

Revolution

Welcome to Revolution

Since its founding in 2003, Invesco PowerShares Capital Management LLC (Invesco PowerShares) has focused on pairing the benefit-rich structure of exchange-traded funds (ETFs) with innovative, enhanced indexes. These intelligent indexes select securities based on investment merit, distinguishing themselves from traditional indexes that represent average market progress. With this vision, Invesco PowerShares has been revolutionizing the exchange-traded fund industry.

In this spirit, I proudly present to you the first issue of *Revolution*, our new newsletter. Each issue will take an in-depth look at one investment theme, offering a three-dimensional view of the challenges, opportunities and products available to investors in that space. In this issue we focus on "green investing," one of the most important trends in the marketplace today. Inside, we have features on the state of the alternative energy market, reviews of green-investing ETFs and interviews with industry leaders.

In today's challenging market, investors are actively reviewing their portfolios to make sure they are well positioned for the 21st century. We hope this newsletter will help you do just that.

Enjoy,



Bruce Bond
President and CEO, Invesco PowerShares Capital
Management LLC

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Picking Alternatives: Wheels and Watts

Once upon a time, alternative energy investing was the province of small start-ups living on government funding. But alternative energy has grown up. No matter what the price of oil is on any given day, America is inexorably moving away from fossil fuels.

London-based New Energy Finance (NEF) estimates that by 2012, investment in clean energy could rise to \$450 billion per year, and that by 2030, that number could reach \$650 billion per year.

Ethan Zindler, an analyst at NEF, put it this way: "The important point here is that we're talking about annual investment levels," he said. "We're assuming that within the next 20 years or so, a vast majority of new funds going into energy infrastructure will be going into what we define as new energy technologies."

And when we talk about new energy technologies, most often what we mean is transportation and electricity generation.

A Change in Detroit

The biggest shift away from oil and toward development of the alternative energy economy is coming in the area of transportation. Once only an idea on engineers' drawing boards, electric-powered cars that can compete with traditional combustion engines in terms of raw performance are rolling off production lines.

Privately held Tesla has come out with a battery-charged car that gets 240 miles per charge and will drive from 0 to 60 miles per hour in less than four seconds. [Source: Tesla Motors] "This car is real, and it's prompting major car manufacturers to get more involved with electrical cars," noted Rob Wilder, chief executive of index provider WilderShares. "Car batteries are now to the point where they're reliable and easy enough to use that large-scale production can take place for the American consumer."

Yet it's not just one start-up. Big publicly traded automakers — General Motors, BMW and Nissan — have announced plans to come out with electric cars. Electric cars should be on showroom floors soon: Chrysler recently announced plans to have one of its three new all-electric models available by 2010.

However, with little economy of scale on their side yet, manufacturers are quick to point out that batteries are still going to be expensive to produce. True gas-competitive, all-electric cars are just emerging, and expensive — Tesla Motor's flagship all-electric Roadster starts at \$109,000. But by turning these cars hybrid and adding a small gasoline engine, costs can be shaved in half.

"Everyone's rushing to get these out," said Wilder. "So within five years, between 2015-2020, we're going to see a lot more options in terms of types of vehicles — from cars to trucks and commercial buses — and lower costs."

Getting The Juice

Nevertheless, pure electric cars, if they're the future, need electricity, and that's the other big component of alternative energy investment.

Right now, the world's electric grid is based on three big fuel sources: coal, nuclear and natural gas. Although it's dirty, coal-fired electricity is also incredibly cheap at 2 to 3 cents per kilowatt-hour, and drives roughly 50% of U.S. lightbulbs. In second place is nuclear, at nearly 20% (and 7 cents), followed by natural gas at 19% (and 5 to 6 cents). [Sources: United States Department of Energy, Electric Power Annual, October 2007. Energy Information Administration, Annual Energy Outlook 2008. International Energy Agency. Projected Costs of Generating Electricity, 2005 Update]

For the last decade, wind power has been the growth engine for alternative electricity,

with new capacity being added at the rate of 25% a year. Global capacity in 2007 was nearly 94,000 megawatts, and the growth doesn't seem to be slowing down—a scant 1% of U.S. electricity is coming from wind, a fraction of what it could be, especially as the cost for wind power hovers around the same price as natural gas. [Source: Global Wind Energy Council, 2007 Annual Report]

Still, the game changer long term could be solar power. The technology to tap into such sources is still evolving. Estimates are that in its present form, solar power systems that can be deployed on rooftops now are averaging around 20 cents a kilowatt-hour to produce. [Source: Solarbuzz. Solarbuzz Consultancy Reports] And these costs would be even higher if it weren't for government subsidies to home owners and businesses. Congress recently passed tax credits that apply to wind and solar uses. Without those programs, costs could be double the present rate.

The big innovation in solar power involves lowering reliance on expensive-to-produce silicon wafers for solar panels. Companies like First Solar are coming out with different materials that have already reduced costs by using thin-film processing systems instead of silicon wafers. The goal is to get kilowatt-hour prices competitive with coal within two to three years. Besides First Solar, other big players in solar are SunPower and China-based Suntech. Large diversified players such as Applied Materials and Sharp are also moving aggressively into solar power.

For investors, transportation and electricity generation are two of the most exciting alternative energy sectors. Our global demand for electricity is only going to increase, as we demand more and more juice to fill up the electric cars Detroit will be delivering to our garages in the next decade, and that juice may increasingly be supplied by ever-cheaper solar and wind.

Opinions expressed are of Rob Wilder of WilderShares, and are not necessarily that of Invesco PowerShares, Invesco Aim or Invesco Ltd. Invesco Ltd. and its subsidiaries offer no guarantees or warranties as to the accuracy and reliability of opinions expressed.

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 100,000 shares.

Invesco PowerShares News

Invesco PowerShares Expands Green Footprint

Invesco PowerShares launched two environmentally focused exchange-traded funds: the PowerShares Global Wind Energy Portfolio (NASDAQ: PWND), which launched on July 1, 2008; and the PowerShares Global Progressive Transportation Portfolio (NASDAQ: PTRP), which launched in late September 2008. Both funds are global funds, reflecting the international nature of the clean energy marketplace.

The PowerShares Global Wind Energy Portfolio provides exposure to one of the fastest-growing segments of the clean energy industry—wind power. Wind is currently one of the most cost-effective alternative energy solutions, with a cost per installed kilowatt that rivals traditional energy sources such as natural gas and oil. Energy experts such as T. Boone Pickens have lauded wind energy, stating wind will be a major factor in the advancement of alternative energy within the United States. PWND offers investors exposure to multiple wind energy companies with the purchase of a single ETF share.

The PowerShares Global Progressive Transportation Portfolio offers investors exposure to companies that improve the efficiency of the modern transportation industry, making it run cleaner, faster and with fewer carbon emissions. This fund is covered in depth on page 5 of this issue.

CleanTech Goes Global

Invesco PowerShares has expanded the scope of its popular PowerShares Cleantech Portfolio (AMEX: PZD) to include stocks from around the world. The fund focuses on companies that improve the efficiency and productivity of existing businesses, including those involved in industries like recycling, pollution prevention and energy transmission.

The fund, which had roughly \$93 million in assets on 12/31/2008, had focused exclusively on U.S. stocks since its launch in 2007. But recognizing the increasingly global nature of the cleantech industry, the fund shifted to a global orientation in the second quarter. As of 12/31/2008, it had approximately 44% exposure abroad. The top five country allocations outside the U.S. are Spain (6.42%), Denmark (5.84%), Germany

(4.75%), France (4.62%) and Switzerland (4.18%). [Source: Invesco PowerShares]

Gaining Exposure to the Middle East

With the U.S. economy in turmoil and European stocks entering bear market territory, investors are increasingly looking for ways to allocate their portfolios and add non-correlated returns. Launched on July 9, 2008, PowerShares MENA Frontier Countries Portfolio (NASDAQ: PMNA) provides exposure to the Middle East and North Africa (MENA). This region was previously inaccessible to most equity investors, but it offers a unique opportunity for non-correlated returns. The fund tracks an index that includes companies from Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar and the United Arab Emirates. It takes into account foreign ownership restrictions to ensure that it is investable.

Driven by oil, these MENA economies rose and fell on the oil boom in 2008. During the fourth quarter ending Dec. 31, 2008, the underlying index was down 34.91%, compared with a -21.94% return on the S&P 500 Index, a -19.95% return on the MSCI EAFE Index and a -27.60% return on the MSCI Emerging Markets Index. [Source: Bespoke Investment Group]

Capturing Global Demand for Commodities

The global economy's seemingly insatiable demand for commodities shows no sign of decreasing. Despite economic difficulties in the U.S. and Europe, the middle class in countries such as China and India continues to grow at a record pace, bringing with it fresh demand for good food, quality housing, decent highways and the other comforts of 21st-century life.

Against this backdrop, Invesco PowerShares has launched four new ETFs designed to capture the performance of companies involved in supplying the world with the basic commodities it needs to grow.

They are:

- PAGG - PowerShares Global Agriculture Portfolio
- PKOL - PowerShares Global Coal Portfolio
- PSAU - PowerShares Global Gold and Precious Metals Portfolio
- PSTL - PowerShares Global Steel Portfolio

All four funds are based on modified market-capitalization indexes created by the NASDAQ OMX group. The funds hold truly global portfolios that capture companies in developed and emerging markets alike.

While interest in commodities has surged recently, many wonder whether it is better to capture the commodities boom by buying commodity-producing equities or by investing in funds that buy commodity futures. Both approaches have advantages.

In this case, two of the four ETFs track areas where there is not a liquid futures market. If you want to invest in either coal or steel, two critical commodities, you have no choice but to use an equity-based approach.

You can access the precious metals and agriculture markets through futures. The advantage (and disadvantage) of using equities is that it exposes the investor to the good (and bad) decisions companies make. A commodity futures contract can't grow its business; leading companies like BHP Billiton and Monsanto can.

Neither choice is right for every investor. Many decide to split their commodities exposure between futures-based funds and commodity-producing equities, attempting to gain the most complete exposure to the market.

The Funds are concentrated in a single industry, which involve substantially greater risk of loss and price fluctuations than an investment diversified across multiple industries or sector segments.

The PowerShares Global Wind Energy Portfolio is concentrated in the wind energy industry. This involves risks, including, but not limited to: the wind energy industry can be significantly affected by obsolescence of existing technology, short product cycles, falling prices and profits, competition from new market entrants and general economic conditions, among others. The wind energy industry can be significantly affected by fluctuations in energy prices and supply and demand of alternative energy fuels, energy conservation, the success of exploration projects and tax and other government regulations. Wind energy industry companies could be adversely affected by commodity price volatility, changes in exchange rates, imposition of import controls, increased competition, depletion of resources, technological developments and labor returns.

See page 6 for additional risk information.

PBD

Fund In Focus: PowerShares Global Clean Energy ETF

Global warming is in the news. New scientific breakthroughs are lowering the costs of alternative energy sources. In other words, the stage is set for a stepwise transformation in the world's energy industry, away from the polluting industries of the past toward the greener, more-efficient processes of tomorrow.

The PowerShares Global Clean Energy Portfolio (AMEX: PBD) is an ETF designed to capture this change. Launched in June 2007, the fund invests in the leading alternative energy companies around the world, ranging from solar to wind power.

Through Dec. 31, 2008, the fund had attracted more than \$115 million in assets and had delivered solid performance amid broader turmoil in the world's equity markets. Its 3-year trailing underlying Index return through Q4 was -5.49% compared to a -8.36% return in the S&P 500 Index, and

a -8.10% return on the MSCI World Index. [Source: Invesco PowerShares]

The ETF tracks a benchmark developed by London-based New Energy Finance and Rob Wilder, a pioneer in researching renewable energy technologies. Backtested data of the WilderHill New Energy Global Innovation Index indicates average annualized returns of 16.9% between 2001 and 2007. By comparison, the MSCI World Total Return Index returned 5.5% during that same period. [Source: WilderHill New Energy, Sept. 30, 2008]

"Besides providing access to some of the world's most innovative companies, PBD appeals to a lot of investors because of its non-correlation to broader and more diversified ETFs [and markets]," said Wilder.

Part of that correlation benefit may stem from the ETF's exposure to the energy

economy, which typically displays a low correlation to the broader market. However, PBD has other factors going for it, including its global tilt and keen focus on innovation. Companies on the leading edge of important trends are often insulated somewhat from the broader economy.

PBD uses a modified equal-weighted methodology, where sector weightings are capped at 30% and individual stock weightings can't exceed 5%. That 30% cap is designed to prevent the index from over-investing in any bubble-like scenarios that develop in particular areas of the new energy marketplace. Wilder pointed specifically to fuel cells, which a few years ago were wildly popular with investors and would have dominated a market-cap-based clean energy portfolio. "There were a lot of fuel cell stocks back then, but very few solar and wind energy companies.

(continued on pg 5)

Basic Information*

PowerShares Global Clean Energy Portfolio

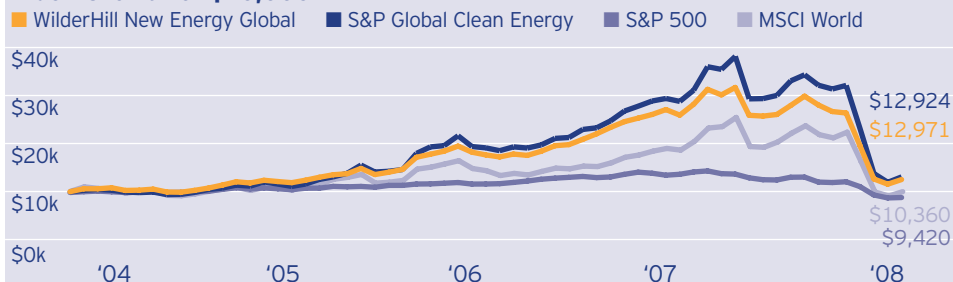
Ticker	PBD
Weighted Harmonic Avg. P/E	16.97
Weighted Harmonic Avg. P/B	1.41
Weighted Avg. Return on Equity	13.31
Weighted Avg. Mkt. Cap	3,799
# of Securities	86
Expense Ratio	0.75%
Listing Exchange	AMEX

Fund Performance (%)

	1 Yr	Incep.**
NAV	-61.48	-37.52
After Tax Held	-61.50	-37.55
After Tax Sold	-39.96	-31.22
Share Price Return	-60.99	-36.80

Source: Invesco PowerShares, Data as of 12/31/08

Index Growth of \$10,000



Annual Performance Comparison (%) - Competing Clean Energy Indexes

	WilderHill New Energy Index	S&P Global Clean Index	MSCI World Index
2001	-23.12	-	-16.82
2002	-19.97	-	-19.89
2003	54.87	-	33.11
2004	20.37	11.02	14.72
2005	21.04	24.89	9.49
2006	34.82	43.03	20.07
2007	59.02	76.50	9.04
2008	-60.62	-65.62	-40.71

Performance data quoted represents past performance. As stated in the Fund's prospectus, the expense ratio of 0.75% is expressed as a unitary fee to cover expenses incurred in connection with managing the portfolio. Past performance is not a guarantee of future results; current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and Shares, when redeemed, may be worth more or less than their original cost. The Shares' performance reflects fee waivers, absent which performance would have been lower. See invescopowershares.com to find the most recent month-end performance numbers. After Tax Held represents total return after taxes on distributions and assumes Shares have not been sold. After Tax Sold represents total return after taxes on distributions and the sale of Fund Shares. After-tax returns reflect the highest federal income tax rate but exclude state and local taxes.

*Weighted Avg. Return on Equity is net income divided by net worth. Weighted Avg. Market Capitalization is the average market value of a company's outstanding securities, excluding current liabilities. Stock Price-to-Earnings Ratio is the ratio of a stock's current share price compared to its per-share earnings. Stock Price-to-Book Ratio is the ratio of a stock's market price to a company's net asset value. Weighted Harmonic Average is a method of calculating an average value that lessens the impact of large outliers and increases the impact of small ones.

**Fund returns are based off the inception date of the Fund.

The Fund is concentrated in a single industry, which involves substantially greater risk of loss and price fluctuations than an investment diversified across multiple industries or sector segments.

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 100,000 Shares.

PBD

Fund In Focus: PowerShares Global Clean Energy ETF

If you were making an index then, it would have been dominated by fuel cell stocks, which are today only about 3% of the market," noted Wilder.

The WilderHill New Energy Global Innovation Index draws from a universe of 500-plus stocks listed on major exchanges throughout the world. In an attempt to ensure liquidity, individual stocks must have daily trading volume in excess of \$1 million. Average market caps must be more than \$100 million for consideration, and most components are larger than \$250 million.

As of Dec. 31, 2008, the underlying Index had 88 stocks listed in different markets across the globe. [Source: WilderHill New Energy - Global Innovation Index, Dec. 31, 2008] Those 88 stocks are divided into

seven alternative energy sectors: solar, wind, biofuels and biomass, energy efficiency, hydrogen and fuel cells, geothermal and mini hydro power generators, and power storage. The biggest alternative energy sector was wind power, weighted at 27%. The sector is dominated by companies owning and operating wind farms, such as the Spanish Iberdrola Renovables and Portuguese company EDP Renovaveis. These are large-cap companies with an established customer base. The second-biggest category within the Index was solar, at 26% of the total portfolio. The fund included such top-performing stocks as First Solar, a leading solar panel developer that soared more than 800% in 2007. [Source: Yahoo! Finance]

Companies focusing on improving energy efficiencies made up 26% of the index.

Other sectors included biofuels and biomass, weighted together at 12%; hydrogen and fuel cells (2%); geothermal and mini-hydro power generators (8%); and power storage (6%).

At the end of the fourth quarter, the ETF had roughly 74% of its portfolio outside the United States, with Spain, Germany and France collectively making up roughly 28%, the remainder being divided between Asia, the Americas and other European countries. [Source: Invesco PowerShares, Dec. 31, 2008]

"PBD is intended to provide an investable index of global new energy innovation," said Josh Landess, managing partner of WilderHill New Energy Finance. "We're focused on making sure to always reflect the pace and breadth of all activities in new energy equities around the world."

Top 10 Countries (%)

United States	26.54
Germany	10.43
China	10.24
Spain	9.73
France	7.72
Denmark	6.95
Japan	5.58
Belgium	3.00
Switzerland	2.38
Brazil	2.33

Sector Breakdown (%)

Consumer Discretionary	5.28
Consumer Staples	2.36
Energy	0.96
Financials	0.98
Health Care	-
Industrials	49.23
Information Technology	11.78
Materials	4.22
Telecommunication Services	-
Utilities	25.19

Market Cap Breakdown (%)

Large-Cap Growth	24.78
Large-Cap Value	3.34
Mid-Cap Growth	37.19
Mid-Cap Value	6.62
Small-Cap Growth	21.60
Small-Cap Value	6.47

Source: Invesco PowerShares, Data as of 12/31/08

New ETF: Planes, Trains and Automobiles

Invesco PowerShares launched a new take on one of the oldest investing themes in the world in September, with the debut of the PowerShares Global Progressive Transportation Portfolio (NASDAQ: PTRP).

Fans of investing history know that the Dow Jones Transportation Average is the oldest continuously published market index in the world, outdating even the venerable Dow Jones Industrial Average. The index was created by Charles Dow in 1884 to track the performance of the American railroad companies of the 19th century. As goes transportation, so goes the economy, said great thinkers at the time.

That idea still applies, perhaps more than ever. With economic globalization, the world moves more material over longer distances today than ever before. Distant emerging markets like China and India have become

huge importers and exporters of goods, and global demand for mass transit, automobiles and other transportation services continues to increase.

The PowerShares Global Progressive Transportation Portfolio tracks an index of next-generation transportation companies that use greener, more efficient sources of energy to move products and people around the globe. The Index includes companies from around the world that are involved in everything from operating subways to improving the efficiency of today's automobiles and transportation networks.

We believe PTRP is one of the first ETFs to target the global transportation industry, and the first to focus solely on the need for a greener transportation infrastructure. The NASDAQ OMX Global Energy Efficient Transport IndexSM covers the largest and

most liquid stocks in the global transportation industry. Eligible components must have a float-adjusted market capitalization of at least \$500 million and a three-month average daily dollar trading volume of at least \$1 million. The index is weighted by modified market capitalization. As of Dec. 31, 2008, it had a 37% weight in the U.S., 16% in Japan, 9% in Canada and the remaining 36% of the portfolio divided among an additional 11 countries, including both developed and emerging markets. [Source: Invesco PowerShares]

Invesco PowerShares has also developed additional global sector ETFs based on the NASDAQ OMX indexes, including ETFs tied to steel, agriculture, biotech, coal, gold and precious metals. Despite the fact that the indexes are carried under the NASDAQ brand, they include companies listed on all major exchanges.

Important Information

PowerShares Global Wind Energy Portfolio, PowerShares Cleantech Portfolio, PowerShares Global Clean Energy Portfolio, PowerShares Global Transportation Portfolio, PowerShares Global Agriculture Portfolio, PowerShares Global Coal Portfolio, PowerShares Global Gold and Precious Metals Portfolio, PowerShares Global Steel Portfolio

Investing in securities of small and medium capitalization companies involves greater risk than is customarily associated with investing in larger, more established companies. Please see the prospectus for more complete risk information.

PowerShares Global Transportation Portfolio, PowerShares Global Agriculture Portfolio, PowerShares Global Gold and Precious Metals Portfolio, PowerShares Global Steel Portfolio, PowerShares Global Coal Portfolio, PowerShares Global Clean Energy Portfolio

Investments in the securities of non-U.S. issuers involves risks beyond those associated with investments in U.S. securities, including, but not limited to, greater market volatility, the availability of less reliable financial information, higher transactional costs, taxation by foreign governments, decreased market liquidity, political instability, changes in currency exchange rates, interest rate fluctuation and monetary policy changes.

PowerShares MENA Frontier Countries Portfolio

An investment in securities of frontier market countries involves risks not associated with investments in securities of developed countries, including, but not limited to: those risks associated with investing in non-U.S. issuers and securities of emerging market countries. Frontier markets have generally smaller economies or less developed capital markets than traditional emerging markets. Other risks include: economies that are less correlated to global economic cycles than those of their more developed counterparts, low trading volumes, potential for extreme price volatility and illiquidity, substantial government influence over the private sector, government action, heavy dependency upon international trade that has been and may continue to be, adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade, and risks associated with certain foreign governments in countries in which the Fund invests levy withholding or other taxes on dividend and interest income, sanctions or embargoes imposed by U.S. government and the United Nations and/or countries identified by the U.S. government as state sponsors of terrorism and foreign investment holding limitations, among others.

The Fund initially expects to invest up to 20% of its net assets in P-notes in seeking to track the performance of Kuwaiti securities included in the Underlying Index.

P-notes are generally issued by banks or broker-dealers and are promissory notes that are designed to offer a return linked to the performance of a particular underlying equity security or market. The return on a P-note that is linked to a particular underlying security generally is increased to the extent of any dividends paid in connection with the underlying security. However, the holder of a P-note typically does not receive voting rights as it would if it directly owned the underlying security. P-notes constitute direct, general and unsecured contractual obligation of the banks or broker-dealers that issue them, which therefore subjects the Fund to counterparty risk, as discussed below.

Investments in P-notes involve certain risks in addition to those associated with a direct investment in the underlying foreign companies or foreign securities markets whose return they seek to replicate. For instance, there can be no assurance that there will be a trading market for a P-note or that the trading price of a P-note will equal the underlying value of the foreign company or foreign securities market that it seeks to replicate. As the purchaser of a P-note, the Fund is relying on the creditworthiness of the counterparty issuing the P-note and has not rights under a P-note against the issuer of the underlying security. Therefore, if such counterparty were to become insolvent, the Fund would lose its investment. The risk that the Fund may lose its investments due to the insolvency of a counterparty may be amplified because the Fund intends to purchase P-notes issued by as few as one issuer. In seeking to limit its counterparty risk, the Fund will limit its investment in P-notes of any one issuer to \$5 million at the time of purchase and to counterparties who meet the creditworthiness standard required of issuers whose securities are eligible for investment by money market funds. P-notes also include transaction costs in addition to those applicable to a direct investment in Kuwaiti securities. In addition, the Fund's use of P-notes may cause the Fund's performance to deviate from the performance of the portion of the Underlying Index to which the Fund is gaining exposure through the use of P-notes.

Due to liquidity and transfer restrictions, the secondary markets on which the P-notes are traded may be less liquid than the markets for other securities, or may be completely illiquid, which may lead to the absence of readily available market quotations for securities in the Fund's portfolio and which may also lead to delays in the redemptions of Fund Shares. In addition, the ability of the Fund to value its securities becomes more difficult and the judgment in the application of fair value procedures (through fair value procedures adopted by the Trustees) may play a greater role in the valuation of the Fund's securities due to reduced availability of reliable objective pricing data. Consequently, while such determinations will be made in good faith, it may nevertheless be more difficult for the Fund to accurately assign a daily value to such securities.

PowerShares Global Clean Energy Portfolio

The value of the stocks in the WilderHill New Energy Global Innovation Index is likely to be more volatile than stocks of other issues. Investors in the Fund should anticipate that the value of their shares will increase or decrease in value more or less in correlation with increases or decreases in value of the WilderHill New Energy Global Innovation Index.

Five Questions: Anthony Welch and Ian Naismith



Anthony Welch



Ian Naismith

In the late 1990s, Anthony Welch and Ian Naismith relied exclusively on stocks when investing for high-net-worth and institutional investors. Individual stocks were highly liquid, and besides, that's the way people had been doing it for hundreds of years.

But when the technology bubble burst in 2001, the partners at Sarasota Capital Strategies decided to look for a better way to capture strong risk-adjusted returns for their clients. So they started investing in ETFs.

Since then, their south Florida-based advisory and independent money management business has grown more than 400% in assets under management. Now they solely use ETFs for their client portfolios. To find out what they're seeing in the market these days, we posed some questions to the pair about the state of ETF investing.

Q: Why did you shift from stocks to all-ETF portfolios?

Welch: We wanted to limit our single-company risk. We'd used ETFs before, but in 2002, our firm decided to use ETFs exclusively. At first, we could only buy funds that tracked the major indexes. Although it was better than the risk of betting on a single stock, ETFs still provided limited opportunities at that time.

Q: When did you start branching out?

Naismith: In 2005, we invested in a new ETF, the PowerShares WilderHill Clean Energy Portfolio (AMEX: PBW). We had owned a lot of its stocks individually in the past, so having a chance to own a whole basket of these clean energy names seemed like a great long-term holding. Actually, we were floored that somebody had thought of something along these lines. It represented one of the first ETFs that were completely different from a strict sector- or broad-index type of fund.

Q: Do you still own that ETF?

Naismith: We've held on to those original shares to this day. We see a secular bull market for clean energy for years to come. And we've made a nice profit on PBW since we first started adding it to our portfolios.

Q: Have you allocated into other theme-based ETFs as well?

Naismith: Yes. We bought PowerShares Water Resources Portfolio (AMEX: PHO) the day it came out in 2005. Not many people know that water represents the third-largest industry in the world. It only trails energy and health care.

Everyone needs water, and we thought PHO was another extremely innovative and timely idea. Since then, we've made about a 20% profit on our original investment. We think this is another area with a lot of potential for future growth. We consider it another long-term hold for our clients. Demand for clean drinking water is growing along with the world's population. As a result, improvements to the world's water infrastructure are sorely needed.

Q: Anything else you are looking at?

Naismith: Yes. We've got high on our watch list the PowerShares Dynamic Energy Exploration & Production Portfolio (AMEX: PXE). Since it peaked in early July, PXE took a beating for much of the month. But we think the longer term fundamental picture for exploration companies is still solid. And we like the PowerShares Dynamic Oil & Gas Services Portfolio (AMEX: PXJ). The potential for more drilling opportunities opening in the U.S. should play to this ETFs advantage. Even if oil prices fall, the demand for exploration and drilling isn't going to go away anytime soon.

Opinions expressed are of Anthony Welch and Ian Naismith of Sarasota Capital Strategies, and are not necessarily that of Invesco PowerShares, Invesco Aim or Invesco Ltd. Invesco Ltd. and its subsidiaries offer no guarantees or warranties as to the accuracy and reliability of opinions expressed, and cannot guarantee similar experiences.

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The MSCI Emerging Markets, MSCI EAFE® Index and the S&P 500® Index are unmanaged indexes considered representative of stocks of developing countries; stocks of Europe, Australasia, and the Far East; and the U.S. stock market, respectively. The MSCI World Total Return Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The Dow Jones Transportation Average Index is an index considered representative of the Transportation Industry. The Dow Jones Industrial Average Index is a price-weighted index of 30 large-cap U.S. stocks. The S&P Global Clean Energy Index and the MSCI World Index are unmanaged indexes considered representative of the global clean energy market and stock of global alternative energy companies, and stocks of developed countries, respectively.

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 may apply.

All data provided by Invesco PowerShares unless otherwise noted.

Note: Not all products available through all firms.

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