

# PowerShares Fundamental Pure Style Portfolios

*Seeking to Offer Precise Style Exposure and Improve Performance*



**Fundamental Index Strategies:**

*Expect more from your beta*

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# PowerShares Fundamental Pure Style Portfolios

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## Large

PXLV PowerShares Fundamental Pure Large Value Portfolio  
PXLG PowerShares Fundamental Pure Large Growth Portfolio  
PXLK PowerShares Fundamental Pure Large Core Portfolio

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## Mid

PXMV PowerShares Fundamental Pure Mid Value Portfolio  
PXMW PowerShares Fundamental Pure Mid Growth Portfolio  
PXMK PowerShares Fundamental Pure Mid Core Portfolio

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## Small

PXSV PowerShares Fundamental Pure Small Value Portfolio  
PXSG PowerShares Fundamental Pure Small Growth Portfolio  
PXSK PowerShares Fundamental Pure Small Core Portfolio

# PowerShares Fundamental Pure Style Portfolios

The primary objective of size and style investing is to improve performance and reduce overall performance risk. With these goals in mind, investors carefully craft portfolios by seeking an optimum balance between growth and value segments within large-, mid- and small-cap companies.

But what if a portfolio growth allocation contains value stocks, or vice versa? The balance that was worked to achieve is thrown off, which may cause unexpected and disappointing performance results. In order to allocate assets into asset categories, we believe it is vital that investments accurately represent their intended style segments with exclusive low growth-to-value correlations utilizing a robust investment methodology.

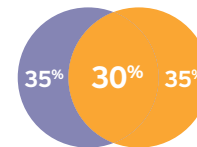
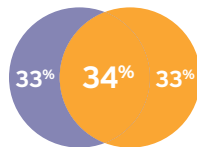
The RAFI® Fundamental U.S. Style Indexes (RAFI Index Series) are designed to provide comprehensive and precise style segregation. Investors can gain access to this methodology by investing in PowerShares Fundamental Pure Style Portfolios, which track the RAFI Indexes.

## Examples of Value vs. Growth Style Overlap

While actively managed value and growth products are expected to have no overlap, why wouldn't the same be true for passive style-based products?

### Traditional Style-Based Indexes<sup>1</sup>

■ Value Index ■ Growth Index



### S&P/Citigroup Indexes<sup>2</sup>

Holdings Overlap Examples	% Net Assets	
	Growth Index	Value Index
Johnson & Johnson	1.75%	1.21%
Procter & Gamble	1.48%	1.67%
Wells Fargo	1.37%	1.48%
AT&T	1.25%	1.80%
Merck	1.24%	0.69%
Intel	1.17%	0.88%
Cisco Systems	1.09%	0.86%
Hewlett-Packard	0.88%	0.79%
Verizon	0.69%	1.09%
Occidental Petroleum	0.68%	0.71%
Walt Disney	0.66%	0.58%
United Parcel Service	0.64%	0.62%
3M	0.58%	0.50%

### Russell Style Indexes<sup>2</sup>

Holdings Overlap Examples	% Net Assets	
	Growth Index	Value Index
Microsoft	2.17%	1.10%
Coca-cola	1.57%	0.54%
Intel	1.22%	0.57%
Wal-Mart	0.96%	0.64%
Pepsico	0.92%	0.69%
General Electric	0.69%	2.32%
ConocoPhillips	0.59%	0.97%

## Style Accuracy - Pure and Precise

### RAFI Fundamental U.S. Style Indexes

■ Value Index ■ Growth Index



There are many reasons why the style-based investments used today may not accurately represent their targeted market segments. Portfolio managers may allow style drift - allowing value stocks to creep into a growth portfolio, and vice versa. Also, some benchmark indexes systematically combine both growth and value stocks, creating stylistic impurities.

Source: Research Affiliates, as of June 2011

1 Sources: Russell Investments and Standard & Poor's, as of March 2011 and February 2011, respectively. The illustrations above represent the respective style index methodologies – S&P allowing for 34% overlap and Russell allowing for 30%. The S&P/Citigroup Indexes represent the S&P 500/Citigroup Growth and Value Indexes and the Russell Indexes represent the Russell 1000 Value and Russell 1000 Growth Indexes.

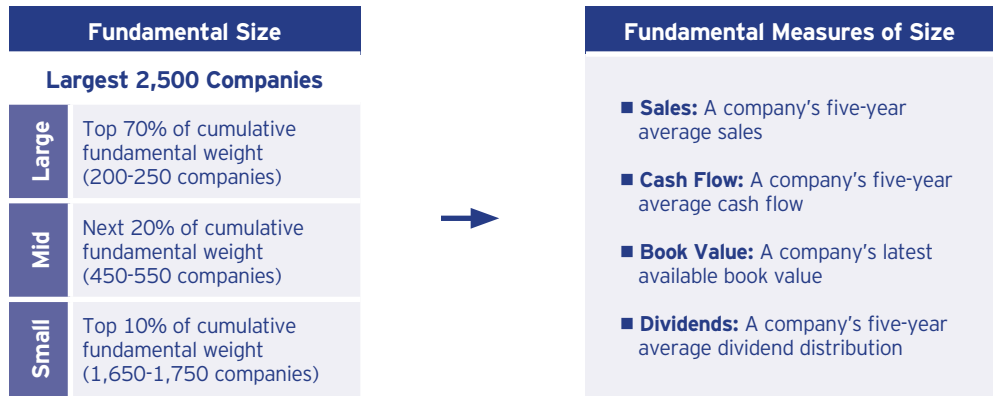
2 Source: Bloomberg L.P., as of Dec. 31, 2010  
Holdings are subject to change.

The RAFI Index Series utilizes a multi-factor fundamental style methodology to provide comprehensive and precise style segregation. This research driven process helps ensure investors receive accurate, stylistically pure market access.

# RAFI Fundamental U.S. Style Index Series Methodology

## 1. Defining the Universe by Fundamental Size

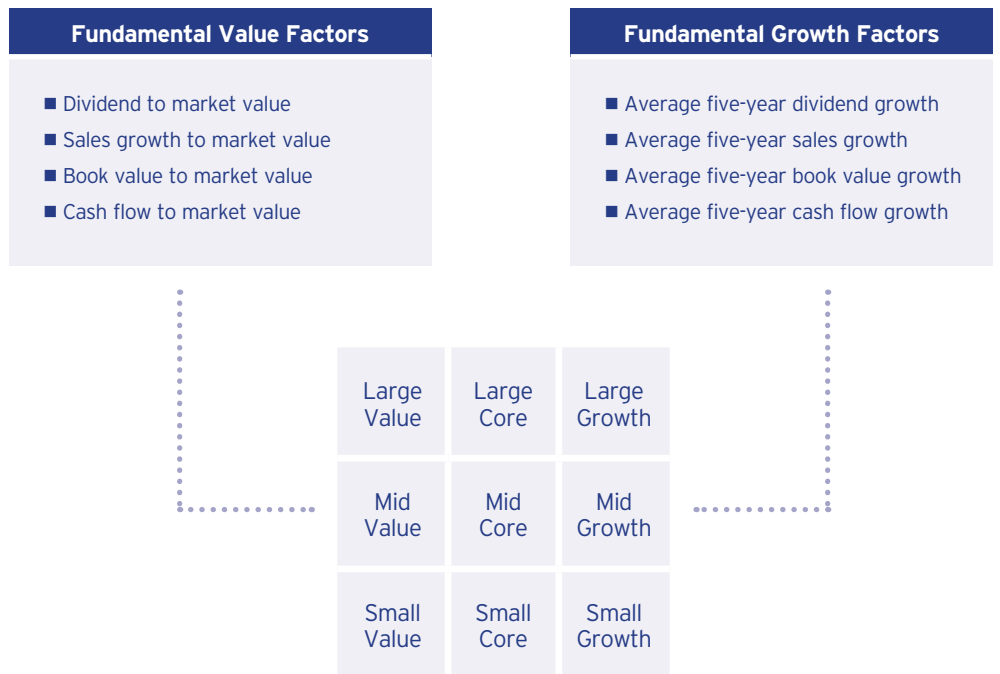
The RAFI methodology partitions the largest 2,500 U.S. companies measured uniquely to one of the three size tiers and one of the three styles.



## 2. Isolate Style-Accurate Segregation

The RAFI Index Series utilizes a multi-factor fundamental style methodology to provide comprehensive and precise style segregation. Each company is given a style score based on fundamental growth and value metrics. Companies are then ranked from most growth oriented to most value oriented and are divided into three classifications based on their fundamental weight.

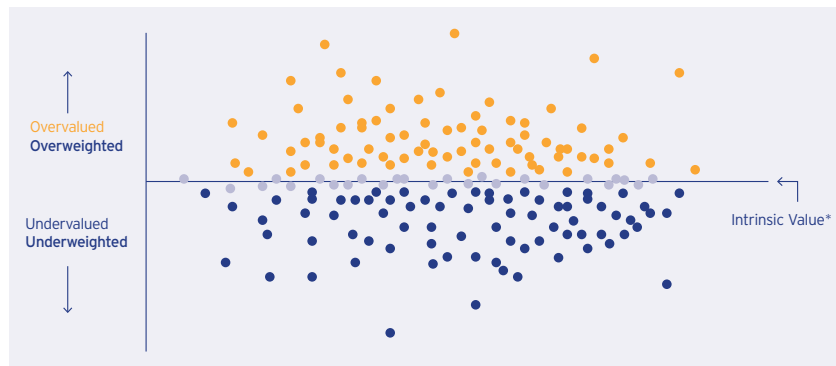
### Fundamental Size—No Overlap



### 3. Weight Securities – Fundamental Index Methodology

Traditional market-capitalization weighted indexes allow the market to dictate the weight a stock receives in an index. This is problematic because market speculation may cause significant mispricing of stocks, which, in turn, results in the index overweighting the overvalued stocks and underweighting the undervalued stocks thus creating a possible drag on performance. The RAFI Index Series uses a weighting structure that embodies four fundamental measures of size: sales, cash flow, book value and dividends. By breaking the link between price and portfolio weight, Fundamental Index strategies do not allow the market to dictate the weight a stock receives in an index and thus may avoid market bubbles and other market effects of irrational exuberance. Since inception, the RAFI Index Series has historically achieved long-term excess returns of 2% to 4% in developed markets compared to traditional cap-weighted benchmarks.<sup>1</sup>

#### Example of a Capitalization-Weighted Price Dispersion Pattern



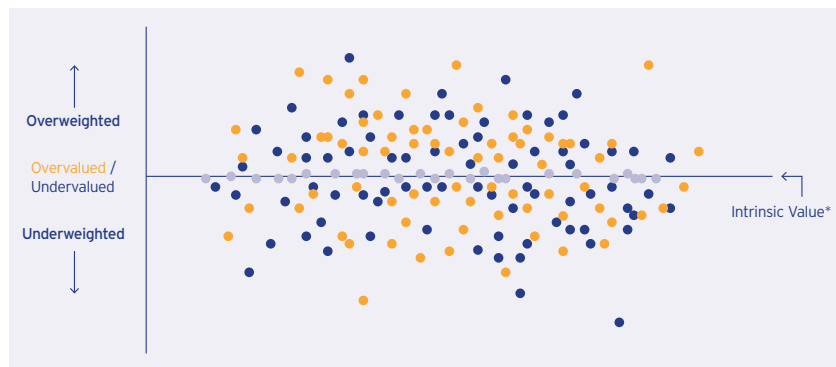
Source: Invesco PowerShares

*For illustrative purposes only.*

#### Potential Flaws of Cap-Weighted Indexes

- Incorporate analysts' optimistic growth projections
- Fully participate in market speculation
- Display substantial growth bias
- Overweights overvalued stocks and underweights undervalued stocks leading to a drag on performance.

#### Example of a Fundamental Index Price Dispersion Pattern



Source: Invesco PowerShares

*For illustrative purposes only.*

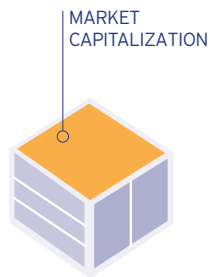
#### Benefits of Fundamental Index Strategies

- Severs the link between price and portfolio weight
- Use fundamental variables that don't depend on the fluctuations of market valuation
- May be less influenced by market bubbles
- Reduce the performance drag created by overweighting overvalued securities and underweighting undervalued securities

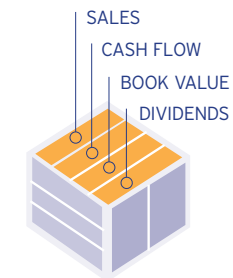
<sup>1</sup> Source: Research Affiliates, LLC Fundamental Index Newsletter as of Jan. 31, 2011  
Past performance is not indicative of future results. An investor cannot invest directly in an index.

### Company Valuation: Wall Street vs. Main Street

#### Wall Street



#### Main Street



\*Intrinsic value is the actual value of a company or a security based upon its inherent true value that consists of both tangible and intangible factors. This value may or may not be the same as the current market value.

Beta is a measure of relative risk and the slope of regression.

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#### 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 including those regarding short selling and margin maintenance requirements. Ordinary brokerage commissions apply.

The funds may invest in small- and/or medium-sized companies. Investing in securities of small and medium-sized companies involves greater risk than is customarily associated with investing in more established, larger sized companies.

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.

Index returns do not represent Fund returns. An investor cannot invest directly in an index.

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