

powerSHARES®

Xchange Traded Funds™

Leading the Intelligent ETF Revolution®

Fundamental Index®

Fixed Income Portfolios



PHB | PowerShares **Fundamental High Yield® Corporate Bond** Portfolio

PFIG | PowerShares **Fundamental Investment Grade Corporate Bond** Portfolio

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

Fundamental Index[®] Fixed Income Portfolios

Weighting Basics

In **cap-weighted bond indexes**, a constituent's weight is a function of the *amount* of the offering and the current *price* of the offering.

Accordingly, there are two ways an issuer's weight can increase in a cap-weighted index:

- Issuing more bonds (increasing its indebtedness)
- An increase in the price of its bonds (whereby the overvalued become over-weighted)

Portfolio Implications

In a product tracking a cap-weighted bond index, investors could end up lending more to some issuers solely because they have more debt outstanding.

Additionally, the rule of "buy low and sell high" is abandoned as the link between price and weight inevitably results in an over weighting of bonds that are overvalued relative to their peers in the index.

Together, these potentially larger exposures to both overvalued issues and more heavily indebted issuers can create an unnecessary drag on investment returns.

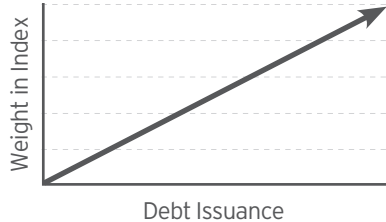
The Fundamental Index methodology takes a different approach. By assigning weights based on measures of financial size, fundamental indexes sever the link between weight, price and indebtedness, thereby reducing exposure to the systematic return drag inherent in cap-weighted indexes.

Portfolio Implications

Annually rebalancing serves as an opportunity to contra-trade against market mispricing; it decreases weights in the overvalued and increases weights in the undervalued.

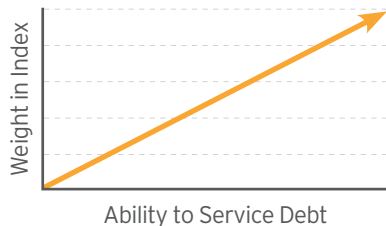
Instead of giving the biggest weights to the biggest debtors, the Fundamental Index approach tilts a portfolio toward issuers with the largest economic footprint, based on factors that are indicative of an ability to service debt.

Cap-weighted Approach



For illustrative purposes only.

Fundamental Index Approach



For illustrative purposes only.

PowerShares Fundamental Bond Portfolios

The PowerShares Fundamental Bond Portfolios are the first Fundamentals Weighted® fixed-income ETFs.

PowerShares Fundamental High Yield Corporate Bond Portfolio (PHB). The PowerShares Fundamental High Yield Corporate Bond Portfolio is based on the RAFI® High Yield Bond Index. The Fund will normally invest at least 80% of its total assets in the securities that comprise the Index.

PowerShares Fundamental Investment Grade Corporate Bond Portfolio (PFIG). The PowerShares Fundamental Investment Grade Corporate Bond Portfolio is based on the RAFI® Investment Grade Bond Index. The Fund will normally invest at least 80% of its total assets in the securities that comprise the Index.

The RAFI High Yield & Investment Grade Bond Indexes

Bonds held in the RAFI Bond Indexes are weighted by a combination of four fundamental measures of their issuer's size: cash flow, dividends, sales and book value of assets. The Indexes are constructed according to the following criteria:

Composition: Each index is comprised of U.S. dollar-denominated bonds registered for sale in the U.S. whose issuers are public companies listed on a major U.S. stock exchange. Only fixed coupon, investable corporate bonds with more than one year to maturity qualify.

Liquidity: Each issue must have a minimum amount outstanding: \$350M for high yield and \$500M for investment grade.

Rating: Each high yield constituent must be rated Ba1/BB+ or lower, but not below B3/B-, by either Moody's or S&P, while each investment grade constituent must be rated BBB/Baa or higher.

Call protection: All issues in each index must have a minimum of one year of call protection.

Maturity cells: Each index is divided into two distinct maturity cells: 1 to 5 years and 5 to 10 years. The largest issue per maturity cell per issuer is selected. If there is more than one issue with the same amount outstanding, then the most recent issue is selected.

Fund Characteristics

Monthly

Distribution Frequency

1-10 Years

Maturity Range

Research Affiliates

Index Provider

PHB

High Yield

Fixed Income Category

BB to B **0.50%**

Rating Constraint Expense Ratio

PFIG

Investment Grade

Fixed Income Category

AAA to BBB **0.22%**

Rating Constraint Expense Ratio

A credit rating is an assessment provided by a nationally recognized statistical rating organization (NRSRO) of the creditworthiness of an issuer with respect to debt obligations, including specific securities, money market instruments or other debts. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest); ratings are subject to change without notice.

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

High-yield securities have additional risks, including interest-rate changes, decreased market liquidity and a larger amount of outstanding debt than investment-grade securities.

The funds may invest in debt securities, such as notes and bonds, which carry interest rate and credit risk. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. Credit risk is the risk of loss on an investment due to the deterioration of an issuer's financial health.

The Funds' underlying securities may be subject to call risk, which may result in the Funds having to reinvest the proceeds at lower interest rates, resulting in a decline in the Funds' income.

The Fund may invest in illiquid securities, resulting in a decline of the Funds' returns.

The Funds are considered non-diversified and may be subject to greater risks than a diversified fund.

The RAFI® US Investment Grade Bond Index and RAFI® US High Yield Bond Index is calculated by ALM Research Solutions, LLC. in conjunction with Research Affiliates, LLC. All rights and interests in the RAFI® US Investment Grade Bond Index and the RAFI® US High Yield Bond Index vest in Research Affiliates, LLC. All rights in and to the Research Affiliates, LLC Fundamental Index® concept used in the calculation of the RAFI® US Investment Grade Bond Index and the RAFI® US High Yield Bond Index vest in Research Affiliates, LLC. The RAFI® US Investment Grade Bond Index and the RAFI® US High Yield Bond Index are not sponsored, endorsed, sold or promoted by ALM Research Solutions, LLC., and ALM Research Solutions, LLC. makes no representation regarding the advisability of investing in such product(s). Neither ALM Research Solutions, LLC. nor Research Affiliates, LLC make any warranties, express or implied, to any of their customers nor anyone else regarding the accuracy or completeness of any data related to the RAFI® US Investment Grade Bond Index or the RAFI® US High Yield Bond Index. All information is provided for information purposes only. Neither ALM Research Solutions, LLC. nor Research Affiliates, LLC accept any liability for any errors or any loss arising from the use of information in this publication.

Fundamental Index®, the non-capitalization method for creating and weighting of an index of securities, is patented and patent-pending proprietary intellectual property of Research Affiliates, LLC (US Patent No. 7,620,577; 7,747,502; and 7,792,719; Patent Pending Publ. Nos. US-2007-0055598-A1, US-2008-0288416-A1, US-2010-0191628, US-2010-0262563, WO 2005/076812, WO 2007/078399 A2, WO 2008/118372, EPN 1733352, and HK1099110).

Shares are not individually redeemable and owners of the shares may acquire those shares from the Fund and tender those shares for redemption to the Fund in Creation Units only, typically consisting of aggregations of 100,000 shares for PHB and 50,000 shares for PFIG.

Invesco Distributors, Inc. is the distributor of the PowerShares Exchange-Traded Fund Trust II.

Note: Not all products available through all firms.

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An investor should consider the Funds' investment objectives, risks, charges and expenses carefully before investing. For this and more complete information about the Funds call 800 983 0903 or visit invescopowershares.com for a prospectus. Please read the prospectus carefully before investing.