

Exchange-Traded Funds:

An introduction to ETFs

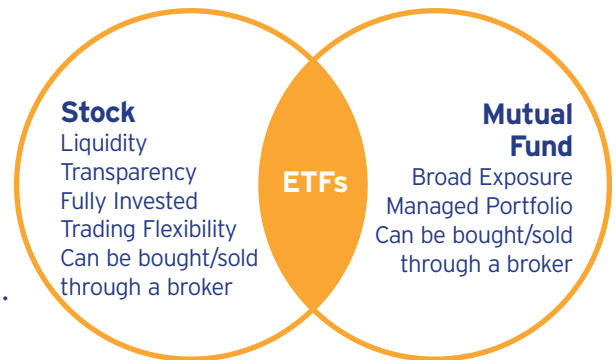
Have you been introduced to Exchange-Traded Funds?

Today, if you've ever flipped on a financial TV program, or opened your newspaper to the business section, chances are you've heard about exchange-traded funds (ETFs). And there's a good chance you still have questions about them.

Much of the media's attention focuses on the amazing growth ETFs have achieved in the marketplace. Globally there are 1,590 ETFs with assets of \$711 billion as compared to 31 ETFs and \$18 billion AUM just 10 years ago.¹

What is an ETF?

An ETF is a unique investment tool that combines some of the features of mutual funds with some of the features of individual stocks. Like a mutual fund, an ETF gives investors exposure to a group of securities through a single transaction. Like a stock, these ETF shares are traded on exchanges at market-determined prices.



There are risks involved with investing in ETFs, including possible loss of money. Index-based ETFs are not actively managed. Actively managed ETFs do not necessarily seek to replicate the performance of a specified index. Both index-based and actively managed ETFs are subject to risk similar to stocks, including those related to short selling and margin maintenance. Ordinary brokerage commissions apply.

Broad Exposure

Generally, allocating risk across several securities while still gaining access to a particular strategy is a recommended approach. The unique structure of the ETF allows investors to access broad market exposure through direct purchase in the fund.

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

Source: Invesco PowerShares

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.

¹ Source: BGI, Dec. 31, 2008

Key Features of ETFs

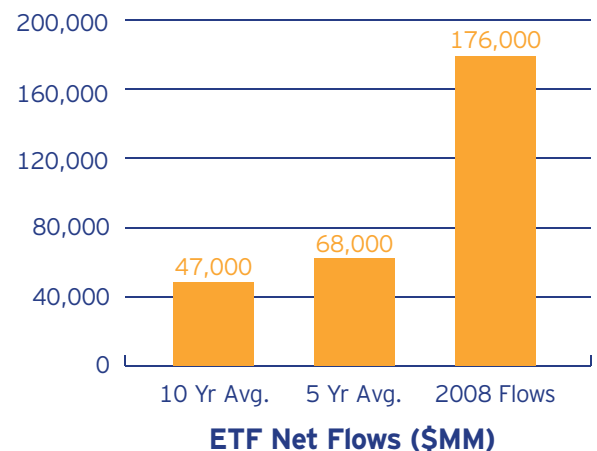
We believe ETFs will receive major inflows as economic conditions improve and money begins to flow back into the market. Investors are increasingly drawn to the structural benefits of ETFs:

- **Tax Efficiency.** Taxes may be one of the most critical and yet overlooked factors in wealth creation over time as they can erode even the best fund's returns. Because of their unique structure, ETFs may serve as a tax-efficient investment tool for shareholders who wish to defer capital gains until the point of sale.
- **Transparency.** ETFs report their holdings on a daily basis, allowing investors to regularly see the investments that underpin each ETF share.
- **Flexibility.** ETFs offer investment flexibility, allowing investors to buy and sell shares throughout the day on an exchange. Investors can use ETFs to implement advanced trading techniques such as purchasing on margin, short selling and placing limit and stop orders. In addition, ETFs are never closed to investors.
- **Broad Exposure.** ETFs provide exposure to multiple underlying securities, even in targeted market segments. For example, instead of an investor stock-picking among individual nanotechnology companies, investors can buy shares of a nanotechnology ETF and gain wider exposure to the industry.
- **Trade at or Near NAV.** ETFs generally trade at or near the value of the holdings that compose each fund – meaning that market speculation generally won't drive the price of an ETF. Shares of the ETF may trade at a discount or premium to the net asset value of those underlying securities.
- **Lower Ownership Cost.** ETFs may provide lower ownership costs because of their efficient structure. Many sponsors have established expense caps to make the cost of ownership clear and straightforward for investors. Ordinary brokerage commissions apply.

ETF Growth in 2008

The markets and global economies declined with surprising swiftness in 2008. On the year, the S&P 500 Index fell 38%, one of the largest one-year contractions on record.¹ In spite of these challenges, ETF inflows continued to grow. ETFs brought in over \$176 billion in net new cash flows in 2008.² Invesco PowerShares, in particular, netted over \$1.4 billion in inflows by year end.³

In November, exchange-traded product trading volume totaled \$2.2 trillion, accounting for a record 43% of all U.S. equity trading volume.⁴ Year after year, these types of statistics reinforce our belief that the ETF is the preeminent investment vehicle for the 21st century.



Source: Strategic Insight Simfund/MF, Dec. 31, 2008

Past performance is not indicative of future similar results.

1 Source: Bloomberg, Dec. 31, 2008

2 Source: Strategic Insight Simfund/MF, Dec. 31, 2008

3 Source: Invesco PowerShares, Dec. 31, 2008

4 Source: National Stock Exchange, Inc., Dec. 2008

While it is not Invesco PowerShares intention, there is no guarantee that the Funds will not distribute capital gains to its shareholders. Invesco PowerShares does not offer tax advice. Please consult your own tax advisor for information regarding your own tax situation. Short selling may require investors to meet margin requirements and potential losses may be accelerated.

Evolution of ETFs

When the first ETF was launched in 1993, its purpose was simple – to track the S&P 500 Index while trading on a major exchange. Since then, many traditional ETFs have been designed to mirror benchmark indexes. Not all investors, however, are willing to settle for simply a measure of the market.

For those investors that choose index funds, selecting an index that matches their investment objectives is key. Invesco PowerShares offers a collection of ETFs based on next-generation indexes for individuals with investment objectives that go beyond merely tracking the market. These indexes attempt to outperform industry averages through intelligent security selection and weighting. PowerShares flagship ETFs are based on indexes that fall into two major categories:

- **Fundamental Weighting** In an effort to get a truer measurement of a company's size, fundamental-weighted indexes evaluate companies by factors such as sales, cash flow, book value and dividends rather than just market capitalization.
- **Intelligent Stock Selection** "Intelligent" indexes are constructed using proprietary stock-ranking methodologies that seek to evaluate a stock's investment merit. Many of these indexes use risk, value and momentum criteria to select stocks.

The newest evolution in ETFs are actively managed ETFs. These ETFs are not based on any index. Instead, their investment objectives and strategies are determined by professional portfolio managers.

Additional Information

To learn more about Invesco PowerShares and our investment products, please visit our website at www.invescopowershares.com or call 800.983.0903.

Looking for something more in-depth?

Each PowerShares ETF is grouped into one of the following 10 fund categories: Access, Active, Asset Allocation, Dynamic, Earnings, Fundamentals Weighted, Green, Income, Quantitative Strategies and Resources.

These fund families possess distinct benefits and features. The PowerShares Investor Guide Series provides detailed information designed to assist investors and financial advisors alike. Visit www.invescopowershares.com/resources/investorguides to access these guides.

When we say that our ETFs are intelligent, we mean that in several different ways.

Our largest family of ETFs is based on Intellidexes™ – dynamic indexes that use rules-based quantitative analysis to choose stocks for their capital appreciation potential. We believe this is an intelligent way for an index to select stocks.

Our second-largest family of ETFs is based on FTSE RAFI indexes, which weight stocks according to fundamental economic factors. We believe this is a more intelligent weighting method than market-cap weighting. Furthermore, our fundamentally weighted ETFs are based on four factors – sales, cash flow, book value and dividends – which we believe is a more balanced, intelligent approach than weighting stocks according to just one fundamental measure.

We also have a wide range of ETFs that target narrow slices of the market – from niche industries to specific world regions. For investors who are interested in these niches, we believe ETFs – which invest in multiple companies within a market sector – may offer a more intelligent investment approach than stock picking.

Overall, no matter what the focus, all ETFs offer investors tax efficiency and trading flexibility, which make them an intelligent investment tool for investors to consider.

Whether you're looking for broad market exposure, specialized investment strategies or access to niche markets, we believe PowerShares ETFs represent an intelligent option for your portfolio.

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

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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.

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 the website www.invescopowershares.com for a prospectus. Please read the prospectus carefully before investing.