

PowerShares **CEF Income** **Composite** Portfolio (PCEF)



PCEF PowerShares CEF Income Composite Portfolio

The PowerShares CEF Income Composite Portfolio is the first exchange-traded fund (ETF) of closed-end funds (CEFs).

PCEF consists of CEFs across three income categories: taxable investment grade fixed-income, taxable high yield fixed-income and equity option writing (selling). PCEF seeks investment results that correspond (before fees and expenses) generally to the price and yield performance of the S-Network Composite Closed-End Fund IndexSM (CEFX).

PCEF will normally invest at least 90% of its total assets in securities in CEFX. The fund is a “fund of funds,” as it invests its assets in the common shares of funds included in CEFX.

Fund Details	
Fund Symbol	PCEF
IIV Symbol	PCEF.IV
CUSIP	73936Q843
Listing Exchange	NYSE Arca
Inception Date	2/19/10
Opening Share Price	\$25.00
Expense Ratio	1.62%
Rebalance Frequency	Quarterly
Reconstitution Frequency	Quarterly
Distribution Frequency	Monthly

As stated in the Fund’s prospectus, the expense ratio (1.62%) is composed of a 0.50% management fee and 1.12% acquired fund fees.

PowerShares CEF Income Composite Portfolio

- Seeks to provide low cost,¹ broad exposure to the income-focused portion of the CEF market in a single trade.
- Offers the potential for monthly income through exposure to multiple means of income generation.
- Uses a weighting methodology that assigns greater weights to CEFs trading at discounts.
- Invests in CEFs that meet specific qualitative criteria.
- Offers the benefits of the ETF structure including intra-day liquidity and daily transparency.²

Tax Treatment of Distributions

It is common for CEFs to make distributions that may consist of ordinary income, dividends, long- and short-term capital gains, and return of capital. These items will retain their tax characteristics and will be passed through to the investors in PCEF via the dividends paid by PCEF.³

As an additional benefit, to the extent PCEF is able to generate capital losses through the in-kind creation/redemption process,² these capital losses may offset any capital gain distributions received from the underlying CEFs held by PCEF.³

- 1 The commissions from frequent trading activity may increase the costs of ETFs.
- 2 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. ETFs disclose their full portfolio holdings daily.
- 3 Invesco PowerShares does not offer tax advice. Please consult your own tax adviser for information regarding your own tax situation. While it is not Invesco PowerShares intention, there is no guarantee that the Fund will not distribute capital gains to its shareholders.

The S-Network Composite Closed-End Fund Index

CEFX is a rules-based index intended to give investors a means of tracking the overall performance of a global universe of U.S.-listed closed-end funds. CEFX is reconstructed on a quarterly basis from a universe of approximately 350 closed-end funds. To qualify for inclusion in the index, a closed-end fund must:

- Have as its stated investment objective a concentration of activity in one of three sectors: taxable fixed income, high-yield fixed income or option income.
- Trade on a recognized North American stock exchange that provides a “last closing price.”
- Have a minimum capitalization value greater than \$100 million.
- Have an average daily trading volume of more than \$500,000 per day for the three months prior to the rebalancing date.
- Trade at less than a 20% premium to its net asset value (NAV).
- Have a total expense ratio of less than 2% as of its most recent filing date.

Index Features & Benefits⁴

Portfolio Diversification.⁵ Through approximately 110 closed-end funds, CEFX seeks to offer portfolio diversification across assets, strategies and managers, which can help to mitigate specific risks.

- **Asset Diversification.** The index maintains exposure to a variety of asset classes, such as:
 - **Investment-grade fixed income:** government and corporate bonds, mortgage-backed securities, preferred stock, domestic and international, developed and emerging markets
 - **High-yield fixed income:** sub-investment-grade corporate bonds and senior bank loans
 - **Option Income:** covered call options⁶ on portfolios of common stocks, actively managed to produce favorable taxation
- **Strategy Diversification.** Even within individual asset classes, CEF managers employ different strategies to achieve their income-generating objectives.
- **Manager Diversification.** The index offers exposure to more than 10 different management companies, including many of the leading fixed-income managers in the U.S.

Weight Increases for Funds Trading at a Discount (D) to NAV

D > 6% = 30% Increase in Net Assets

3% > D > 6% = 20% Increase in Net Assets

0% > D > 3% = 10% Increase in Net Assets

Weight Decreases for Funds Trading at a Premium (P) to NAV

P > 6% = 30% Decrease in Net Assets

3% > P > 6% = 20% Decrease in Net Assets

0% > P > 3% = 10% Decrease in Net Assets

High rate of distribution. The CEFs that comprise CEFX offer an average rate of distribution that is competitive with or higher than many other fixed-income investments.

Discounted assets. CEFX uses a weighting methodology that is designed to take advantage of inefficiencies in the CEF market by assigning greater weights to CEFs that are trading at discounts. After being weighted by net assets, the relative weight of each CEF is modified with respect to the size of its premium or discount to NAV, as explained in the table on the left.

⁴ Source: S-Network Global Indexes LLC, as of December 2010

⁵ PCEF is non-diversified for purposes of the Investment Company Act of 1940 and can invest a greater percent of its assets in securities of individual issuers than a diversified fund.

⁶ A covered call is a call sold against an underlying stock position.

About Closed-End Funds

Closed-end funds, are professionally managed investment companies that offer investors a variety of unique benefits and characteristics. The shares of a CEF are created through an initial public offering (IPO), after which they are publicly listed and traded on a stock exchange.

The trading of shares on an exchange means that CEFs will have both a market price and a NAV. The market price may exhibit some relation to the NAV, but is established independently of it by supply and demand of shares.

The capital raised during the IPO is professionally managed according to the specific investment objective and strategy as outlined in each closed-end fund's prospectus. CEFs can have a variety of different investment objectives such as current income or capital growth and they can invest in a wide range of asset classes.

CEF Market Statistics	
# of CEFs	625
Assets	\$205 billion
# of CEF Managers	111
Average Discount	3.3%
Year of first CEF launch	1893

Source: Morningstar, as of December 2010

Key Features of Closed-End Funds

Key Features of Closed-end Funds at a glance:

- Portfolio diversification
- Professional management
- Clear objectives
- Periodic distributions
- Pass through taxation
- Opportunity to buy at a discount
- Leverage potential
- Exchange traded

Portfolio Diversification.⁵ In closed-end funds, you own a share in a portfolio that invests in many securities, which helps to spread market risk. If any one security performs poorly, it is less likely to have a severe impact on your investment.

Professional Management. The portfolio manager or team selects securities and monitors them on a full-time basis. You can participate in closed-end funds without developing investment expertise or devoting hours of time to research specific issues.

Clear Objectives. Most closed-end funds specialize in either stocks or fixed-income securities and pursue a consistent objective, such as capital appreciation or current income. Some funds are highly specialized, investing in a given region, country or specific type of security.

Periodic Distributions. Most CEFs make distributions according to a prescribed schedule. If you depend on your investments for current income, this will allow you to plan the timing of income. Many funds have fixed distribution objectives, but the actual amounts of income distributed by closed-end funds vary with market conditions and fund performance.

"Pass Through" Taxation. Similar to open-end mutual funds, closed-end funds generally do not pay taxes at the fund level on amounts distributed to investors. The taxation is said to "pass through" to the shareholders.

Potential to Buy at a Discount. When closed-end funds can be bought at a discount to net asset value, investors are buying a dollar's worth of assets for less than a dollar.

Leverage Potential. Closed-end funds may issue senior securities (preferred stock or debentures) or borrow money to "leverage" their investment positions. Leverage increases the potential for both gains and losses.

Exchange Traded. Unlike mutual funds that are bought and sold only at the end of the trading day, CEFs are bought and sold on stock exchanges through out the trading day.

Why Invest in Closed-end Funds?

One of the characteristics that appeals to CEF investors is the distribution rate a CEF can offer. In many instances, investors are able to earn a distribution rate from a CEF that is higher than if they invested the same amount directly in the CEF's underlying assets. There are at least two distinct features that enable a CEF to do this.

One feature is a CEF's ability to trade at a price that is independent of its NAV. According to Morningstar and Bloomberg L.P., 462 out of the 625 (74%) U.S.-listed CEFs were trading at a price that was lower than their NAV as of the end of 2010. Moreover, the average discount to NAV across all CEFs at the end of 2010 was 3.3%. All else equal, CEF shares purchased at a discount to their net asset value will have a higher rate of distribution than shares purchased at NAV, as indicated in the table below.

Purchased at:	NAV	Discount
Share Price	\$15	\$14
NAV	\$15	\$15
Distribution	\$1	\$1
Distribution Rate	6.7%	7.1%

For illustrative purposes only. Returns are not indicative of Fund's returns.

Another feature with the potential to enhance the rate of distribution is a fund's ability to use leverage. Leverage has the effect of magnifying both the returns and volatility of a fund's NAV, thereby increasing the potential for gains or losses. A CEF can be structured with a provision that enables it to issue short-term securities or borrow money to use as additional investment capital in the fund.

The intent is to borrow at relatively low short-term rates and invest that money in securities that are expected to produce a higher rate of return. Any return generated in excess of the cost of borrowing can be passed on to investors. The table below illustrates the mechanics of leverage and its ability to enhance a fund's rate of distribution:

Assets	Earnings	Rate of Return	Interest Cost	Net Earnings
\$5 Million	\$350,000	7%	0%	\$350,000
Leverage	Earnings	Rate of Return	Interest Cost	Net Earnings
\$1 Million	\$70,000	7%	2% = \$20,000	\$50,000
AUM	Earnings	Interest Expense	Net Earnings	Net Rate of Return
\$5 Million	\$420,000	\$20,000	\$400,000	8%

For illustrative purposes only. Not indicative of a Fund's distributions. Historical premium/discount levels are no guarantee of future levels.

In this instance, the fund was able to use leverage to generate an extra \$50,000 net of borrowing costs, which increased shareholders' rate of return from 7% to 8%.

It is important to note that the use of leverage means that shareholders have exposure to risk and reward in excess of 100% of their investment capital. As such, the use of leverage can result in greater share price volatility and market risk, which is why some CEFs use leverage sparingly or not at all.

To learn more about the PowerShares CEF Income Composite Portfolio call **800 983 0903** or visit our website at **invescopowershares.com/CEF**.

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 apply.

The Fund's investment performance, because it is a fund of funds, depends on the investment performance of the Underlying Funds in which it invests. An investment in the Fund is subject to the risks associated with the Underlying Funds that comprise the Underlying Index. The Fund will indirectly pay a proportional share of the fees of the Underlying Funds in which it invests. At times, certain of the segments of the market represented by constituent Underlying Funds in the Underlying Index may be out of favor and underperform other segments.

The shares of closed-end investment companies may trade at a discount or premium to, or at, their NAV.

The securities of closed-end investment companies in which the Fund may invest may be leveraged. As a result, the Fund may be indirectly exposed to leverage through an investment in such securities. An investment in securities of closed-end investment companies that use leverage may expose the Fund to higher volatility in the market value of such securities and the possibility that the Fund's long-term returns on such securities (and, indirectly, the long-term returns of the Shares) will be diminished.

The Fund's use of a representative sampling approach will result in its holding a smaller number of bonds than are in the underlying Index, and may be subject to greater volatility.

Investment in the Underlying Funds may subject the Fund to the following risks: Interest Rate Risk; Credit Risk; Non-investment Grade Securities Risk; Options Risk; Senior Loans Risk; Foreign and Emerging Market Securities Risk; Liquidity Risk; Concentration Risk; Inflation Risk; Deflation Risk; Derivatives Risk; Leverage Risk; Counterparty Risk; Mortgage- and Asset-Backed Securities Risk; Small and Medium Capitalization Company Risk; Recent Developments in Financial Markets; Anti-Takeover Provisions Risk. See the prospectus for additional risk information.

The Fund is considered non-diversified and can invest a greater portion of assets in securities of individual issuers and may be subject to greater risk than a diversified fund.

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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 Unit aggregations only, typically consisting of 50,000 Shares.

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