
Exchange-Traded Funds

The professional's guide to ETFs



The lower half of the page features a large, abstract graphic composed of overlapping, semi-transparent geometric shapes in various shades of blue and purple. These shapes, including polygons and irregular forms, create a complex, layered effect that suggests movement and depth, serving as a modern, professional background for the document.

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Foreword

Today, we believe the investment industry is poised for an awakening.

Exchange-traded funds (ETFs) are taking the investment industry by storm. Anyone flipping through the pages of a trade publication or tuning in to a financial cable channel will almost certainly be exposed to ETFs in some way, shape or form. According to the Investment Company Institute (ICI), U.S. ETF assets have more than tripled over the last five years, growing from approximately \$150 billion at the end of 2003 to nearly \$500 billion at the end of 2008.¹

That puts ETFs on par with mutual fund acceptance from the late 1970s; they're a historically aggressive investment vehicle poised at the early stages of a growth cycle.

In spite of all this visibility and growth, many investors remain unsure of what ETFs are and how they work. This handbook is here to help. In clear, concise terms this guide explains this new, powerful and complex world of exchange-traded funds, including:

- What exactly are ETFs?
- How do they differ from mutual funds?
- What are the benefits?
- What are the tax consequences?

We hope this ETF handbook awakens you to the importance of these innovative investment tools.

Evolution of the ETF Industry

The vast majority of ETFs track indexes or baskets of securities; therefore, the performance of an ETF should typically reflect the performance of its underlying index or basket, before fees and expenses. Because all indexes are not created equal, the performance and investment objectives of ETFs can vary substantially. Consequently, it is important to thoroughly understand the structure, objectives and performance of the underlying index before investing in the corresponding ETF.

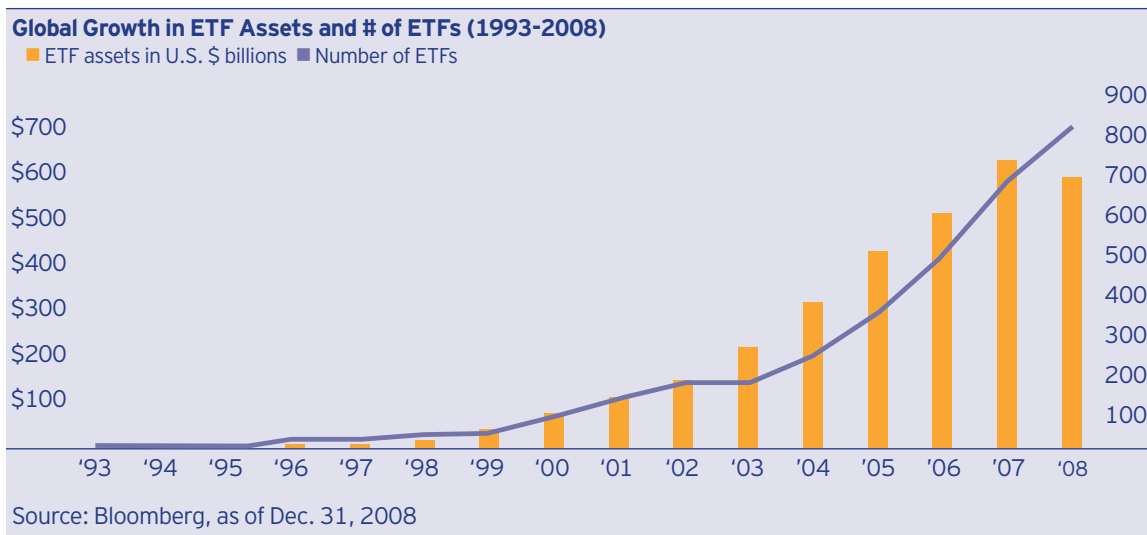
ETFs are investment portfolios that trade like stocks on an exchange. Index-based ETFs hold a collection of securities designed to track the performance of an index (or basket of stocks) with a specific investment objective. Although ETFs have some characteristics in common with open-end mutual funds and listed investment products, they also possess distinctive features and benefits. This guide aims to increase the reader's general understanding of ETFs and provide detailed insight into an ETF's operational structure, overall advantages and portfolio applications.

The first ETFs were based on some of the largest and most widely followed benchmark indexes in the world, such as the Dow Jones Industrial Average and the S&P 500 Index. In light of this, many investors and financial professionals initially associated ETFs with the concept of passive traditional benchmark indexing. Often, traditional indexes use market-capitalization weighting, meaning they hold stocks in proportion to their total stock market value relative to others in the index. As each stock's price goes up and down, so does the weight of each index component. Until recently, methods of index construction had advanced little over the decades. The Dow Jones Industrial Average, which originated in 1882, existed well before the Model T and the Wright Brothers' famous flight at Kitty Hawk. The origins of the S&P 500 Index and market-cap-weighting date back to 1923, long before zip codes and television.

ETFs were first introduced in the U.S. in 1992, and their origins were relatively humble. In 1999, there were just 32 ETFs trading in the U.S. market, representing only \$36 billion of total assets, according to Morgan Stanley. However, in recent years, ETFs have been among the fastest growing financial products in the world. Through the end of 2008, the U.S. ETF industry consisted of 736 funds holding \$530 billion in total assets. Globally, the ETF market comprises 1,590 funds holding \$711 billion in total assets as of Dec. 31, 2008.¹

To fully appreciate the explosive growth of ETFs, consider the growth of the mutual fund industry during a similar period of incubation. According to ICI, it took the U.S. mutual fund industry, born in 1924, until 1986 to cross the \$500 billion threshold. In other words, ETFs have accomplished the same market acceptance (measured by assets) in 16 years that it took mutual funds 62 years to achieve.²

Mutual fund assets soared in the 25 years after 1984, growing to \$9 trillion by the end of 2008.² We believe ETFs appear to be on a similar growth trajectory.



1 Source: BGI, as of Dec. 31, 2008

2 Source: ICI, as of January 2009

Origins of an Investment Revolution

Over the last couple of years, a new generation of indexes has emerged that serves as the basis for investment products in the innovative ETF industry. Some “next-generation” indexes use non-traditional component weighting structures, such as “fundamental-weight.” (This is explained in-depth in the Traditional versus Advanced Indexing Concepts section.) Another type of next-generation index is the “intelligent index,” which seeks to provide a representative index composed of stocks believed to have the greatest capital appreciation potential. Intelligent indexes utilize sophisticated quantitative securities research to determine the investment merit of a company’s stock.

With the introduction of intelligent indexes, the industry has split into two very distinct segments: ETFs based on traditional indexes and ETFs based on next-generation indexes. As financial professionals’ and investors’ need for additional products continues to grow, unique investment applications are emerging for each group.

■ ETFs based on traditional indexes can be divided into four main types based on their weighting structures:

- Dollar weighted
- Market-cap weighted
- Float weighted
- Equally weighted

Traditional indexes work best for providing simple and direct exposure to various market-cap ranges, global regions or sectors. They are very effective in delivering passive participation in a particular market segment when standard performance is the primary goal. They are specifically designed to produce the average investment performance for the group of securities they track. For example, the S&P 500 Index is a traditional index that seeks to mirror the performance of the average U.S. stock market investor. By participating in an ETF paired with this index, an investor can expect to experience performance similar to that of the average domestic equity investor, in a low-cost and tax-efficient investment vehicle.

■ ETFs based on next-generation indexes seek to deliver better investment performance. PowerShares groups them into 10 categories:

- Access
- Asset allocation
- Fundamentals weighted
- Income
- Selection
- Active
- Earnings
- Green
- Resources
- Strategies

Building on Fundamentals

Access

Provides targeted exposure to niche areas of the market. In the not-so-distant past, the only way for an investor to access niche areas was to work with his advisor to research the stocks. Investing in a single industry is riskier than taking a more diversified approach. But, for investors who want targeted exposure to a specialized slice of the market, investing in a handful of companies can be less risky than investing in just one. Niche funds provide targeted exposure but may lessen the potential impact of company-specific risks, such as earnings announcements and management decisions.

Investing in securities of small and medium-sized companies involves greater risk than is customarily associated with investing in more established larger-sized companies.

Active

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. 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.

Index-based ETFs are not actively managed. Actively managed ETFs do not necessarily seek to replicate the performance of a specified index.

Actively managed ETFs have a limited trading history and, therefore, there can be no assurance as to whether and/or the extent to which the shares will trade at premiums or discounts to NAV, which is the market value of a fund share.

Asset allocation

Strategic asset allocation is an investment strategy that seeks to balance risk and reward in a portfolio by spreading investments over several types of asset classes, such as equities and fixed income. Strategic asset allocation is widely considered to be the basis of a properly designed long-term investment program for many investors and institutions. Because different kinds of investments tend to perform differently over time, investing in a variety of asset classes may reduce a portfolio's exposure to a downturn in any one particular type of asset. Additionally, a global approach to strategic asset allocation increases the opportunity to capitalize on more of the world's long-term growth than a portfolio including only domestic securities. In general, ETFs are tax-efficient, liquid, fully transparent and provide access to nearly every major asset class. We believe these attributes make ETFs an ideal asset allocation tool for portfolio managers, institutions and individual investors.

Earnings

Many investors view their portfolios as a dichotomy between stocks and bonds. Stocks provide growth potential, and bonds provide income. Stocks are for long-term investors, and bonds are for short-term investors. But there's another asset class that can bridge these two worlds: equity income. Equity income refers to dividend-paying stocks, which can provide both income and growth potential. Dividend-paying investments offer growth potential that may help counteract the effects of inflation. Stock dividends typically increase as a company's profits increase. And, as with all equity investments, there's the potential for a stock's price to rise, increasing the value of a portfolio. It should be noted that this strategy does not assure a profit and does not protect against loss in declining markets.

Fundamentals weighted

The unprecedented advances in technology during the last 20 years have significantly increased our knowledge and understanding of the financial markets. Today, relatively new indexes have emerged offering a measure of the market that is based on more than just the size of its constituents. Fundamentals weighted indexes were created for use in the sophisticated investment approaches used by many investment professionals today. These new advanced portfolio management techniques demand refined investment strategies, such as FTSE RAFI indexes, that provide the full use of robust financial technology in seeking to deliver the best portfolio performance and efficiency possible.

Invesco PowerShares does not offer tax advice. Investors should consult their own tax advisors for information regarding their own tax situations.

Shares are 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.

Green

Clean water. Clean air. A clean earth. These basic needs are universal for every person in every nation. We've long understood this – nearly 40 years ago Gerald Ford made a call to action to clean up the earth, and yet, the environment has remained a fringe issue. We believe that's changing. Today, technology, economics and politics are converging to finally push environmental issues off the sidelines and to the center of our global consciousness. We believe the green movement is not just a trend. Governments, corporations, venture capitalists and private equity companies have all poured money into green initiatives. Individual investors may see this activity and wonder, "What investment opportunities are available to me?" The answer is: plenty. One way to invest is to buy shares of an ETF that focuses on green companies. This helps to lessen the company-specific risk that comes through buying a single stock, while still offering focused exposure to the sector. There are numerous options in the "green fund" space. Due diligence is required to find the right fit for your portfolio.

Investments focused in a particular industry are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments. There are additional risks associated with investing in companies involved in the transportation industry.

Income

Many investors understand the importance of calibrating their stock portfolios to ensure exposure among different investment styles, market-cap sizes and global regions. Often, however, those same investors neglect to give the same attention to their fixed-income portfolio. They may simply tack on a bond fund or two and call it a day. But diversifying your fixed-income portfolio is just as important as diversifying your stock portfolio. Different types of bonds react differently to interest-rate changes. Some bonds are taxable; others are tax free. They can be issued by any government entity – federal, state or local, in the U.S. or another country – or by corporations. By working with your financial advisor, you can craft a fixed-income portfolio that has exposure to bonds of varying credit qualities, maturities, tax treatment and global regions. This strategy may help you avoid being caught off-guard when market conditions and interest rates change.

Resources

Commodities and currencies are global resources that can play an important role in an investment portfolio. They can expose investors to economic growth with relatively low correlation to stocks and bonds. This means their returns have not historically been tied to the returns of stocks and bonds, which is an important factor in balancing a portfolio's overall risk level. Navigating the futures market for currencies and commodities, however, can be a daunting task. Purchasing, storing and reselling physical quantities of soybeans or gasoline isn't exactly reasonable for the average investor. And, while investors can purchase stocks of companies that are involved with commodities – such as oil, agriculture or mining companies – those investments do not offer pure commodity exposure because they are affected by company-specific factors such as management and earnings. ETFs, on the other hand, can give individual investors pure, straightforward access to commodities and currencies. Through the purchase of ETF shares, exposure to gold and U.S. dollars can be added to a portfolio as easily as stocks or bonds.

Commodities and futures generally are volatile and are not suitable for all investors. The Fund will be successful only if significant losses are avoided. Funds focusing on a single sector generally experience greater volatility. Please review the prospectus for specific break-even figures for the Fund.

Selection

Asset allocation has become a precise science. Financial advisors carefully craft client portfolios, seeking an optimum balance between growth and value stocks; large-, mid- and small-cap companies; and domestic and international securities. When the lines become blurred between asset classes, this balance is thrown off, which can cause unexpected and disappointing performance results. Traditional benchmark indexes, such as the widely known S&P 500 Index, were developed to represent a snapshot of the overall market. Some passive index funds are simplistic in their definitions of growth and value – in some cases making that distinction using only a single style determinant such as price-to-book ratio – which can lead to imprecise segment representations. Such imprecision may ultimately undermine an otherwise solid portfolio. The Dynamic indexes use a tiered-weighting methodology, an approach that attempts to improve diversification by creating more uniform exposures across size groups within the index, mitigating single-stock exposure found in traditional cap-weighted indexes.

Strategies

Investors may be most familiar with our Dynamic ETF family, which uses "Intelligent" stock-selection techniques, or our FTSE RAFI ETF family, which weights stocks according to company fundamentals. But there are many other quantitative strategies in our lineup that may interest investors looking for innovative, next-generation investments. Invesco PowerShares has teamed with some of the industry's most innovative index providers – the Chicago Board Options Exchange (CBOE), Dorsey Wright & Associates, Mergent, Value Line and Zacks Investment Research – to provide ETFs that follow quantitative investment strategies. These strategies are grounded in extensive research, market data and proprietary methodologies.

Understanding the Benefits of ETFs

ETFs seek to offer investors a low-cost, tax-efficient investment in a professionally crafted portfolio consisting of some of what they believe to be the best managed companies and most timely investments. To the left is a chart that compares ETFs to other investment vehicles. Please see important risk factors at the end of this document.

Benefits of Dynamic ETFs				
Rules-Based Methodology				●
Tax-Advantaged Product Structure ²				●
Professional Management ⁴	●	●		●
Lower Expenses ¹	●			●
Intraday Liquidity ³	●		●	●
Portfolio Transparency	●		●	●
Fully Invested	●		●	●
	Stocks	Mutual Funds	Managed Accounts	ETFs

Source: Invesco PowerShares Capital Management

Low ownership costs¹

ETFs provide low ownership cost because of their efficient product structure. Transactional costs generally associated with the buying and selling of securities in a mutual fund are substantially reduced by the unique in-kind operational structure of ETFs. Consequently, the low ongoing ownership costs of ETFs can be very attractive to investors. ETF ownership costs on average are less than comparable actively managed mutual funds and even lower in many cases than index mutual funds. Ordinary brokerage commissions apply when buying or selling ETF shares on an exchange; however, these costs can be very economical for investors who buy and hold, when compared to an investment with higher annual fees.

Tax-advantage product design^{2,3}

Shareholders of ETFs can defer most and possibly all capital gains, due to creations and redemptions in the fund, until they sell their shares. Some ETF sponsors have never declared a capital gain distribution from any of their ETFs. The in-kind structure of an ETF allows it to manage its taxable positions in a way that substantially mitigates the risk of capital gains distributions to shareholders. Taxes are one of the greatest drags on investment returns, and if the impact of taxes can be greatly reduced or eliminated until the shares are liquidated, investors may enjoy a greater rate of compounding and opportunity for wealth creation over time. The information presented in this document does not constitute tax advice. Please consult your tax advisor for specific information about your tax situation, including any state tax consequences of an investment.

Trade at or near Net Asset Value (NAV)

ETFs trade like stocks with orders placed and executed throughout the trading day on a stock exchange. ETFs may be purchased using the same types of orders that investors use for stocks, including limit and stop-loss orders. However, ETF shares are not individually redeemable from the fund itself; only authorized participants may acquire shares and tender shares for redemption, and they may do so only through creation unit aggregations. While the creation and redemption processes tend to encourage an ETF to track its NAV, an ETF can nevertheless trade at a premium or discount to NAV.

Portfolio transparency

ETFs disclose and publish their full portfolio holdings daily, as well as any changes to their holdings, allowing investors to know precisely what they own at all times.

Intraday indicative value

The Intraday Indicative Value (IIV), the value of the underlying basket of stocks, is calculated and disseminated at least every 15 seconds. This allows an investor to know the value of the underlying portfolio at every moment during market operations. ETFs' open-end structure allows liquidity to be added or taken from the market almost instantly.³

1 Ordinary brokerage commissions apply. ETFs are considered low cost in comparison to the costs associated with owning the average mutual fund.

2 It is important to note that Invesco PowerShares does not offer tax advice. Investors should consult their own tax advisors for information regarding their personal tax situation. The ETF product structure is considered to be tax-advantaged because of a LI-FO in-kind tax-management strategy.

While it is not Invesco PowerShares' intention, there is no guarantee that the Funds will not distribute capital gains to its shareholders.

3 Shares are 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.

4 Invesco PowerShares has five actively managed ETFs.

Fully invested

Unlike mutual funds, which typically maintain cash reserves to meet redemptions, ETFs can be nearly fully invested. This gives ETFs a potential advantage over index mutual funds in their index-tracking ability.

Sell short on downtick

ETF units can be purchased on margin or sold short. This creates opportunities to use ETFs in hedging strategies and in managing concentrated stock positions. Investors interested in these strategies should note that they may be required to meet certain margin requirements when selling a stock short and that potential losses may accelerate if the stock's price moves up.

Short selling may require investors to meet margin requirements and potential losses may be accelerated.

Innovative indexes

Intelligent indexes provide sophisticated asset management and research in an objective and disciplined structure. When these indexes and ETFs are paired together, investors can participate in strategies that target specific performance objectives in a very efficient manner.

Options

Options are available on ETFs. No option strategy can eliminate risk, including the possible loss of principal. Option strategies, in particular, may result in the total loss of principal in a short period of time. Please note that options are not suitable for all investors and they may carry substantial risk.

Index tracking

Most ETFs are required to maintain a 99% correlation to their index. This makes them reliable tools for implementing sophisticated portfolio strategies and maintaining specific market exposure.

Targeted exposures

ETFs have become one of the most effective ways to add (or subtract) a specified amount of portfolio exposure to targeted markets, styles, sectors or themes. Sold short, they also can help reduce or control market exposure or risk.

Convenience

All ETFs are held in street name with a brokerage firm, making it easy to buy, sell or transfer shares. In one popular ETF structure, an open-end fund, dividends can be automatically reinvested into new units. ETFs can be listed on the consolidated statements of brokerage firms, along with clients' other assets.

Accessibility¹

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

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ETF Mechanics: How They Work

Creation and redemption units

By definition, an ETF can create new shares or redeem existing shares to meet market demand. Investors who have contractual agreements with the funds are called authorized participants (APs). APs are the only investors who may create and redeem shares of an ETF and only in large, specified quantities called Creation/Redemption Units.

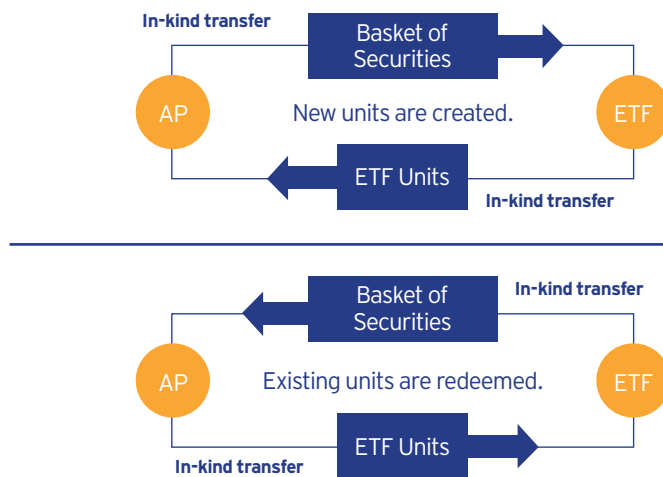
The AP may create new ETF shares by providing the fund with a specified basket of stocks – a Creation Unit (CU) – and the fund will respond by transferring the corresponding number of the ETF shares to the AP. Likewise, an AP can redeem ETF shares by providing the fund with a specific number of ETF shares – a Redemption Unit – and the fund will transfer to the AP the specific basket of stocks. This is considered an “in-kind transfer” of assets and has no cost or tax impact on the ongoing shareholders of the ETF. Creation/Redemption Unit sizes range from approximately 50,000 to 100,000 ETF shares.

Most APs are large institutional traders, and the process of creating and redeeming ETF units works behind the scenes, scarcely visible to retail investors. This is beneficial, however, as it allows professional traders to increase ETF market liquidity and trading efficiency.

If an ETF's unit price begins to diverge from the NAV of its portfolio, market professionals can earn small profits by buying units and selling baskets of underlying securities. This serves to bring stability to an ETF's market price and greatly reduces the risk of premiums and discounts to the NAV of the ETF portfolio.

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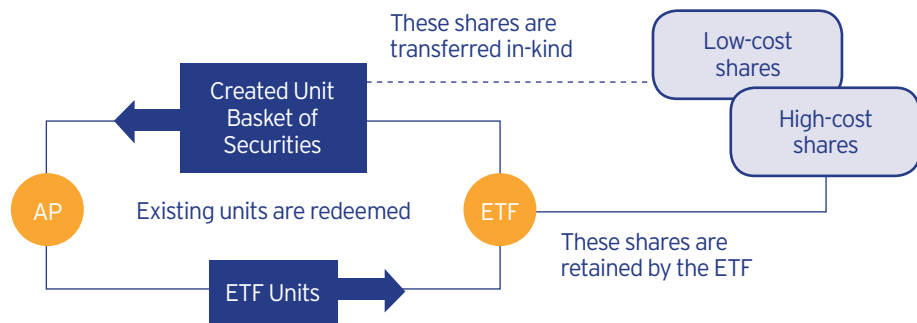
How ETF Units Are Created and Redeemed



How ETFs achieve tax efficiency

In distributing securities to APs, the ETF transfers shares with a low-cost basis. Since these shares are transferred in-kind for equal value, there is no taxable gain or loss on the transaction. Meanwhile, the ETF retains high-cost basis shares – those that, if sold, would generate the most favorable tax treatment. At times, the ETF may sell its high-cost basis shares to generate tax losses, and these can be used to offset taxable gains in the same year. This technique is not operationally feasible for mutual funds, including index funds, because all investors participate in the primary market and purchase and sell shares for cash. Through the in-kind redemption process, many ETF providers have been able to avoid making any capital gain distributions to date.

How an ETF Can Reduce Taxable Distributions on Realized Portfolio Gains



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Dispelling ETF Myths

Many of the myths surrounding ETFs are rooted in misunderstandings of the product's structure and how it trades on the exchange. Since ETFs are relatively new and trade on an exchange like common stocks, it is understandable that some investors believe the generally accepted trading principles for stocks should also apply to ETFs. In other cases, ETF myths were always distortions of reality.

Myth #1: ETF liquidity is based on trading volume.

An ETF's liquidity is not predicated on its own trading volume, but, rather, it is based on the overall liquidity of the underlying securities in the portfolio. This is because new ETF shares can be created and existing shares can be redeemed almost instantaneously. Therefore, the liquidity of the stocks that make up the portfolio actually has the greatest impact on an ETF's liquidity. Since shares can be created and redeemed almost instantly, there is never a risk that the float is too thin or that shares will not be able to be sold on the exchange.

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Myth #2: In ETFs, as in mutual funds, inflows and outflows of assets and portfolio turnover substantially increase the risk of capital gain distributions.

The ability of ETFs to reduce capital gain distributions by transferring the lowest-cost basis shares in-kind to APs is a benefit enjoyed by all ETFs. The ETF's in-kind operational structure is very effective, from a tax management standpoint, in handling creations and redemptions in the fund as well as changes in portfolio composition. Therefore, index rebalancing and capital flows into and out of an ETF have little impact on its ability to protect shareholders from unwanted capital gain distributions.

While it is not Invesco PowerShares' intention, there is no guarantee that the Funds will not distribute capital gains to their shareholders. Although we do not intend to distribute capital gains, investors selling shares in the market may incur capital gains. Investors should consult their tax advisors regarding their own tax situations.

Myth #3: ETFs have low transaction costs because they are based on indexes with lower turnover.

ETFs have low transaction costs because of their in-kind transfer structure and the process of new share creations and redemptions, both of which reduce inflows and outflows of cash in the fund. When new shares of an ETF are created, the actual securities in the fund are transferred to the fund as a form of payment for shares of the ETF. Because the manager receives securities and not cash, the fund is already fully invested and no transactions are necessary to purchase or sell securities. When there are changes to the composition of the portfolio, some of the changes can be handled in a similar manner, further reducing costs.

Myth #4: While ETFs theoretically can be sold short on a downtick, many brokerage firms do not allow investors to do this regularly.

Brokerage firms must have an inventory of ETF shares available to lend in order for customers to be able to sell them short. In the past, relatively few investors (with margin accounts) held ETF shares, and this constrained brokers' ability to lend them. As more investors deposit ETF units into margin accounts, brokerage firms will have more shares available to lend, and this will increase the supply of ETF shares available for short-selling.

Traditional Versus Advanced Indexing Concepts

A financial market index is the mathematical representation, usually through a single number, of the absolute price changes and/or returns of a specified group of securities. An index can be calculated on any group of securities, although the index components typically share a relationship or commonality (i.e., research, size, style, industry, sector, investment merit ratings, country, exchange, etc.).

- The representation – By tracking investment performance of a group of securities (“index components”), investors can better understand the trend, direction and strength of financial markets. Indexes do not hold securities, distribute dividends or pay taxes. You cannot buy them; they exist only “on paper.”
- The calculation – The calculation of index values involves three steps:
 - 1) The current value of the index is recalculated daily with updated prices of all components.
 - 2) The index makes changes in components through a “reconstitution” or “rebalancing” process defined by the index owner.
 - 3) The index provider monitors components and makes adjustments for such events as stock splits, stock dividends, mergers and de-listings.

Most index owners are established analytical firms or stock exchanges, such as Standard & Poor's, Wilshire Associates, the New York Stock Exchange and the American Stock Exchange (Amex). They establish clear indexing methods and apply them consistently across all market environments.

Three dimensions of an index

When Alfred Cowles, a pioneer of stock market statistics, created the S&P 500 Index in 1923, he said that its purpose was to “portray the average experience of U.S. stock market investors.” This is still true of that index today. However, when the S&P 500 Index was created, the average investor did not have a personal computer, access to the Internet or 24-hour financial news on cable television. Clearly, today's investors are more informed and interested in specialized styles, sectors and themes than their counterparts of the past.

Due to experiences like the bull market of 1995 to 1999 and the bear market of 2000 to 2002, investors know how quickly market trends can change, and they are more aware of the need to make portfolio adjustments and manage risk. One objective that this new generation of indexes has pursued is to portray the average experience of a more intelligent, informed and dynamic U.S. stock market investor. The construction of these indexes is different than that of traditional benchmarks like the Dow Jones Industrial Average and S&P 500, and so are the investment applications. To understand how next-generation ETFs are creating new investment opportunities, it is important to know how indexes are constructed. Any index can be evaluated by understanding its three dimensions:

- Universe – The group of securities from which an index draws components
- Construction – How components are selected, changed and weighted
- Objectives – What the index is designed to measure or achieve

Traditional Versus Advanced Indexing Concepts

Let's identify these dimensions in some of the best-known traditional and next-generation indexes in the U.S. market:

- **Dow Jones Industrial Average (DJIA)** – The universe includes large and well-established U.S. corporations, from which 30 components are chosen. The construction is performed by a committee that selects and changes components, and index values are calculated under an adjusted “price-weighted” method. The objective is to track average U.S. equity market performance. (Note: This objective is often abbreviated as “core U.S. equity.”)
- **Standard & Poor's 500 Composite Stock Price Index (S&P 500)** – The universe is large U.S. corporations, from which 500 representative companies are subjectively chosen. The construction is performed by a committee that selects and changes components, each of which is float-adjusted market capitalization weighted.
- **Dynamic Market Intellidex (DMI)** – The universe is the 2,000 largest U.S. exchange-traded corporations, from which 100 companies are chosen. The construction is performed in three steps using an objective quantitative methodology. First, all companies in the universe are evaluated for their investment merit. Second, companies are categorized into sectors and sizes (large and mid-to-small). Third, the appropriate number of top-rated, large-cap companies is selected and the appropriate number of top-rated, mid-to-small-cap companies is selected. Large-cap stocks are equal-weighted and mid-to-small-cap stocks are equal-weighted by sector mirroring the overall market. These indexes are rebalanced and reconstituted quarterly. The objective is to outperform core U.S. equity while providing precise exposure.

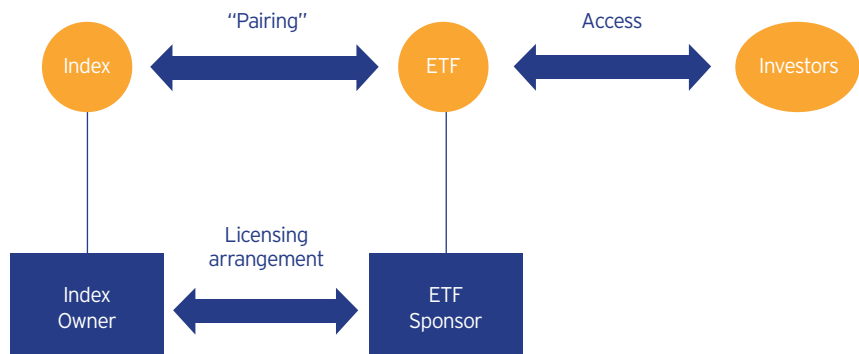
Indexes work best when they maintain consistent methods over time, and the DJIA and S&P 500 are prime examples. The modern DJIA dates back to 1896, and the S&P 500 was introduced in 1923. For decades, both indexes have had the same basic universe, methods and objectives. This has made them well known in the minds of investors, as well as attractive licensed properties. Standard & Poor's estimates that more than \$1 trillion in capital is directly indexed to the S&P 500 via dozens of index funds.

Intelligent indexing methods were enabled by computers and began to be widely adopted by the investment industry only in the past quarter century. Traditional indexes like the DJIA and S&P 500 can be (and originally were) calculated by hand, without the benefit of computers. Computing power has enabled the creation of many newer indexes with more sophisticated and diverse universes, methods and objectives.

The relationship between indexes and ETFs

Index owners profit by licensing the rights to use their indexes to investment sponsors, including index mutual funds and ETFs as well as research organizations and exchanges. The fund sponsor licenses rights to “pair” a particular fund with the index for purposes of replicating (or sampling) its components and marketing the index's name to the public. It is this pairing process that makes indexes accessible as an investment. ETFs use indexes as a guide for investment selection. Without a partnership between index owners and fund sponsors, indexes would remain theoretical concepts and calculation exercises, not viable investment choices.

Relationship between Indexes and ETFs



Performance differences between indexes and ETFs

Two primary factors can cause the performance of an index fund to diverge from that of the index it tracks:

- **Fees and expenses** – Most index funds (including ETFs) lag index performance by the amount of their total fees and expenses. Because indexes are mathematical representations, they have no comparable costs. Investors should regard an index fund's fees and expenses as the cost to access the index.
- **Index reconstitution or rebalancing** – All indexes change components at times, and index funds usually cannot achieve these changes at the exact same prices that the index calculates them to be on paper.

Index reconstitution and rebalancing

Another characteristic of today's informed investors is that they make portfolio adjustments warranted by changing markets. In a traditional index like the S&P 500, components are changed by a committee that works deliberately to review long-term developments and trends.

An alternative to a committee approach is the mechanical reconstitution process adopted by many modern indexes. For example, Russell's indexes are reconstituted annually by re-evaluating and ranking stocks within each index's universe.

Through an approach developed by the Amex and used in Intellidex indexes, all components are evaluated and ranked quarterly based on a predetermined investment methodology. In rapidly changing markets, between 25% and 50% of index components may change in Intellidex indexes each quarter. The in-kind operational structure of an ETF is designed to efficiently handle this level of turnover, where as this amount of turnover has the potential to create unwanted tax and cost consequences for an index mutual fund or separately managed account.

Intellidex indexes respond to current market conditions and performance – just as today's informed investor would. While these indexes technically are “passive” in construction (because they lack a human manager), they unite the potential benefits of active portfolio management with the objective structure of indexes, creating a disciplined response to dynamic markets.

Market-cap weighting and fundamentally weighted structures

In a market-cap-weighted index, growth companies and large companies tend to receive a significant overweight relative to other constituents of the index. As the ability to evaluate the market and market data have improved, several concerns have arisen regarding using market-cap-weighted indexes as investments.

- **As an investment approach** – Indexes with a cap-weighted structure force investors to utilize a portfolio management strategy that potentially overweights overpriced companies and underweights undervalued companies contrary to sound investment principles.
- **Growth bias** – We believe cap-weighted indexes tend to have a growth bias because their structure perpetually adds more weight to overvalued growth companies, thereby reducing the weight of undervalued companies. This occurs due to the forward pricing of the stock market, which results from analysts' projected future earnings for a particular company. Growth companies receive higher multiples of growth and therefore receive a greater weight in the index, tilting the exposure of the index toward growth stocks.
- **Market speculation and volatility** – Market-cap-weighted indexes allow the market to dictate the weight a stock receives in an index. This is of concern because market speculation can cause significant mispricing of stocks, which in turn results in improper weights in the index and exposure for investors. A good example of this phenomenon occurred during the 1999 to 2000 “bubble,” when newly formed Internet companies with no earnings and hyped growth projections experienced skyrocketing market-caps resulting in index weights far in excess of their fundamental value.
- **Distorted measures of the economy** – We believe market-cap-weighted indexes do not provide a current or accurate representation of the economy; rather, they mirror the volatility of stock prices, which incorporate analysts' expectations, emotions and Wall Street's growth projections. These benchmarks integrate all of the emotion in the market, creating greater volatility in the share values than the companies are actually experiencing in their businesses.
- **Concentration** – In cap-weighted indexes, a significant portion of the portfolio tends to be concentrated in a relatively low number of stocks. For example, as of Dec. 31, 2008, the top 10 stocks in the S&P 500 Index, representing just 2% of all components by number, accounted for 23% of total index value and performance, as shown in the table to the left.

10 Largest S&P 500 Index Components		
Market Stock	Cap	% of Index
Exxon Mobil	406.07	5.17
Proctor & Gamble	184.58	2.35
General Electric	170.15	2.17
AT&T Inc.	167.95	2.14
Johnson & Johnson	166.00	2.11
Chevron Corp.	150.29	1.91
Microsoft Corp.	148.72	1.89
Wal-Mart Stores	125.34	1.60
Pfizer, Inc	119.42	1.52
JPMorgan Chase & Co	117.68	1.50
Totals:	\$1.756 trillion	22.36

Source: Standard & Poor's, as of Dec. 31, 2008

Building on Fundamentals

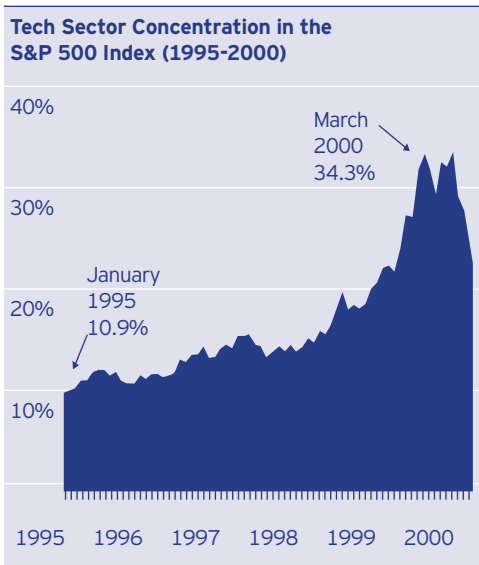
A market-cap-weighted index is inertia-driven. Components do not need to be rebalanced to maintain index construction because the market itself causes each component to automatically adjust weighting in proportion to value. If a component's market value goes up, so does its weight in the index.

The result is that in an ETF paired with a market-cap-weighted index, investors face the risk of having capital concentrated in a few components. If the stock market keeps moving higher, as it did from 1995 through 1999, the most popular stocks tend to grow larger in value, and index concentration in these stocks will keep increasing.

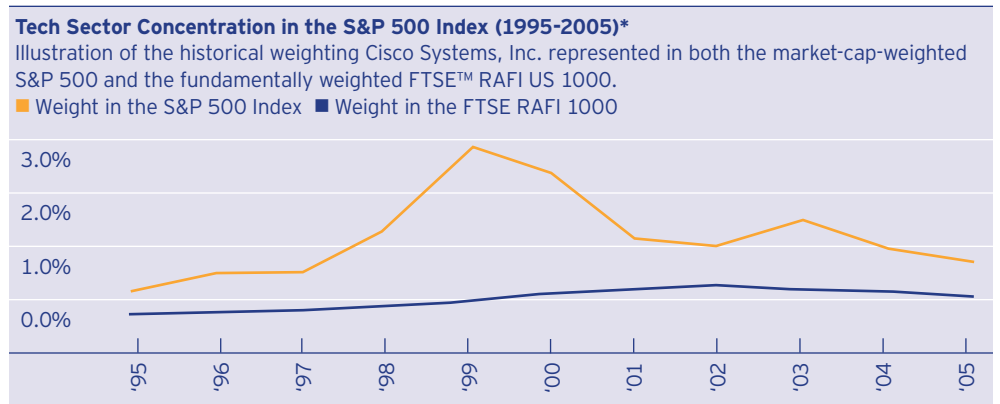
The chart below shows how the S&P 500 Index's weighting in the technology sector kept increasing through the bull market of 1995 to 1999 – more than tripling the tech sector concentration. Of course, when tech stocks began to decline sharply in value in mid-2000, so did the S&P 500 Index, which then had more than one-third of its total weight in this one sector.

Today's informed investors know that risk increases when too much value is concentrated in a small group of stocks or a particular sector. In a momentum-driven stock market like 1995 to 1999, investors may decide to make adjustments that avoid excess exposure in any sector, especially one as volatile as technology.

Alternative weighting methods have been adopted by several different index providers in an attempt to reduce the risk of the market capitalization effect. Over exposure created by the market capitalization effect can easily be seen in the example below of Cisco Systems, Inc. during the Internet bubble compared to its weight in a fundamental index.



Source: Bloomberg, as of Dec. 31, 2008



Source: Research Affiliates, as of Dec. 31, 2005

* Graph illustrates the S&P 500 Index performance prior to float-adjusted market capitalization weighted component.

Overview of Indexes and Providers

Family	Dynamic Intellidex	Dow Jones	Russell	S&P Citigroup	FTSE RAFI
Starting Universe	Amex Dynamic Market Intellidex Universe	Dow Jones Total Market	Russell 3000	S&P Citigroup Composite 1500	FTSE RAFI
Total Number of Stocks	2,000	1,600+	3,000	1,500	2,500
Percentage of Market Represented	97%	97%	98%	87%	98%
Eligibility	Stocks of the largest 2,000 companies domiciled in the U.S. and listed on a U.S. exchange	95% of the market cap of stocks domiciled in the U.S. and listed on a U.S. exchange	Stocks of the largest 3,000 companies domiciled in the U.S. and listed on a U.S. exchange	Stocks of the U.S. domiciled companies listed on U.S. exchange chosen by an index committee	Stocks of U.S. domiciled companies whose prices are available and listed on a U.S. exchange
Exclusion Criteria	ADRs, LPs, bulletin board, tracking stocks, holding companies	ADRs, LPs, Bulletin Board, Tracking stocks, Holding Companies	Price > \$1.00, ADR's, LPs, Bulletin Board	Subject to index committee rules	N/A
Reconstitution Frequency	Quarterly	Semi-Annual	Annual	Ad hoc	Annual
Weighting	Tiered size groups	Free float	Free float	Market cap	Fundamental
Cut off Method for Cap Break Points	Fixed number of stocks	Market cap percentage	Fixed number of stocks	Fixed number of stocks	N/A
Unique Cap Classification	Yes	Yes	Yes	Yes	Yes
Unique Style Classification	Yes	Yes	No, stocks may be included in multiple style groups	Yes	N/A
No. of Style Factors¹	10	6	2	7	N/A
Value Factors²	Forecasted earnings/price, sales/price, cash flow/price, book/price, dividend yield	Forecasted earnings/price, earnings/price, book/price, dividend yield	Book/price	Book/price, cash flow price, sales/price, dividend yield	N/A
Growth Factors³	Long-term earnings growth forecasts, 1-year sales growth, 1-year cash flow growth, 1-year book value growth, 1-year earnings growth	Long-term earnings growth forecasts, 5-year trailing earnings growth	Long-term earnings growth forecasts	5-year earnings growth, 5-year sales growth, 5-year internal growth	N/A
Alpha Objective⁴	Yes	No	No	No	No
No. of Investment Merit Factors⁵	25	None	None	None	4
Investment Merit Evaluation⁶	Fundamentals, valuation, timeliness and risk	None	None	None	Sales, cash flow, book value and dividends

1 The number of style determinates used to provide comprehensive and precise delineation between growth and value securities.

2 The value determinates used with each index in attempt to achieve mutually exclusive security selection.

3 The growth determinates used with each index in attempt to achieve mutually exclusive security selection.

4 A measure of performance on a risk adjusted basis.

5 A combination of independently matched factors with weighted factors.

6 Investment merit factors are combined to create a comprehensive composite score for each stock.

Objectives and Providers of Next Generation Indexes

Many new developments in indexing are focusing on achieving different investment objectives rather than simply providing exposure to broad U.S. markets. In general, next-generation indexes are designed to be used as the basis for investment products and to improve the investor's experience. These objectives are described below.

■ Performance

Under the Intellidex™ brand, the Amex has led the development of a wholly different type of index objective. This objective might be described as mirroring the composition of specific markets, styles or sectors/industries while also seeking to outperform those markets. This is done by creating indexes from companies and stocks shown to have investment merit, which seeks to select stocks primarily for their industry exposure regardless of their actual investment value, rather than including all stocks within a given market. The Intellidex methodology is similar to quantitative asset management in a given area of the market. For example, the core U.S. equity index under this brand, the Dynamic Market Intellidex™, selects 100 components each quarter from a universe of the 2,000 largest U.S. stocks, using a proprietary set of fundamental rules developed by the Amex. These rules ensure exposure to stocks across all economic sectors, while limiting exposure to specific industries or companies. The rules include valuation and risk factors that seek to reduce volatility. Each quarter, the stock universe is re-ranked and all components are rebalanced mechanically, using a modified equal-dollar-weight method. Most Intellidex products have an overall exposure similar to that of traditional indexes in the same universes. An Intellidex product's major distinction, however, is found in its selection of specific securities in accordance with consistent rules.

■ Fundamentally weighted

An index with a fundamentally weighted structure is similar to that of a research-based objective, except that it uses fundamental analysis to determine the appropriate weight a stock should receive rather than determining investment merit. An innovator in this area, a joint venture between the FTSE Group and Research Affiliates LLC, has developed a series of fundamentally weighted indexes for both the U.S. and global markets. For example, the FTSE™ RAFI 1000 Index weights the 1,000 largest U.S. companies based on the size of their sales, cash flow, book value and dividends. A fundamentally weighted index provides intelligent exposure to the economy by weighting companies based on their actual financial size, avoiding the mispricings, speculation and other structural risks associated with cap-weighted indexes.

Alternatives to Market-Cap-Weighting Largest Single Market-Cap Stock		
Index Construction Method	Indexes That Have Adopted This Method	Description
Modified Equal Dollar Weight	<ul style="list-style-type: none"> ■ A Intellidex™ series ■ WilderHill Clean Energy Index series ■ Palisades Water Index 	Components are divided into tiers such as large-cap and small-cap. All stocks in a given tier are equal-dollar-weighted. However, the weights vary among tiers.
Fundamental Weight	<ul style="list-style-type: none"> ■ FTSE™ RAFI series 	Stocks are weighted according to their fundamental data and contributions to the economy in terms of book value, income, sales, dividends, etc.
Dividend Weight	<ul style="list-style-type: none"> ■ Dow Jones Select Dividends Index ■ Morningstar Dividend Composite Index 	Components are weighted according to their current dividend yield. Higher dividends mean more weighting.

■ **Purity**

The last several years have seen the introduction of new size and investment style indexes that seek to provide a pure and precise ongoing representation of the intended size and style segments. Several indexers have developed products that divide the U.S. stock market into size groups based on companies' total market capitalizations as well as their "growth" or "value" characteristics. In some style-based indexes, the same stocks may be assigned to both growth and value indexes in varying weights. A "style-pure" index assigns each stock to a discreet style index, with no overlaps. Russell, Standard & Poor's, Morningstar and Dow Jones/Wilshire all offer company size/style-based index products with traditional market-cap weightings. There is a series of PowerShares ETFs based on style-pure Intellidexes that use 10 distinctive style factors to isolate the different sizes and styles with a modified equal-dollar-weight construction.

■ **International/Global**

These indexes track the markets of specific nations, global regions or a group of developed or emerging economies. For example, Standard & Poor's has developed global sector-based indexes to track performance of stocks all over the world, within the same sector.

■ **Dividend**

Within a given universe of stocks, some indexes track stocks of companies that pay the highest historical dividend yields or have the best records of dividend growth. ETFs paired with these indexes may have potential to increase current income while reducing research time and trouble. Mergent's Dividend Achievers Indexes are recognized as leading indexes in this arena. Through the PowerShares Dividend Achievers Portfolios, investors can invest in stocks of companies that have increased their annual dividends each year for 10 or more consecutive years – without having to monitor each company's dividend payout record.

■ **Themes**

These specialized indexes are typically one-of-a-kind and provide exposure to economic trends or investing concepts. Because they are unique and specific, they are usually created and run by a leading research group or experts within the specific industry. These economic trends may develop over time and can cut across traditional sectors, industries or national markets. An example is alternative energy, a theme that includes companies engaged in research and development, chemicals, instruments and semiconductors. Nanotechnology is another theme that includes a variety of industries and companies engaged in developing technologies at the molecular or atomic particle level. Water resources, a natural resource theme, includes companies that are developing, protecting and distributing water to an increasingly thirsty world.

A Fund concentrated in a single industry involves substantially greater risk of loss and price fluctuations than an investment diversified across multiple industries or sector segments.

■ **Research based**

Like Intelligent indexes, research-based indexes incorporate sophisticated approaches to investment research, including proprietary systems for ranking stocks. For example, the analytical firm Value Line has produced a Timeliness™ Ranking System with a track record of more than 40 years. Based on systematic screening, this system ranks 1,700 U.S. stocks for probable relative near-term performance strength. Research-based indexes are hybrids that combine passive characteristics of traditional indexes (e.g., no human manager) with stock selection methods comparable to that of active portfolio managers.

■ **Allocation indexes**

One of the most recent and exciting developments in Intelligent indexing is the creation of an index that allocates among other indexes, creating a complete investment portfolio. The allocations can be determined using a quantitative methodology or by an expert in the area of asset allocation. The Autonomic Allocation Index, developed by the Amex, utilizes Research Affiliates expertise to allocate among all of the Amex Intellidex indexes. One benefit of basing an ETF on these types of indexes is their ability to make allocation adjustments to the portfolio while seeking to mitigate the fee and tax consequences typically associated with these types of changes.

Portfolio Applications of ETFs

ETFs can be very useful tools in an asset allocation program that employs an asset allocation model and then seeks to match indexes to each asset class or investment objective. ETFs can reduce the amount of time financial professionals and investors spend evaluating stocks' or managers' performance, and they may be able to produce less "cost-drag" and "tax-drag" on performance than alternative ways of implementing asset allocation.

Core and satellite

A "core and satellite" investment approach recognizes that overall trends in financial markets account for a large part of total returns over time. The core of the portfolio, often implemented with a core U.S. equity index ETF, is designed to track closely with the market as a whole. The strategy then seeks to add increments of performance value, while also adjusting overall portfolio risk, with the addition of "satellite" positions around the core. Satellites can be:

- Style-based ETFs
- Sector, industry group ETFs
- International, global ETFs
- ETFs that focus on specific themes
- Research-based or intelligent ETFs

Tax-managed strategies

With their tax-efficient characteristics, ETFs can help improve investors' overall after-tax returns in taxable accounts. Buying and holding ETFs long term can result in a fairly high level of tax efficiency. ETFs also can be used in "tax-loss harvesting" strategies. For example, a losing stock can be sold to lock in a tax loss near year end, while an ETF with a similar investment objective is purchased to maintain comparable market exposure.

Invesco PowerShares does not offer tax advice. Investors should consult their own tax advisors for information regarding their own tax situations.

Hedging and risk management

A popular technique used by many hedge funds pairs two investments in the same industry, with one held long and the other sold short. The goal of this strategy is to realize a profit to the extent that the long position outperforms the short, while greatly reducing the market and industry group risks of both stocks. The paired position can profit in either up or down markets. ETFs can be used as either the long or short sides of paired positions.

The hedging long/short investment technique presents higher risks but also offers the potential for higher rewards. The fund may not be appropriate for all investors

Managing concentrated stock positions

Some corporate executives accumulate a larger position in their own company stock than they are comfortable holding. Shorting an ETF in the same industry can be a viable strategy for reducing concentrated stock risk. (Note: Legal restrictions and personal ethics often prevent senior executives from shorting their own company's stock.)

Short selling may require investors to meet margin requirements and potential losses may be accelerated.

Participating in proven methods

The growth of research-based and intelligent ETFs gives financial advisors a viable way to consistently implement a proven investment-selection method without having to evaluate an individual manager or management team. For example, for more than 40-years the Value Line Timeliness™ System has not depended on any particular manager; rather, it has been produced by systematic research consistently applied over time. While past performance does not predict future success, a systematic process such as Value Line's can repeat a disciplined stock-selection method more consistently (and perhaps more objectively) than most human managers can.

Dividends without stock

For clients who need current income from stock dividends, researching individual companies can be very time consuming. Dividend-focused ETFs can provide investors a cost-effective way to participate in some of the best dividend-paying stocks. For example, the Mergent Dividend Achievers 50 Index includes the 50 highest yielding companies with at least 10 years of consecutive dividend increases. If a stock fails to increase its dividend in a given year, it is automatically removed from this index and replaced with a qualified alternative. This process makes it unnecessary for financial professionals or investors to monitor and select dividend-paying stocks on their own.

Themes with enduring strength

Very few financial professionals have the ability to time market cycles; however, it is possible to identify compelling investment themes with profit potential over several years. Alternative energy is an example of a theme that may be implemented through ETFs. To evaluate promising alternative energy companies of the present and future, it takes special expertise, which in this case is provided by Wildershires, LLC. This company has developed its own proprietary criteria for defining public company leaders within this theme, and these leaders then become components of the WilderHill Clean Energy Index. This index is paired with the PowerShares WilderHill Clean Energy Portfolio to create access to a basket of alternative energy stocks. Investors who believe the U.S. economy will eventually move away from dependence on foreign oil by using new technologies may find this idea attractive.

Style-shifting

During the bull market of 1995 to 1999, large-cap growth stocks led all other style-based segments of the U.S. market. From 2000 through 2005, small-cap value stocks assumed leadership. One way to give asset-allocated portfolios more flexibility is by monitoring long-term style leaders and shifting overall portfolio weights in their favor. Style-based ETFs can be effective tools for implementing such shifts because they closely track style-based indexes.

Efficient reviews

Top financial advisors try to meet with their clients periodically to review personal objectives and recent investment performance. Preparing all the data discussed in a personal review session, however, can be a time-consuming job, especially if investors participate with several active portfolio managers or hold a variety of individual stocks. ETFs can help to streamline the time spent researching, planning and discussing investment strategies. Since most ETFs track indexes, investors do not need as much company-specific detail to understand why performance was better or worse than expected.

About Invesco PowerShares Capital Management LLC

Invesco PowerShares is helping investors and financial professionals “invest like never before” by providing value-added ETFs based on innovative, next-generation indexes.

Headquartered in Wheaton, Ill., Invesco PowerShares Capital Management LLC (Invesco PowerShares) continues to develop an expanding line of innovative ETFs with a broad range of objectives, including broad-based core equity, style-based, sector/industry-based, dividend and international/global equity. We are the industry leaders in intelligent ETFs with more than 130 domestic and international exchange-traded funds and franchise assets of over \$25 billion as of Dec. 31, 2008.

To learn more about our firm and investment products, please visit www.invescopowershares.com.

Advisor phone line: 800 983 0903
info@invescopowershares.com

Invesco Powershares Family of ETFs

As of June 30, 2009

Access

PPA	Aerospace & Defense
ADRA	BLDRS Asia 50 ADR
ADRD	BLDRS Developed Markets 100 ADR Index Fund
ADRE	BLDRS Emerging Markets 50 ADR Index Fund
ADRU	BLDRS Europe 100 ADR Index Fund
PXR	Emerging Markets Infrastructure
PQSC	FTSE NASDAQ Small Cap
PBTQ	Global Biotech
PGJ*	Golden Dragon Halter USX China
PIN*	India
PSP*	Listed Private Equity
PXN*	Lux Nanotech
PMNA	MENA Frontier Countries
PNQI	NASDAQ Internet
PNXQ	NXQ
QQQQ*	PowerShares QQQ

Active

PQZ	Active Alpha Multi-Cap Fund
PQY	Active AlphaQ Fund
PLK	Active Low Duration Fund
PMA	Active Mega Cap Fund
PSR	Active U.S. Real Estate Fund

Asset Allocation

PAO	Autonomic Balanced Growth NFA Global Asset
PCA	Autonomic Balanced NFA Global Asset
PTO	Autonomic Growth NFA Global Asset

Earnings

PFM*	Dividend Achievers
PGF*	Financial Preferred
PEY	High Yield Equity Dividend Achievers
PID*	International Dividend Achievers
PGX	Preferred

Fundamentals Weighted

PAF	FTSE RAFI Asia Pacific ex-Japan
PXF	FTSE RAFI Developed Markets ex-U.S.
PDN	FTSE RAFI Developed Markets ex-U.S. Small-Mid
PXH*	FTSE RAFI Emerging Markets
PEF	FTSE RAFI Europe
PJO	FTSE RAFI Japan
PRF*	FTSE RAFI US 1000
PRFZ	FTSE RAFI US 1500 Small-Mid

Green

PZD*	Cleantech
PBD	Global Clean Energy
PKN	Global Nuclear Energy
PTRP	Global Progressive Transportation
PIO	Global Water
PWND	Global Wind Energy

PHO*	Water Resources
PBW*	WilderHill Clean Energy
PUW*	WilderHill Progressive Energy

Income

PLW	1-30 Laddered Treasury
PCY	Emerging Markets Sovereign Debt
PHB	High Yield Corporate Bond
PWZ	Insured California Municipal Bond
PZA	Insured National Municipal Bond
PZT	Insured New York Municipal Bond
PVI	VVRDO Tax-Free Weekly

Resources

DBA*	DB Agriculture Fund
DBB*	DB Base Metals Fund
DBC*	DB Commodity Index Fund
DBE*	DB Energy Fund
DBV*	DB G10 Currency Harvest Fund
DGL*	DB Gold Fund
DBO*	DB Oil Fund
DBP*	DB Precious Metals Fund
DBS*	DB Silver Fund
UDN	DB US Dollar Bearish Fund
UUP	DB US Dollar Bullish Fund
PAGG	Global Agriculture
PKOL	Global Coal
PSAU	Global Gold and Precious Metals
PSTL	Global Steel

Selection

PJB*	Dynamic Banking
PYZ	Dynamic Basic Materials Sector
PBE*	Dynamic Biotechnology & Genome
PKB	Dynamic Building & Construction
PEZ*	Dynamic Consumer Discretionary Sector
PSL	Dynamic Consumer Staples Sector
PFA	Dynamic Developed Int'l Opportunities
PXE*	Dynamic Energy Exploration & Production
PXI	Dynamic Energy Sector
PFI*	Dynamic Financials Sector
PBJ	Dynamic Food & Beverage
PTH	Dynamic Healthcare Sector
PTJ*	Dynamic Healthcare Services
PRN*	Dynamic Industrials Sector
PIC	Dynamic Insurance
PJF	Dynamic Large Cap
PWB*	Dynamic Large Cap Growth
PWV*	Dynamic Large Cap Value
PEJ	Dynamic Leisure & Entertainment
PIQ	Dynamic MagniQuant
PWC	Dynamic Market
PBS	Dynamic Media
PJG	Dynamic Mid Cap

PWJ*	Dynamic Mid Cap Growth
PWP	Dynamic Mid Cap Value
PXQ	Dynamic Networking
PXJ*	Dynamic Oil & Gas Services
PWO	Dynamic OTC
PJP	Dynamic Pharmaceuticals
PMR*	Dynamic Retail
PSI	Dynamic Semiconductors
PJM	Dynamic Small Cap
PWT*	Dynamic Small Cap Growth
PWY*	Dynamic Small Cap Value
PSJ	Dynamic Software
PTF*	Dynamic Technology Sector
PTE	Dynamic Telecommunications & Wireless
PUI	Dynamic Utilities

Strategies

PKW	Buyback Achievers
PIZ	DWA Developed Markets Technical Leaders
PIE	DWA Emerging Markets Technical Leaders
PDP*	DWA Technical Leaders
PQBW	NASDAQ-100 BuyWrite
PBP	S&P 500 BuyWrite
PYH	Value Line Industry Rotation
PIV	Value Line Timeliness Select
PZI*	Zacks Micro Cap
PZJ	Zacks Small Cap

* Options Available

ETF Glossary

Alpha Objective

A measure of a mutual fund's risk relative to the market. An alpha of 1.0 means the fund outperformed the market 1.0%. A positive alpha is the extra return awarded to the investor for taking additional risk rather than accepting the market return.

Authorized Participant

An institution or broker-dealer who has signed an agreement allowing them to purchase or redeem Creation Units.

Closed-End Fund

A type of investment company in which shares usually are traded on a stock exchange or in the over-the-counter market. Investors can only redeem shares in the open market by selling them to a willing buyer at a negotiated market price. This price may be less than (or more than) the fund's NAV.

Correlation

The similarity in performance.

Creation/Redemption Unit

The minimum number of units that an ETF will create in return for the equivalent amount of shares of portfolio holdings deposited by an Authorized Participant, and also the minimum number of units the ETF will redeem by distributing those shares. A typical Creation/Redemption unit size is 50,000 or 100,000 ETF units.

Dollar/Price-Weighted

A type of index in which each stock's influence is proportionate to its price per share. The index value is calculated by adding the prices of each stock and dividing that sum by the number of index components. Stocks with a higher price have more weight in the index and, therefore, greater influence over index performance.

Downtick

A transaction on an exchange that occurs at a price below the previous transaction.

Equally Weighted

A type of index in which individual components are equally weighted. Index weight can be calculated by dividing 100% by the number of index components.

Expense Ratio

The total annual fees and expenses charged by a fund divided by average daily net assets. ETFs and index mutual funds tend to have lower expense ratios than most actively managed mutual funds because they do not have active management.

Float/Free Float

The total number of shares publicly owned and available for trading. The float is calculated by subtracting restricted shares from outstanding shares. Float is considered "thin" when there is a small number of shares traded relative to the total number of shares outstanding.

IOPV/IIV

The Indicative Optimized Portfolio Value (IOPV) or Intraday Indicative Value (IIV) shows the approximate value of Shares of each fund. It is calculated and disseminated every 15 seconds during market hours. Since it is an approximate value and cannot be calculated with the same level of accuracy as the NAV at the end of the day, it should not be viewed as a "real-time" update of the NAV.

Market-Cap-Weighted

A type of index in which individual components are weighted according to market capitalization. Index value can be calculated by adding the market capitalizations of each index component and dividing that sum by the number of securities in the index.

Net Asset Value (NAV)

The total value of a fund's portfolio holdings per share or unit. Most mutual funds calculate their NAVs once per day, after the market close. Many ETFs calculate an indication of their NAVs throughout the trading day.

Premium/Discount to NAV

The difference by which a fund's negotiated market price exceeds (premium) or trails (discount) the market value of its portfolio holdings, less expenses. Closed-end funds typically trade at larger premiums or discounts than ETFs.

Price-to-book Ratio

The ratio of a stock's market price to a company's net asset value.

Rebalance

Security weights are reset but no securities are added or deleted.

Reconstitution

Security weights are adjusted and securities may be added and/or deleted.

Tax-Efficiency

A measure of performance for an investment or a fund that is calculated by dividing the after-tax return (for a high-tax bracket investor) by the pre-tax return. (Most ETFs have relatively high tax-efficiency compared to mutual funds because they generally avoid making long-term capital gains distributions on realized gains.)

Unit Investment Trust

A fund structure adopted by some ETFs in which the fund must fully replicate all holdings of its underlying index and may not reinvest dividend income into new shares.

Volatility

The annualized standard deviation of monthly index returns.

Disclosure

General risk information

There are risks involved with investing in ETFs, including possible loss of money. Shares are not actively managed and are subject to risks similar to those of stocks, including those related to short selling and margin maintenance. Ordinary brokerage commissions apply.

Intellidex sector & industry risk information

The value of the stocks in the Dynamic Intellidex indexes and Dynamic Sector Intellidex Indexes may be more volatile than stocks of other issues. An investor in the Funds should anticipate that the value of their shares will increase or decrease in value more or less in correlation with increases or decreases in value of the Intellidex indexes. At times, the segment of equity markets represented by each sector and industry Index universe may be out of favor and underperform other segments. When a Fund is focused in a specific industry or sector, it presents greater risks than if it were broadly diversified over numerous industries and sectors of the economy. Please read the prospectus for a summary of these risks pertaining to each industry and sector.

Non-correlation risk

The Funds' returns may not match the return of the underlying Index as the Funds may not be fully invested at times and the Funds are also subject to expenses not applicable to the Index.

Growth & value risk information

There are risks associated with "growth" and "value" styles of investing. The value of the PowerShares Dynamic Market Cap, Style and Magniquant ETFs will vary and at times may be lower or higher than that of other types of investments. Please see the prospectus for more complete risk information regarding growth and value investing.

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