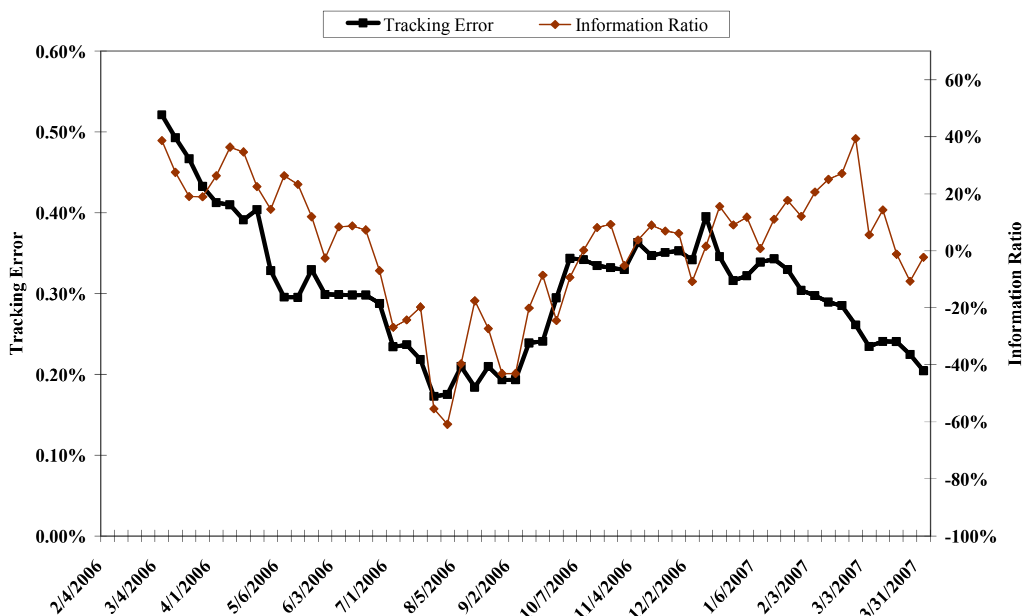

Market Value of AIM Equity Fund vs. Russell 2000
(since inception 9/28/05)
AIM Equity Fund
Russell 2000
Market Value
$630,000
$610,000
$590,000
$570,000
$550,000
$530,000
$510,000
$490,000
$470,000
Sep-05
Oct-05
Nov-05
Dec-05
Jan-06
Feb-06
Mar-06
Apr-06
May-06
Jun-06
Jul-06
Aug-06
Sep-06
Oct-06
Nov-06
Dec-06
Jan-07
Feb-07
Mar-07


Market Value of AIM Fixed Income Fund vs. Lehman Aggregate Bond
(since inception 1/30/06)
AIM Fixed Income Fund
Lehman Aggregate
Portfolio Value
$535,000
$530,000
$525,000
$520,000
$515,000
$510,000
$505,000
$500,000
$495,000
$490,000
Dec-05
Jan-06
Feb-06
Mar-06
Apr-06
May-06
Jun-06
Jul-06
Aug-06
Sep-06
Oct-06
Nov-06
Dec-06
Jan-07
Feb-07
Mar-07

AIM
Applied Investment Management

The Chartered Financial Analysts (CFA) Institute issued the Global Investment Performance Standards (GIPS) in 1999 to provide a basis for readily accepted and comparable presentations of an investment fund's past investment performance. It is currently the intent of the AIM program to follow the GIPS reporting standards, including tracking error and the information ratio, and that these be presented along with total returns for the investment funds relative to their benchmarks. The following charts present the tracking errors and information ratios for the AIM Equity and Fixed Income Funds.





The next table contains excess return attribution information for the AIM Equity and Fixed Income Funds based on Fama's decomposition of risk. Since inception the portion of excess return that was not explained by the portfolio's beta and market risk premium was 0.14% for the AIM Equity Fund; which indicates the AIM student managers' overall stock selection contribution. The risk premium due to fixed income selectivity was +2 bps during the past 12 months and +36 bps since inception for the AIM Fixed Income Fund.

Fama's Decomposition of Risk (Holding Period as of 3/31/2007)

AIM Equity Fund (12 month period)	AIM Equity Fund	Russell 2000
Holding Period Return	3.56%	5.91%
- 3 Month Treasury Bill	4.99%	4.99%
Total Risk Premium	-1.43%	0.91%
- Risk premium due to risk	0.91%	0.91%
Risk Premium Due to Selectivity	-2.31%	0.00%

AIM Equity Fund (since inception)*	AIM Equity Fund	Russell 2000
Holding Period Return	22.18%	22.04%
- 3 Month Treasury Bill	7.17%	7.17%
Total Risk Premium	15.01%	14.87%
- Risk premium due to risk	14.87%	14.87%
Risk Premium Due to Selectivity	0.14%	0.00%

AIM Fixed Income Fund (12 month period)	AIM Fixed Income	Russell 2000
Holding Period Return	6.61%	6.59%
- 3 Month Treasury Bill	4.99%	4.99%
Total Risk Premium	1.61%	1.60%
- Risk premium due to risk	1.60%	1.60%
Risk Premium Due to Selectivity	0.02%	0.00%

AIM Fixed Income Fund (since inception)**	AIM Fixed Income	Russell 2000
Holding Period Return	6.24%	5.88%
- 3 Month Treasury Bill	6.15%	6.15%
Total Risk Premium	0.08%	-0.27%
- Risk premium due to risk	-0.27%	-0.27%
Risk Premium Due to Selectivity	0.36%	0.00%

*(9/28/2005) **(1/30/2006)

AIM Fund Transactions

The following table displays the securities sold throughout the holding period for the two AIM Funds. The turnover ratio for the AIM Equity Fund was about 45% for the period ending March 31, 2007, while the AIM Fixed Income Fund turnover was approximately 20% for the past 12 months.

AIM Equity Fund - Securities Sold (4/1/2006 Through 3/31/2007)

Security	Ticker	Purchase Date	Purchase Price	Shares	Cost Basis	Sell Date	Days Held	Selling Price	Proceeds	Gain / Loss $	Gain / Loss %
Adeza Biomedical	ADZA	11/14/2006	$13.71	280	$3,840	2/14/2007	92	$23.74	$6,648	$2,808	73.1%
Advo	AD	11/2/2005	$25.87	420	$10,864	7/11/2006	251	$35.73	$15,008	$4,143	38.1%
Amsurg	AMSG	9/25/2006	$22.66	500	$11,332	2/26/2007	154	$24.07	$12,035	$703	6.2%
ARGON ST	STST	11/2/2005	$27.37	390	$10,675	11/6/2006	369	$23.29	$9,083	-$1,591	-14.9%
BankAtlantic Bancorp A	BBX	11/2/2005	$14.02	730	$10,233	11/6/2006	369	$13.34	$9,735	-$498	-4.9%
Beasley Broadcast Group A	BBGI	10/5/2005	$13.85	360	$4,987	5/4/2006	211	$8.13	$2,928	-$2,059	-41.3%
Bluegreen	BXG	11/2/2005	$16.20	660	$10,690	9/25/2006	327	$11.57	$7,638	-$3,052	-28.6%
Delta and Pine Land	DLP	9/28/2005	$25.65	380	$9,745	9/25/2006	362	$40.48	$15,384	$5,639	57.9%
Horizon Health	HORC	4/7/2006	$20.82	550	$11,453	1/25/2007	293	$19.56	$10,761	-$692	-6.0%
Jos A. Bank Clothiers	JOSB	10/5/2005	$33.20	300	$9,961	11/6/2006	397	$30.73	$9,218	-$743	-7.5%
Korn/Ferry International	KFY	9/28/2005	$16.24	300	$4,872	1/29/2007	488	$23.13	$6,938	$2,066	42.4%
LCA-Vision	LCAV	9/28/2005	$36.88	260	$9,588	2/14/2007	504	$46.70	$12,141	$2,553	26.6%
Maidenform Brands	MFB	9/28/2005	$13.77	400	$5,508	10/6/2006	373	$20.18	$8,071	$2,563	46.5%
Maidenform Brands	MFB	12/8/2005	$13.99	400	$5,598	9/25/2006	291	$18.47	$7,387	$1,789	32.0%
Marlin Business Services	MRLN	10/5/2005	$22.17	450	$9,978	12/5/2006	426	$21.57	$9,707	-$271	-2.7%
Matria Healthcare	MATR	10/12/2005	$35.38	135	$4,777	11/14/2006	398	$28.48	$3,845	-$932	-19.5%
MIPS Technologies	MIPS	4/7/2006	$7.08	900	$6,368	1/25/2007	293	$8.25	$7,427	$1,059	16.6%
MIPS Technologies	MIPS	4/7/2006	$7.10	400	$2,839	12/5/2006	242	$8.39	$3,355	$516	18.2%
Nautilus Group	NLS	11/2/2005	$18.54	530	$9,825	9/25/2006	327	$14.34	$7,602	-$2,223	-22.6%
NICE-Systems ADR	NICE	11/2/2005	$22.58	470	$10,612	9/25/2006	327	$27.11	$12,740	$2,128	20.1%
North Pittsburgh Systems	NPSI	9/28/2005	$19.63	100	$1,963	10/6/2006	373	$25.29	$2,529	$566	28.8%
Oregon Steel Mills	OS	11/2/2005	$26.07	280	$7,299	9/25/2006	327	$46.04	$12,891	$5,592	76.6%
Pike Electric	PEC	9/28/2005	$20.09	280	$5,625	12/5/2006	433	$16.16	$4,525	-$1,100	-19.6%
Placer Sierra Bancshares	PLSB	10/5/2005	$26.98	380	$10,252	1/25/2007	477	$27.41	$10,417	$165	1.6%
Randgold Resources ADR	GOLD	10/5/2005	$14.84	450	$6,680	1/3/2007	455	$22.24	$10,010	$3,330	49.9%
Randgold Resources ADR	GOLD	10/5/2005	$14.84	200	$2,968	12/5/2006	426	$23.32	$4,665	$1,697	57.2%
Salem Communications A	SALM	9/28/2005	$18.51	100	$1,851	2/26/2007	516	$13.01	$1,301	-$550	-29.7%
Salem Communications A	SALM	9/28/2005	$18.51	170	$3,147	1/29/2007	488	$11.32	$1,925	-$1,222	-38.8%
Toreador Resources	TRGL	11/2/2005	$27.95	150	$4,192	2/26/2007	481	$25.28	$3,793	-$400	-9.5%
Vineyard National Bancorp	VNBC	9/28/2005	$29.46	250	$7,364	11/6/2006	404	$22.05	$5,513	-$1,852	-25.1%
W-H Energy Services	WHQ	10/12/2005	$28.30	100	$2,830	2/26/2007	502	$43.48	$4,348	$1,518	53.7%
W-H Energy Services	WHQ	10/12/2005	$28.32	130	$3,681	10/6/2006	359	$39.68	$5,158	$1,477	40.1%
Sub-Total					**$221,598**				**$244,724**	**$23,126**	**10.4%**
Russell 2000 ETF	IWM	Multiple dates				Multiple dates				$1,311	
Total										**$24,438**	

AIM Fixed Income Fund - Securities Sold (4/1/2006 Through 3/31/2007)

Security	Ticker	Purchase Date	Purchase Price	Shares	Cost Basis	Sell Date	Days Held	Selling Price	Proceeds	Gain / Loss $	Gain / Loss %
iShares Lehman 1-3 Yr Treasury Bond	SHY	2/9/2006	$80.13	310	$24,841	2/27/2007	383	$80.42	$24,930	$89	0.4%
iShares Lehman 7-10 Yr Treasury	IEF	Multiple dates				Multiple dates				$238	
iShares Lehman Aggregate Bond	AGG	Multiple dates				Multiple dates				-$2,090	
Vanguard GNMA	VFIIX	2/13/2006	$10.27	1,500	$15,398	11/13/2006	273	$10.23	$15,345	-$53	-0.3%
Vanguard High-Yield Corporate	VWEHX	2/13/2006	$6.18	6,750	$41,697	3/1/2007	381	$6.28	$42,390	$693	1.7%
Total										**-$1,123**	

AIM Equity Fund

Business Services Sector — 10.83% of AIM Equity Fund

Analyst: Michael D'Agostino

There are three main economic factors that affect the business services sector. The primary factors are oil prices, employment rates, and the growth of outsourcing. Inside this sector are sub-industries including waste management, distributors, airlines, ground and water transporters, and business support. The first major factor affecting this sector is the price of oil, which is somewhat hedged within the business services sector. Forward Air tends to gain with increasing oil prices, while Martin Transportation benefits from lower fuel prices. This hedging scenario is also similar for the two AIM Fund stocks in the employment markets. Korn/Ferry International tends to benefit from tightening employment, while Labor Ready performs well with growing employment. Korn/Ferry tends to benefit from higher demand for professional employees, while Labor Ready supports skilled and unskilled blue collar workers. Ennis and American Reprographics are firms that serve niche markets that should perform well over the next 12 months.

The business services sector has been lagging primarily as a result of the disappointment of Marten Transportation, which performed poorly during the period of volatile oil prices. Labor Ready also experienced negative news due to weakening staffing outlooks and analyst downgrades. The most successful company in the sector has been Ennis, which has generated strong earnings growth in the previous three quarters—which have surpassed analysts' expectations.

During the course of the year, the AIM Fund had investments in nine business services stocks. Currently, we are holding six investments, adding three and trimming four stocks. The sector now includes: American Reprographics Company, Ennis Inc., Forward Air, Korn/Ferry International, Labor Ready Inc., and Marten Transportation Inc.

ARP	**American Reprographics Company**			Weight (%)	1.87%
Price as of March 30, 2007	$30.79	Cash & eqv. (mm)	11.64	P/E (ttm)	27.9x
Shares Outstanding (mm)	45.4	Debt (mm)	273.1	06 EV/Sales	2.8x
Market Cap (mm)	1,396.6	Enterprise Value (mm)	1,637.1	06 EV/EBITDA	12.2x
52 Week High	$39.00	2006 Sales (mm)	591.8	ROA (after tax)	3.04%
52 Week Low	$28.38	2006 EBITDA	134.7	ROE (after tax)	3.58%
Daily Volume (000s)	489.0	2007 EPS (est)	$1.61	Lower sell limit	$24.63
Country	US	Beta	0.80	Upper sell limit	$36.95

American Reprographics Company (ARP) is the largest nationwide provider of reprographic services to the architectural, engineering, and construction (AEC) industry. Reprographics is the management and reproduction of construction documents (mainly blueprints) and related materials. ARP specializes in business-to-business document management services, document distribution and logistics, and print-on-demand. The company also provides services to non-AEC industry companies, most of which include the reproduction of large or small color marketing and point of sale materials. ARP operates about 190 facilities, located in 141 cities throughout 30 states. American Reprographics Company became a public company in early February 2005.

An investment in ARP gives the business services portfolio significant exposure to non-residential construction. Over 65% of the company's revenues are derived from this industry. The disappointments of the construction industry over the last nine months have negatively affected this sub-sector. Fortunately, ARP has faired well relative to other firms in the AEC industry. ARP's management team is considered to be the leader in reprographic technology. The company is the only nationwide provider of reprographic services, and it is five times the size of its nearest competitor. ARP has exceeded Wall Street expectations for all quarterly earnings except one since its IPO. Going forward we believe that ARP will resume growth after being relatively flat for the last year due to lagging construction.

EBF Ennis, Inc.				Weight (%)	2.37%
Price as of March 30, 2007	$26.76	Cash & eqv. (mm)	7.60	P/E (ttm)	15.8x
Shares Outstanding (mm)	25.6	Debt (mm)	100.7	06 EV/Sales	1.4x
Market Cap (mm)	684.1	Enterprise Value (mm)	771.6	06 EV/EBITDA	8.5x
52 Week High	$27.70	2006 Sales (mm)	559.4	ROA (after tax)	5.56%
52 Week Low	$18.00	2006 EBITDA	90.6	ROE (after tax)	6.33%
Daily Volume (000s)	132.0	2007 EPS (est)	$1.71	Lower sell limit	$21.41
Country	US	Beta	0.58	Upper sell limit	$32.11

Ennis Inc. is a private wholesale manufacturer of printed business products as well as the producer of an extensive apparel line. The printed products include simple and complex forms, negotiable documents, commercial printing, promotional products, office supplies, tags, labels, presentational products, and point-of-purchase display advertisements. The apparel segment provides a variety of active wear ranging from athletic shorts and t-shirts, to hats and sweatshirts. Ennis has 42 production and 17 distribution facilities located throughout the U.S., Canada, and Mexico. The company is currently in the process of expanding its boundaries to include parts of Europe and Asia.

An important question we asked when deciding to add Ennis to the portfolio was if its newly-added apparel segment was going to be a success in the long-run. In 2005 the company was going through significant changes, including talks about the acquisition of an online apparel company which concerned investors. However, the acquisition ultimately became one of the key drivers for the stock's price, making Ennis one of our best investment choices over the past year. Both of Ennis' business segments are strongly positioned in their respective industries and should remain steady and achieve above-average growth, as they have done during the past 12 months.

FWRD Forward Air Corporation				Weight (%)	1.13%
Price as of March 30, 2007	$32.88	Cash & eqv. (mm)	69.88	P/E (ttm)	20.8x
Shares Outstanding (mm)	30.4	Debt (mm)	0.8	06 EV/Sales	2.6x
Market Cap (mm)	999.8	Enterprise Value (mm)	930.7	06 EV/EBITDA	10.6x
52 Week High	$43.67	2006 Sales (mm)	352.8	ROA (after tax)	4.80%
52 Week Low	$28.86	2006 EBITDA	87.6	ROE (after tax)	4.81%
Daily Volume (000s)	273.0	2007 EPS (est)	$1.70	Lower sell limit	$26.30
Country	US	Beta	1.14	Upper sell limit	$39.46

Forward Air (FWRD), focused primarily on logistics and the supply chain process, is a leader in scheduled airport-to-airport surface transportation for the deferred air freight market. Deferred air freight, while time definite, is not as sensitive to time demands as regular air freight. FWRD's primary customers are domestic and international freight forwarders, but the company also handles overflow for airlines and integrators, such as UPS and FedEx. With 80 domestic terminals located close to airports, eight regional hubs, and one central sorting facility, FWRD has one of the most flexible and efficient sorting systems in the industry.

It is expected that the price of oil will continue to be a key driver of the stock's returns. Since the company provides an alternative to air transportation, rising fuel prices should make traditional air transportation relatively more expensive in the future. Forward Air is able to capitalize on that trend by providing a cheaper alternative to air freight shipping. Another positive aspect of the company is that it does not compete with the Big Two – UPS and FedEx. In fact, FWRD assists both companies with service for deferred freight overflow. FWRD's future earnings potential stems from international expansion. During the past 12 months FWRD's international expansion has been minimal; however, we expect the company's growth to increase considerably this upcoming year as it moves to new markets.

KFY Korn/Ferry International				Weight (%)	2.47%
Price as of March 30, 2007	$22.94	Cash & eqv. (mm)	282.62	P/E (ttm)	16.5x
Shares Outstanding (mm)	42.7	Debt (mm)	47.3	06 EV/Sales	1.3x
Market Cap (mm)	979.4	Enterprise Value (mm)	744.1	06 EV/EBITDA	7.6x
52 Week High	$24.64	2006 Sales (mm)	551.8	ROA (after tax)	5.78%
52 Week Low	$17.73	2006 EBITDA	98.3	ROE (after tax)	6.06%
Daily Volume (000s)	406.0	2007 EPS (est)	$1.29	Lower sell limit	$18.35
Country	US	Beta	1.28	Upper sell limit	$27.53

Korn/Ferry International (KFY) is a global leader in executive search and placement services. KFY provides global executive, professional, and middle-management recruitment services to both large and small companies. The company also offers executive strategy and coaching services. With 35 years of experience, KFY has expanded operations to 70 offices worldwide, including positions in Europe, Asia, and South America.

Previously, KFY was the largest holding within the AIM Equity Fund; however, it was decided to reduce our stake in KFY in half to achieve more diversity in the business services sector. KFY was selected for inclusion into the AIM Fund based on several factors: the ripe employment market; the company's vast global network; and its reputation as the world's largest and most respected executive employment firm. The prime driver of the stock's performance has been the late stage of the employment market and the low level of unemployment (currently 4.4%) in the domestic market. During times of tight employment, executives tend to move frequently between companies, allowing executive search firms to prosper, which resonates in Korn/Ferry's success. KFY's global network allows the company to attract larger clients that typically spend more money on executive salaries. Executive search is a "reputation business" and companies frequently use the same firm for all of their executive search needs. Since KFY has been successful at placing its best candidates, many customers return to the company consistently. Analysts are projecting favorable professional labor markets in the future; therefore, executive search firms, such as KFY, should continue to experience solid demand for their services.

LRW Labor Ready, Inc.				Weight (%)	1.07%
Price as of March 30, 2007	$18.99	Cash & eqv. (mm)	199.45	P/E (ttm)	12.3x
Shares Outstanding (mm)	50.7	Debt (mm)	0.0	06 EV/Sales	0.6x
Market Cap (mm)	962.6	Enterprise Value (mm)	763.2	06 EV/EBITDA	6.0x
52 Week High	$27.75	2006 Sales (mm)	1,349.1	ROA (after tax)	8.13%
52 Week Low	$14.94	2006 EBITDA	127.3	ROE (after tax)	8.13%
Daily Volume (000s)	657.0	2007 EPS (est)	$1.24	Lower sell limit	$15.19
Country	US	Beta	1.33	Upper sell limit	$22.79

Labor Ready Inc. (LRW) is an international provider of temporary employees for manual labor, light industrial, and skilled trades. The company operates under the brand names of Labor Ready, Workforce, Spartan Staffing, and CLP Resources. LRW conducts business through 887 branches located throughout the United States, Puerto Rico, Canada, and the United Kingdom. It serves more than 300,000 customers and helped to employ nearly 600,000 people in 2006. LRW's customers are primarily small to mid-sized businesses in the construction, transportation, warehousing, hospitality, landscaping, light manufacturing, retail, wholesales, facilities, and sanitation industries.

LRW is currently the market share leader of on-demand labor. If current employment trends hold, LRW has the potential for continued growth. The company is preparing to meet increased demand by adding 250 new branches over the next five years, which is a growth rate of about 5% per year. The company should also grow as the result of its two new acquisitions — CLP Resources and Spartan Staffing. These additions should allow Labor Ready to enter into different areas of employment including long-term and skilled employment assignments.

MRTN Marten Transport, Ltd				Weight (%)	1.88%
Price as of March 30, 2007	$15.88	Cash & eqv. (mm)	3.29	P/E (ttm)	14.3x
Shares Outstanding (mm)	21.8	Debt (mm)	59.5	06 EV/Sales	0.8x
Market Cap (mm)	345.7	Enterprise Value (mm)	396.1	06 EV/EBITDA	4.6x
52 Week High	$24.47	2006 Sales (mm)	518.9	ROA (after tax)	6.05%
52 Week Low	$14.35	2006 EBITDA	85.9	ROE (after tax)	6.99%
Daily Volume (000s)	106.0	2007 EPS (est)	$1.10	Lower sell limit	$12.70
Country	US	Beta	0.72	Upper sell limit	$19.06

Marten Transport, Ltd. is a temperature-sensitive truckload carrier that specializes in the transportation of food and other consumer packaged goods throughout the United States. The company earns revenue through freight (91.1%), logistics (1.6%), and fuel surcharges (7.1%). Freight revenues are derived from transporting refrigerated goods (79%) and dry goods (21%) along with loading and unloading services and equipment detention.

Operating effectively in the niche refrigerated market, MRTN is one of the market leaders with limited competition. While the company does experience some competition from smaller companies, MRTN is the only public pure play temperature-sensitive truckload carrier in the U.S. MRTN's reputation for high quality service gives the company an edge in gaining and maintaining a leadership position as a core carrier. When oil prices decreased in 2006, the stock did not respond as favorably as initially anticipated. That was attributed mostly to the severe weather conditions in the Mountain states during December and January, which crippled the flow of Marten trucks in transit. Prospects are improved for stronger revenue growth in 2007.

Consumer Goods Sector

6.08% of AIM Equity Fund

Analyst: Adam Bordner

The consumer goods sector contains a variety of sub-sectors whose businesses are generally less sensitive to economic cycles. The sector includes businesses that produce food, beverages, household and personal products, apparel, shoes, textiles, auto parts, consumer electronics, luxury goods, packaging, and tobacco.

The downturn in the housing market in 2006 and early 2007, and the possible side effects this might have on consumer spending, could prove to be one of the major headwinds for the consumer goods sector. Consumers have been driving the U.S. economy for the past five years in the face of a number of different obstacles. They have been spending by taking on record levels of debt — much of it coming from past appreciation in the value of their homes. With downward pressure on construction activity and home prices, the level of mortgage refinancing has dropped, which has resulted in a number of warnings about the collapse of consumer spending. A new piece has been added to the puzzle with the problems in subprime mortgages, which could extend the housing recession. However, a decline in oil prices or interest rates could also potentially provide a boost in real consumer incomes and sustain the pace of consumer spending.

Currently, there are four holdings in the consumer goods sector of the AIM Equity Fund. Maidenform Brands, Inc. (MFB), RC2 Corporation (RCRC), Sanderson Farms, Inc. (SAFM), and True Religion Apparel, Inc. (TRLG). Year to date, Maidenform Brands, Inc. had a total return of 29.5%; RC2 Corporation returned -8.3%; Sanderson Farms, Inc. had a total return of 14.6%; and True Religion Apparel, Inc. returned 3%. The consumer goods sector had a total return of 3.66% YTD.

MFB Maidenform Brands, Inc.				Weight (%)	1.84%
Price as of March 30, 2007	$23.07	Cash & eqv. (mm)	14.62	P/E (ttm)	20.3x
Shares Outstanding (mm)	23.0	Debt (mm)	110.0	06 EV/Sales	1.5x
Market Cap (mm)	530.2	Enterprise Value (mm)	625.5	06 EV/EBITDA	10.4x
52 Week High	$24.49	2006 Sales (mm)	416.8	ROA (after tax)	4.08%
52 Week Low	$10.83	2006 EBITDA	60.4	ROE (after tax)	4.93%
Daily Volume (000s)	372.0	2007 EPS (est)	$1.33	Lower sell limit	$18.46
Country	US	Beta	0.77	Upper sell limit	$27.68

Maidenform Brands, Inc. (NYSE: MFB) is a global intimate apparel company with a product line of established and well-known brands, top-selling products, and an iconic heritage. Maidenform designs, sources, and markets an extensive range of intimate apparel products, including bras, panties, and shapewear. The products are distributed through department stores, national chains, mass merchants, specialty stores, off-price retailers, company-operated outlet stores, and the company's website. Some of the most recognized brands include Maindenform, Flexees, Lilyette, Self Expressions, Sweet Nothings, Bodymates, Rendezvous, and Subtract.

The outlook for 2007 for Maidenform Brands is quite strong, with a projected 6-7% revenue growth; 10-14% EBIT growth, and 15-18% EPS growth, implying continued gross margin expansion, leverage on reduced interest expenses, and debt reduction. Maindenform continues to benefit from strong trends in the wholesale segment through department stores and national chains, as well as mass merchants such as Wal-Mart and Target with new product classifications and new store openings. The company has accelerated its pace of new-product introductions, with a strong response from retailers and consumers, and is clearly gaining market share from its competitors.

RCRC RC2 Corporation				Weight (%)	0.67%
Price as of March 30, 2007	$40.39	Cash & eqv. (mm)	25.37	P/E (ttm)	20.0x
Shares Outstanding (mm)	21.2	Debt (mm)	22.4	06 EV/Sales	1.6x
Market Cap (mm)	855.0	Enterprise Value (mm)	829.7	06 EV/EBITDA	9.5x
52 Week High	$46.20	2006 Sales (mm)	518.8	ROA (after tax)	5.00%
52 Week Low	$30.92	2006 EBITDA	87.6	ROE (after tax)	5.00%
Daily Volume (000s)	158.0	2007 EPS (est)	$2.68	Lower sell limit	$32.31
Country	US	Beta	0.83	Upper sell limit	$48.47

RC2 Corporation (NASD: RCRC) is a leading designer, producer and marketer of high quality, innovative, branded collectible, hobby, toy and infant products targeted at adults and children. The Company's diverse product offerings include: RC2's Learning Curve Brands and RC2's Collectible Brands. These products are sold under the Company's market-focused brand names, including Ertl®, Learning Curve®, American Muscle, Johnny Lightning®, AMT®, Eden®, JoyRide® and JoyRide Studios®. The Company generally supports its brands and enhances the authenticity of its products by linking them with highly recognized licensed properties from high-profile companies. The Company's products are marketed through multiple channels of distribution, including chain retailers, specialty and hobby wholesalers and retailers, OEM dealers, corporate accounts for promotional purposes and direct to consumer. The Company sells through more than 25,000 retail outlets located in North America, Europe, Australia and Asia Pacific.

RC2's earnings have been under pressure due to higher zinc costs (increased 135% YoY in 2006), which is a major component used for their die-cast toys (9% of COGS). RC2's long-term growth rate should benefit from its recent exit of most of collectibles, further penetration of mass/chain retailers, expansion into new toy and infant care categories, and growth in international markets. RC2 is also investing in the development of other distribution channels, such as the Internet—RC2's online sales have been growing in the double-digits. Their net debt-free balance sheet and recently announced $75MM share repurchase should provide downside price protection in 2007.

SAFM Sanderson Farms, Inc.				Weight (%)	2.08%
Price as of March 30, 2007	$37.06	Cash & eqv. (mm)	0.91	P/E (ttm)	n/a
Shares Outstanding (mm)	20.1	Debt (mm)	116.4	06 EV/Sales	0.8x
Market Cap (mm)	745.2	Enterprise Value (mm)	856.3	06 EV/EBITDA	81.1x
52 Week High	$37.12	2006 Sales (mm)	1,047.9	ROA (after tax)	-0.67%
52 Week Low	$20.72	2006 EBITDA	10.6	ROE (after tax)	-0.77%
Daily Volume (000s)	351.0	2007 EPS (est)	$2.25	Lower sell limit	$29.65
Country	US	Beta	0.79	Upper sell limit	$44.47

Sanderson Farms, Inc. (NASD: SAFM) is an integrated poultry processing company that engages in the production, processing, marketing, and distribution of fresh and frozen chicken products. It sells ice pack, chill pack, and frozen chicken in whole, cut-up, and boneless form to retailers, distributors, and casual dining operators principally in the southeastern, southwestern, and western United States. The company also offers approximately 100 processed and prepared food items, which include processed chicken products and frozen entrees (such as chicken and dumplings, lasagna, seafood gumbo, shrimp creole, and other specialty products) to distributors, national food service accounts, retailers and club stores.

Commodity prices are a major determinant in the movement of this stock. In 2006, chicken pricing was strong, and the increase in poultry prices offset the rise in grain costs. Commodity chicken prices are currently at or above normalized levels. Sanderson Farms has also hedged its corn through July 2007, which is 65% of chicken feed, which should allow Sanderson Farms to see solid margin expansion in the upcoming quarter. The rise in ethanol is creating significant volatility in grain prices throughout the planting and growing seasons and by July, most of the weather risk for the corn crop should be over. Sanderson Farms has a strong management team and a conservative balance sheet (20% debt to capital), which should allow it to weather downturns and emerge stronger in upturns. The potential for Avian flu in the U.S. has not produced any noticeable decrease in the demand for chicken.

TRLG True Religion Apparel, Inc.				Weight (%)	1.10%
Price as of March 30, 2007	$16.24	Cash & eqv. (mm)	44.90	P/E (ttm)	15.3x
Shares Outstanding (mm)	23.4	Debt (mm)	0.0	06 EV/Sales	2.4x
Market Cap (mm)	380.5	Enterprise Value (mm)	335.6	06 EV/EBITDA	7.9x
52 Week High	$23.88	2006 Sales (mm)	139.0	ROA (after tax)	6.54%
52 Week Low	$14.65	2006 EBITDA	42.5	ROE (after tax)	6.54%
Daily Volume (000s)	328.0	2007 EPS (est)	$1.26	Lower sell limit	$12.99
Country	US	Beta	0.60	Upper sell limit	$19.49

True Religion Apparel, Inc. (NASD: TRLG), through its wholly-owned subsidiary, Guru Denim Inc., engages in the design, development, manufacture, marketing distribution and sale of high-fashion denim jeans and other apparel. True Religion Brand Jeans sell in the range of $170 to $300 per pair at retail, with some special edition versions selling for up to $500. Premium denim is sold in multiple channels, including department stores, specialty stores and boutiques in the United States, Japan, Canada, the United Kingdom, Europe, Mexico, Korea, Australia and the Middle East. In 2005, the United States accounted for 55% of revenues, Japan 29% of revenues, other international 15% of revenues, and Internet 1% of revenues.

Product expansion and international penetration will serve as growth catalysts in the next several years. Non-denim items made up 10%-15% of revenue in 2006, and that should move closer to 50% denim, 50% non-denim over the next several years, as a number of new products are being introduced, such as t-shirts, skirts, pants, outerwear, and woven products. The rollout of True Religion branded stores allows the company to portray the lifestyle aspect of the brand. By the end of 2007, True Religion expects to have 12 stores, and is targeting at least 15 new store openings in 2008. The retail stores generate gross margins of approximately 75% and operating margins in the 35% range.

Consumer Services Sector — 8.56% of AIM Equity Fund

Analysts: Amie Brouillard and Ryan Denton

The consumer services sector is comprised of a variety of sub-sectors. The sub-sectors include retail, restaurants, grocers, services, gambling and hotels, housing, and education. Retail comprises 39% of the sector and consists of clothing stores, auto retail, specialty retail, furniture retail, and online retail. Restaurants represent 16% of the sector and range from fast food restaurants to steak houses. Grocers represent 11% of the sector and include food wholesale and grocery stores. The services sub-sector, which is 13% of the consumer services sector, covers personal services, rental, and repair services. Gambling and hotels, housing, and education represent 11%, 6% and 5% of the sector, respectively.

The consumer services sector returned -3.12% in 2Q06, 2.51% in 3Q06 and 6.7% in 4Q06. Consumer spending in 2006 was remarkably strong due to the strength of the consumer in 2005. In fact, the last time the national savings rate was negative for two consecutive years was during 1932 and 1933. Moreover, unemployment remains low at 4.4% and average weekly earnings as of March 31, 2007 increased 4.1% year-over-year. Finally, the fear of the housing market decline dampening consumer spending appears to be overstated. In fact, expenditures on personal consumption increased 0.5% in March.

JTX	**Jackson Hewitt Tax Service Inc.**			Weight (%)	1.94%
Price as of March 30, 2007	$32.18	Cash & eqv. (mm)	19.06	P/E (ttm)	18.3x
Shares Outstanding (mm)	32.3	Debt (mm)	253.0	06 EV/Sales	4.6x
Market Cap (mm)	1,039.9	Enterprise Value (mm)	1,273.8	06 EV/EBITDA	11.0x
52 Week High	$37.44	2006 Sales (mm)	275.4	ROA (after tax)	4.40%
52 Week Low	$26.26	2006 EBITDA	115.3	ROE (after tax)	5.46%
Daily Volume (000s)	1,080.0	2007 EPS (est)	$1.93	Lower sell limit	$25.74
Country	US	Beta	0.22	Upper sell limit	$38.62

Jackson Hewitt Tax Service (JTX) prepares federal, state, and local individual tax returns in the United States through a variety of franchised and company-owned offices. The company primarily services lower income consumers. Currently, JTX has 6,022 offices with 5,379 operated by franchises. Jackson Hewitt Tax Service also provides financial products such as Refund Anticipation Loans (RALs), Money Now Loans, Accelerated Check Refunds (ACRs), and Gold Guarantees.

Each year over 135 million taxes are filed and 60% of those are filed with the help of a preparer. Jackson Hewitt Tax Service is currently operating under a growth strategy in order to take advantage of this large industry. The company's plan is to increase its number of offices by opening branches in untapped areas and adding more offices in successful markets. The company's overall strategy is to target lower income consumers; a group that presents a strong opportunity for Jackson Hewitt because they tend to not have the ability to file their own taxes. Jackson Hewitt targets lower income consumers by locating offices in Wal-Mart and Kmart and through an extensive line of financial products. The company's financial products remain cutting edge and have enabled JTX to move customers away from H&R Block. Jackson Hewitt's success is dependent on the company's ability to offer innovative financial products and maintain trust.

MHO M/I Homes, Inc.				Weight (%)	1.33%
Price as of March 30, 2007	$26.55	Cash & eqv. (mm)	11.52	P/E (ttm)	9.5x
Shares Outstanding (mm)	13.9	Debt (mm)	645.5	06 EV/Sales	0.7x
Market Cap (mm)	369.6	Enterprise Value (mm)	1,003.6	06 EV/EBITDA	12.1x
52 Week High	$49.05	2006 Sales (mm)	1,359.3	ROA (after tax)	3.83%
52 Week Low	$25.90	2006 EBITDA	83.1	ROE (after tax)	10.53%
Daily Volume (000s)	373.0	2007 EPS (est)	$0.87	Lower sell limit	$21.24
Country	US	Beta	1.04	Upper sell limit	$31.86

M/I Homes, Inc. and its subsidiaries engage in the construction and sale of single-family residential property in the United States. The company designs, sells, and builds single-family homes on finished lots in Columbus and Cincinnati, Ohio; Tampa, Orlando, and West Palm Beach, Florida; Charlotte and Raleigh, North Carolina; Indianapolis, Indiana; Delaware; and the Virginia and Maryland suburbs of Washington, D.C. The company also purchases undeveloped land to develop into finished lots for future construction of single-family homes and for sale to other companies. In addition, M/I Homes provides mortgage financing services, along with title and insurance brokerage services.

MHO has decreased its presence in the Midwest and is expanding its presence in Florida, North Carolina, and Washington D.C. In FY05, 48% of MHO's revenue was generated in the Midwest and in FY06 37% was generated in the Midwest. The net result of that shift in product mix away from the Midwest has been an increase in selling price. At the end of FY05, MHO's average selling price was $298,000 and at the end of FY06 MHO's average selling price was $313,000. In addition to a stronger product mix, the demographics in the United States are positive for MHO. The Census Bureau estimates that the U.S. population will grow by 92 million people by 2050. Moreover, almost 70% of baby boomers report they will likely relocate when they retire. The wealthiest of the boomers report that they will buy or build their retirement home.

PTRY The Pantry, Inc.				Weight (%)	1.57%
Price as of March 30, 2007	$45.22	Cash & eqv. (mm)	110.76	P/E (ttm)	18.2x
Shares Outstanding (mm)	22.8	Debt (mm)	861.1	06 EV/Sales	0.3x
Market Cap (mm)	1,030.2	Enterprise Value (mm)	1,774.7	06 EV/EBITDA	6.3x
52 Week High	$70.10	2006 Sales (mm)	5,961.7	ROA (after tax)	3.00%
52 Week Low	$41.65	2006 EBITDA	282.0	ROE (after tax)	5.49%
Daily Volume (000s)	405.0	2007 EPS (est)	$2.58	Lower sell limit	$36.18
Country	US	Beta	1.20	Upper sell limit	$54.26

Pantry Inc. is the leading independently operated convenience store chain in the southeastern United States. Currently, Pantry has 1,558 stores in 11 states, making it the third largest convenience store chain in the country. Pantry stores operate under the following banners: Kangaroo Express, Golden Gallon, and Cowboys. The stores can be divided into two segments: merchandise and gasoline. The merchandise segment offers quick service restaurants, car washes, lottery tickets, tobacco products, beers, wines, and other grocery items. The gasoline segment offers different brands of gasoline based on the store's market such as Amoco, BP, Chevron, Citgo, Mobil, Exxon, and Texaco.

Pantry's strong acquisition strategy is expected to increase the company's market share. In fiscal year 2006, Pantry acquired 113 stores and has already acquired 147 stores this fiscal year. Pantry is also in the process of re-branding and re-imaging its stores in order to increase customer loyalty and customer traffic. In addition, the company is changing all of its proprietary restaurants to Subway or Hardee's. The company is also converting 200 of its stores to the Kangaroo Express banner. Due to these renovations, Pantry is expecting comparable store sales to increase from 5% to 7%. Lastly, Pantry is expanding its gross margins by focusing on higher margin goods such as private label products. These products provide lower prices to consumers and higher margins to the company. Pantry's focus on higher margin products has caused its merchandise margins to increase 80 basis points to 37% in 2006 and is expected to increase to 37.5% next year.

RARE RARE Hospitality International, Inc.				Weight (%)	2.09%
Price as of March 30, 2007	$30.09	Cash & eqv. (mm)	37.38	P/E (ttm)	21.1x
Shares Outstanding (mm)	30.5	Debt (mm)	166.6	06 EV/Sales	1.1x
Market Cap (mm)	916.9	Enterprise Value (mm)	1,045.8	06 EV/EBITDA	9.3x
52 Week High	$34.70	2006 Sales (mm)	986.9	ROA (after tax)	4.01%
52 Week Low	$24.98	2006 EBITDA	112.9	ROE (after tax)	4.74%
Daily Volume (000s)	373.0	2007 EPS (est)	$1.66	Lower sell limit	$24.07
Country	US	Beta	0.83	Upper sell limit	$36.11

RARE Hospitality operates and franchises 333 restaurants: 274 LongHorn Steakhouse restaurants, 26 Capital Grille restaurants, 31 Bugaboo Creek Steak House restaurants, 1 Hemenway's Seafood Grille & Oyster Bar, and one Old Grist Mill Tavern. LongHorn Steakhouse offers casual dining in 25 states. The Capital Grille is located in major metropolitan cities and offers an elegant atmosphere. Lastly, Bugaboo Creek Steak House has a family atmosphere with moderate prices. In February, the company announced it that is will be selling the Bugaboo Creek Steak House restaurants for $28 million to Charlie Brown Acquisition Corporation.

The sale of Bugaboo Creek Steak House presents a new strategy for RARE Hospitality. The company plans to focus its resources and attention on LongHorn Steakhouse and Capital Grillee and will open more of these restaurants. It is expected that RARE will find it particularly difficult to purchase decently priced real estate for its Capital Grilles, since they are located in metropolitan areas. However, RARE has initiated a new strategy to help it find better priced real estate. The majority of RARE's resources will be spent accelerating the growth of Capital Grille by improving its marketing campaign and store locations. The trend of eating out more due to busier schedules will help RARE grow as well.

VLCM Volcom, Inc.				Weight (%)	2.37%
Price as of March 30, 2007	$34.36	Cash & eqv. (mm)	85.41	P/E (ttm)	31.2x
Shares Outstanding (mm)	24.3	Debt (mm)	0.2	06 EV/Sales	3.7x
Market Cap (mm)	835.6	Enterprise Value (mm)	750.3	06 EV/EBITDA	15.3x
52 Week High	$38.65	2006 Sales (mm)	205.3	ROA (after tax)	3.20%
52 Week Low	$18.24	2006 EBITDA	49.1	ROE (after tax)	3.21%
Daily Volume (000s)	325.0	2007 EPS (est)	$1.48	Lower sell limit	$27.49
Country	US	Beta	0.99	Upper sell limit	$41.23

Volcom, Inc. (VLCM), through its subsidiaries, engages in the design, marketing, and distribution of men's and women's clothing, accessories, and related products under the Volcom brand name in the United States and internationally. Its products which include t-shirts, fleece, bottoms, tops, jackets, boardshorts, denim, and outerwear, combine fashion, functionality, and athletic performance. The company also offers a range of sandals and slip-on footwear and branded Creedlers; a collection of kids clothing for young boys ages 4 to 7 years; and a girls' swimwear line. In addition, VLCM produces and sells music and films. The company serves retail customers primarily comprising of specialty boardsports retailers and other retail chains through its in-house sales personnel, independent sales representatives, and distributors. As of December 31, 2006, the company operated three Volcom branded retail stores located in Southern California. It also markets its products over the Internet through authorized online retailers. The company was founded in 1991 under the name Stone Boardwear, Inc. and changed its name to Volcom, Inc. in 2005. Volcom is headquartered in Orange County, California.

Going forward, VLCM expects to grow via expansion into Europe. Currently, management is effectively executing an expansion plan and expects European expansion to be accretive in 2007. In addition to positive expectations for Europe, management is pleased with the traction VLCM is gaining with its 2007 spring product lines. However, management has also reiterated its concern over the company's ability to build and maintain customer loyalty. To ensure the Volcom brand is not eroded, management will continue to be cautious when broadening its distribution network.

Energy Sector — 4.49% of AIM Equity Fund

Analyst: Matt Grimm

There are four major segments of the AIM Funds' energy sector: exploration and production (E&P), oil and gas services, refineries, and pipelines. Beyond this, there is a small proportion of other energy firms ranging from coal producers to alternative energy firms. This industry is very capital intensive and, as a result, most firms have market capitalizations well beyond the limits of the AIM Fund. There currently exists slightly more than 100 small-cap energy companies eligible for inclusion in the AIM Fund, most of which are E&P and oil and gas service firms.

Contrary to last year's AIM Fund annual report, which reported strong sector gains due to tight supply conditions, geopolitical events, and hurricanes Katrina and Rita; Q2 2006 – Q1 2007 experienced a much more difficult environment in which to achieve positive returns. With the help of a warm 2005-2006 winter, the industry was largely able to recover from the supply shock caused by the hurricanes. In addition, natural gas quickly came off its record high levels of more than $15/MM Btu and continued its descent for the majority of the year. Crude oil on the other hand, continued to set new highs into July as tight supply conditions and the Israel/Hezbollah conflict drove front month West Texas crude oil futures near $80/barrel. Even crude oil succumbed to market forces; however, when a "perfect storm" of a non-existent hurricane season, the resolution of the Israel/Hezbollah conflict, and improved supply-demand fundamen-

tals combined in early August, crude oil was driven from $80 to $50 a barrel during a period of six months. Although when a prolonged cold snap gripped the country, drew down distillate and natural gas inventories, and caused prices to rise, the energy sector largely rebounded from its lows in late January 2007.

The AIM Fund's energy holdings suffered during the year, with Edge Petroleum and Toreador leading the decline on both company-specific and industry-wide trends impacting the E&P component of the portfolio. During October, the decision was made to begin diversifying away from a portfolio composed of solely E&P and oil service stocks. Alpha Natural Resources (ANR), a central Appalachian coal producer, was purchased in October, followed by WD-40 Company (WDFC) in February. Our three positions entering the holding period (WHQ, EPEX, TRGL) were scaled back as capital was shifted for purchases of ANR and WDFC.

Due to the diversification efforts, the AIM Fund is defensively postured on oil and gas prices over the coming months. Barring any geopolitical shocks or extreme weather-related phenomenon, the supply-demand balance for oil and gas should remain relatively balanced throughout the summer, leading to moderate prices. Aside from the usual geo-political issues causing upside potential to crude prices, an item to watch over the coming months is refinery demand. This is the period when maintenance ends and refining plants come back on line. On the negative side, the global economy should be watched as the U.S. absorbs the subprime fallout and China tries to slow down its growth.

ANR	**Alpha Natural Resources, Inc.**			Weight (%)	0.09%
Price as of March 30, 2007	$15.63	Cash & eqv. (mm)	33.26	P/E (ttm)	8.3x
Shares Outstanding (mm)	65.5	Debt (mm)	469.5	06 EV/Sales	0.7x
Market Cap (mm)	1,024.4	Enterprise Value (mm)	1,412.6	06 EV/EBITDA	5.0x
52 Week High	$27.46	2006 Sales (mm)	1,910.7	ROA (after tax)	8.54%
52 Week Low	$12.32	2006 EBITDA	282.6	ROE (after tax)	12.05%
Daily Volume (000s)	890.0	2007 EPS (est)	$1.01	Lower sell limit	$12.50
Country	US	Beta	1.64	Upper sell limit	$18.76

Alpha Natural Resources (ANR) is a central Appalachian coal producer providing high Btu, low sulfur steam, and metallurgical coal to electric utilities and steel manufacturers, respectively. As of December 31, 2006, ANR had proven and probable reserves of 548.6 million tons, while it operated a total of 65 mines and ten coal preparation plants. ANR's operations are focused in Virginia, West Virginia, Kentucky, and Pennsylvania.

The outlook for ANR remains optimistic for the coming year. The U.S. economy is very dependent upon coal for electricity generation needs and, despite the current furor over global warming, this is not expected to change any time soon. In fact, this phenomenon may help to support ANR's performance, given that its coal reserves are superior to many other regions in the country because of their high heat content and low sulfur output.

EPEX Edge Petroleum Corp.				Weight (%)	0.88%
Price as of March 30, 2007	$12.52	Cash & eqv. (mm)	2.08	P/E (ttm)	n/a
Shares Outstanding (mm)	28.4	Debt (mm)	129.0	06 EV/Sales	3.7x
Market Cap (mm)	355.4	Enterprise Value (mm)	482.3	06 EV/EBITDA	530.6x
52 Week High	$26.85	2006 Sales (mm)	129.8	ROA (after tax)	-14.05%
52 Week Low	$11.62	2006 EBITDA	0.9	ROE (after tax)	-19.15%
Daily Volume (000s)	776.0	2007 EPS (est)	$0.96	Lower sell limit	$10.02
Country	US	Beta	1.03	Upper sell limit	$15.02

Edge Petroleum (EPEX) is an undiversified, domestic, onshore natural gas E&P company with operations in Texas, Louisiana, Mississippi, Michigan, and New Mexico. The company has proved natural gas reserves of 82.3 Bcf in addition to 2.2 million barrels of crude oil. EPEX company operates 378 wells.

EPEX has faced substantial headwinds during the holding period. Since EPEX was added to the portfolio, natural gas prices plummeted from all time highs after the 2005 hurricane season. There are three major drivers of the company's success moving forward. The first is clearly the price of natural gas, since the company's reserves are valued in relation to where the forward natural gas curve is trading. Secondly, the company faces operational issues with drilling wells and has recently begun using new 3-D imaging technologies to improve drilling success rates. The third driver of success involves the company continuing to build reserves through strategic acquisitions and the successful integration of past acquisitions.

TRGL Toreador Resources Corporation				Weight (%)	0.91%
Price as of March 30, 2007	$18.15	Cash & eqv. (mm)	12.70	P/E (ttm)	228.5x
Shares Outstanding (mm)	16.2	Debt (mm)	112.8	06 EV/Sales	9.6x
Market Cap (mm)	294.3	Enterprise Value (mm)	389.4	06 EV/EBITDA	26.7x
52 Week High	$34.53	2006 Sales (mm)	40.4	ROA (after tax)	0.32%
52 Week Low	$16.52	2006 EBITDA	14.6	ROE (after tax)	0.44%
Daily Volume (000s)	328.0	2007 EPS (est)	$0.87	Lower sell limit	$14.52
Country	US	Beta	0.92	Upper sell limit	$21.78

Toreador Resources Corporation (TRGL) is a company engaged in domestic and international exploration and production activities. The company drills for oil and gas in places such as the U.S., France, Turkey, Romania, Hungary, and Trinidad. The company has recently had success in discovering large gas reserves in the Mediterranean.

The company's international exposure is both a blessing and a curse. On the positive side, the company has been successful in its exploration efforts in areas of the world that have previously been unexplored, with drilling efforts exhibiting an 80%+ success rate. Areas such as Turkey provide huge potential for the company in the longer term. However, operating in unexplored areas also has its drawbacks. Because of the risks involved in its operations, the company has had a difficult time raising adequate capital to support its operations and develop its wells. This problem recently presented itself when the company privately placed an equity offering significantly below the current stock price. Research is currently being conducted to investigate this issue and results will determine whether TRGL remains in the AIM Fund portfolio.

WHQ W-H Energy Services, Inc.				Weight (%)	0.91%
Price as of March 30, 2007	$46.74	Cash & eqv. (mm)	36.33	P/E (ttm)	12.9x
Shares Outstanding (mm)	30.3	Debt (mm)	150.0	06 EV/Sales	1.7x
Market Cap (mm)	1,414.6	Enterprise Value (mm)	1,528.2	06 EV/EBITDA	5.9x
52 Week High	$57.98	2006 Sales (mm)	894.8	ROA (after tax)	7.01%
52 Week Low	$37.78	2006 EBITDA	258.2	ROE (after tax)	7.75%
Daily Volume (000s)	374.0	2007 EPS (est)	$4.20	Lower sell limit	$37.39
Country	US	Beta	0.82	Upper sell limit	$56.09

W-H Energy Services (WHQ) is an oilfield services firm operating in two segments: drilling and completion. The company generated nearly $900 million in revenue last year from operations all over the world including the onshore and offshore U.S., Canada, Brazil, Europe, North Africa, and Middle East.

Despite WHQ being essentially flat during the holding period, the company continues to represent an attractive investment opportunity in the energy sector. Over time the company has demonstrated consistent growth and healthy margins relative to its peers. The company provides exposure to the services segment of the energy sector, which should continue to perform well over time as E&P companies face declining production curves and are forced to drill more wells to extract oil and natural gas.

WDFC WD-40 Company				Weight (%)	0.92%
Price as of March 30, 2007	$31.71	Cash & eqv. (mm)	46.44	P/E (ttm)	20.5x
Shares Outstanding (mm)	17.0	Debt (mm)	53.6	06 EV/Sales	1.9x
Market Cap (mm)	540.3	Enterprise Value (mm)	536.7	06 EV/EBITDA	10.5x
52 Week High	$37.59	2006 Sales (mm)	286.9	ROA (after tax)	4.52%
52 Week Low	$29.91	2006 EBITDA	51.2	ROE (after tax)	4.88%
Daily Volume (000s)	73.0	2007 EPS (est)	$1.75	Lower sell limit	$25.37
Country	US	Beta	0.56	Upper sell limit	$38.05

WD-40 Company (WDFC) is best known for its legendary petroleum lubricant, WD-40. Despite being classified as an energy company by Morningstar, WDFC is a consumer products company operating in three units: multi-purpose petroleum lubricants, heavy-duty hand cleaners, and household products. Besides WD-40, the company also sells brands such as Lava hand cleaners, Carpet Fresh, and 2000 Flushes. In 2006 the company sold its products in 160 different countries and had sales of $289.6 million.

WDFC exhibits a very low beta, as the demand for most of its products is relatively inelastic due to their low prices and respective market niches. The company has grown slowly and steadily during the past 40 years and pays a dividend. Aside from the fact that WDFC is a fundamentally sound company, its inclusion in the portfolio should serve to dampen some of the volatility likely to be experienced in the energy sector, while also providing the portfolio downside protection to a drop in energy prices. Sales growth in Asia will be a key driver of the stock moving forward, as market penetration of its flagship WD-40 product is still in early stages.

Financial Services Sector 21.30% of AIM Equity Fund
Analysts: Ashley Beckner, Oleg Gurin, and Kristina Cerjak

The financial services sector includes six major sub-sectors: regional banks, real estate, insurance and reinsurance, finance, securities and money management companies. Regional banks take in deposits and make loans to individuals and businesses through a wide range of product offerings. The real estate sub-sector is composed of companies formed as REIT's or other companies that own, develop, and sell real estate as their main source of income. The insurance sub-sector is composed of companies offering property, life, mortgage, malpractice, and reinsurance to individuals and institutions. Making up the finance sub-sector are companies that specialize in finance-related business, but do not fit the typical description of a commercial bank, investment bank, insurance company, or investment management firm. Money management firms provide consulting, asset management, and brokerage services to individuals and institutions.

Although the U.S. Federal Reserve has held interest rates steady since June 2006, 17 consecutive rate hikes and a flat yield curve finally took a toll on many of the small-cap financial services companies, particularly regional banks and savings and loan operations. Small-cap financial services companies returned 5.3% during the holding period from March 31, 2006 to March 31, 2007 as compared to the overall Russell 2000 at 5.9%. The sector was also heavily affected by looming concerns over the housing market and the increasing delinquencies in the area of sub-prime lending. In addition, many companies that had exposure to mortgages, particularly those in regions where the concerns were greatest, suffered in terms of performance because of investor worries. Despite concerns over the housing-related issues, REITs performed strongly, but their current valuations could see downward movement going forward. Insurance performed strongly compared to the overall sector, partly based on a milder hurricane season and benefits from reinsurance. One exception is related to property and title insurance, as these areas recently experienced a milder version of the negative investor reaction to mortgage and housing concerns.

Over the holding period, the AIM Fund financial services sector returned -3.4% against a small-cap financial services benchmark return of 5.3%. A significant part of the underperformance can be contributed to an overweighting of regional banks. As mentioned earlier, regional banks suffered from rising interest rates and an inverted yield curve. Vineyard Bancorp (VNBC) is located in California and, amid looming mortgage concerns, lost 24.8% over the holding period. The AIM Fund was helped when Placer Sierra agreed to be purchases by Wells Fargo in January. The financial services sector was positively impacted by the performance of Asta Funding (ASFI) which did well as a result of their receivables growth and strong collection.

Financial services firms and consumer finance companies are expected to continue a period of consolidation and globalization. We believe that acquisitions will continue, as firms look to improve efficiency through gaining scale and the sale of poorly performing business units. As competition in domestic markets has intensified, financial services companies will continue to look to build businesses overseas, especially in emerging markets such as South Korea, India, China, Turkey, and Russia. Despite the generally positive operating environment, a number of near-term challenges in the domestic market can lower growth in financial services sector. First, the shape of the yield curve will continue to put pressure on net interest margins for some time.

Second, a positive outlook for credit quality is moderated by increased foreclosure rates and looming sub-prime mortgage defaults. Finally, increasing inventories and decreasing prices of houses will negatively impact loan growth. In 2007, the better performers in the financial services sector will be the companies able to gain market share, maintain strong credit quality, and keep expenses under control.

AEL	**American Equity Investment Life Holding**			Weight (%)	1.93%
Price as of March 30, 2007	$13.13	Cash & eqv. (mm)	29.95	P/E (ttm)	10.5x
Shares Outstanding (mm)	56.2	Debt (mm)	534.9	06 EV/Sales	1.4x
Market Cap (mm)	737.5	Enterprise Value (mm)	1,242.4	06 EV/EBITDA	28.8x
52 Week High	$14.39	2006 Sales (mm)	915.9	ROA (after tax)	5.52%
52 Week Low	$10.07	2006 EBITDA	43.1	ROE (after tax)	9.52%
Daily Volume (000s)	377.0	2007 EPS (est)	$1.45	Lower sell limit	$10.50
Country	US	Beta	0.39	Upper sell limit	$15.76

American Equity Investment Life Holding Company (AEL) sells insurance and annuity products through its offices and affiliates. The company is headquartered in Des Moines, Iowa, and has offices in 49 states, as well as the District of Columbia. AEL currently employs a full-time staff of 200 throughout its various offices. Annuity sales are a primary driver of revenue for AEL with 51% of the company's annuity sales in index-equity investments and the remainder in fixed income securities.

AEL experienced a rough year in 2006 partly due to significant decreases in the sales of the annuity products along with decreased profitability from yield curve inversion. The inversion of yield curve caused other products to be more appealing investments, and annuity sales dropped 41.3% in the fourth quarter of 2006. However, the overall fourth quarter profit was still fairly strong, although lower than analyst expectations, on sales of traditional insurance products. The company's growth will be fueled by current demographics' increasing need for life and health insurance products. With a solid investment process in place, AEL can adjust to current economic conditions, and normalization of the yield curve will again lead to strong profitability and prospects for the company going forward.

ASFI	**Asta Funding, Inc.**			Weight (%)	1.64%
Price as of March 30, 2007	$43.18	Cash & eqv. (mm)	11.78	P/E (ttm)	13.6x
Shares Outstanding (mm)	13.8	Debt (mm)	109.3	06 EV/Sales	6.8x
Market Cap (mm)	597.3	Enterprise Value (mm)	694.9	06 EV/EBITDA	8.5x
52 Week High	$46.50	2006 Sales (mm)	102.0	ROA (after tax)	6.22%
52 Week Low	$27.63	2006 EBITDA	82.0	ROE (after tax)	7.35%
Daily Volume (000s)	217.0	2007 EPS (est)	$3.50	Lower sell limit	$34.54
Country	US	Beta	0.76	Upper sell limit	$51.82

Asta Funding, Inc. (ASFI), together with its subsidiaries, was founded in 1994 and is headquartered in Englewood Cliffs, New Jersey ASFI engages in the purchase and liquidation of performing and nonperforming consumer loan portfolios. It acquires, manages and collects consumer receivables, such as charged-off receivables, semi-performing receivables, and performing receivables. These receivables consist of MasterCard, Visa, private label credit card accounts, telecom wireless receivables, and other types of receivables. ASFI directly contacts banks, finance companies, and credit providers to solicit consumer receivables for sale.

ASFI's stock price increased over 25% in March 2007 due to the purchase of a $6.9 billion face value credit card portfolio for $300 million. As management explained in a recent conference call, the portfolio is regional, concentrated in states, such as New York and in the northeast, where it is easier for a collector to realize the benefits of legal judgments against debtors. Management stressed the high quality of this portfolio and its confidence in being able to collect cash more rapidly with this investment. In addition, ASFI intends to sell off portions of the portfolio, which was described as predominately credit card charge-offs. In addition, the company reported record EPS of $3.26 and cash collections of $214.5 million in 2006 and ASFI's management expects those measures to increase to $3.52 and $280 million, respectively, in 2007.

FIF	**Financial Federal Corporation**			Weight (%)	1.88%
Price as of March 30, 2007	$26.32	Cash & eqv. (mm)	5.29	P/E (ttm)	15.0x
Shares Outstanding (mm)	27.5	Debt (mm)	1,550.4	06 EV/Sales	12.1x
Market Cap (mm)	723.8	Enterprise Value (mm)	1,971.6	06 EV/EBITDA	12.8x
52 Week High	$30.09	2006 Sales (mm)	162.5	ROA (after tax)	2.44%
52 Week Low	$25.48	2006 EBITDA	154.2	ROE (after tax)	6.67%
Daily Volume (000s)	231.0	2007 EPS (est)	$1.86	Lower sell limit	$21.06
Country	US	Beta	0.73	Upper sell limit	$31.58

Financial Federal Credit Inc. finances industrial and commercial equipment through installment sales and leasing programs for dealers, manufacturers, and end users. The company also provides capital loans secured by the same types of equipment and other collateral. The company's customer base consists of small and medium sized businesses with annual revenues below $25 million in general construction, road and infrastructure construction and repair, road transportation, and waste disposal services. FIF has marketing personnel in over twenty locations nationwide with five full-service operations in Texas, North Carolina, New Jersey, Illinois, and California and is headquartered in Chicago, Illinois.

FIF has experienced slight losses during the holding period primarily due to general economic conditions affecting all financial services companies. The inverted yield curve has made it difficult for FIF to profit on its current borrowing and lending system. A government mandated engine change accelerated investment in transportation equipment and may have contributed to lower receivables growth in the most recent quarter. On the positive side, FIF has extremely solid asset quality with non-performing assets at only 0.76% of total finance receivables. Continued funding from the 2005 U.S. Transportation bill and normalization of interest rates will prove beneficial for FIF going forward.

FCFS	**First Cash Financial Services, Inc.**			Weight (%)	1.66%
Price as of March 30, 2007	$22.28	Cash & eqv. (mm)	15.54	P/E (ttm)	22.8x
Shares Outstanding (mm)	32.2	Debt (mm)	17.4	06 EV/Sales	2.7x
Market Cap (mm)	717.1	Enterprise Value (mm)	716.8	06 EV/EBITDA	12.2x
52 Week High	$26.47	2006 Sales (mm)	269.7	ROA (after tax)	4.30%
52 Week Low	$16.20	2006 EBITDA	58.6	ROE (after tax)	4.39%
Daily Volume (000s)	262.0	2007 EPS (est)	$1.29	Lower sell limit	$17.82
Country	US	Beta	1.07	Upper sell limit	$26.74

First Cash financial services, Inc (FCFS) provides specialty consumer finance products such as pawn loans, short-term/payday advances, and buy-here/pay-here automotive retail and finance offerings. As of February 20, 2007, First Cash had 95 pawn stores, 145 payday stores, and 10 buy-here/pay-here dealerships in the U.S., as well as 157 pawn stores in Mexico. With the acquisition of Auto Master on August 25, 2006, First Cash diversified its revenue base.

First Cash is a fast growing business that has been maintaining high EPS growth rate since 2001. Its five year compound EPS growth rate is 27.3%. The 72 new stores opened in 2006 lay the foundation for robust revenue and EPS growth in 2007. We project 2007 EPS of $1.25, which translates into the growth rate of almost 30%.

FPIC	**FPIC Insurance Group, Inc.**			Weight (%)	2.08%
Price as of March 30, 2007	$44.67	Cash & eqv. (mm)	138.69	P/E (ttm)	14.3x
Shares Outstanding (mm)	9.9	Debt (mm)	46.1	06 EV/Sales	1.3x
Market Cap (mm)	441.1	Enterprise Value (mm)	348.5	06 EV/EBITDA	4.4x
52 Week High	$45.92	2006 Sales (mm)	259.8	ROA (after tax)	6.33%
52 Week Low	$34.35	2006 EBITDA	80.0	ROE (after tax)	6.99%
Daily Volume (000s)	70.0	2007 EPS (est)	$3.71	Lower sell limit	$35.74
Country	US	Beta	0.79	Upper sell limit	$53.60

FPIC Insurance Group (FPIC) provides property, casualty, and insurance management services within the United States. The company offers medical liability insurance products to physicians, dentists, and healthcare providers primarily in Florida and Missouri. In addition, FPIC, through a dual business model, offers insurance management services to PRI, the second largest provider of medical malpractice insurance in New York. FPIC is headquartered in Jacksonville, Florida.

FPIC is a market leader in two of the largest healthcare markets in the nation. New York is the largest medical practice insurance market in the U.S., while Florida is the third largest market. In Florida, FPIC has been the market leader for 30 years. Net premiums written in 2006 declined by 16%, while overall earnings increased by 47%. Insurance management for PRI allows FPIC to gain commission on the amount of underwriting fees generated by PRI, without having to invest significant capital. This, in turn, provides for excellent profit margins. With stronger than average retention rates, good market positioning, and increasing profitability, FPIC is well-positioned for the future.

MCBC	**Macatawa Bank Corporation**			Weight (%)	1.45%
Price as of March 30, 2007	$18.40	Cash & eqv. (mm)	253.41	P/E (ttm)	15.6x
Shares Outstanding (mm)	16.4	Debt (mm)	233.3	06 EV/Sales	3.5x
Market Cap (mm)	301.8	Enterprise Value (mm)	281.7	06 EV/EBITDA	6.4x
52 Week High	$24.04	2006 Sales (mm)	81.6	ROA (after tax)	3.62%
52 Week Low	$17.86	2006 EBITDA	43.9	ROE (after tax)	6.41%
Daily Volume (000s)	59.0	2007 EPS (est)	$1.47	Lower sell limit	$14.72
Country	US	Beta	0.77	Upper sell limit	$22.08

Macatawa Bank Corporation (MCBC) operates as a commercial bank in the western Michigan market. Macatawa focuses on providing loans to individuals and institutions to finance operations or purchase property. The bank, which is headquartered in Holland, Michigan, provides these services through 23 branches.

MCBC has been one of the hardest-hit regional banks in the AIM Fund losing approximately 21% over the holding period. While their asset base continues to grow, the current interest rate environment has made deposit collection and the ability to obtain high margins on savings and lending increasingly difficult. The company recently revised their fourth quarter results to include a $4.7 million impairment related to an outstanding commercial loan that appears to have been obtained in an attempt to defraud the bank; however, this should not materially impact the bank. Although the current situation for MCBC remains slightly unstable, it continues to grow. We believe that it has hit a low point and will rebound going forward as the interest rate environment shifts to a more positive situation and asset quality is recovered.

PNFP Pinnacle Financial Partners				Weight (%)	2.11%
Price as of March 30, 2007	$30.51	Cash & eqv. (mm)	455.21	P/E (ttm)	26.6x
Shares Outstanding (mm)	15.5	Debt (mm)	105.3	06 EV/Sales	1.6x
Market Cap (mm)	472.4	Enterprise Value (mm)	122.4	06 EV/EBITDA	4.3x
52 Week High	$37.41	2006 Sales (mm)	76.7	ROA (after tax)	3.07%
52 Week Low	$27.20	2006 EBITDA	28.4	ROE (after tax)	3.76%
Daily Volume (000s)	52.0	2007 EPS (est)	$1.53	Lower sell limit	$24.41
Country	US	Beta	0.35	Upper sell limit	$36.61

Pinnacle Financial Partners (PNFP) is a bank holding company operating under the name Pinnacle National Bank with total assets of $2.1 billion. The bank's primary service area is Nashville, TN and the 12 surrounding counties. During 1Q'06, Pinnacle completed a merger with Nashville-based Cavalry Bancorp (CAVB). The merger doubled the company's book value and total market capitalization and added 63% to assets and 70% to deposits. The deposits offer a cheaper source of funds as CAVB's cost of deposits was 1.81%, compared with 1.98% for Pinnacle.

PNFP is a strong growth bank operating in one of the strongest markets in the United States. The bank has been able to achieve a four year compound growth on loans and deposits of 50% and 43%, respectively. Asset quality also remains strong with nonperforming assets averaging only .38% as of December 31, 2006. The merger with Cavalry Bancorp provides a catalyst for future growth. The cultures of the banks are expected to mix well together and PNFP should have a strong footprint in the Nashville market for many years to come.

PRS Primus Guaranty, Ltd.				Weight (%)	1.76%
Price as of March 30, 2007	$12.30	Cash & eqv. (mm)	0.00	P/E (ttm)	5.6x
Shares Outstanding (mm)	44.9	Debt (mm)	0.0	06 EV/Sales	3.7x
Market Cap (mm)	552.8	Enterprise Value (mm)	552.8	06 EV/EBITDA	5.3x
52 Week High	$14.00	2006 Sales (mm)	147.9	ROA (after tax)	17.86%
52 Week Low	$9.71	2006 EBITDA	104.2	ROE (after tax)	17.86%
Daily Volume (000s)	124.0	2007 EPS (est)	$1.37	Lower sell limit	$9.84
Country	US	Beta	0.62	Upper sell limit	$14.76

Primus Guaranty, Ltd. (PRS), a Bermuda holding company, sells credit swaps through its subsidiary Primus Financial Products. These credit default swaps help its customers mitigate their exposure to credit risk from bonds, loans and receivables. The firm's asset management subsidiary handles the credit swap business and credit swap portfolios of third parties. Through Primus Re, the company offers credit insurance. In July 2005, PRS Trading Strategies was formed to

facilitate buying and selling of credit protection on single names, indices and trenches. PRS caters to commercial and investment banks, credit portfolio managers, and insurance companies across 25 countries. The company was incorporated in 1998 and is headquartered in Hamilton, Bermuda.

PRS hopes to see two collateralized loan obligations transactions close in 2007. The company closed its first deal of this kind in December 2006 for $400 million. PRS has taken a more conservative stance with respect to its expectations for synthetic CDO growth in 2007. It had previously expected to add two or three synthetic CDOs per year, however, creating the CDOs is much more time consuming and less "cookie-cutter" than management previously expected. Also, PRS' revenues jumped to $147.9 million in 2006 from $38.2 million in 2005 based on an increase in the number of credit swap portfolios the company entered into during the past year.

SBIB Sterling Bancshares, Inc.				Weight (%)	2.07%
Price as of March 30, 2007	$11.18	Cash & eqv. (mm)	708.60	P/E (ttm)	17.5x
Shares Outstanding (mm)	71.0	Debt (mm)	323.8	06 EV/Sales	0.9x
Market Cap (mm)	794.0	Enterprise Value (mm)	188.5	06 EV/EBITDA	1.8x
52 Week High	$13.93	2006 Sales (mm)	203.0	ROA (after tax)	5.06%
52 Week Low	$10.66	2006 EBITDA	106.0	ROE (after tax)	5.71%
Daily Volume (000s)	413.0	2007 EPS (est)	$0.71	Lower sell limit	$8.94
Country	US	Beta	0.83	Upper sell limit	$13.42

Sterling Bancshares (SBIB) is a Houston-based bank holding company for Sterling Bank with total assets of $4.1 billion, which operates 45 banking centers in the greater metro areas of Houston, San Antonio, and Dallas, Texas. SBIB offers a range of financial services including demand, savings and time deposits; commercial, real estate and consumer loans; merchant credit card services; letters of credit; and cash and asset management services. The Bank's primary lending focus is providing loans to local businesses with annual sales ranging from $300,000 to $35 million. Typically, these customers have financing requirements between $50,000 and $5 million, 43.4% and 26.8%, respectively, of loans held for investment.

SBIB's lending and investing activities are funded primarily by deposits, approximately 41.9% of which were transaction accounts deposits as of December 31, 2006. Well diversified loan and deposit portfolios, as well as strong loan and deposit growth and outstanding asset quality provide a solid foundation for earnings growth in 2007. Looking with confidence into the future, Sterling Bancshares increased its dividend rate by 12.5% on January 29, 2007.

TRAD TradeStation Group, Inc.				Weight (%)	1.56%
Price as of March 30, 2007	$12.59	Cash & eqv. (mm)	83.86	P/E (ttm)	18.8x
Shares Outstanding (mm)	44.8	Debt (mm)	0.0	06 EV/Sales	3.7x
Market Cap (mm)	563.5	Enterprise Value (mm)	479.6	06 EV/EBITDA	8.4x
52 Week High	$16.70	2006 Sales (mm)	128.5	ROA (after tax)	5.32%
52 Week Low	$11.11	2006 EBITDA	57.1	ROE (after tax)	5.32%
Daily Volume (000s)	480.0	2007 EPS (est)	$0.79	Lower sell limit	$10.07
Country	US	Beta	1.36	Upper sell limit	$15.11

TradeStation Group, Inc. (TRAD) offers the TradeStation platform to the active trader and certain institutional trader markets. The platform enables traders to test and automate rule-based or quantitative trading strategies across multiple asset classes, such as equities, options, and futures. TRAD operates in two segments: brokerage services (74% of total sales) and software products and services (26% of total sales). The TradeStation data centers have direct connections to the American Stock Exchange, Archipelago, Bloomberg, Brut, Chicago Board of Trade, Chicago Mercantile Exchange, Instinet, Island, Nasdaq, New York Stock Exchange, the Options Price Reporting Authority, and forex data.

TradeStation has maintained a strong competitive edge over its competitors. TRAD has won the Readers' Choice Awards for best Direct-Access Stock Brokerage for the fifth year in a row. The company's competition includes Charles Schwab's Cybertrader, Fidelity Active Trader Pro, and Interactive Brokers. For the third year in a row, TRAD has won best Futures Brokerage over companies including Interactive Brokers, Lind-Waldock, Man Futures, and R.J. O'Brien. The Readers' Choice Awards are given by "Technical Analysis of Stocks and Commodities" magazine, one of the most respected periodicals for active traders. Like other brokers, TRAD achieves substantial revenues from net interest income, which is positively correlated to short-term rates. With the increased volatility returning to the financial markets and steady interest rates, interest income should add sizable incremental revenue to the earnings from trades during 2007.

TGIC Triad Guaranty Inc.				Weight (%)	1.93%
Price as of March 30, 2007	$41.41	Cash & eqv. (mm)	38.61	P/E (ttm)	9.4x
Shares Outstanding (mm)	14.9	Debt (mm)	34.5	06 EV/Sales	2.6x
Market Cap (mm)	615.4	Enterprise Value (mm)	611.3	06 EV/EBITDA	5.5x
52 Week High	$58.62	2006 Sales (mm)	239.1	ROA (after tax)	10.07%
52 Week Low	$39.31	2006 EBITDA	110.3	ROE (after tax)	10.64%
Daily Volume (000s)	247.0	2007 EPS (est)	$5.53	Lower sell limit	$33.13
Country	US	Beta	0.78	Upper sell limit	$49.69

As one of eight private mortgage guarantors, Triad is the youngest in the industry with a history dating back to 1987. Although the company also has the smallest market share among its eight competitors, that market share is steadily growing – from 0.5% in 1995 to roughly 6% today. Triad is also geographically diverse, providing coverage for lenders in all regions of the United States. The company is known for its innovative use of technology and its ability to create new products, which has helped to fuel growth. Triad frequently has the lowest mortgage delinquency rates in the industry.

Recent concerns surrounding the sub-prime mortgage market left shares of TGIC weak in recent months. The drop in TGIC's stock price from $58 to $45 in January appears disproportionate to its risk exposure in the sub-prime market. Only .6% of TGIC's loans are sub-prime, while 3.6% have A-minus exposure. The company should see their stock price recover after the market's overreaction and from future growth possibilities in Canada. TGIC looks to begin writing business in Canada during the second half of this year.

VNBC Vineyard National Bancorp				Weight (%)	1.72%
Price as of March 30, 2007	$23.04	Cash & eqv. (mm)	264.02	P/E (ttm)	12.4x
Shares Outstanding (mm)	10.4	Debt (mm)	286.5	06 EV/Sales	1.1x
Market Cap (mm)	240.4	Enterprise Value (mm)	96.8	06 EV/EBITDA	2.4x
52 Week High	$30.10	2006 Sales (mm)	88.7	ROA (after tax)	5.37%
52 Week Low	$21.06	2006 EBITDA	39.8	ROE (after tax)	8.06%
Daily Volume (000s)	79.0	2007 EPS (est)	$2.17	Lower sell limit	$18.43
Country	US	Beta	0.36	Upper sell limit	$27.65

Vineyard Bank offers community banking services in southern California; the bank's holding company is Vineyard National Bancorp (VNBC). VNBC conducts operations through 17 branch offices and is headquartered in Rancho Cucamonga, California. VNBC lends to commercial real estate and high-end residential developers. The company primarily lends to developers located in two regions: Riverside and San Bernardino counties; and the coastal markets between San Diego and Los Angeles.

VNBC's stock price has been largely impacted by concerns of a possible fallout in sub-prime loans; however, on March 19th, the company confirmed that it has no sub-prime loans in its portfolio. Credit quality and overall loan volumes for the company have remained steady. The company's loans are broken down as follows: high-end coastal residential construction accounted for 27% of 2006 loans, commercial real estate mortgages were 40% of loans, and commercial construction loans accounted 7%. In the future, VNBC plans to rebalance its loan portfolio to become more risk averse and to enter the high net worth markets of Marin County.

Hardware Sector — 8.48% of AIM Equity Fund

Analysts: Zach Bloom and Uri Soroka

The small cap hardware sector is driven by capital spending and consumer demand. It encompasses a wide variety of sub-sectors including Semiconductors, Wireline Equipment, Wireless Equipment, Optical Equipment, and Data Networking. The AIM portfolio is heavily weighted in the first three sub-sectors with a focus on long-term growth. In general, Semiconductors tend to be the most cyclical because of the nature of the business. Semiconductors are an integral part of the industry's supply chain and, as such, are subject to large swings in technology demand. Both Wireline and Wireless Equipment are driven by network capital spending. Each sub-sector is at the beginning of a secular growth cycle as consumers and corporations increase their reliance on low cost broadband solutions.

Over the past 12 months the hardware sector has returned roughly 6%. The beginning of the 12 month holding period began around the time the Fed stopped raising rates, which set the tone for a weakened sentiment in the industry. This sentiment was fueled further by housing market concerns which ultimately lead to the sector's underperformance. The last four quarters of returns relative to the Russell were as follows: Tech vs. Russell respectively; Q1'07: 2.5% vs. 3.7%, Q4'06: 6.4% vs. 8.85%, Q3'06: 8.65% vs. 0.4%, and Q2'06: (8.36%) vs. (5.07%).

Relative to the industry, the AIM Fund's hardware sector outperformed the benchmark over the past 12 months by 6%. Driving performance in Q2'06 where strong earnings and positive sector news. Q3'06 and Q4'06 where hurt with stock option concerns and a below-consensus outlook for 2007. Q1'07 reporting has not yet occurred; however, company and industry news has driven the market value of the holdings in recent months.

During the next 12 months it is likely that the sector as a whole will suffer. Concerns of sluggish economic growth, combined with subprime mortgage scares and the potential for mortgage defaults will likely weigh down on capital spending throughout the year. Demand for mass produced semiconductor products will likely slow, setting the stage for a cyclical downturn among OEM's, EMS manufactures, and distributors. On the other hand, it is likely that high-end tech companies will experience at least some growth. Consumer demand for high-end technology products is not negatively impacted by economic slowdowns because their target customer is typically not affected by fluctuations in economic growth.

ACTL Actel Corporation				Weight (%)	2.05%
Price as of March 30, 2007	$16.52	Cash & eqv. (mm)	147.86	P/E (ttm)	94.9x
Shares Outstanding (mm)	26.0	Debt (mm)	0.0	06 EV/Sales	1.6x
Market Cap (mm)	430.3	Enterprise Value (mm)	282.5	06 EV/EBITDA	13.6x
52 Week High	$19.36	2006 Sales (mm)	179.4	ROA (after tax)	1.05%
52 Week Low	$12.40	2006 EBITDA	20.8	ROE (after tax)	1.05%
Daily Volume (000s)	180.0	2007 EPS (est)	$0.16	Lower sell limit	$13.22
Country	US	Beta	1.53	Upper sell limit	$19.82

Actel (ACTL) designs, develops, and markets field programmable gate arrays (FPGAs) and supporting products and services. A FPGA is a programmable logic circuit that competes with an older non-programmable logic circuit called ASIC (application specific integrated circuit). These circuits are used in electronic devices such as cell phones, satellites, and computers. ACTL generates a significant amount (>60%) of revenue by selling circuits to EMS companies where the final product is manufactured. They also generate a good portion of revenue (25%) through long term contracts with the U.S. military. The logic chip industry is based on patented IP which provides a significant barrier to entry. ACTL has only two competitors: Altera (ALTR) and Xilinx (XLNX).

Currently, ACTL is well positioned for long term growth. ACTL sells a cooler running flash FPGA circuit that is just starting to gain traction among OEM's and manufactures. This is a secular growth trend in the manufacturing industry because of the advantages FPGA offers. These circuits can be programmed on site which makes them a more cost effective and flexible solution for many companies. While the alternative (ASIC) is pre-programmed and cannot be changed or adapted during the manufacturing process. ACTL's competitive edge is that their chip runs at lower temperatures than the competition, which translates into less spoilage for the manufacture and a better quality product for the end user. Long-term they also are heavily focused on and are pioneering a new technology called Fusion which merges ASICs low cost with FPGAs programmability. They also have a barrier to entry with their military segment as they are one of only two companies contracted to sell logic chips that go into military satellites. However, since a majority of ACTL products are sold to EMS manufactures, they are subject to the near term cyclicality of the industry.

ALVR Alvarion Ltd.				Weight (%)	2.37%
Price as of March 30, 2007	$8.05	Cash & eqv. (mm)	109.44	P/E (ttm)	n/a
Shares Outstanding (mm)	61.1	Debt (mm)	0.0	06 EV/Sales	2.0x
Market Cap (mm)	491.8	Enterprise Value (mm)	382.4	06 EV/EBITDA	0.0x
52 Week High	$9.05	2006 Sales (mm)	195.7	ROA (after tax)	-8.32%
52 Week Low	$4.92	2006 EBITDA	0.0	ROE (after tax)	-8.32%
Daily Volume (000s)	357.0	2007 EPS (est)	$0.12	Lower sell limit	$6.44
Country	Israel	Beta	1.24	Upper sell limit	$9.66

Alvarion Ltd.(ALVR) supplies Broadband Wireless Access (BWA) to carriers, ISP's, and private network providers. They operated in two segments: BWA, which includes mobile and fixed Worldwide Interoperability for Microwave Access (WiMax) products (~90% of revenues); and a Cellular Mobile Unit (CMU) (~10% of revenue), which offers compact cellular network solutions for rural and remote areas, defense and other specialized purposes. In order to focus on its core WiMAX business, Alvarion completed sale of its CMU unit in late 2006 to a privately held LGC Wireless for $15 million in notes and liabilities. Most of the company's revenue is generated internationally (~86% in 4Q06). ALVR is based in Israel with headquarters and R&D facilities in Tel Aviv. The company maintains sales offices around the world and its distribution channels include direct (~50%), indirect, and OEM.

ALVR has more than 50% world market share in WiMax solutions and with the selection of WiMax as the 4G technology by companies such as Sprint Nextel, it has a large growth potential both in the US and internationally. Despite the company's relatively small size, it has established a strong brand identity as well as stable relationships with OEM's. While the CMU did not perform as expected, its sale allowed the management to concentrate on the core company business which we view as a positive. ALVR's active participation in the WiMax Forum and active interoperability trials will give the firm an advantage as new standards are adopted in 2007-2008. Additionally Alvarion's cooperation with developing market cellular operators will start bearing fruit in 2007-2008 as countries such as Poland, Armenia, Bulgaria, Russia, China, African countries and others expand their investment in the broadband wireless infrastructure.

AUDC AudioCodes Ltd.				Weight (%)	1.59%
Price as of March 30, 2007	$6.76	Cash & eqv. (mm)	79.71	P/E (ttm)	42.8x
Shares Outstanding (mm)	40.6	Debt (mm)	121.0	06 EV/Sales	2.7x
Market Cap (mm)	274.4	Enterprise Value (mm)	315.6	06 EV/EBITDA	0.0x
52 Week High	$14.33	2006 Sales (mm)	115.8	ROA (after tax)	1.62%
52 Week Low	$6.60	2006 EBITDA	0.0	ROE (after tax)	2.34%
Daily Volume (000s)	553.0	2007 EPS (est)	$0.22	Lower sell limit	$5.41
Country	Israel	Beta	1.50	Upper sell limit	$8.11

Audiocodes (AUDC) designs and develops technology products that assist in the transmission of voice, data and fax communications. Their main product, referred to as a gateway, allows traditional/old telephone networks to connect with new high speed broadband networks and vice versa. This product is used in the adoption of voice over internet protocol (VoIP). Their main customers are OEM's and network equipment providers in the telecommunications industry. Currently, they are the only pure play provider of gateway products, but they have close ties with end customers. They recently made two acquisitions; Nuera which specializes in products that serve an integral part of the VoIP phone call process, and Netrake which specializes in VoIP security related products.

As an industry leader with good technology, AUDC is able to enjoy pricing power with their telecom customers. Operating margins have benefited from positive pricing which in turn has driven increased cash flows. Their two recent acquisitions (Nuera and Netrake) are dilutive to earnings and will depress operating margins in the near term. However, this is not a long term problem since both acquisitions were necessary and in concert with their long term growth strategy. Further, the VoIP industry is at the beginning of a secular growth cycle. As corporations and customers continue to switch to this low coast alternative, AUDC will benefit significantly. Any near term weakness in the stock price should be looked at as a buying opportunity.

GNSS Genesis Microchip Inc.				Weight (%)	0.49%
Price as of March 30, 2007	$9.29	Cash & eqv. (mm)	193.70	P/E (ttm)	n/a
Shares Outstanding (mm)	37.0	Debt (mm)	0.0	06 EV/Sales	0.6x
Market Cap (mm)	344.1	Enterprise Value (mm)	150.4	06 EV/EBITDA	3.5x
52 Week High	$17.67	2006 Sales (mm)	269.5	ROA (after tax)	-38.02%
52 Week Low	$7.65	2006 EBITDA	43.2	ROE (after tax)	-38.02%
Daily Volume (000s)	1,300.0	2007 EPS (est)	-$0.27	Lower sell limit	$7.43
Country	US	Beta	1.79	Upper sell limit	$11.15

Genesis Microchip (GNSS) is a leading provider of intergraded circuits (IC's) that receive and process digital video and graphic images. Their revenue streams from two main product categories, flat panel LCD televisions (66% of revenue) and LCD computer monitors (34% of revenue). They compete against smaller independent developers in other countries, as well as larger semiconductor companies. The majority of GNSS' business is conducted outside the United States with 99% of revenues coming from China, Germany, South Korea, Japan, Taiwan, and ROW. GNSS currently supplies many OEMs and distributors including Philips, Samsung, Sony, Dell, Sharp, Westinghouse, and is the main supplier for LG and Toshiba. As of March 31, 2007, they had 563 full time employees (240 R&D, and 206 S&M).

GNSS recently announced the launch of their new product line for HD LCD TV's. They also have a dominant share of the multifunction monitor market which puts them in a good growth position as home entertainment and computing continues to converge. Valuation looks extremely attractive trading at 3.2x EV/EBITDA with just under $5.00 in cash on the balance sheet. Near term adoption of LCD TV's is likely to slow due to economic concerns and a weakening in consumer spending; however, GNSS is somewhat protected since their target customer is typically not as affected by a weakening economy. Long-term adoption of LCD TV's among consumers is a secular growth trend and GNSS is well positioned to take advantage as they are one of only two suppliers.

KOMG Komag, Incorporated				Weight (%)	0.66%
Price as of March 30, 2007	$32.73	Cash & eqv. (mm)	171.13	P/E (ttm)	6.7x
Shares Outstanding (mm)	31.2	Debt (mm)	80.5	06 EV/Sales	1.0x
Market Cap (mm)	1,019.8	Enterprise Value (mm)	929.2	06 EV/EBITDA	3.9x
52 Week High	$49.60	2006 Sales (mm)	937.7	ROA (after tax)	13.83%
52 Week Low	$30.18	2006 EBITDA	235.8	ROE (after tax)	14.93%
Daily Volume (000s)	1,430.0	2007 EPS (est)	$4.28	Lower sell limit	$26.18
Country	US	Beta	1.17	Upper sell limit	$39.28

Komag (KOMG) is an independent designer and manufacturer of thin-film media (disks), which are used as the main component in disk drives for desktops, enterprise storage systems and increasingly various consumer electronics. KOMG produces more than 100 million disks annually for most major hard drive manufacturers. The company maintains R&D facilities in San Jose, California and three manufacturing facilities in Malaysia. KOMG is the only U.S. based independent disk manufacturer and its major competitors are internal manufacturing units of KOMG customers and Asian-based Fuji Electric, Hoya, Showa Denko.

Increasing demand for data storage in PC's, enterprise, and consumer electronics creates a favorable situation for thin-film media manufacturers like Komag. With the addition of Samsung as a customer, qualification for 65mm glass-based media and high plant utilization, KOMG should perform well in the coming quarters. We also believe the introduction of the Vista operating system this year should benefit KOMG starting in 3Q'07. While corporations are not rushing to upgrade storage, the adoption of Vista will eventually force equipment upgrades for many. Lastly, KOMG should incur long term benefits from the secular storage growth trend in alternative devices and the growth in other technology uses. Demand for increased storage capacities continues to spread beyond desktops into personal consumer electronics, such as digital video recorders, game stations, and storage servers.

NVTL Novatel Wireless, Inc.				Weight (%)	1.47%
Price as of March 30, 2007	$16.04	Cash & eqv. (mm)	82.68	P/E (ttm)	1540.2x
Shares Outstanding (mm)	30.3	Debt (mm)	0.0	06 EV/Sales	1.8x
Market Cap (mm)	485.3	Enterprise Value (mm)	402.6	06 EV/EBITDA	68.1x
52 Week High	$18.15	2006 Sales (mm)	218.0	ROA (after tax)	0.06%
52 Week Low	$8.11	2006 EBITDA	5.9	ROE (after tax)	0.06%
Daily Volume (000s)	1,610.0	2007 EPS (est)	$0.62	Lower sell limit	$12.83
Country	US	Beta	2.12	Upper sell limit	$19.25

Novatel (NVTL) is a leading provider of wireless broadband solutions. Novatel's products are designed for wireless, mobile access to information over the internet or local networks. NVTL's products include third-generation (3G) wireless personal computer card modems, embedded modems, ruggedized modems, and communication software to wireless network operations and distributions. Novatel is the global leader in universal mobile telecommunications system (UMTS) PC data card sales.

NVTL has continued to seek out new wireless growth areas. The firm is prepared to enter into the development of wireless networking through strategic relationships with leading companies such as Dell, Lucent, Sprint PCS, Verizon Wireless, and Vodafone. Due to Novatel's growth potential, continued development of new products, and their strategic relationships with major wireless companies, they are well positioned for strong future growth in 2007.

Healthcare Sector **14.44% of AIM Equity Fund**

Analysts: Jeff Ehman, Christina Mirarchi, and Nicole Roden

The broad healthcare industry can be divided into four distinct sectors: Biotechnology, Pharmaceuticals, Medical Equipment, and healthcare Services. Firms in the biotechnology sector combine biological functions with technology to create a sophisticated product. Pharmaceutical firms manufacture and sell over-the-counter and prescription drugs for both humans and animals. The Medical Equipment sector consists of firms that are responsible for designing, manufacturing, and selling supplies and instruments to treat and prevent medical conditions. The overall industry also consists of firms that provide healthcare services such as managed services, facilities, and distributors. As the aging Baby Boomer generation increases its demand for medical care and the costs of healthcare continue to increase, the industry is looking to find cost effective ways to treat patients with the highest quality products and services.

The performance of the AIM healthcare sector in the last year was mixed, with great variations between companies based on size and sub-sector. Managed care companies did quite well over this period and will likely continue to outperform due to the increasing emphasis on low-cost healthcare in this country. Small biotech firms have also performed relatively well due to consolidation in the industry. Conversely, big pharmaceutical companies have generally struggled over the past few years in light of shrinking drug pipelines, slowed growth, and safety concerns. Underperformance also was seen in areas particularly affected by Medicare and Medicaid reimbursements, especially around the time of the mid-term elections in November 2006.

The AIM healthcare sector, like the overall industry, saw its share of ups and downs over the holding period. After getting off to a difficult start with two early double-digit misses (LCAV and LIFC), the Fund sold the entirety of its position in underperforming Matria Healthcare (MATR) for an 18.8% holding period loss. In 4Q'06 and 1Q'07, two stocks were sold after the companies received tender offers. Horizon Health Corp. (HORC) was bought by Psychiatric Solutions Inc. (PSYS), and the Fund realized a 5.6% loss on the holding, while Adeza Biomedical (ADZA) was purchased by Cytyc (CYTC) for a 75% holding period gain. Two other stocks were sold during the holding period when they reached their target prices. The fund realized a gain of 27.2% on LCA Vision (LCAV) and a gain of 6.8% on Amsurg (AMSG).

The healthcare industry has long been considered a defensive investment because of the consistent demand for its products and services in all economies. However, certain trends seen within the various sub-sectors of the industry may change some of the dynamics and should, therefore, be closely monitored. Partnerships between firms in the biotechnology and pharmaceutical sectors will continue to blur the line between these two disciplines and drive growth in the area of biopharmaceuticals. Within the medical equipment industry, there has been growth in consumer-directed health plans (CDHP), and reports estimate that CDHP's could gain 20-30% of the insured market within the next three to five years. This trend will affect the way that companies in the medical equipment industry do business, particularly in the area of advertising. Within the healthcare services sector, a trend towards specialization of health care facilities will continue to develop. Finally, as corporate balance sheets remain flush with cash and the overall U.S. economy continues to expand, we believe acquisitions in the small cap healthcare sector will be a main driver of alpha through the 2007 calendar year.

AIRM Air Methods Corporation				Weight (%)	2.03%
Price as of March 30, 2007	$24.02	Cash & eqv. (mm)	4.22	P/E (ttm)	18.5x
Shares Outstanding (mm)	11.9	Debt (mm)	81.9	06 EV/Sales	1.1x
Market Cap (mm)	285.2	Enterprise Value (mm)	343.4	06 EV/EBITDA	7.0x
52 Week High	$31.00	2006 Sales (mm)	319.5	ROA (after tax)	4.44%
52 Week Low	$16.56	2006 EBITDA	49.1	ROE (after tax)	5.41%
Daily Volume (000s)	205.0	2007 EPS (est)	$1.78	Lower sell limit	$19.22
Country	US	Beta	0.60	Upper sell limit	$28.82

Air Methods Corporation is the leader in air medical transportation services and systems in the United States. It operates in three segments: Community-Based Model (CBM), Hospital-Based Model (HBM), and Products (PD). In 2006, CBM accounted for 64.7% of sales, HBM for 33.6% and PD for 1.6%. Management has stated a goal to increase the CBM business through higher margins and better growth opportunities. We see believe they will follow through with this in the coming year based on historical increases as a percent of sales and contracts in the pipeline that should come to fruition during 2007.

Going forward, we believe top line annual growth should be in the range of 10-20% over the next 2 years and decreasing to 5% thereafter. These projections are based on management's expectations and Air Methods' continuing ability to increase prices, acquire smaller competitors, and grow organically. Also, we have operating profit margins projected to decrease from a current adjusted level of 14.3% to 13.6% in 2010 and remaining stable from there. Even though we see the AIRM holding as defensive, the company still presents a large upside due to undervaluation by the market. We believe Air Methods Corporation could reach a target price of $36.00 by the end of the 2007 calendar year representing a 51.3% upside.

BSTE Biosite Incorporated				Weight (%)	2.73%
Price as of March 30, 2007	$83.97	Cash & eqv. (mm)	64.23	P/E (ttm)	38.3x
Shares Outstanding (mm)	16.0	Debt (mm)	11.0	06 EV/Sales	4.2x
Market Cap (mm)	1,341.3	Enterprise Value (mm)	1,282.5	06 EV/EBITDA	14.5x
52 Week High	$84.45	2006 Sales (mm)	308.6	ROA (after tax)	2.60%
52 Week Low	$38.08	2006 EBITDA	88.5	ROE (after tax)	2.61%
Daily Volume (000s)	607.0	2007 EPS (est)	$2.34	Lower sell limit	$67.18
Country	US	Beta	0.86	Upper sell limit	$100.76

Biosite Incorporated is a medical device company that designs and manufactures leading diagnostic tests. BSTE provides novel, rapid medical diagnostic products intended to aid physicians in the diagnosis of critical diseases and health conditions such as heart attack, heart failure, and acute coronary conditions. The company is unique in that it attempts to discover and license the rights to novel proteins and, using antibody technology, validate the biomarker to use as the foundation of a diagnostic test.

BSTE has potential to perform well in the future because of three specific factors. First, the company has a unique internal discovery program that allows it to develop a library of antibodies within weeks and aids in the discovery of protein biomarkers. The company is also the developer of the MultiMarker Index, the only index in the world to measure multiple protein variables. The products that BSTE manufactures lower the cost of healthcare by discovering the cause of patients' problems early and allowing treatment to start immediately, therefore shortening the duration of the illness and potential stay at the hospital. Because of its strong research and development program, BSTE is first to develop many products, which allows it to maintain high revenue growth.

CHTT Chattem Inc.				Weight (%)	2.52%
Price as of March 30, 2007	$58.94	Cash & eqv. (mm)	15.75	P/E (ttm)	25.7x
Shares Outstanding (mm)	18.9	Debt (mm)	564.6	06 EV/Sales	5.5x
Market Cap (mm)	1,114.8	Enterprise Value (mm)	1,658.6	06 EV/EBITDA	19.1x
52 Week High	$60.89	2006 Sales (mm)	300.5	ROA (after tax)	2.59%
52 Week Low	$27.99	2006 EBITDA	86.9	ROE (after tax)	3.89%
Daily Volume (000s)	376.0	2007 EPS (est)	$2.85	Lower sell limit	$47.15
Country	US	Beta	0.38	Upper sell limit	$70.73

Chattem, Inc., through its subsidiaries, engages in the manufacture, sale and marketing of a portfolio of over-the-counter healthcare products, toiletries, and dietary supplements. A few of its staple brand names are Selsun Blue, Goldbond, and Icy Hot. The company typically experiences large growth through the acquisition of products from larger competitors such as Pfizer and Johnson & Johnson. For example, in 2006 Chattem, Inc. bought the rights to five Johnson & Johnson products for $410 Million that could add approximately $1.00 per share (53% growth over the 2006 fiscal year) by 2008.

Going forward, CHTT should experience top line growth near 40% in 2007 and decrease steadily to approximately 4.0% by 2013 based on re-branding the five products acquired from J&J and expansion of the current portfolio. The new product lines should also decrease SG&A from 47.55% in 2006 to approximately 42.00% in 2007 due to their higher profitability then CHTT's current portfolio. Therefore, we believe Chattem Inc. will reach a target price of $61.93 by the end of the 2007 calendar year.

HAE Haemonetics Corporation				Weight (%)	1.88%
Price as of March 30, 2007	$46.75	Cash & eqv. (mm)	227.71	P/E (ttm)	28.2x
Shares Outstanding (mm)	26.4	Debt (mm)	30.1	06 EV/Sales	2.4x
Market Cap (mm)	1,235.0	Enterprise Value (mm)	1,014.2	06 EV/EBITDA	7.6x
52 Week High	$55.71	2006 Sales (mm)	419.7	ROA (after tax)	3.53%
52 Week Low	$40.66	2006 EBITDA	133.9	ROE (after tax)	3.55%
Daily Volume (000s)	276.0	2007 EPS (est)	$2.10	Lower sell limit	$37.40
Country	US	Beta	0.64	Upper sell limit	$56.10

Haemonetics Corporation engages in the design, manufacture, and marketing of automated systems and single-use disposables for the collection, processing, and surgical salvage of donor and patient blood. HAE is a pioneer and market leader in developing and manufacturing products that help ensure a safe and adequate blood supply. HAE's systems assist blood banks and hospitals in their efforts to operate efficiently and to comply with various regulatory requirements. The company operates world-wide with 61% of the 2006 fiscal year revenue occurring outside of the United States.

HAE has maintained leadership in its industry because product cost is not necessarily the most important issue impacting customers' purchasing decisions. Discussions in the annual reports suggest that in most product lines, clients care most about technology, ease of use, quality, and service, which are areas that HAE has a large advantage over their competition. Operationally, the company has maintained high ROA and ROIC ratios, 8.17% and 9.88% over the past 5 years, respectively. Even though we see HAE as a defensive play in the healthcare industry, we project an average top line growth rate of 6.00% and average operating margin of 16.28% over

the next 10-15 years. Therefore, we believe The Company is worth $56.30 and should reach a target price of $57.42 by the end of the 2007 calendar year.

LIFC LifeCell Corporation				Weight (%)	1.85%
Price as of March 30, 2007	$24.97	Cash & eqv. (mm)	70.97	P/E (ttm)	40.7x
Shares Outstanding (mm)	33.8	Debt (mm)	0.0	06 EV/Sales	5.5x
Market Cap (mm)	843.6	Enterprise Value (mm)	772.6	06 EV/EBITDA	19.7x
52 Week High	$33.39	2006 Sales (mm)	141.7	ROA (after tax)	2.46%
52 Week Low	$20.94	2006 EBITDA	39.3	ROE (after tax)	2.46%
Daily Volume (000s)	536.0	2007 EPS (est)	$0.76	Lower sell limit	$19.98
Country	US	Beta	1.07	Upper sell limit	$29.96

LifeCell Corporation develops and markets human-derived tissue-based products. LIFC produces a regenerative human tissue matrix that can be used to repair and restore soft tissue damage. The company sells the products to plastic surgeons, general surgeons, burn surgeons, and ear, nose, and throat surgeons.

LifeCell Corporation has the ability to continue to record double digit growth as it looks forward to expanding their current presence in the markets of skin regeneration including orthopedics. LIFC also has taken measures to increase the number of partnerships they currently have with tissue donor banks. As the only company producing a proven acellular matrix from tissue donations, the increased donations are extremely important. These factors, along with the fact that the increasing population of baby boomers increasing demand for this product, suggests that LIFC will be able to maintain their strong revenue growth in the long term. LIFC could also become an attractive acquisition candidate.

VIVO Meridian Bioscience, Inc.				Weight (%)	1.52%
Price as of March 30, 2007	$27.76	Cash & eqv. (mm)	42.26	P/E (ttm)	38.1x
Shares Outstanding (mm)	26.3	Debt (mm)	1.5	06 EV/Sales	6.4x
Market Cap (mm)	729.7	Enterprise Value (mm)	689.0	06 EV/EBITDA	20.6x
52 Week High	$29.93	2006 Sales (mm)	108.4	ROA (after tax)	2.62%
52 Week Low	$19.24	2006 EBITDA	33.5	ROE (after tax)	2.62%
Daily Volume (000s)	168.0	2007 EPS (est)	$0.87	Lower sell limit	$22.21
Country	US	Beta	0.78	Upper sell limit	$33.31

Meridian Bioscience, Inc. is an integrated diagnostics company with three segments; U.S. Diagnostics, European Diagnostics and Life Sciences. The company derives over 75% of total revenue from its diagnostics business, which specializes in tests for four main categories of ailments; respiratory, gastrointestinal (including the rapidly growing tests for C.difficile and H.pylori bacteria), viruses and parasites. The Life Sciences segment produces antigens, antibodies, proteins and other biological substances for use in research and drug testing.

Looking to the year ahead, Meridian Bioscience should outperform the sector based on three factors. First, the company will see continued strength in its diagnostic product for C.difficile due to the effectiveness of the test and the continued prevalence of these potentially-deadly bacteria in hospitals. Second, the company's decision to ramp up the marketing of its diagnostic test for H.pylori bacteria to managed care companies should further increase sales for 2007. Third and finally, Meridian remains a viable candidate for a buyout due to its niche products, strong cash position and the age of its CEO-founder. Taking all of these factors into consideration, VIVO should easily achieve 15% top-line growth for 2007, maintain its operating margins near 25% and appreciate to the $32 target in the next year.

ELOS Syneron Medical Ltd.				Weight (%)	1.11%
Price as of March 30, 2007	$27.05	Cash & eqv. (mm)	157.84	P/E (ttm)	19.0x
Shares Outstanding (mm)	27.2	Debt (mm)	0.0	06 EV/Sales	6.6x
Market Cap (mm)	735.6	Enterprise Value (mm)	577.7	06 EV/EBITDA	0.0x
52 Week High	$30.60	2006 Sales (mm)	87.4	ROA (after tax)	5.26%
52 Week Low	$17.81	2006 EBITDA	0.0	ROE (after tax)	5.26%
Daily Volume (000s)	298.0	2007 EPS (est)	$1.71	Lower sell limit	$21.64
Country	Israel	Beta	1.07	Upper sell limit	$32.46

Syneron Medical Ltd., a medical device company based in Israel, designs and manufactures products for non-invasive aesthetic procedures including hair removal, wrinkle reduction, and the treatment of cellulite, acne, scars and varicose veins. Syneron's devices all use its patented electro-optical synergy (ELOS) technology, a unique dual-light source approach that maximizes patient comfort and effectiveness while minimizing side-effects. The company sells its products to customers throughout the world, with a particular emphasis on North America, Asia-Pacific and Europe.

Going forward, Syneron should be able to at least keep pace with the 20% average growth expectations for the industry in 2007. Because of its unique and superior ELOS technology, as well as its heavy investment in marketing and sales in the US over the last year, the company should also be able to take market share from its competitors in the upcoming year. Finally, Syneron's pipeline, which includes a dental laser and a home-use product that is a joint effort with P&G, should be priced into the stock during 2007 and become profitable for the company in late 2008. Based on these growth factors, Syneron should see average revenue growth of 25-30% over the next five years, earnings growth of approximately 20% and a stock price of $30 by the end of this year.

Industrial Materials — 13.41% of AIM Equity Fund

Analysts: Timothy Fotsch and Thomas Kruse

The industrial materials sector is among the largest of the economic sectors in the AIM equity fund. Within this classification, there are twenty-one broad sub-industries including: steel, metals, chemicals, auto parts, industrial materials, agriculture, transportation equipment, electrical equipment, defense, and many others. The performance of this sector is tied directly to economic environment affecting the overall business cycle and input prices.

The industrial materials sector has cooled off considerably over the last year. As the market anticipates and prepares for a possible slow down, many of the firms in the portfolio have been adversely affected. This coupled with an increase in input prices is cause for considerable concern. Going forward, we expect slower demand for capital goods; however, firms which are not affected by this are expected to outperform the benchmark. Firms including: Astec Industry, Badger Meter, Keystone Automotive, Tennant Company, and Compass Minerals are poised for expansion in light of this economic shift; as opposed to firms which are more directly driven by consumer and business spending.

The AIM Fund currently holds seven firms. During the fiscal year the portfolio has seen many changes. At the first AIM meeting in October 2006, Keystone Automotive (KEYS) was added to the firm in order to reach sector neutrality. This was shortly followed by the sale of Argon ST (STST), an underperforming defense contractor, which was followed by the purchase of Tennant Company (TNC). In January 2007, Randgold Resources (GOLD) reached the maximum market capitalization allowed by the AIM Fund's policy and was sold; the proceeds were used for increasing the portfolio weighting of KEYS.

ASTE Astec Industries, Inc.				Weight (%)	2.40%
Price as of March 30, 2007	$40.25	Cash & eqv. (mm)	44.88	P/E (ttm)	23.1x
Shares Outstanding (mm)	21.8	Debt (mm)	0.0	06 EV/Sales	1.2x
Market Cap (mm)	877.1	Enterprise Value (mm)	832.3	06 EV/EBITDA	11.3x
52 Week High	$42.25	2006 Sales (mm)	710.6	ROA (after tax)	4.33%
52 Week Low	$19.95	2006 EBITDA	73.8	ROE (after tax)	4.33%
Daily Volume (000s)	226.0	2007 EPS (est)	$2.37	Lower sell limit	$32.20
Country	US	Beta	1.23	Upper sell limit	$48.30

Astec Industries designs (ASTE), engineers, and manufactures equipment and components used in the road construction and mining industries. ASTE's products are used in nearly every process of road construction including the quarrying of minerals and laying the road itself. The company also produces underground construction equipment, such as directional borers and trenchers. The company operates both domestically and internationally.

The road construction industry should continue to thrive well into 2007 and beyond, after a prolonged drought of federal highway spending. In 2005, the federal government passed the SAFETEA – LU Act, a transportation bill that allocates $286 billion in highway spending through 2009. This legislation has allowed ASTE to become the largest manufacture of asphalt plants in the United States and will continue to drive the firm's future growth prospects.

BMI Badger Meter, Inc.				Weight (%)	2.59%
Price as of March 30, 2007	$26.55	Cash & eqv. (mm)	3.00	P/E (ttm)	23.3x
Shares Outstanding (mm)	14.2	Debt (mm)	23.0	06 EV/Sales	1.7x
Market Cap (mm)	377.3	Enterprise Value (mm)	380.2	06 EV/EBITDA	10.6x
52 Week High	$33.20	2006 Sales (mm)	229.8	ROA (after tax)	4.23%
52 Week Low	$20.55	2006 EBITDA	35.8	ROE (after tax)	4.29%
Daily Volume (000s)	72.0	2007 EPS (est)	$1.25	Lower sell limit	$21.24
Country	US	Beta	0.70	Upper sell limit	$31.86

Badger Meter (BMI) markets and manufactures products using flow measurements and control technologies. The company's products fall in to two categories: residential and commercial water meters and industrial meters. Residential and commercial water meters are mainly sold to utilities and constitute the majority of the company's sales. Industrial meters, which have a wider range of applications, comprise of the remainder of the firm's sales.

With highly respected products and a steady stream of innovations, BMI is poised to capitalize on the water meter replacement cycle. The current replacement cycle is characterized by the transition from traditional manual read meters to automatic read meters. These higher margin products will provide Badger Meter with a steady revenue growth of 5% for the next two to three years. Furthermore, the closure of its subsidiary in Nancy France should help to restore costs and relieve margin compression.

CMP	Compass Minerals International, Inc.			Weight (%)	2.63%
Price as of March 30, 2007	$33.40	Cash & eqv. (mm)	7.40	P/E (ttm)	19.8x
Shares Outstanding (mm)	32.1	Debt (mm)	585.5	06 EV/Sales	2.5x
Market Cap (mm)	1,072.2	Enterprise Value (mm)	1,647.2	06 EV/EBITDA	10.0x
52 Week High	$35.08	2006 Sales (mm)	660.7	ROA (after tax)	3.27%
52 Week Low	$24.30	2006 EBITDA	165.4	ROE (after tax)	5.05%
Daily Volume (000s)	276.0	2007 EPS (est)	$1.98	Lower sell limit	$26.72
Country	US	Beta	0.70	Upper sell limit	$40.08

Compass Minerals International (CMP) is the second leading salt producer in North America. The company operates eleven production facilities, including the largest rock salt mine in the world. CMP's products include road salts for consumers and governmental agencies, water conditioning, and consumer and industrial food preparation. In addition, Compass Minerals is the leading producer of sulfate potash, which is used in the production of specialty fertilizers for high-value crops and turf in North America.

With stable demand and steady price increases year after year, CMP should expect healthy cash flows well into the future despite a slowing economy. While CMP mines and refines one of the simplest and most abundant chemicals, it maintains a healthy advantage over its rivals through its size and its ability to keep fixed cost low. CMP's continued focus on increasing dividends should make it a favorable investment despite low sales growth.

KEYS	Keystone Automotive Industries, Inc.			Weight (%)	2.51%
Price as of March 30, 2007	$33.70	Cash & eqv. (mm)	6.50	P/E (ttm)	21.3x
Shares Outstanding (mm)	16.3	Debt (mm)	0.0	06 EV/Sales	0.9x
Market Cap (mm)	550.4	Enterprise Value (mm)	543.9	06 EV/EBITDA	11.6x
52 Week High	$44.13	2006 Sales (mm)	628.3	ROA (after tax)	4.69%
52 Week Low	$29.80	2006 EBITDA	46.9	ROE (after tax)	4.69%
Daily Volume (000s)	109.0	2007 EPS (est)	$1.75	Lower sell limit	$26.96
Country	US	Beta	0.85	Upper sell limit	$40.44

Keystone Automotive Industries (KEYS) is a distributor of aftermarket collision replacement parts produced by independent manufactures for automobiles and light trucks. Keystone distributes its products to more than 25,000 collision repair shops throughout the United States and Canada. The company stocks over 19,000 products, including automotive body parts, remanufactured bumpers, and auto-glass for the most popular models of domestic and foreign automobiles for the eight most recent model years.

Despite an unfavorable ruling by the International Trade Commission regarding patent infringement, Keystone Automotive remains a sound company. Through organic growth of 10%, inorganic growth of roughly 12%, and a high probability of State Farm reinitiating its "generic" replacement part initiative, KEY's will continue to see accelerated growth in the future. In addition, an increase in margins due to the implementation of cost cutting strategies makes Keystone a favorable long-term investment.

MFLX Multi-Fineline Electronix, Inc.				Weight (%)	0.56%
Price as of March 30, 2007	$15.35	Cash & eqv. (mm)	41.22	P/E (ttm)	14.3x
Shares Outstanding (mm)	24.5	Debt (mm)	4.0	06 EV/Sales	0.7x
Market Cap (mm)	375.8	Enterprise Value (mm)	334.6	06 EV/EBITDA	4.6x
52 Week High	$62.70	2006 Sales (mm)	504.2	ROA (after tax)	6.99%
52 Week Low	$14.60	2006 EBITDA	73.3	ROE (after tax)	6.99%
Daily Volume (000s)	150.0	2007 EPS (est)	$0.82	Lower sell limit	$12.28
Country	US	Beta	1.67	Upper sell limit	$18.42

Multi-Fineline Electronix, Inc. engages in engineering, design, and manufacture of flexible printed circuit boards and related component assemblies for electronics industry in the United States and China. MFLX's products are used in mobile phones, smart mobile devices, portable bar code scanners, personal digital assistants, computer-storage devices, and medical devices. The company serves original equipment manufacturers, electronic manufacturing service providers, and display manufacturers. It sells products through in-house design and application engineers.

Over the holding period MFLX's stock price experienced a gradual and steady decline. In November, Multi-Fineline announced weak fiscal quarterly earnings. The stock price dropped 11% amid weakening customer relationships. Also, Multi-Fineline has a large amount of its revenues coming from Motorola who have had their share of struggles with pricing wars and slowing demand of their once popular RAZR handheld over the past six months. From that announcement, Multi-Fineline continued to spiral downward with persisting legal issues along with the struggles of Motorola. On February 7, the downward momentum sharply changed directions when Robert W. Baird changed their rating from "Neutral" to "Outperform". The stock price jumped 16% on that day. Looking forward, Multi-Fineline is a battered and bruised company with a suspect growth outlook. Much of their success related to the turnaround at Motorola and with a slowdown in consumer spending slowly coming, Multi-Fineline's struggles could very well continue.

SCSC ScanSource, Inc.				Weight (%)	1.60%
Price as of March 30, 2007	$26.84	Cash & eqv. (mm)	3.83	P/E (ttm)	17.0x
Shares Outstanding (mm)	25.7	Debt (mm)	32.2	06 EV/Sales	0.4x
Market Cap (mm)	690.9	Enterprise Value (mm)	719.1	06 EV/EBITDA	10.3x
52 Week High	$32.39	2006 Sales (mm)	1,665.6	ROA (after tax)	5.62%
52 Week Low	$25.22	2006 EBITDA	69.8	ROE (after tax)	5.88%
Daily Volume (000s)	133.0	2007 EPS (est)	$1.68	Lower sell limit	$21.47
Country	US	Beta	1.01	Upper sell limit	$32.21

ScanSource, Inc. operates as a wholesale distributor of specialty technology products, providing distribution sales to resellers in the specialty technology markets. It markets automatic identification and data capture (AIDC) and point-of-sale (POS) products. These interface with computer systems to automate the collection, processing, and communication of information for commercial and industrial applications, including retail sales, distribution, shipping, inventory control, materials handling, and warehouse management. The company's AIDC products include bar code printers, hand-held and fixed-mount laser scanners, mobile and wireless data collection devices, and magnetic stripe readers. Its POS products include computer-based terminals, monitors, receipt printers, pole displays, keyboards, peripheral equipment, and integrated processing units.

ScanSource experienced a very volatile and interesting year in 2006. In early October, ScanSource announced that it should be reviewing its stock option practices all the way back to its 1994 initial public offering. To this present day, ScanSource is still delinquent on its SEC filings and the scope of any backdating problems in still not known. The AIM Funds's investment in ScanSource underperformed over the holding period. ScanSource's troubles began in the first week of 2007 when they announced disappointing quarterly guidance. Following this, ScanSource experienced downgrades from multiple research firms. Also, in late February ScanSource received a notice of possible delisting from the NASDAQ stock exchange. ScanSource has until May 16, 2007 to be up to date on its quarterly 10-Q's. Until these are released and the magnitude of the stock options issue is realized, it is unclear to forecast ScanSource's future at this time.

TNC	**Tennant Company**			Weight (%)	1.76%
Price as of March 30, 2007	$31.49	Cash & eqv. (mm)	45.27	P/E (ttm)	21.0x
Shares Outstanding (mm)	18.8	Debt (mm)	3.7	06 EV/Sales	0.9x
Market Cap (mm)	593.0	Enterprise Value (mm)	549.7	06 EV/EBITDA	9.4x
52 Week High	$33.17	2006 Sales (mm)	599.0	ROA (after tax)	4.75%
52 Week Low	$21.97	2006 EBITDA	58.4	ROE (after tax)	4.76%
Daily Volume (000s)	97.0	2007 EPS (est)	$1.79	Lower sell limit	$25.19
Country	US	Beta	0.81	Upper sell limit	$37.79

Tennant Company engages in the design, manufacture, and marketing of indoor and outdoor cleaning solutions and specialty floor coatings for maintaining surfaces in nonresidential environments. The company's products include street sweepers, scrubbers, floor coatings, brushes, detergents, carpet cleaning equipment, vacuums, and floor machines. Its products are used to clean factories, office buildings, parking lots and streets, airports, hospitals, schools, warehouses, and shopping centers. The company sells its products through direct sales organizations and distributors primarily to building service contract cleaners, healthcare facilities, and schools, as well as federal, state, and local governments.

Tennant Company was added to the portfolio in the second week of November 2006. The company was added due to its strong position in the floor cleaning manufacturing market and the opening of its production plant in China. In its recent quarterly earnings release, Tennant announced higher revenues than expected and also said that it will be experiencing a profit from its Maple Grove plant. Guidance was also strong for 2007 with earnings ranging from $1.72 to $1.80 which includes a 15 to 17 cent charge for the China expansion. Tennant Company will prove to experience success as it continues its progression of manufacturing more items in China as well as attracting more customers in the Asian and South American markets.

Media Sector — 1.77% of AIM Equity Fund

Analyst: Sarah Tobolski

The media sector has made a slight rebound from overall poor performance in 2005, when all media sub-industries produced negative returns. Radio was the worst performer of the sector for the third year in a row with negative returns in 2006 of -4%. The sector's strongest performers were both cable and broadcast television with 1 year returns 52% and 45%, respec-

tively. 2006 was also a blockbuster year for private equity plays in the media sector with media companies seeing a myriad of acquisitions by venture capitalists and other investors. The value of transactions in media jumped from $600 billion in 2005 to over $750 million in 2006 and the sector accounted for 12.4% of global M&A activity, up from 10% in 2005 and well ahead of the 3.9% allocated to the sector in 2002.

The biggest concern for media stocks is a macro one at this point. The cyclical and discretionary nature of the industry allows for it to be greatly affected by overall market downturns. If the economy slows or goes into a recession, media stocks will be one of the sectors affected the greatest. We think the play for media stocks in the future is to diversify the sector's holdings so that there will be exposure to both content and distribution and to hold firms that have a proven track record of sustainable growth.

Traditional media will have a lot of trouble with growth initiatives going forward. Many of the "old media" companies have not been able to successfully integrate digital media into their product platforms. This inability to transform and innovate their business lines has had negative impacts on future opportunities for these companies. Going forward, content is what will ultimately differentiate players within the media space. Conversely, broadcast television companies have actually done a good job of recognizing the importance of the internet for programming distribution. Many new shows are premiering in broadband and about 53% of viewers who watched a new show this season online did so before viewing any episode on a broadcast network. Advertising surrounding online streaming of shows is on the upswing with demand exceeding supply for top rated shows. This ad revenue stream is predicted to grow to about 2.5 billion by 2010 from 300 million today. This will provide a second highly lucrative revenue stream for broadcasters.

KOMG Komag, Incorporated				Weight (%)	0.66%
Price as of March 30, 2007	$32.73	Cash & eqv. (mm)	171.13	P/E (ttm)	6.7x
Shares Outstanding (mm)	31.2	Debt (mm)	80.5	06 EV/Sales	1.0x
Market Cap (mm)	1,019.8	Enterprise Value (mm)	929.2	06 EV/EBITDA	3.9x
52 Week High	$49.60	2006 Sales (mm)	937.7	ROA (after tax)	13.83%
52 Week Low	$30.18	2006 EBITDA	235.8	ROE (after tax)	14.93%
Daily Volume (000s)	1,430.0	2007 EPS (est)	$4.28	Lower sell limit	$26.18
Country	China	Beta	1.17	Upper sell limit	$39.28

KongZhong Corp. is the leading provider of advanced second generation, or 2.5G, wireless interactive entertainment, media, and community services to customers of China Mobile Communications Corp. (ChinaMobile), which has the largest mobile subscriber base in the world. KongZhong is the top WVAS (wireless value added services) provider to both China Mobile and China Netcom and the company also operates a wireless Internet portal, Kong.net. The Company is registered in the Cayman Islands and headquartered in Beijing as it conducts the vast majority of its business in the People's Republic of China.

The Shanghai stock market took a dramatic drop at the end of February and subsequently roiled the financial markets of the entire world. The unease concerning the Chinese markets is palpable in the US and Asian capital markets, and KONG was greatly impacted by the Asian sell off at the beginning of March. Foreseeing the unreliable future of the market, KONG closest competitor, TOM Online (TOMO), has decided to privatize their internet business. Since the 20+% depreciation in late February, KONG has made up some of the ground lost.

KONG continues to have exceptional sales growth opportunities over the next few years; however, with increased competition and unpredictable regulatory expenses, their margins may suffer. KONG's operating and profit margins are stronger than a lot of their competitors, but the company has underestimated the impact of regulatory expenses and, in turn, their last earnings release in March was slightly lower than analyst expectations. One of KONG's key growth drivers for the future is the China Mobile's mobile subscriber's penetration rate. With only 35% of the country having access to mobile technology, there are plenty of areas to grow within the country. Also, KONG's newest initiative, Kong.net, is expected to generate advertising revenue over the long run and increase overall exposure to the Kong brand. The state of the Chinese economy is also a concern in the near future. In 1Q'07 the Chinese market surged 11% and inflation rose to its highest point in two years, mounting fears of a possible overheating of the economy. Going forward, this will create an added amount of risk when investing in KONG.

LNET LodgeNet Entertainment Corporation				Weight (%)	0.99%
Price as of March 30, 2007	$30.72	Cash & eqv. (mm)	22.80	P/E (ttm)	319.4x
Shares Outstanding (mm)	19.3	Debt (mm)	270.2	06 EV/Sales	2.9x
Market Cap (mm)	591.9	Enterprise Value (mm)	836.7	06 EV/EBITDA	8.9x
52 Week High	$31.43	2006 Sales (mm)	288.2	ROA (after tax)	0.22%
52 Week Low	$15.66	2006 EBITDA	94.2	ROE (after tax)	0.31%
Daily Volume (000s)	152.0	2007 EPS (est)	$0.33	Lower sell limit	$24.58
Country	US	Beta	0.95	Upper sell limit	$36.86

LodgeNet Entertainment supplies entertainment and information services to the lodging industry in the United States and Canada. Their services include satellite cable programming, TV internet, video checkout and room service ordering, along with interactive video games and on demand movies. Along with their service to North America, they also support an international base through licensing agreements. They currently have partnerships with large hotel chains like Starwood Hotels and Resorts, Marriott International, and Hilton Hotels Corporation.

There has been a lot of movement in this market over the holding period. When news released in mid December that LNET would be acquiring its number one competitor, the stock jumped 20%. This acquisition would give LNET a veritable monopoly as a content supplier to the lodging industry. The stock price dipped in late February when issues in China impacted the entire stock market; however, it was able to rebound nicely throughout the first two weeks of March when they announced that they had received antitrust approval for their proposed $380 million acquisition of rival On Command which is expected to be complete in 2Q07. This was the final potential road block for the acquisition.

After their acquisition of OnCommand, their prominent place within the lodging entertainment industry, additional opportunities for growth of their core business will be limited. However, their recent expansion into related vertical niche markets like hospitals and travel centers offers additional opportunities to expand their exposure to these new markets. Their recent representation agreement with Beacon Communications will align them with a major healthcare distributor in Colorado and the surrounding areas. According to the American Hospital Association, there will be more than $1 billion of new hospital construction projects in Colorado in the next year; LNET is well placed to benefit from these expansionary measures.

Software Sector

5.75% of AIM Equity Fund

Analyst: Matthew Rose

The software sector includes a broad range of companies with customers in the consumer, business, and government sectors of the economy. The sector is driven in part by macroeconomic trends including globalization, outsourcing, the ever-increasing demand for efficiency, and overall corporate profitability. Despite record growth in corporate earnings in recent years, businesses have been slow to translate that into large capital software expenditures. The macroeconomic outlook calling for generally slower growth during the next few years may result in continued anemic software sales to businesses. Software is also closely tied to industry specific demands such as the need for data security and the convergence of consumer electronic devices, which remain positive.

The AIM software holdings posted excellent performance during the fiscal year returning 26% compared with a small-cap software benchmark return of 12%. Three of the four holdings had strong double digit returns while the fourth was close to break even. Relative performance could have been even stronger had it not been for a few events that we feel unfairly impacted several of the names in the portfolio. In October 2006, ManTech International Corp. was added to the three existing names to tilt the software holdings in favor of end market diversification.

MANT ManTech International Corporation				Weight (%)	0.98%
Price as of March 30, 2007	$33.41	Cash & eqv. (mm)	41.48	P/E (ttm)	20.1x
Shares Outstanding (mm)	33.8	Debt (mm)	0.0	06 EV/Sales	1.0x
Market Cap (mm)	1,130.2	Enterprise Value (mm)	1,088.7	06 EV/EBITDA	10.7x
52 Week High	$38.75	2006 Sales (mm)	1,137.2	ROA (after tax)	4.98%
52 Week Low	$25.75	2006 EBITDA	102.0	ROE (after tax)	4.98%
Daily Volume (000s)	171.0	2007 EPS (est)	$1.80	Lower sell limit	$26.73
Country	US	Beta	0.80	Upper sell limit	$40.09

ManTech International (MANT) is a premier provider of innovative technological solutions to mission critical national security and intelligence programs. Founded in 1968 the company has over 6,000 employees that operate in 44 countries around the globe. 95% of ManTech's revenues are derived from the federal government, whose principal clients include the Departments of Defense, Sate, Homeland Security, and NASA. MANT's services fall into three main categories: secure systems and infrastructure solutions, information technology services, and systems engineering.

ManTech was purchased for $33.48 in early October and moved steadily upward, trading above $37 by early January; however, the stock took a hit in January due to industry-wide uncertainty over the funding of projects by the newly elected U.S. Democratic Congress and a series of earnings misses by competitors. MANT reported the only double digit revenue growth in the federal IT sub-sector and met earnings due to its focus on mission critical programs, but we do not feel that the performance has been reflected in the current market valuation. The company recently announced plans to acquire privately-held SRS Technologies, which was well received by the market. The deal is expected to close in the second quarter of 2007.

QSII Quality Systems, Inc.				Weight (%)	1.01%
Price as of March 30, 2007	$40.00	Cash & eqv. (mm)	80.40	P/E (ttm)	34.4x
Shares Outstanding (mm)	27.0	Debt (mm)	0.0	06 EV/Sales	8.4x
Market Cap (mm)	1,079.0	Enterprise Value (mm)	998.6	06 EV/EBITDA	23.9x
52 Week High	$45.44	2006 Sales (mm)	119.3	ROA (after tax)	2.91%
52 Week Low	$28.51	2006 EBITDA	41.8	ROE (after tax)	2.91%
Daily Volume (000s)	240.0	2007 EPS (est)	$1.23	Lower sell limit	$32.00
Country	US	Beta	1.13	Upper sell limit	$48.00

Quality Systems, Inc. (QSII) designs, develops, and markets practice management and medical records and billing software for healthcare information systems. Its products automate and improve efficiency of administrative tasks in group practices, hospital organizations, ambulatory care centers, and other medical and health centers. The success of the firm is directly tied to the accelerating demand to utilize technology to cut costs in the healthcare system.

QSII has had exceptional growth and has laid out ambitious plans for the next several years. The company's competitive advantage is in offering an integrated, yet highly flexible suite of products that allows clients to work more efficiently at lower costs. The NextGen product division has been extremely successful and now accounts for 89% of revenue. This platform enables the company to attract mid to large healthcare institutions which should continue to drive the business forward for the next several years. QSII paid a special one-time dividend of $1.00 in February and initiated a regular dividend of $0.25.The company also disclosed on its earnings call in February that the SEC has initiated an investigation of the trading activity of the firm's CFO, Paul Holt. The stock retreated sharply from its 52 week high because of the uncertainty of the implications of the investigation, but we maintain that the fundamental business model and drivers are intact and that the company is poised to continue growing at a high rate.

SSYS Stratasys, Inc.				Weight (%)	2.45%
Price as of March 30, 2007	$42.72	Cash & eqv. (mm)	33.88	P/E (ttm)	39.9x
Shares Outstanding (mm)	10.2	Debt (mm)	0.0	06 EV/Sales	3.9x
Market Cap (mm)	436.1	Enterprise Value (mm)	402.2	06 EV/EBITDA	19.3x
52 Week High	$43.99	2006 Sales (mm)	103.8	ROA (after tax)	2.51%
52 Week Low	$22.04	2006 EBITDA	20.8	ROE (after tax)	2.51%
Daily Volume (000s)	154.0	2007 EPS (est)	$1.42	Lower sell limit	$34.18
Country	US	Beta	1.45	Upper sell limit	$51.26

Stratasys, Inc. (SSYS) develops, manufactures, designs, markets, and services its own line of rapid prototyping devices. These devices allow customers, such as engineers, to quickly print 3D models or generate models out of plastic and other materials of their own design directly from a computer workstation. The technology allows for more efficient model production and testing for clients, which saves time and money in R&D. Stratasys' broad client base is one of its significant competitive advantages in this industry.

Stratasys was the strongest performer in the AIM software portfolio for the year, returning nearly 45%. The company has experienced accelerating top line growth due to the industry moving from that of emerging technology into the growth phase of the business cycle. Stratasys' competitive advantage comes in the form of its proprietary technology, which had a sharp ramp in unit sales during the year. SSYS is discontinuing its reseller relationship with Object

Geometries, which will dampen revenue growth in 2007, but Object's products provide relatively low margins, so SSYS' overall operating margin is expected to expand in the future.

SYNA Synaptics, Incorporated				Weight (%)	1.14%
Price as of March 30, 2007	$25.58	Cash & eqv. (mm)	253.65	P/E (ttm)	42.0x
Shares Outstanding (mm)	26.1	Debt (mm)	126.5	06 EV/Sales	2.9x
Market Cap (mm)	666.5	Enterprise Value (mm)	537.9	06 EV/EBITDA	17.9x
52 Week High	$32.09	2006 Sales (mm)	184.6	ROA (after tax)	2.00%
52 Week Low	$18.57	2006 EBITDA	30.0	ROE (after tax)	2.38%
Daily Volume (000s)	444.0	2007 EPS (est)	$1.15	Lower sell limit	$20.46
Country	US	Beta	1.36	Upper sell limit	$30.70

Synaptics (SYNA) develops touch sensitive user interfaces on laptop computers, portable digital music players, mobile phones, and other devices that allow the user to maneuver on the media screen. Other software applications provided by the company enable the proper functioning of mice, keyboards, monitors, and other peripherals of standing PC's. The company sells worldwide to OEM's through its sales representatives.

SYNA was also a strong performer during the year with a return of 16%. In SYNA's most recent earnings release, the company met earnings expectations and raised revenue guidance, but warned of margin pressure due to competition and a shift toward lower end notebooks for the next several quarters. We believe the stock was unfairly punished and remains in an attractive position. Synaptics was the topic of much speculation during the Apple iPhone announcement, and while it is not believed to be a supplier for iPhone, the company is well positioned to benefit from increased consumer interest in the larger smart phone space outside of Apple. SYNA's captive dual touch system is likely to be the preferred solution for potential Apple competitors.

Telecommunications Sector — 1.91% of AIM Equity Fund

Analyst: Patrick Jesse

The telecommunications sector consists of two segments: telecommunication services, which provides the necessary services for rural, urban and nationwide communication, and wireless services, which as the name implies, provides wireless technology services to consumers. In the past year the major stories of the telecommunications sector have come primarily from the emerging markets. Countries such as India, Brazil, and Indonesia, seem to be a focal point for distributors looking for strong profits. The wireless industry also is becoming a new attraction to many people in these countries. Domestically, the major trend remains the "bundled services" offering – where companies package video, voice, and data into one offering. This is often referred to as the "triple play" package.

IWA Iowa Telecommunications Services, Inc.				Weight (%)	0.47%
Price as of March 30, 2007	$20.00	Cash & eqv. (mm)	13.61	P/E (ttm)	18.8x
Shares Outstanding (mm)	31.7	Debt (mm)	508.8	06 EV/Sales	4.7x
Market Cap (mm)	634.4	Enterprise Value (mm)	1,098.5	06 EV/EBITDA	8.7x
52 Week High	$20.74	2006 Sales (mm)	234.1	ROA (after tax)	3.03%
52 Week Low	$17.15	2006 EBITDA	126.4	ROE (after tax)	5.32%
Daily Volume (000s)	231.0	2007 EPS (est)	$0.84	Lower sell limit	$16.00
Country	US	Beta	0.49	Upper sell limit	$24.00

Iowa Telecommunications Services, Inc. and its subsidiaries operate as an incumbent local exchange carrier in Iowa. IWA offers local services, which include basic local telephone service and enhance local services, such as voice mail, caller ID, and call forwarding, network access service to interexchange carriers for the origination and termination of interstate and intrastate long distance phone calls on its network. The company also offers such services including dial-up and DSL internet services. Iowa Telecommunications was incorporated in 1999 and is headquartered in Newton, Iowa.

For Iowa Telecommunications Services, Inc., income for the full year was $34 million, down from $46.4 million, which is attributed to a $12.3 million income tax expense. Revenue for the year was $234.1 million, up from $231.6 million a year ago. In November of 2006, a judge ruled that IWA would have to allow Mediacom access to its switches. However, the company did make a favorable acquisition of Baker Communications, which engages in sales and support of communications and data networking to companies in Iowa and Nebraska. In order to continue adding value, we expect IWA to acquire more companies, similar to the Baker Communications deal, which will add depth to their services and increase the base of customers.

NPSI North Pittsburgh Systems				Weight (%)	0.52%
Price as of March 30, 2007	$21.77	Cash & eqv. (mm)	50.08	P/E (ttm)	10.2x
Shares Outstanding (mm)	15.0	Debt (mm)	22.3	06 EV/Sales	2.8x
Market Cap (mm)	326.7	Enterprise Value (mm)	294.8	06 EV/EBITDA	4.3x
52 Week High	$28.35	2006 Sales (mm)	103.5	ROA (after tax)	9.29%
52 Week Low	$20.76	2006 EBITDA	68.8	ROE (after tax)	9.80%
Daily Volume (000s)	58.0	2007 EPS (est)	$1.30	Lower sell limit	$17.42
Country	US	Beta	1.15	Upper sell limit	$26.12

North Pittsburgh Systems, Inc. provides telecommunication services to customers in western Pennsylvania. It offers various services, such as local, custom calling features, and local private line services to residential business customers. The company also provides network access services by using various technologies, such as digital data services, frame relay, multimegabit and gigabit Ethernet and other offerings. In addition, NPSI offers wireless services, point-to-point data services, directory advertising, billing and other services. The company was founded in 1906 and is based in Gibsonia Pennsylvania.

In the recent quarter, NPSI's profit dropped by 25% as a result of a decrease in access and toll and local dial tone revenues. For the year, the company ended up earning $31.8 million versus $23.1 million in 2005; however, this did include an $11.5 million gain from an investment redemption. The biggest story to come out of this year for NPSI was the recent push by a hedge fund for sale of the company. The group includes Bulldog Investors, Monarch-Activist Partners and Santa Monica Partners, who hold a 6.58% stake in the company. The group announced that it would elect two of its own members to the board and pushed the company to remove its 'poison pill' provisions. Based on this it is likely that the company will go private sometime in 2007, which would be in the best interests of the shareholders.

SHEN Shenandoah Telecommunications Compan				Weight (%)	0.96%
Price as of March 30, 2007	$47.09	Cash & eqv. (mm)	13.44	P/E (ttm)	20.6x
Shares Outstanding (mm)	7.8	Debt (mm)	28.5	06 EV/Sales	2.2x
Market Cap (mm)	366.0	Enterprise Value (mm)	377.0	06 EV/EBITDA	6.3x
52 Week High	$50.00	2006 Sales (mm)	169.2	ROA (after tax)	4.55%
52 Week Low	$39.50	2006 EBITDA	60.0	ROE (after tax)	4.85%
Daily Volume (000s)	11.0	2007 EPS (est)	$1.91	Lower sell limit	$37.67
Country	US	Beta	1.14	Upper sell limit	$56.51

Shenandoah Telecommunications Company, through its subsidiaries, provides regulated and unregulated telecommunications services to end-user customers and other communication providers in the Southeastern part of the United States. Services for the company include personal communications service through a digital wireless telephone and data network, coaxial cable based television services, internet services, and local and long distance voice, video and internet services. In addition, SHEN provides paging services, sells and services telecommunications equipment, and provides information services and internet access.

Net income for SHEN increased to $17.9 million in 2006 compared to $10.7 million in 2005, an increase of about 67%. This was driven primarily by the improved PCS results and a one time tax gain of $6.4 million that the company received following the liquidation of the Rural Telephone Bank. The company also continued to experience strong growth in wireless revenues as a Sprint PCS Affiliate of Sprint Nextel. We expect SHEN to provide above average return throughout 2007 due to their affiliations with Sprint and strong operating margins.

Utilities Sector — 2.98% of AIM Equity Fund

Analyst: Patrick Jesse

Three segments comprise the utilities sector: electric, natural gas, and water. In the past year utilities small cap stocks had one of the best performances of all market sectors. Electric and natural gas utilities typically follow the prices of oil and natural gas. A recent trend occurring is that water is now being viewed as a scarce commodity, which should translate into strong returns for water utilities. There exist many profit opportunities in this sector.

CWCO Consolidated Water Co. Ltd.				Weight (%)	0.66%
Price as of March 30, 2007	$23.71	Cash & eqv. (mm)	37.31	P/E (ttm)	463.7x
Shares Outstanding (mm)	14.1	Debt (mm)	24.7	06 EV/Sales	8.4x
Market Cap (mm)	335.2	Enterprise Value (mm)	321.4	06 EV/EBITDA	22.7x
52 Week High	$31.79	2006 Sales (mm)	38.2	ROA (after tax)	0.20%
52 Week Low	$20.77	2006 EBITDA	14.2	ROE (after tax)	0.22%
Daily Volume (000s)	71.0	2007 EPS (est)	$0.82	Lower sell limit	$18.97
Country	Cayman Islands	Beta	0.53	Upper sell limit	$28.45

Consolidated Water Co., Ltd engages in the processing and supply of water to its customers in the Cayman Islands, Belize, Barbados, The British Virgin Islands, and the Bahamas. The company uses reverse osmosis technology to produce freshwater from seawater, as well as distributes the water to a wide range of customers, which include public utilities, commercial and tourist properties, residential properties and government facilities. The company also provides

management, engineering and construction services for desalination projects. Consolidated Water Co. was incorporated in 1973 and is based in Grand Cayman, Cayman Islands.

In 2006, Consolidated Water reported record revenues and earnings for the year. Net income increased 36% to $7,521,126 up from last year's of $5,514,258. This primarily reflected a recovery in economic activity in the Cayman Islands that were devastated by the 2004 destruction from Hurricane Ivan and the impact was felt through 2005 in terms water demand and tourism. Expect strong revenues next year; however, these should not get as high as 2006 as CWCO continues to move into new markets. They recently finished construction of a plant in Bermuda and have numerous ventures on the way in the remainder of 2007.

ORA Ormat Technologies, Inc.				Weight (%)	1.63%
Price as of March 30, 2007	$41.96	Cash & eqv. (mm)	116.74	P/E (ttm)	41.4x
Shares Outstanding (mm)	38.1	Debt (mm)	429.9	06 EV/Sales	6.9x
Market Cap (mm)	1,599.1	Enterprise Value (mm)	1,862.7	06 EV/EBITDA	16.5x
52 Week High	$45.13	2006 Sales (mm)	268.9	ROA (after tax)	1.95%
52 Week Low	$31.03	2006 EBITDA	112.6	ROE (after tax)	2.42%
Daily Volume (000s)	244.0	2007 EPS (est)	$1.15	Lower sell limit	$33.57
Country	US	Beta	0.86	Upper sell limit	$50.35

Ormat Technologies, Inc., together with its subsidiaries, operates in the geothermal and recovered energy power business. The company operates in two segments: Electricity and Products. The Electricity segment develops, builds, owns and operates geothermal power plants and sells electricity primarily in the US, Guatemala, Kenya, Nicaragua and the Philippines. The product segments designs, manufactures and sells power units for geothermal power plants; power unites for recovered energy based power generation; and remote power unites and other generators, including fossil fuel powered turbo-generators as well as heavy duty direct current operators. These technologies are offered to contractors and geothermal plant owners and operators. The company was founded in 1965 and is based in Sparks, Nevada.

For Ormat Technologies, total revenues in 2006 were $268.9 million, a 13.0% increase over total revenues of $238.0 million for the 2005. Net income rose to $34.4 million compared with $15.2 million for 2005. These results were primarily driven by strong growth in both the products and electricity segments. More projects are on the way for ORA in 2007. During the first quarter of this year, they completed projects with a capacity of 57 MW and began testing phases, which should reach the consumer by mid 2007. Also, the popularity of geothermal and renewable energy should fuel growth throughout 2007 and future years as oil prices rise.

SWWC Southwest Water Company				Weight (%)	0.84%
Price as of March 30, 2007	$14.42	Cash & eqv. (mm)	4.29	P/E (ttm)	36.6x
Shares Outstanding (mm)	23.9	Debt (mm)	130.0	06 EV/Sales	2.1x
Market Cap (mm)	344.7	Enterprise Value (mm)	469.0	06 EV/EBITDA	13.9x
52 Week High	$16.49	2006 Sales (mm)	224.2	ROA (after tax)	1.99%
52 Week Low	$10.75	2006 EBITDA	33.8	ROE (after tax)	2.73%
Daily Volume (000s)	158.0	2007 EPS (est)	$0.49	Lower sell limit	$11.54
Country	US	Beta	0.71	Upper sell limit	$17.30

Southwest Water Company and its subsidiaries provide various services, including water production, treatment, and distribution, wastewater collection and treatment, utility billing and collection, utility infrastructure construction management and public works services. SWWC operates two groups: utilities and services. The utility group engages in the production and distribution of water in Alabama, California, Mississippi, New Mexico, Oklahoma and Texas. The Services group provides water and wastewater facility operations and maintenance services, equipment maintenance and repair, sewer pipeline cleaning and wastewater laboratory analysis. The company was founded in 1954 and is based in Los Angeles, California.

For the year, revenues increased by 10% to $224.2 million from $203.2 in 2005. The utility segment benefited from warm, dry weather and a rate increase in California. The southwest states of New Mexico and Texas also experienced strong organic growth. Services group revenues were $166.6 million in 2006 up from $146.3 million. This 14% increase was due to increased contract operations, construction work from these new contracts and growth in customer base through new housing developments. We expect moderate to strong growth for 2007 as water utilities continue to be the most attractive segment in the utilities sector.

AIM Fund Relative Return Performance

The following table shows the relative return performance of the AIM Equity and Fixed Income Funds since inception and during the most recent 3, 6, and 12 month periods. The AIM Equity Fund has outperformed the Russell 2000, S&P 500, and Morningstar Small Cap Growth Indexes since inception with a 14.29% annualized return. The AIM Fixed Income Fund has also outperformed the Lehman Aggregate Bond Index and Money Market Fund returns since inception with a 4.96% annualized return.

AIM Equity Fund Relative Return Performance (as of 3/31/2007)

	3 Month	6 Month	1 Year	Since Inception*
AIM Equity Fund	2.49%	7.77%	3.56%	22.18%
Russell 2000	1.95%	11.02%	5.91%	22.04%
S&P 500	0.64%	7.38%	11.83%	18.97%
Morningstar Small Cap Growth	3.85%	11.31%	0.43%	16.65%

*9/28/2005 (14.29% annualized return)

AIM Fixed Income Fund Relative Return Performance (as of 3/31/2007)

	3 Month	6 Month	1 Year	Since Inception**
AIM Fixed Income Fund	1.90%	3.28%	6.61%	6.24%
Lehman Aggregate Bond Index	1.50%	2.76%	6.59%	5.88%
Money Market Fund	1.24%	2.50%	5.03%	6.15%

**1/30/2006 (4.96% annualized return)

AIM Equity Fund Sector Performance

The industry sectors in the AIM Equity Fund were allocated based on Morningstar categories. The following table displays the AIM Fund sector return performance relative to the Morningstar universe of all small capitalization common stocks within the assigned sector. The energy, consumer services, utilities, and media sectors were the worst performing sectors; while consumer goods and telecommunications were the best performers.

AIM Equity Fund Sector Performance (Holding Period Ending 3/31/2007)

	AIM Fund		Morningstar Small Cap	
Sector	**Holding Period Return**	**Average Beta**	**Holding Period Return**	**Average Beta**
Business Services	5.4%	0.94	13.24%	1.17
Consumer Goods	44.5%	0.75	14.12%	0.73
Consumer Services	-12.6%	0.84	2.48%	0.89
Energy	-18.8%	0.85	5.06%	0.74
Financial Services	-3.4%	0.72	5.59%	0.90
Hardware	5.2%	1.53	-8.60%	1.74
Healthcare	8.5%	0.74	0.62%	0.72
Industrial Materials	-1.0%	0.91	8.66%	1.04
Media	-6.0%	1.08	2.26%	1.14
Software	25.6%	1.26	3.93%	1.32
Telecommunication	2.1%	0.99	7.25%	1.61
Utilities	-5.6%	0.75	17.95%	0.91

AIM Equity Fund Top 10 Holdings

The top 10 AIM Equity Fund holdings are shown in the table below. None of the 55 individual equity holding exceeded 3% of the total portfolio value as of 3/31/2007.

AIM Equity Fund Top 10 Holdings (as of 3/31/2007)

Name	Symbol	Sector	Holding Value	Weight (%)
Stratasys	SSYS	Software	$17,088	2.80%
Biosite	BSTE	Healthcare Services	$16,794	2.75%
Chattem	CHTT	Healthcare Services	$16,503	2.70%
Compass Minerals International	CMP	Industrial Materials	$15,865	2.60%
Keystone Automotive Industries	KEYS	Industrial Materials	$15,165	2.48%
Ennis	EBF	Business Services	$14,986	2.45%
Astec Industries	ASTE	Industrial Materials	$14,893	2.44%
Sanderson Farms	SAFM	Consumer Goods	$14,824	2.43%
Alvarion	ALVR	Hardware	$14,490	2.37%
Korn/Ferry International	KFY	Business Services	$14,452	2.36%

The table below shows the AIM Equity Fund's statement of operations for the 12 month period ending 3/31/2007. The AIM Equity Fund's dividend income was $3,934, or a yield as 0.72% during the holding period. The Fund's realized capital appreciation was $24,483, or 4.1%. Commissions for the holding period amounted to about 33 bps.

AIM Equity Fund Statement of Operations (Holding Period Ending 3/31/2007)

Income:	
Dividend Income	$3,934
Interest Income	$57
Sub-Total	**$3,991**
Expenses:	
Commissions	$1,984
Sub-Total	**$1,984**
Net Asset Gain/Loss:	
Realized Gain/Loss	$24,438
Unrealized Gain/Loss	-$9,594
Sub-Total	**$14,844**
Net Increase/Decrease in Net Assets from Operations	**$20,818**
AIM Equity Fund Statement of Changes in Net Assets (as of 3/31/2007)	
Beginning Market Value (4/1/2006)	$592,271
Net Increase/Decrease in Net Assets from Operations	$20,818
Ending Market Value (3/31/2007)	$613,089
Dividends Receivable on 3/31/2007	$292

AIM
Applied Investment Management

AIM Fixed Income Fund

Strategy and Holdings. During the fall semester, the student managers of the AIM Fixed Income Fund developed a strategy to attempt to outperform the benchmark (Lehman Brothers Aggregate Bond Index) by 20 annualized basis points. The strategy included a portfolio with a longer duration than the benchmark and a higher weighting of high yield investments. In implementing the strategy, the assets selected for inclusion in the AIM Fund were low-cost fixed income ETFs and index mutual funds. The following table shows the AIM Fixed Income Fund holdings as of March 31, 2007.

AIM Fixed Income Fund Portfolio Holdings (as of 3/31/2007)

Name	Ticker	Category	Value of Holdings
Money Market Fund			$552
iShares iBoxx $ Invest Grade Corp Bond	LQD	Long-Term Corporate Bond	$65,435
iShares Lehman 1-3 Year Treasury Bond	SHY	Short Government	$47,874
iShares Lehman 20+ Year Treas Bond	TLT	Long Government	$9,711
iShares Lehman 3-7 Year Treasury Bond	IEI	Intermediate Government	$16,158
iShares Lehman 7-10 Year Treasury	IEF	Long Government	$37,806
iShares Lehman Aggregate Bond	AGG	Intermediate-Term Bond	$137,055
Vanguard GNMA	VFIIX	Mortgage Backed	$148,788
Vanguard High-Yield Corporate	VWEHX	High Yield Corporate	$66,712
Total *			**$530,090**

* Does not Include $1091 interest and dividend income receivable

During the holding period the student managers altered their strategy to changing economic conditions. The characteristics of AIM Fixed Income Fund as of March 31, 2007, are presented in the next table. As of the end of the holding period, the AIM Fund's duration was 8 bps higher than the benchmark and the expected average yield to maturity was almost 27 basis points above the Lehman Aggregate Bond Index.

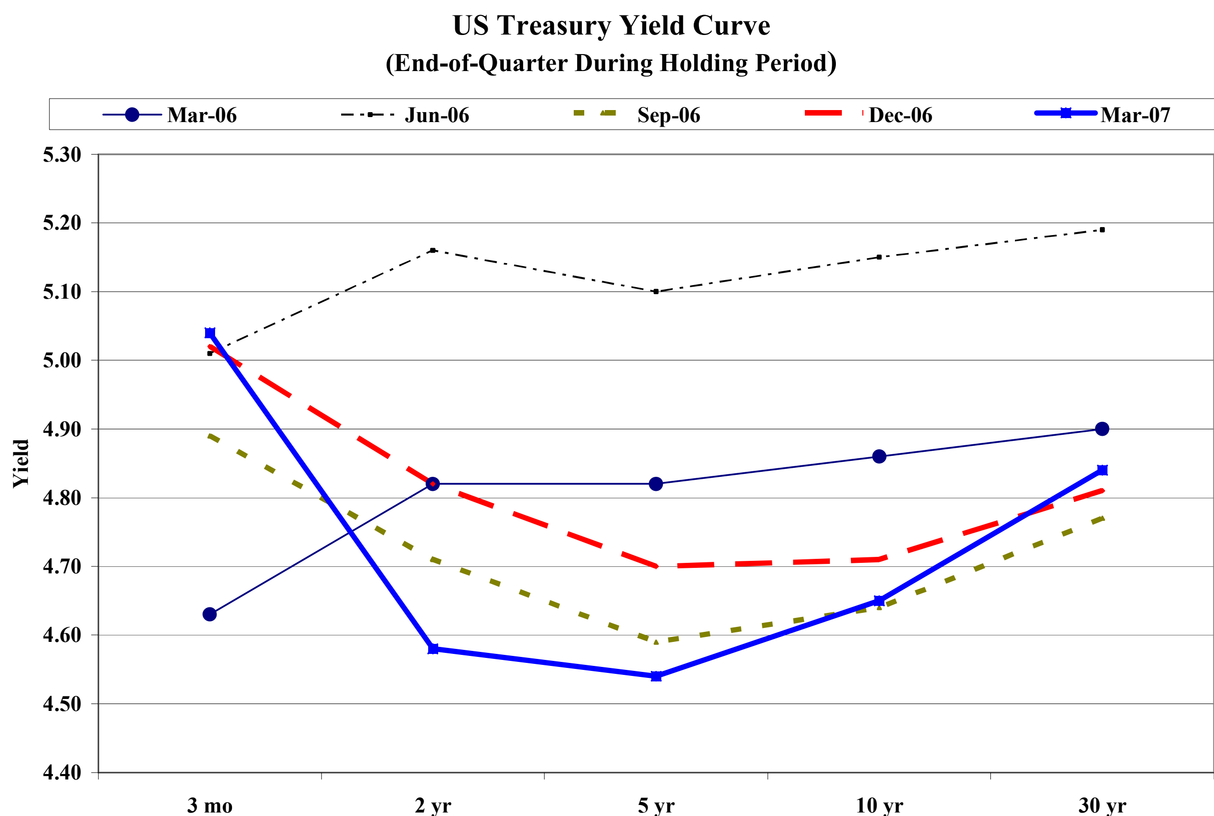
AIM Fixed Income Fund Characteristics (as of 3/31/2007)

Holdings	Weight (%)	Average Eff Duration	Average Yield
Money Market Fund	0.35	0.20	4.50
iShares iBoxx $ Invest Grade Corp Bond	12.25	6.70	5.59
iShares Lehman 1-3 Year Treasury Bond	8.98	1.80	4.84
iShares Lehman 20+ Year Treas Bond	1.82	13.60	5.17
iShares Lehman 3-7 Year Treasury Bond	3.03	3.90	4.32
iShares Lehman 7-10 Year Treasury	7.09	6.70	4.83
iShares Lehman Aggregate Bond	25.72	4.50	5.22
Vanguard GNMA	28.13	3.52	5.58
Vanguard High-Yield Corporate	12.64	4.80	6.95
Total	**100.00**	**4.58**	**5.49**
Lehman Brothers Aggregate Bond		**4.50**	**5.22**

AIM
APPLIED INVESTMENT MANAGEMENT

Since the summer of 2006, when Treasury Bond interest rates were above 5% and the yield curve was positively sloped, the U.S. bond market had a strong rally. Since the Federal Reserve Board's last Fed Funds increase on June 29, 2006, the yield curve has inverted and the long interest rates have dropped.

As shown in the chart below, the yield curve was positively sloped at the end of June 2006 with returns of about 5.15% priced across all Treasury maturities. The past six months witnessed an inverted yield curve for the first time since early 2000. The 50 basis point decrease in the long-end of the yield curve resulted in strong bond prices during the six month holding period ending 3/31/2007. The AIM student managers in the Fall 2006 semester increased the duration of the fund and experienced total returns that surpassed the benchmark by over 50 bps.



Interest Rate Forecast and Strategy. Several key fundamental factors point toward weaker credit conditions, slightly higher inflation rates and a positive sloping yield curve over the remainder of 2007. First, growth in the U.S. has weakened in the first and second quarters of 2007, while energy and food prices have grown to more than 3% annually. The sub-prime mortgage market has weakened and potential contagion into other credit markets exist. While slower long-term economic growth will put pressure on the Federal Reserve to decrease Fed Funds before the end of 2007, the threat of inflation will likely keep the Fed neutral for the remainder of the year.

In short, we project that the Fed Funds rate will remain at 5.25% through the end of 2007. In that context, we believe the long-end of the yield curve will continue to rise to approximately 5.00% and the short-end of the Treasury curve will be similarly positioned at the 5.00% level at the end of 2007.

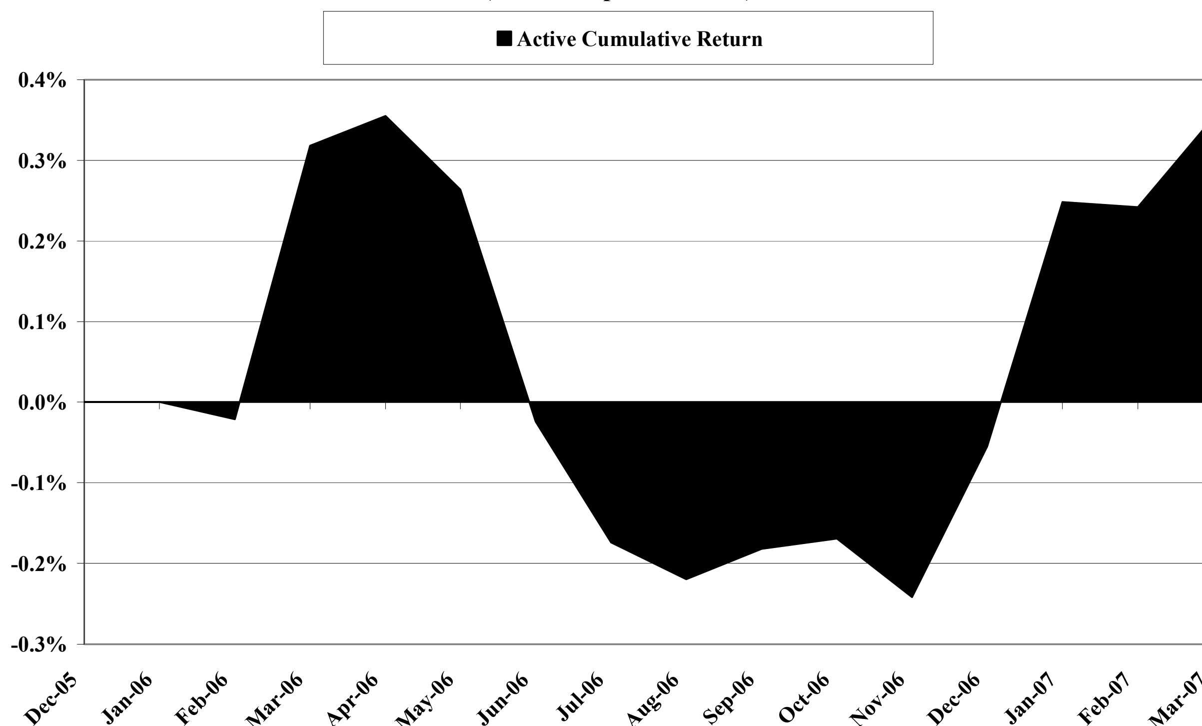
The student managers of the AIM Fund are not forecasting a U.S. recession in 2007 or 2008 – despite the inverted yield curve for much of the year. In fact, we are forecasting positive, but weaker corporate profits for the remainder of 2007 and continued strong balance sheets and global growth. As a result, we recommend a neutral duration portfolio with up to 10% of the Fund's weighting in BBB and lower rated securities. The following table shows the sector weightings of the AIM Fund versus the benchmark as of the end of the March 31, 2007 holding period.

Fixed Income Sector Distribution

AIM Fixed Income Fund (March 2007)							
Holdings	**AAA %**	**AA %**	**A %**	**BBB %**	**BB %**	**B %**	**Below B %**
Money Market Fund	100.0	0.0	0.0	0.0	0.0	0.0	0.0
iShares iBoxx $ Invest Grade Corp Bond	4.9	21.8	47.1	26.2	0.0	0.0	0.0
iShares Lehman 1-3 Year Treasury Bond	100.0	0.0	0.0	0.0	0.0	0.0	0.0
iShares Lehman 20+ Year Treas Bond	100.0	0.0	0.0	0.0	0.0	0.0	0.0
iShares Lehman 3-7 Year Treasury Bond	100.0	0.0	0.0	0.0	0.0	0.0	0.0
iShares Lehman 7-10 Year Treasury	100.0	0.0	0.0	0.0	0.0	0.0	0.0
iShares Lehman Aggregate Bond	74.5	6.9	11.5	7.2	0.0	0.0	0.0
Vanguard GNMA	100.0	0.0	0.0	0.0	0.0	0.0	0.0
Vanguard High-Yield Corporate	5.0	0.0	1.7	41.0	41.2	8.1	3.0
Total	**68.9**	**4.3**	**8.8**	**10.6**	**5.7**	**1.1**	**0.4**
Lehman Aggregate Bond Index (March 2007)	**74.5**	**6.9**	**11.5**	**7.2**	**0.0**	**0.0**	**0.0**

The AIM Fund will continue to hold open-ended index mutual funds and ETFs to assist in implementing top-down strategies, such as sector allocations and duration management. The idea of purchasing individual fixed income securities was explored, but the relatively small size of the AIM Fund prohibited efficient execution at institutional pricing levels and the realization of prudent levels of diversification. Another issue was the inability of the AIM Fund to gain access to deep and liquid inventories. While the use of ETFs and mutual funds does prevent student managers from making bottoms-up fixed income decisions like those of an active bond fund manager, it does not detract from the educational benefits. The continued expansion in the number and composition of fixed income ETFs and index mutual funds has allowed more variety and options for the AIM Fund student managers.

Performance and Statement of Operations. Holding period return information for the AIM Fixed Income Fund was presented in the previous sections of this report. The following chart shows the cumulative active return relative to the benchmark. As the chart shows, the AIM student managers' decision in the Fall 2006 semester to lengthen the Fund's duration yielded favorable results relative to the benchmark. At the end of the holding period the AIM Fund was 36 basis points above the Lehman Aggregate Bond Index.



The following table presents the AIM Fixed Income Fund's statement of operations as of March 31, 2007. The AIM Fund's total return was 6.61% versus 5.59% for the benchmark during the 12 month holding period.

AIM Fixed Income Fund Statement of Operations (Holding Period Ending 3/31/2007)

Income:	
Interest / Dividends Received	$26,558
Sub-Total	**$26,558**
Expenses:	
Commissions	$271
Sub-Total	**$271**
Net Asset Gain/Loss:	
Realized Gain/Loss	$888
Unrealized Gain/Loss	$4,095
Sub-Total	**$4,983**
Net Increase/Decrease in Net Assets from Operations	**$31,812**
AIM Equity Fund Statement of Changes in Net Assets (as of 3/31/2007)	
Beginning Market Value (4/1/2006)	$498,267
Net Increase/Decrease in Net Assets from Operations	$31,812
Ending Market Value (3/31/2007)	**$530,080**
Interest / Dividends Receivable as of 3/31/2007	$1,091

Contact:
Dr. David S. Krause
Director, AIM Program
College of Business Administration
Finance Department
Marquette University
P.O. Box 1881
Milwaukee, WI 53201-1881
Telephone: (414) 288-1457
Email: david.krause@marquette.edu