

PowerShares VRDO Tax-Free Weekly Portfolio (PVI): Q&A

1. What are Variable Rate Demand Obligations?

Variable Rate Demand Obligations (VRDOs) are investment-grade, floating-rate bonds that typically provide investors with federally tax-exempt income in a short-term time frame.

The bonds' interest rates generally reset on a daily or weekly basis. VRDOs are issued with long-dated maturities of 20 to 30 years, but include short-term demand features that enhance liquidity and reduce duration. The minimum purchase amount for VRDOs is typically \$100,000.

2. How liquid are VRDOs?

The terms of the bond include a contractual source of liquidity, also known as a put feature, through either a standby bond purchase agreement (SBPA) or a letter of credit (LOC).

This feature enables investors to sell their VRDOs to a remarketing agent at par plus accrued interest on the next put date. If the remarketing agent cannot remarket the bonds, they can be tendered with the financial institution providing the SBPA or LOC.

3. Who typically issues VRDOs?

VRDOs are popular with many types of issuers, including state and local governments, health care entities and universities. From the issuers point of view, VRDOs provide long-term financing at short-term interest rates.

4. What are the tax implications of investing in VRDOs?

Generally, interest from VRDOs is exempt from federal income taxes, and often is exempt from state and local income taxes for residents of the issuing state.

5. What are the portfolio applications of VRDOs?

VRDOs can be used as a potential short-term investment due to their strong liquidity, investment-grade and tax-exempt status.¹

¹ There is a risk that the issuer may default on its payment obligation, resulting in a loss.

Invesco PowerShares does not offer tax advice. Please consult a tax advisor for advice regarding your specific situation. There is no guarantee the interest generated from the VRDOs held within the Fund will be exempt from state and local taxes.

Investors may lose value in an investment of VRDOs. VRDOs are not federally guaranteed. There may be fees associated with investing in a fund that invests in VRDOs.

VRDOs are floating-rate bonds that provide investors with tax-exempt income in a short-term time frame. VRDOs are always purchased at par. When they are put back to an investment dealer, the investor receives par plus accrued interest. Yields are generally reset on a weekly basis.

Variable Rate Debt Obligations Risk: There may not be an active secondary market with respect to particular variable rate instruments in which the Fund invests, which could make it difficult for the Fund to dispose of a variable rate instrument if the issuer and/or the Remarketing Agent defaulted on its payment obligation or during periods that the Fund is not entitled to exercise its demand rights, and the Fund could, for these or other reasons, suffer a loss with respect to such instruments. Municipal securities are subject to the risk that litigation, legislation or other political events; local business or economic conditions; or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes or the rights of municipal security holders. Because many securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market. Please see the prospectus for more complete information regarding VRDOs and municipal securities.

6. Why PVI?

Until the inception of PVI, VRDOs were difficult to access by individual investors due to their high minimums – typically \$100,000 – and have historically been held by institutions, corporations, tax-exempt money market funds and high-net-worth individuals.

PVI provides access to a portfolio of VRDOs through a single transaction.

7. What type of exposure does PVI seek to provide within the VRDO space?

In one share of PVI, an investor gains exposure to a wide array of issuers across the U.S. and to multiple liquidity providers, each of which has been found to meet important investment criteria. As of April 2008, PVI held over 90 VRDOs and had exposure to more than 25 liquidity providers. This broad range of VRDOs and providers may help to mitigate the credit and liquidity risk of owning just a single VRDO.

8. How volatile is PVI?

PVI's NAV has been very stable. From its inception through the end of April 2009, PVI's NAV stayed within a range of \$24.97 to \$25.10. The stable net asset value (NAV) is the result of the VRDOs' put feature and their ability to be redeemed at par on a frequent and regular schedule.

The minor fluctuation in PVI's NAV is due to interest accrued from the VRDOs, which is distributed every month. The NAV reverts back to the low end of its \$24.97 to \$25.10 range each month after the accrued interest is distributed to PVI's shareholders.

9. What are PVI's average trading spreads?

While the underlying VRDOs are structured for enhanced liquidity, PVI also maintains an average trading spread of \$0.01, putting it on par with some of the most liquid securities in the market today.¹

The trading spread is the difference between a security's quoted bid price and ask price. On a simultaneous purchase and sale, the spread represents the cost of liquidity. As such, a smaller spread (usually measured as a percentage of the price) means better or more liquidity.

10. What criteria must a VRDO meet in order to be included in PVI?

The underlying index includes a pool of tax-exempt VRDOs issued by municipalities in the United States on which the yield is reset on a weekly basis.

Qualifying securities must:

- *Have a minimum amount outstanding of \$10 million*
- *Reset interest rates on a weekly basis*
- *Be either insured or supported by a LOC from a high-quality bank, as determined by the Index Provider (credit rating of the bank issuing the LOC must be A or better).*
- *Be rated by at least one credit agency.*

11. What is PVI's duration?

To qualify for inclusion in PVI, a VRDO must reset on a weekly basis. Resetting at this frequency translates into a near-zero duration.

¹ Source: Invesco PowerShares, average spread from April 1, 2009 through June 30, 2009. Data as of June 30, 2009.

A bond is considered to be investment grade if its credit rating is BBB or higher.

A floating-rate bond is a bond whose coupon fluctuates with a designated reference rate.

A put feature allows an investor to sell a security at a specified time and price.

A standby bond purchase agreement is a contractual source of liquidity from a financial institution enabling investors to sell their bond at par plus accrued interest.

A letter of credit is a contractual source of liquidity from a financial institution enabling investors to sell their bond at par plus accrued interest.

There are risks involved with investing in ETFs, including possible loss of money. Shares are subject to risks similar to those of investing in any fund of Variable Rate Demand Obligations, including credit, interest rate and general market risks, as well as those risks related to short selling and margin maintenance. Ordinary brokerage commissions apply.

Generally, the prices of income securities tend to fall as interest rates rise.

The Shares are subject to market fluctuations caused by such factors as economic, political, regulatory or market developments, changes in interest rates and perceived trends in securities prices. Please see the prospectus for more complete information regarding an investment in the Fund.

Note: Not all products are available through all firms.

The information presented does not constitute tax advice. Please consult your tax advisor for specific information about your tax situation.

The average credit quality of the Fund's holdings as of the close of the reporting period represents the weighted average quality rating of the securities in the portfolio as assigned by Nationally Recognized Statistical Rating Organizations based on assessment of the credit quality of the individual securities.

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

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.
