
Active ETFs

A revolutionary way to invest

Active Equity

PMA PowerShares Active Mega Cap Fund
PQY PowerShares Active AlphaQ Fund
PQZ PowerShares Active Alpha Multi-Cap Fund

Active Income

PLK PowerShares Active Low Duration Fund

Active Real Estate

PSR PowerShares Active U.S. Real Estate Fund

Shares are not FDIC insured, may lose value and have no bank guarantee.

PowerShares ETFs are subject to special risks. Please refer to the back cover for more complete information.

What Are Active ETFs?

“The SEC said that the advent of the actively managed ETF is the most significant thing that has ever happened in ETFs.”

Pat Daugherty, Chief Strategy Partner,
Foley & Lardner⁵

What are active ETFs?

Active ETFs are investment vehicles that combine the benefits of active management with one of the most benefit-rich investment vehicles available in the marketplace today – the exchange-traded fund (ETF).

Until recently, all ETFs were designed to track rules-based indexes. For example, an S&P 500 ETF would invest primarily in the holdings of the S&P 500 Index. Active ETFs, on the other hand, may be managed by investment teams who rely on research, expertise and proprietary processes to choose their portfolio holdings.

The S&P 500[®] Index is an unmanaged index considered representative of the U.S. stock market.

What are the benefits of active ETFs?

Active ETFs offer benefits that fall into two categories.

1. Active investment management generally seeks to provide:

- Higher returns than benchmark indexes
- Consistent returns
- Managed risk
- Reduced volatility

2. The benefit-rich ETF structure provides:

- Low expenses¹
- Tax efficiency²
- Transparency³
- Ability to purchase on margin, like many other exchange-traded stocks
- Intraday liquidity⁴
- Trading at or near NAV
- Flexibility: market/stop/limit orders

Unlike index-based ETFs, the Funds are not index funds. Each Fund is actively managed and does not seek to replicate the performance of a specified index. The Funds are subject to risks similar to those of stocks, including those related to short selling and margin maintenance. Ordinary brokerage commissions apply.

Why PowerShares active ETFs?

With any active management strategy, the expertise of the investment teams and the quality of their investment process is of the utmost importance. Invesco PowerShares is uniquely positioned in the ETF industry by being part of Invesco Ltd., a global independent investment management firm with \$423 billion in assets under management and approximately 600 investment professionals across distinct investment centers as of Dec. 31, 2009.

PowerShares active ETFs draw on the expertise of two of these Invesco investment centers in U.S. equities and fixed income, as well as an independent partner – AER Advisors, Inc., a private financial services firm that focuses solely on subadvising and developing actively managed ETFs. These investment management capabilities complement the extensive ETF know-how of Invesco PowerShares – a leading ETF innovator.

About Invesco PowerShares

Invesco PowerShares Capital Management LLC is Leading the Intelligent ETF Revolution[®] through its family of more than 100 domestic, international and active exchange-traded funds. PowerShares ETFs trade on all the major U.S. stock exchanges that trade ETFs. For more information, please visit invescopowershares.com.

1 Because ordinary brokerage commissions apply for each buy and sell transaction, frequent trading activity may increase the cost of ETFs.

2 Invesco PowerShares does not offer tax advice. Please consult your tax adviser for information regarding your own tax situation.

3 ETFs disclose their full portfolio holdings daily.

4 Shares are not individually redeemable and owners of the shares may acquire those shares from the Funds and tender those shares for redemption to the Funds in Creation Unit aggregations only, typically consisting of 50,000 shares.

5 Source: FT.com, “SEC approval to renew debate on active ETFs,” March 3, 2008

PowerShares Active ETFs

Benefits

Active ETFs combine the benefits of active management with one of the most benefit-rich investment vehicles available in the marketplace today – the exchange-traded fund.

Low expenses

The ordinary brokerage commissions that apply when buying or selling ETF shares on an exchange can be economical for long-term investors, when compared to an investment with higher annual fees.

Additionally, the transactional costs generally associated with the buying and selling of securities in a mutual fund may be substantially reduced by the unique in-kind operational structure of ETFs (see In-Kind Transfer Process on page 5), making active ETFs some of the more cost-efficient actively managed investment products available. It is important to note there are expense ratios associated with investments in ETFs.

Tax efficiency

Traditional, index-based ETFs are well known for their tax efficiency. On occasion, they may be required to buy and sell stocks to mirror changes in their benchmark index. However, the in-kind transfer process inherent in the ETF structure gives them a unique ability to manage the associated capital gains.

This means that ETF investors may defer certain capital gains until they choose to sell their shares. In fact, many traditional ETFs have never made a capital gains distribution to their current shareholders. While Invesco PowerShares does not anticipate distributing any capital gains over the life of the fund, there is a possibility that transactions may generate a capital gains event.

Active ETFs may also use an in-kind transfer process. While active ETFs may trade stocks more often than index-based ETFs, Invesco PowerShares believes that careful management of this in-kind transfer process will give its active ETFs a degree of tax efficiency that investors will appreciate.

A more in-depth discussion on tax efficiency is on the next page.

Transparency

PowerShares' active ETFs report their holdings on a daily basis, providing investors more transparency than investment products that disclose holdings less often, such as once per quarter.

Liquid and flexible¹

As with traditional ETFs, active ETFs trade like stocks with orders placed and executed throughout the trading day on a stock exchange, and they are bought and sold through brokerage accounts. Because of this, investors can participate in advanced trading techniques such as purchasing on margin, short selling and placing limit and stop orders. While these strategies may not be appropriate for all investors, they may be an attractive feature for those looking for trading flexibility.

Trading at or near NAV

Index-based ETFs have generally traded at or near their net asset value (NAV). Given the high level of transparency of the active ETFs' holdings, Invesco PowerShares believes that active ETFs should also generally trade at or near their NAV. However, because actively managed ETFs are a relatively new product, there can be no assurance that they will do so.

Accessibility

ETFs are never closed to investors, and there is no minimum investment requirement that investors must meet on the secondary market.

¹ Shares are not individually redeemable and owners of the shares may acquire those shares from the Funds and tender those shares for redemption to the Funds in Creation Unit aggregations only, typically consisting of 50,000 shares.

Tax Efficiency of Active ETFs

It is possible that PowerShares active ETFs will never distribute a capital gain to their shareholders.

Tax Efficiency of Active ETFs

- Tax-efficient product design
- Mitigated capital gains distributions
- Tax efficiency through exchange trading

The In-Kind Transfer Process

When ETFs create new shares or redeem existing shares, they generally do so through a unique in-kind transfer process. While retail investors are largely unaware of this process, it contributes to an ETF's tax efficiency.

After the close of each trading day, entities called Authorized Participants, or APs (usually large institutional traders), may take a fixed number of newly created ETF shares in exchange for a basket of securities that mimic the ETF's holdings.

The AP can hold these ETF shares or sell them to retail investors over a stock exchange. Retail investors cannot purchase shares directly from an ETF.

This process works in reverse when an AP wants to redeem its ETFs shares and receive baskets of underlying securities.

Mitigating Capital Gains

When securities within an active ETF need to be reduced, the ETF can use the in-kind transfer process to remove its lowest cost-basis stocks in order to mitigate capital gain exposure. It can also sell its highest cost-basis stocks to realize the capital loss, offsetting potential future significant capital-gain exposure.

Tax-efficient product design

Taxes may be the most overlooked and critical factor in wealth creation over time.

The unique structure of PowerShares active ETFs allows them to substantially mitigate and possibly avoid capital gains distributions through an in-kind redemption process. As a result, shareholders may be able to defer some or possibly all capital gains until they sell their shares. While Invesco PowerShares does not anticipate distributing any capital gains over the life of the fund, there is a possibility that transactions may generate a capital gains event.

Tax management strategies unique to active ETFs

Mutual funds use a FIFO (highest in, first out) pooled tax treatment strategy for managing most portfolios. This method typically creates embedded, unrealized capital-gain exposure and eventual taxable distributions. These distributions are declared and distributed annually and can occur regardless of whether an investor has made or lost money in the fund.

PowerShares active ETFs, on the other hand, may mitigate and possibly avoid capital gains distributions through a LIFO (lowest in, first out) in-kind tax management strategy unique to ETFs. This method typically allows the fund manager, during the creation and redemption process, to purge the lowest cost-basis stocks through in-kind, non-taxable stock transfers. As illustrated below, this unique operational trait leaves the fund with the highest cost-basis securities, which systematically reduces tax exposure.

LIFO In-Kind Tax Management Strategy

ABC Stock

Current Price \$46.00

Cost-Basis Positions \$43.50 \$48.50 \$42.00 \$47.50

Select Lowest Cost-Basis Stocks

Stocks that have appreciated, relative to the current price (\$46.00), are identified and selected for in-kind transaction.

Capital Gain Mitigated by the Fund

The current market value of the stocks is calculated and exchanged for an equal total market value of the new stocks.

New Stock Added to the Portfolio

New stock (XYZ stock) is received through the in-kind transaction at the current market price (cost basis) and added to the portfolio.

Additionally, in the event that stocks have depreciated from their acquisition price, the fund manager can sell the highest cost-basis stocks to realize the capital loss. This potentially offsets future significant capital-gain exposure.

Tax efficiency through exchange trading

Finally, PowerShares active ETFs are tax efficient because they trade on an exchange – just like a stock – where sellers are matched with buyers. Transactions between buyers and sellers do not require the fund to sell stock to meet redemptions. This substantially reduces fund expenses, cash on hand and the risk of unwanted capital gains distributions.

Invesco PowerShares does not offer tax advice. Please consult your tax adviser for information regarding your own tax situation.

PowerShares Active ETFs

PowerShares Active ETF Highlights

- Active management teams
- Proprietary research methods
- Alpha-seeking strategies

PLK PowerShares Active Low Duration Fund

Subadvised by Invesco Advisers, Inc.

Objective: Total return.

Portfolio: The PowerShares Active Low Duration Fund invests, under normal market conditions, at least 80% of its assets in a portfolio of U.S. government, corporate and agency debt securities. The Fund cannot hold more than 25% of its total assets in noninvestment-grade securities.

Under normal market conditions, the Fund's effective duration, as estimated by the Fund's portfolio managers, will be in the range of zero to three years.

Expense ratio¹: 0.29%.

PMA PowerShares Active Mega Cap Fund

Subadvised by Invesco Advisers, Inc.

Objective: Long-term growth of capital.

Portfolio: The PowerShares Active Mega Cap Fund seeks to achieve its investment objective by investing, under normal market conditions, at least 80% of its assets in a portfolio of equity securities of mega-capitalization companies. The Fund's universe includes the holdings of the Russell Top 200 Index as well as other mega-cap stocks that meet certain liquidity requirements.

All stocks in the universe are evaluated by Invesco Advisers' proprietary stock selection model. The model is based on several factors relating to four main concepts:

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

Each stock is ranked by this model, and the result is a "weight-of-the-evidence" forecast of the expected annual excess return for each stock compared to other stocks in their respective industry for the next month. Additionally, each stock is evaluated for risk using at least 17 variables.

Expense ratio¹: 0.75%.

The Russell Top 200[®] Index is an unmanaged index that consists of the largest 200 securities by market cap of the U.S. market. The Russell Top 200 Index is a trademark/service mark of the Frank Russell Co. Russell[®] is a trademark of the Frank Russell Co.

PSR PowerShares Active U.S. Real Estate Fund

Subadvised by Invesco Advisers, Inc.

Objective: High total return through growth of capital and current income.

Portfolio: The PowerShares Active U.S. Real Estate Fund seeks to achieve its investment objective by investing, under normal market conditions, at least 80% of its assets in securities of companies that are principally engaged in the U.S. real estate industry and included in the FTSE NAREIT Equity REITs Index at the time of purchase. The selection methodology uses quantitative and statistical metrics to identify attractively priced securities and manage risk. These metrics include:

- Growth
- Value
- Yield
- Technical factors

Expense ratio¹: 0.80%.

Investments in real estate companies are generally subject to greater risks such as legal and other restrictions on resale and are otherwise less liquid than publicly traded securities.

The FTSE NAREIT Equity REITs Index is an unmanaged index considered representative of U.S. REITs.

¹ The expense ratios are expressed as unitary fees to cover expenses incurred in connection with managing the Fund.

PowerShares Active ETFs

PQY PowerShares Active AlphaQ Fund

Subadvised by AER Advisors, Inc.

Objective: Long-term capital appreciation.

Portfolio: The PowerShares Active AlphaQ Fund seeks to achieve its investment objective by investing, under normal market conditions, at least 95% of its total assets in Nasdaq-listed stocks selected by AER Advisors, Inc. pursuant to a proprietary stock screening methodology, which uses fundamental and quantitative criteria.

Universe: AER tracks and rates the stocks of companies that are traded in the U.S. and have market caps greater than \$400 million (about 3,000 stocks). Weekly, the Fund's subadviser generates a master stock list that ranks these stocks, segmented by market cap, based on its proprietary stock-ranking methodology. Fund managers then define their universe as the 100 largest Nasdaq-listed global market securities from their master stock list. The Fund then generally selects and purchases approximately 50 stocks.

Expense ratio¹: 0.75%.

PQZ PowerShares Active Alpha Multi-Cap Fund

Subadvised by AER Advisors, Inc.

Objective: Long-term capital appreciation.

Portfolio: The PowerShares Active Alpha Multi-Cap Fund seeks to achieve its investment objective by investing, under normal market conditions, at least 95% of its total assets in the multi-cap universe selected by AER Advisors, Inc. pursuant to a proprietary stock screening methodology, which uses fundamental and quantitative criteria.

Universe: AER tracks and rates the stocks of companies that are traded in the U.S. and have market caps greater than \$400 million (about 3,000 stocks). Weekly, the Fund's subadviser generates a master stock list that ranks these stocks, segmented by market cap, based on its proprietary stock-ranking methodology. Fund managers then define their universe as the 2,000 largest stocks of companies with varying capitalizations from their master list. The Fund then generally selects and purchases approximately 50 stocks.

Expense ratio¹: 0.75%.

¹ The expense ratios are expressed as unitary fees to cover expenses incurred in connection with managing the Fund.

