



powerSHARES®  
Xchange Traded Funds™

# 2011 Annual Report to Shareholders

October 31, 2011

PowerShares S&P 500® High Beta Portfolio (SPHB)  
PowerShares S&P 500® Low Volatility Portfolio (SPLV)



# Table of Contents

The Market Environment .....	3
Manager’s Analysis .....	4
Frequency Distribution of Discounts & Premiums .....	8
Fees and Expenses .....	10
<b>S&amp;P 500® Portfolios</b>	
Schedules of Investments	
PowerShares S&P 500® High Beta Portfolio (SPHB) .....	11
PowerShares S&P 500® Low Volatility Portfolio (SPLV) .....	13
Statements of Assets and Liabilities .....	15
Statements of Operations .....	16
Statements of Changes in Net Assets .....	17
Financial Highlights .....	18
Notes to Financial Statements .....	19
Report of Independent Registered Public Accounting Firm .....	27
Tax Information .....	28
Trustees and Officers .....	29
Board Consideration Regarding Approval of Investment Advisory Agreement .....	37

This page intentionally left blank

# The Market Environment

## U.S. Equity:

The fiscal year began with equity markets fueled by the second round of Federal Reserve “Quantitative Easing” and on an upward trend through the first quarter of 2011. However, with the spring came increased volatility and significant macro-economic distortions due to civil unrest in Egypt and Libya, flooding in Australia, and the devastating earthquake and tsunami in Japan. Corporate earnings remained strong with largely positive surprises, but often were overshadowed by investor concerns about continuing high unemployment and soft housing data. Although markets stabilized and generally were positive through the summer, the major equity indices sold off precipitously in August as the U.S. struggled with the debt ceiling and ultimately received the first-ever downgrade to its credit rating from Standard & Poor’s. Uncertainty created by the U.S. credit downgrade, combined with a lack of consumer confidence and an intensifying debt crisis in the Eurozone, continued to weigh on investors through the end of the period, reigniting fears of a global recession and a double-dip recession in the U.S.

# Manager's Analysis

## PowerShares S&P 500® High Beta Portfolio (ticker: SPHB)

The PowerShares S&P 500® High Beta Portfolio (the “Fund”) seeks investment results that correspond (before fees and expenses) generally to the price and yield performance of the S&P 500® High Beta Index (the “Index”). The Fund will invest at least 90% of its total assets in common stocks that comprise the Index. The Index is compiled, maintained and calculated by Standard & Poor’s and consists of the 100 stocks from the S&P 500® Index with the highest sensitivity to market movements, or beta, over the past 12 months. Beta is a measure of how closely correlated a stock’s returns are to that of the market, which for the Index includes all of the stocks included in the S&P 500® Index.

The Fund began trading on May 5, 2011. For the period ended October 31, 2011, on a share price basis, the Fund returned (18.66)%. On an NAV basis, the Fund returned (18.78)%. During this same time period the Index returned (18.66)% and the S&P 500® Index returned (7.12)%.

For the period ended October 31, 2011, the Consumer Discretionary sector contributed most significantly to the Fund’s return, followed by the Energy and Industrials sector, respectively. The Financials sector detracted most from the Fund’s return, followed by the Materials and Utilities sector, respectively.

Positions that contributed most significantly to return included Cabot Oil & Gas Corp., an energy company (0.93% of long-term investments at October 31, 2011); and Abercrombie & Fitch Co., a consumer discretionary company (0.91% of long-term investments at October 31, 2011). Positions that detracted most significantly from return included MEMC Electronic Materials, Inc., a materials company (0.93% of long-term investments at October 31, 2011); and Genworth Financial, Inc., a financials company (1.14% of long-term investments at October 31, 2011).

### ▼ Sector Breakdown (% of the Fund’s Net Assets) as of October 31, 2011

Financials	27.9
Consumer Discretionary	18.2
Energy	17.3
Information Technology	14.5
Industrials	11.2
Materials	10.0
Utilities	0.9
Money Market Fund	0.0
Other assets less liabilities	0.0

### ▼ Top Ten Fund Holdings (% of the Fund’s Net Assets) as of October 31, 2011

<b>Security</b>	
SanDisk Corp.	1.4
Jabil Circuit, Inc.	1.4
Teradyne, Inc.	1.3
Harman International Industries, Inc.	1.3
Monster Worldwide, Inc.	1.2
Fifth Third Bancorp	1.2
Titanium Metals Corp.	1.2
Host Hotels & Resorts, Inc.	1.2
Joy Global, Inc.	1.2
KLA-Tencor Corp.	1.2
<b>Total</b>	<b>12.6</b>

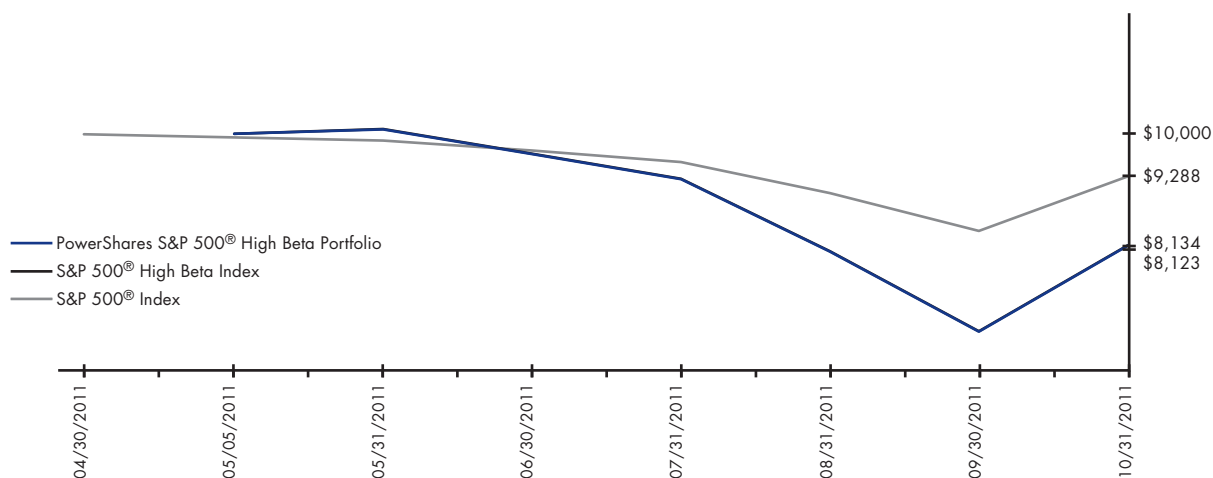
### ▼ Style Allocation (% of the Fund’s Total Investments) as of October 31, 2011

Mid-Cap Growth	40.7
Mid-Cap Value	24.8
Large-Cap Growth	14.9
Large-Cap Value	14.2
Small-Cap Value	3.1
Small-Cap Growth	2.3

# Manager's Analysis (Continued)

## PowerShares S&P 500® High Beta Portfolio (ticker: SPHB)

### ▼ Growth of a \$10,000 Investment Since Inception†



### ▼ Fund Performance History (%)

As of October 31, 2011

	Name	Fund Inception† Cumulative
Index	S&P 500® High Beta Index	(18.66)%
	S&P 500® Index	(7.12)%
Fund	Net Asset Value ("NAV") Return	(18.78)%
	Share Price Return	(18.66)%

Fund Inception: May 5, 2011

Performance quoted above represents past performance. Past performance is not a guarantee of future results and 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. According to the Fund's current prospectus, the expense ratio of 0.25% is expressed as a unitary fee to cover operating expenses and expenses incurred in connection with managing the portfolio. NAV and Share Price returns assume that dividends and capital gain distributions have been reinvested in the Fund at NAV and Share Price, respectively. The returns shown in the table above do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption or sale of Fund Shares. See [invescopowershares.com](http://invescopowershares.com) to find the most recent month-end performance numbers.

Index performance results are based upon a hypothetical investment in its constituent securities. Index returns do not represent Fund returns. An investor cannot invest directly in an index. The Index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the hypothetical performance shown. In addition, the results actual investors might have achieved would have differed from those shown because of differences in the timing, amounts of their investments, and fees and expenses associated with an investment in the Fund.

The S&P 500® Index "the "Benchmark Index" is an unmanaged index used as a measurement of change in stock market conditions based on the average performance of approximately 500 common stocks.

† Fund and Index returns are based on the inception date of the Fund. Returns for the Benchmark Index are based on the closest month-end to the Fund's inception date.

# Manager's Analysis

## PowerShares S&P 500® Low Volatility Portfolio (ticker: SPLV)

The PowerShares S&P 500® Low Volatility Portfolio (the “Fund”) seeks investment results that correspond (before fees and expenses) generally to the price and yield performance of the S&P 500® Low Volatility Index (the “Index”). The Fund will invest at least 90% of its total assets in common stocks that comprise the Index. The Index is compiled, maintained and calculated by Standard & Poor’s and consists of the 100 stocks from the S&P 500® Index with the lowest realized volatility over the past 12 months. Volatility is a statistical measurement of the magnitude of up and down asset price fluctuations over time.

The Fund began trading on May 5, 2011. For the period ended October 31, 2011, on a share price basis, the Fund returned 2.65%. On an NAV basis, the Fund returned 2.52%. During this same time period the Index returned 2.65% and the S&P 500® Index returned (7.12)%.

For the period ended October 31, 2011, the utilities sector contributed most significantly to the Fund’s return, followed by the Consumer Staples and Consumer Discretionary sectors, respectively. The Healthcare sector detracted most from the Fund’s return, followed by the Industrials sector.

Positions that contributed most significantly to return included AutoZone, Inc., a consumer discretionary company (0.99% of long-term investments at October 31, 2011); and Hormel Foods Corp., a consumer staples company (1.01% of long-term investments at October 31, 2011). Positions that detracted most significantly from return included Bemis Co., Inc., a materials company (0.72% of long-term investments at October 31, 2011); and Campbell Soup Co., a consumer staples company (1.11% of long-term investments at October 31, 2011).

### ▼ Sector Breakdown (% of the Fund’s Net Assets) as of October 31, 2011

Utilities	33.0
Consumer Staples	22.4
Financials	10.1
Health Care	8.6
Industrials	6.3
Materials	4.9
Consumer Discretionary	4.8
Information Technology	3.7
Telecommunication Services	3.6
Energy	2.6
Money Market Fund	0.1
Liabilities in excess of other assets	(0.1)

### ▼ Top Ten Fund Holdings (% of the Fund’s Net Assets) as of October 31, 2011

<b>Security</b>	
Southern Co.	1.5
Duke Energy Corp.	1.4
Consolidated Edison, Inc.	1.4
Progress Energy, Inc.	1.4
Wal-Mart Stores, Inc.	1.3
Xcel Energy, Inc.	1.3
Procter & Gamble Co. (The)	1.3
SCANA Corp.	1.2
Sempra Energy	1.2
Kimberly-Clark Corp.	1.2
<b>Total</b>	<b>13.2</b>

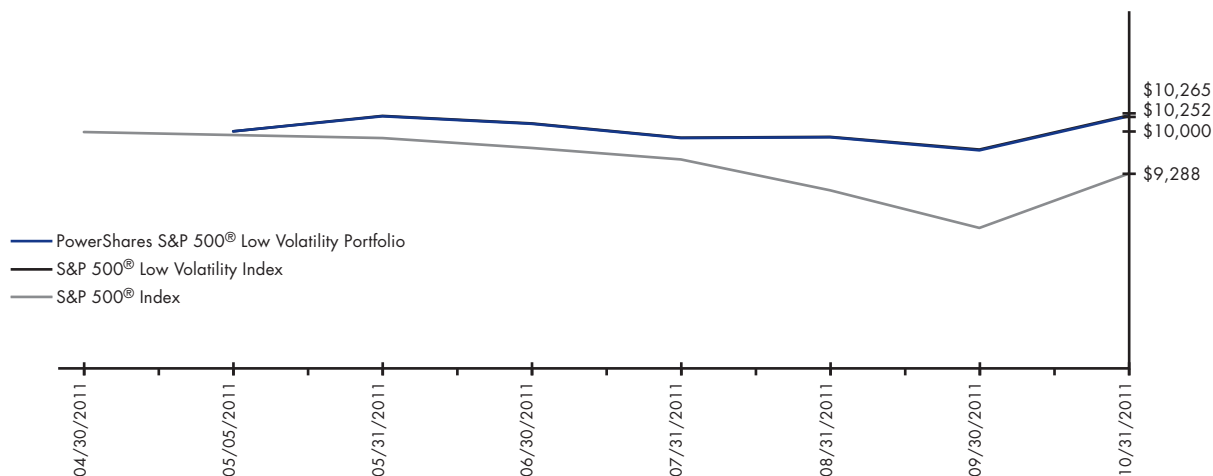
### ▼ Style Allocation (% of the Fund’s Total Investments) as of October 31, 2011

Large-Cap Value	51.7
Mid-Cap Value	27.9
Large-Cap Growth	13.3
Mid-Cap Growth	7.1

# Manager's Analysis (Continued)

## PowerShares S&P 500<sup>®</sup> Low Volatility Portfolio (ticker: SPLV)

### ▼ Growth of a \$10,000 Investment Since Inception<sup>†</sup>



### ▼ Fund Performance History (%)

As of October 31, 2011

	Name	Fund Inception <sup>†</sup> Cumulative
Index	S&P 500 <sup>®</sup> Low Volatility Index	2.65%
	S&P 500 <sup>®</sup> Index	(7.12)%
Fund	Net Asset Value ("NAV") Return	2.52%
	Share Price Return	2.65%

Fund Inception: May 5, 2011

Performance quoted above represents past performance. Past performance is not a guarantee of future results and 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. According to the Fund's current prospectus, the expense ratio of 0.25% is expressed as a unitary fee to cover operating expenses and expenses incurred in connection with managing the portfolio. NAV and Share Price returns assume that dividends and capital gain distributions have been reinvested in the Fund at NAV and Share Price, respectively. The returns shown in the table above do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption or sale of Fund Shares. See [invescopowershares.com](http://invescopowershares.com) to find the most recent month-end performance numbers.

Index performance results are based upon a hypothetical investment in its constituent securities. Index returns do not represent Fund returns. An investor cannot invest directly in an index. The Index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the hypothetical performance shown. In addition, the results actual investors might have achieved would have differed from those shown because of differences in the timing, amounts of their investments, and fees and expenses associated with an investment in the Fund.

The S&P 500<sup>®</sup> Index "(the "Benchmark Index") is an unmanaged index used as a measurement of change in stock market conditions based on the average performance of approximately 500 common stocks.

<sup>†</sup> Fund and Index returns are based on the inception date of the Fund. Returns for the Benchmark Index are based on the closest month-end to the Fund's inception date.

# Frequency Distribution of Discounts & Premiums

Since Inception through October 31, 2011

Ticker	Fund Name	Inception	Trading Days	Closing Price Above NAV (bps)					
				0-24	25-49	50-99	100-149	150-199	200+
SPHB	PowerShares S&P 500® High Beta Portfolio	5/5/11	125	58	0	0	0	0	0
SPLV	PowerShares S&P 500® Low Volatility Portfolio	5/5/11	125	99	1	0	0	0	0

Closing Price Below NAV (bps)

-0-24	-25-49	-50-99	-100-149	-150-199	-200+
65	1	0	0	0	1
24	0	0	0	0	1

## Fees and Expenses

As a shareholder of a Fund of the PowerShares Exchange-Traded Fund Trust, you incur advisory fees and other Fund expenses. The expense examples below are intended to help you understand your ongoing costs (in dollars) of investing in the Funds and to compare these costs with the ongoing costs of investing in other funds.

The example is based on an investment of \$1,000 invested on May 5, 2011 (Fund Inception) and held through October 31, 2011.

### Actual Expenses

The first line in the following table provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading “Expenses Paid During the Period May 5, 2011 (Fund Inception) to October 31, 2011” to estimate the expenses you paid on your account during this period.

### Hypothetical Example for Comparison Purposes

The second line in the following table provides information about hypothetical account values and hypothetical expenses based on each Fund’s actual expense ratio and an assumed annualized rate of return of 5% per year before expenses, which is not the Fund’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Funds and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only, and do not reflect any transactional costs such as sales charges and brokerage commissions. Therefore the second line in the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

	Beginning Account Value May 5, 2011 (Fund Inception)	Ending Account Value October 31, 2011	Annualized Expense Ratio Based on the Number of Days in the Period	Expenses Paid During the Period May 5, 2011 (Fund Inception) to October 31, 2011 <sup>(1)</sup>
<b>PowerShares S&amp;P 500® High Beta Portfolio (SPHB)</b>				
Actual	\$1,000.00	\$812.25	0.25%	\$1.11
Hypothetical (5% return before expenses)	\$1,000.00	\$1,023.95	0.25%	\$1.28
<b>PowerShares S&amp;P 500® Low Volatility Portfolio (SPLV)</b>				
Actual	\$1,000.00	\$1,025.23	0.25%	\$1.24
Hypothetical (5% return before expenses)	\$1,000.00	\$1,023.95	0.25%	\$1.28

- (1) Expenses are calculated using the annualized expense ratio, which represents the ongoing expenses as a percentage of net assets for the period May 5, 2011 (Fund Inception) to October 31, 2011. Expenses are calculated by multiplying the Fund’s annualized expense ratio by the average account value for the period, then multiplying the result by 180/365. Hypothetical expenses are calculated by multiplying the fund’s annualized expense ratio by the average account value for the period; then multiplying the result by 184/365.

# Schedule of Investments

## PowerShares S&P 500® High Beta Portfolio (SPHB)

October 31, 2011

Number of Shares		Value	Number of Shares		Value
<b>Common Stocks and Other Equity Interests—100.0%</b>			<b>Common Stocks and Other Equity Interests (Continued)</b>		
<i>Consumer Discretionary—18.2%</i>			12,072	Fifth Third Bancorp	\$ 144,985
1,439	Abercrombie & Fitch Co., Class A	\$ 107,062	860	Franklin Resources, Inc.	91,702
3,267	Carnival Corp.	115,031	20,994	Genworth Financial, Inc., Class A*	133,942
4,422	CBS Corp., Class B	114,132	6,259	Hartford Financial Services Group, Inc. (The)	120,486
9,486	Ford Motor Co.*	110,796	10,007	Host Hotels & Resorts, Inc. REIT	142,800
10,860	Gannett Co., Inc.	126,952	21,318	Huntington Bancshares, Inc.	110,427
9,155	Goodyear Tire & Rubber Co. (The)*	131,466	6,715	Invesco Ltd. <sup>(-)</sup>	134,770
3,088	Harley-Davidson, Inc.	120,124	20,856	Janus Capital Group, Inc.	136,815
3,445	Harman International Industries, Inc.	148,686	16,243	KeyCorp	114,676
12,749	Interpublic Group of Cos., Inc. (The)	120,861	4,190	Legg Mason, Inc.	115,225
8,065	Lennar Corp., Class A	133,395	3,821	Leucadia National Corp.	102,518
3,514	Marriott International, Inc., Class A	110,691	5,787	Lincoln National Corp.	110,242
6,480	News Corp., Class A	113,530	3,140	MetLife, Inc.	110,402
2,265	Nordstrom, Inc.	114,813	5,216	Principal Financial Group, Inc.	134,469
23,648	PulteGroup, Inc.*	122,497	3,721	ProLogis, Inc. REIT*	110,737
2,623	Starwood Hotels & Resorts Worldwide, Inc.	131,438	2,098	Prudential Financial, Inc.	113,712
1,639	Whirlpool Corp.	83,278	27,125	Regions Financial Corp.	106,601
3,536	Wyndham Worldwide Corp.	119,057	8,110	SLM Corp.	110,863
804	Wynn Resorts Ltd.	106,771	6,014	SunTrust Banks, Inc.	118,656
		<u>2,130,580</u>	2,070	T. Rowe Price Group, Inc.	109,379
			6,700	Zions Bancorp.	116,312
					<u>3,275,705</u>
<i>Energy—17.3%</i>			<i>Industrials—11.2%</i>		
4,029	Alpha Natural Resources, Inc.*	96,857		Caterpillar, Inc.	108,157
1,539	Anadarko Petroleum Corp.	120,812		Cummins, Inc.	127,768
1,712	Baker Hughes, Inc.	99,279	1,145	Fluorserve Corp.	104,554
1,404	Cabot Oil & Gas Corp.	109,119	1,285	Fluor Corp.	102,955
2,188	Cameron International Corp.*	107,518	1,128	Jacobs Engineering Group, Inc.*	114,887
2,911	CONSOL Energy, Inc.	124,474	1,811	Joy Global, Inc.	142,049
6,706	Denbury Resources, Inc.*	105,284	2,961	Masco Corp.	133,930
2,825	FMC Technologies, Inc.*	126,617	1,629	PACCAR, Inc.	121,850
2,359	Halliburton Co.	88,132	13,951	Robert Half International, Inc.	113,094
1,757	Helmerich & Payne, Inc.	93,437	2,818	Rockwell Automation, Inc.	106,819
1,810	Hess Corp.	113,234	4,279	Textron, Inc.	136,173
6,149	Nabors Industries Ltd. (Bermuda)*	112,711	1,579		<u>1,312,236</u>
1,554	National Oilwell Varco, Inc.	110,847	7,012		
1,873	Newfield Exploration Co.*	75,407		<i>Information Technology—14.5%</i>	
2,418	Peabody Energy Corp.	104,869		Advanced Micro Devices, Inc.*	110,741
1,380	Pioneer Natural Resources Co.	115,782	18,995	Autodesk, Inc.*	124,664
3,186	Rowan Cos., Inc.*	109,885	3,603	Jabil Circuit, Inc.	160,450
1,283	Schlumberger Ltd.	94,262	7,804	JDS Uniphase Corp.*	124,320
5,009	Valero Energy Corp.	123,221	10,360	KLA-Tencor Corp.	141,553
		<u>2,031,747</u>	3,006	LSI Corp.*	92,475
			14,796	MEMC Electronic Materials, Inc.*	109,665
<i>Financials—27.9%</i>			18,308	Micron Technology, Inc.*	129,923
2,924	Aflac, Inc.	131,843	23,242	Molex, Inc.	119,969
2,312	Ameriprise Financial, Inc.	107,924	4,859	Monster Worldwide, Inc.*	145,816
4,266	Apartment Investment & Management Co., Class A REIT	105,242	15,798	NVIDIA Corp.*	122,070
14,364	Bank of America Corp.	98,106	8,248	SanDisk Corp.*	163,968
7,590	CBRE Group, Inc., Class A*	134,950	3,236	Teradyne, Inc.*	150,545
4,312	Discover Financial Services	101,591	10,513		<u>1,696,159</u>
9,800	E*TRADE Financial Corp.*	106,330			

See Notes to Financial Statements.

# Schedule of Investments (Continued)

## PowerShares S&P 500® High Beta Portfolio (SPHB)

October 31, 2011

Number of Shares		Value
<b>Common Stocks and Other Equity Interests (Continued)</b>		
<i>Materials—10.0%</i>		
14,188	AK Steel Holding Corp.	\$ 118,186
8,816	Alcoa, Inc.	94,860
2,893	Allegheny Technologies, Inc.	134,235
1,936	Cliffs Natural Resources, Inc.	132,074
3,796	Dow Chemical Co. (The)	105,832
2,670	Freeport-McMoRan Copper & Gold, Inc.	107,494
4,396	International Paper Co.	121,769
5,796	Owens-Illinois, Inc.*	116,384
8,618	Titanium Metals Corp.	144,353
4,054	United States Steel Corp.	102,809
		<u>1,177,996</u>
<i>Utilities—0.9%</i>		
9,552	AES Corp. (The)*	107,173
		<u>107,173</u>
	<b>Total Common Stocks and Other Equity Interests</b> (Cost \$13,133,899)	<u>11,731,596</u>
<b>Money Market Fund—0.0%</b>		
3,384	Goldman Sachs Financial Square Prime Obligations—Institutional Share Class (Cost \$3,384)	<u>3,384</u>
	<b>Total Investments</b> (Cost \$13,137,283)—100.0%	11,734,980
	Other assets less liabilities—0.0%	4,785
	<b>Net Assets—100.0%</b>	<u><u>\$11,739,765</u></u>

Investment Abbreviations:  
REIT Real Estate Investment Trust

Notes to Schedule of Investments:

\* Non-income producing security.

(-) Affiliated company. The Fund's Adviser is a subsidiary of Invesco Ltd. and therefore, Invesco Ltd. is considered to be affiliated with the Fund. See Note 4.

See Notes to Financial Statements.

# Schedule of Investments

## PowerShares S&P 500® Low Volatility Portfolio (SPLV)

October 31, 2011

Number of Shares		Value	Number of Shares		Value
<b>Common Stocks and Other Equity Interests—100.0%</b>			<b>Common Stocks and Other Equity Interests (Continued)</b>		
<i>Consumer Discretionary—4.8%</i>			<i>Health Care—8.6%</i>		
17,514	AutoZone, Inc.*	\$ 5,667,355	125,336	Abbott Laboratories	\$ 6,751,849
118,774	DIRECTV, Class A*	5,399,466	86,455	Amgen, Inc.	4,951,278
71,152	McDonald's Corp.	6,606,463	62,782	Becton, Dickinson and Co.	4,911,436
71,379	O'Reilly Automotive, Inc.*	5,428,373	182,904	Bristol-Myers Squibb Co.	5,777,937
85,430	Yum! Brands, Inc.	4,576,485	62,692	DaVita, Inc.*	4,388,440
		<u>27,678,142</u>	157,711	Eli Lilly & Co.	5,860,541
			103,127	Johnson & Johnson	6,640,348
	<i>Consumer Staples—22.4%</i>		55,701	Laboratory Corp. of America Holdings*	4,670,529
244,809	Altria Group, Inc.	6,744,488	153,195	Merck & Co., Inc.	5,285,228
69,175	Brown-Forman Corp., Class B	5,169,448			<u>49,237,586</u>
190,655	Campbell Soup Co.	6,339,279			
94,960	Coca-Cola Co. (The)	6,487,667		<i>Industrials—6.3%</i>	
65,190	Colgate-Palmolive Co.	5,891,220	85,763	Dun & Bradstreet Corp. (The)	5,734,114
225,527	ConAgra Foods, Inc.	5,712,599	138,712	Equifax, Inc.	4,875,727
63,939	Costco Wholesale Corp.	5,322,922	67,798	Lockheed Martin Corp.	5,145,868
148,414	General Mills, Inc.	5,718,391	159,837	Republic Services, Inc.	4,548,961
128,745	H.J. Heinz Co.	6,880,133	76,666	United Parcel Service, Inc., Class B	5,385,020
85,798	Hershey Co. (The)	4,910,220	64,871	United Technologies Corp.	5,058,641
196,046	Hormel Foods Corp.	5,777,476	169,854	Waste Management, Inc.	5,593,292
69,664	J.M. Smucker Co. (The)	5,365,521			<u>36,341,623</u>
122,387	Kellogg Co.	6,634,599		<i>Information Technology—3.7%</i>	
99,152	Kimberly-Clark Corp.	6,911,886	115,164	Automatic Data Processing, Inc.	6,026,532
185,285	Kraft Foods, Inc., Class A	6,518,326	78,940	Fiserv, Inc.*	4,647,198
124,119	McCormick & Co., Inc.	6,027,219	29,824	International Business Machines Corp.	5,506,405
101,552	PepsiCo, Inc.	6,392,698	167,292	Paychex, Inc.	4,874,889
74,721	Philip Morris International, Inc.	5,220,756			<u>21,055,024</u>
112,501	Procter & Gamble Co. (The)	7,198,939		<i>Materials—4.9%</i>	
138,934	Reynolds American, Inc.	5,373,967	71,004	Airgas, Inc.	4,895,726
132,600	Wal-Mart Stores, Inc.*	7,521,072	126,499	Ball Corp.	4,373,070
		<u>128,118,826</u>	147,271	Bemis Co., Inc.	4,139,788
	<i>Energy—2.6%</i>		77,124	International Flavors & Fragrances, Inc.	4,670,629
45,847	Chevron Corp.	4,816,227	50,377	Praxair, Inc.	5,121,830
62,771	Exxon Mobil Corp.	4,901,787	58,604	Sherwin-Williams Co. (The)	4,847,137
177,302	Spectra Energy Corp.	5,076,157			<u>28,048,180</u>
		<u>14,794,171</u>		<i>Telecommunication Services—3.6%</i>	
	<i>Financials—10.1%</i>		196,624	AT&T, Inc.	5,763,050
71,460	ACE Ltd.	5,155,839	138,391	CenturyLink, Inc.	4,879,667
101,163	Aon Corp.	4,716,219	143,876	Verizon Communications, Inc.	5,320,534
67,920	Berkshire Hathaway, Inc., Class B*	5,288,251	377,730	Windstream Corp.	4,596,974
96,276	Chubb Corp. (The)	6,455,306			<u>20,560,225</u>
179,038	Cincinnati Financial Corp.	5,181,360		<i>Utilities—33.0%</i>	
101,359	Health Care REIT, Inc.	5,340,606	171,013	Ameren Corp.	5,451,894
139,770	Loews Corp.	5,548,869	166,960	American Electric Power Co., Inc.	6,558,189
159,479	Marsh & McLennan Cos., Inc.	4,883,247	236,498	CenterPoint Energy, Inc.	4,928,618
408,157	People's United Financial, Inc.	5,204,002	280,224	CMS Energy Corp.	5,834,264
121,340	Plum Creek Timber Co., Inc. REIT	4,569,664	135,806	Consolidated Edison, Inc.	7,859,093
97,875	Travelers Cos., Inc. (The)	5,711,006	124,407	Dominion Resources, Inc.	6,418,157
		<u>58,054,369</u>	128,997	DTE Energy Co.	6,722,034
			388,221	Duke Energy Corp.	7,927,473

See Notes to Financial Statements.

# Schedule of Investments (Continued)

## PowerShares S&P 500® Low Volatility Portfolio (SPLV)

October 31, 2011

Number of Shares		Value
<b>Common Stocks and Other Equity Interests (Continued)</b>		
151,669	Edison International	\$ 6,157,761
85,735	Entergy Corp.	5,930,290
129,782	Exelon Corp.	5,761,023
104,149	FirstEnergy Corp.	4,682,539
119,108	Integrus Energy Group, Inc.	6,302,004
108,306	NextEra Energy, Inc.	6,108,458
93,720	Nicor, Inc.	5,271,750
264,586	NiSource, Inc.	5,844,705
178,788	Northeast Utilities	6,180,701
68,073	ONEOK, Inc.	5,176,952
320,971	Pepco Holdings, Inc.	6,355,226
122,708	PG&E Corp.	5,264,173
144,903	Pinnacle West Capital Corp.	6,604,679
195,631	PPL Corp.	5,745,683
149,482	Progress Energy, Inc.	7,788,012
156,262	Public Service Enterprise Group, Inc.	5,266,029
165,440	SCANA Corp.	6,994,803
128,742	Sempra Energy	6,917,308
203,787	Southern Co.	8,803,599
307,862	TECO Energy, Inc.	5,716,997
207,367	Wisconsin Energy Corp.	6,724,912
288,139	Xcel Energy, Inc.	7,448,393
		<u>188,745,719</u>
	<b>Total Common Stocks and Other Equity Interests</b> (Cost \$552,384,271)	<u>572,633,865</u>
	<b>Money Market Fund—0.1%</b>	
833,427	Goldman Sachs Financial Square Prime Obligations—Institutional Share Class (Cost \$833,427)	<u>833,427</u>
	<b>Total Investments</b> (Cost \$553,217,698)—100.1%	573,467,292
	Liabilities in excess of other assets—(0.1)%	<u>(834,274)</u>
	<b>Net Assets—100.0%</b>	<u><u>\$572,633,018</u></u>

Investment Abbreviations:

REIT Real Estate Investment Trust

Notes to Schedule of Investments:

\* Non-income producing security.

See Notes to Financial Statements.

# Statements of Assets and Liabilities

October 31, 2011

	PowerShares S&P 500® High Beta Portfolio (SPHB)	PowerShares S&P 500® Low Volatility Portfolio (SPLV)
<b>ASSETS:</b>		
Unaffiliated investments, at value .....	\$11,600,210	\$573,467,292
Affiliated investments, at value (Note 4) .....	134,770	—
Total investments, at value .....	<u>11,734,980</u>	<u>573,467,292</u>
Receivables:		
Shares sold .....	4,059,244	99,664,359
Dividends .....	<u>3,007</u>	<u>713,648</u>
<b>Total Assets</b> .....	<u>15,797,231</u>	<u>673,845,299</u>
<b>LIABILITIES:</b>		
Due to custodian .....	—	1,160,767
Payables for investments purchased .....	4,056,005	99,964,412
Accrued unitary management fees .....	<u>1,461</u>	<u>87,102</u>
<b>Total Liabilities</b> .....	<u>4,057,466</u>	<u>101,212,281</u>
<b>NET ASSETS</b> .....	<u>\$11,739,765</u>	<u>\$572,633,018</u>
<b>NET ASSETS CONSIST OF:</b>		
Shares of beneficial interest .....	\$13,272,407	\$554,713,520
Undistributed net investment income .....	4,343	—
Undistributed net realized gain (loss) .....	(134,682)	(2,330,096)
Net unrealized appreciation (depreciation) .....	<u>(1,402,303)</u>	<u>20,249,594</u>
<b>Net Assets</b> .....	<u>\$11,739,765</u>	<u>\$572,633,018</u>
Shares outstanding (unlimited amount authorized, \$0.01 par value) .....	600,100	22,900,100
Net asset value .....	<u>\$ 19.56</u>	<u>\$ 25.01</u>
Share price .....	<u>\$ 19.58</u>	<u>\$ 25.04</u>
Unaffiliated investments, at cost .....	<u>\$12,990,328</u>	<u>\$553,217,698</u>
Affiliated investments, at cost .....	<u>\$ 146,955</u>	<u>\$ —</u>
Total investments, at cost .....	<u>\$13,137,283</u>	<u>\$553,217,698</u>

See Notes to Financial Statements.

# Statements of Operations

For the Period May 2, 2011\* through October 31, 2011

	PowerShares S&P 500® High Beta Portfolio (SPHB)	PowerShares S&P 500® Low Volatility Portfolio (SPLV)
<b>INVESTMENT INCOME:</b>		
Unaffiliated dividend income .....	\$ 36,250	\$ 2,493,190
Affiliated dividend income .....	969	—
<b>Total Income</b> .....	<u>37,219</u>	<u>2,493,190</u>
<b>EXPENSES:</b>		
Unitary management fees .....	9,268	200,295
<b>Net Investment Income</b> .....	<u>27,951</u>	<u>2,292,895</u>
<b>REALIZED AND UNREALIZED GAIN (LOSS):</b>		
Net realized gain (loss) from:		
Unaffiliated investments .....	(381,088)	(2,449,319)
Affiliated investments .....	(10,688)	—
In-kind redemptions .....	(608,623)	483,259
Net realized gain (loss) .....	<u>(1,000,399)</u>	<u>(1,966,060)</u>
Net unrealized appreciation (depreciation) on:		
Unaffiliated investments .....	(1,390,118)	20,249,594
Affiliated investments .....	(12,185)	—
Net unrealized appreciation (depreciation) .....	<u>(1,402,303)</u>	<u>20,249,594</u>
Net realized and unrealized gain (loss) .....	<u>(2,402,702)</u>	<u>18,283,534</u>
Net increase (decrease) in net assets resulting from operations .....	<u><u>\$(2,374,751)</u></u>	<u><u>\$20,576,429</u></u>

\* Commencement of Investment Operations.

See Notes to Financial Statements.

# Statements of Changes in Net Assets

For the Period May 2, 2011\* through October 31, 2011

	PowerShares S&P 500® High Beta Portfolio (SPHB)	PowerShares S&P 500® Low Volatility Portfolio (SPLV)
<b>OPERATIONS:</b>		
Net investment income .....	\$ 27,951	\$ 2,292,895
Net realized gain (loss) .....	(1,000,399)	(1,966,060)
Net unrealized appreciation (depreciation) .....	(1,402,303)	20,249,594
Net increase (decrease) in net assets resulting from operations .....	<u>(2,374,751)</u>	<u>20,576,429</u>
Undistributed net investment income (loss) included in the price of units issued and redeemed ...	(7,782)	—
<b>DISTRIBUTIONS TO SHAREHOLDERS FROM:</b>		
Net investment income .....	(23,608)	(2,292,895)
Return of capital .....	—	(462,096)
Total distribution to shareholders .....	<u>(23,608)</u>	<u>(2,754,991)</u>
<b>SHAREHOLDER TRANSACTIONS:</b>		
Proceeds from shares sold .....	30,367,142	577,059,360
Value of shares repurchased .....	(16,229,018)	(22,247,780)
Net income equalization .....	7,782	—
Net increase in net assets resulting from share transactions .....	<u>14,145,906</u>	<u>554,811,580</u>
<b>Increase in Net Assets</b> .....	11,739,765	572,633,018
<b>NET ASSETS:</b>		
Beginning of period .....	—	—
End of period .....	<u>\$ 11,739,765</u>	<u>\$ 572,633,018</u>
Undistributed net investment income at end of period .....	<u>\$ 4,343</u>	—
<b>CHANGES IN SHARES OUTSTANDING:</b>		
Shares sold .....	1,400,100	23,850,100
Shares repurchased .....	(800,000)	(950,000)
Shares outstanding, beginning of period .....	—	—
Shares outstanding, end of period .....	<u>600,100</u>	<u>22,900,100</u>

\* Commencement of Investment Operations.

See Notes to Financial Statements.

# Financial Highlights

## PowerShares S&P 500<sup>®</sup> High Beta Portfolio (SPHB)

	For the Period May 2, 2011* through October 31, 2011
<b>PER SHARE OPERATING PERFORMANCE:</b>	
Net asset value at beginning of period . . . . .	\$ 25.00
Net investment income ** . . . . .	0.07
Net realized and unrealized gain (loss) on investments . . . . .	(5.42)
Total from investment operations . . . . .	(5.35)
<b>Distributions to shareholders from:</b>	
Net investment income . . . . .	(0.09)
Net asset value at end of period . . . . .	\$ 19.56
Share price at end of period*** . . . . .	\$ 19.58
<b>NET ASSET VALUE, TOTAL RETURN****</b> . . . . .	(21.41)% <sup>(a)</sup>
<b>SHARE PRICE TOTAL RETURN****</b> . . . . .	(21.33)% <sup>(a)</sup>
<b>RATIOS/SUPPLEMENTAL DATA:</b>	
Net assets at end of period (000's omitted) . . . . .	\$11,740
Ratio to average net assets of:	
Expenses . . . . .	0.25%†
Net investment income . . . . .	0.75%†
Portfolio turnover rate †† . . . . .	16%
Undistributed net investment income (loss) included in price of units issued and redeemed***# . . . . .	\$ (0.02)

## PowerShares S&P 500<sup>®</sup> Low Volatility Portfolio (SPLV)

	For the Period May 2, 2011* through October 31, 2011
<b>PER SHARE OPERATING PERFORMANCE:</b>	
Net asset value at beginning of period . . . . .	\$ 25.00
Net investment income** . . . . .	0.33
Net realized and unrealized gain on investments . . . . .	0.07
Total from investment operations . . . . .	0.40
<b>Distributions to shareholders from:</b>	
Net investment income . . . . .	(0.32)
Return of capital . . . . .	(0.07)
Total distribution . . . . .	(0.39)
Net asset value at end of period . . . . .	\$ 25.01
Share price at end of period*** . . . . .	\$ 25.04
<b>NET ASSET VALUE, TOTAL RETURN****</b> . . . . .	1.66% <sup>(b)</sup>
<b>SHARE PRICE TOTAL RETURN****</b> . . . . .	1.78% <sup>(b)</sup>
<b>RATIOS/SUPPLEMENTAL DATA:</b>	
Net assets at end of period (000's omitted) . . . . .	\$572,633
Ratio to average net assets of:	
Expenses . . . . .	0.25%†
Net investment income . . . . .	2.83%†
Portfolio turnover rate †† . . . . .	12%
Undistributed net investment income (loss) included in price of units issued and redeemed***# . . . . .	\$ —

\* Commencement of Investment Operations.

\*\* Based on average shares outstanding.

\*\*\* The mean between the last bid and ask prices.

\*\*\*\* Net asset value total return is calculated assuming an initial investment made at the net asset value at the beginning of the period, reinvestment of all dividends and distributions at net asset value during the period, and redemption on the last day of the period. Share price total return is calculated assuming an initial investment made at the share price at the beginning of the period, reinvestment of all dividends and distributions at share price during the period, and the sale at the share price on the last day of the period. Total investment returns calculated for a period of less than one year are not annualized.

† Annualized.

†† Portfolio turnover rate is not annualized and does not include securities received or delivered from processing creations or redemptions.

# The per share amount of equalization is presented to show the impact of equalization on distributable earnings per share.

(a) The net asset value total return from Fund Inception (May 5, 2011, first day of trading on the Exchange) to October 31, 2011 was (18.78)%. The share price total return from Fund inception to October 31, 2011 was (18.66)%.

(b) The net asset value total return from Fund Inception (May 5, 2011, first day of trading on the Exchange) to October 31, 2011 was 2.52%. The share price total return from Fund Inception to October 31, 2011 was 2.65%.

See Notes to Financial Statements.

# Notes to Financial Statements

## PowerShares Exchange-Traded Fund Trust II

October 31, 2011

### Note 1. Organization

PowerShares Exchange-Traded Fund Trust II (the “Trust”) was organized as a Massachusetts business trust on October 10, 2006 and is authorized to have multiple series of portfolios. The Trust is an open-end management investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”). As of October 31, 2011, the Trust offered fifty portfolios. This report includes the following portfolios:

<u>Fund Name</u>	<u>Short Name</u>
PowerShares S&P 500® High Beta Portfolio (SPHB)	“S&P 500® High Beta Portfolio”
PowerShares S&P 500® Low Volatility Portfolio (SPLV)	“S&P 500® Low Volatility Portfolio”

Each portfolio (each a “Fund” and collectively, the “Funds”) represents a separate series of the Trust. The shares of the Funds are referred to herein as “Shares” or “Fund’s Shares.” Each Fund’s Shares are listed and traded on the NYSE Arca, Inc.

The Funds’ market prices may differ to some degree from the net asset value (“NAV”) of the Shares of each Fund. Unlike conventional mutual funds, each Fund issues and redeems Shares on a continuous basis, at NAV, only in a large specified number of Shares, each called a “Creation Unit.” Creation Units are issued and redeemed generally in-kind for securities included in the relevant index. Except when aggregated in Creation Units by Authorized Participants, the Shares are not individually redeemable securities of the Funds.

The investment objective of each Fund is to seek investment results that correspond (before fees and expenses) generally to the price and yield performance of the following indices (each, an “Underlying Index”):

<u>Fund</u>	<u>Index</u>
S&P 500® High Beta Portfolio	S&P 500® High Beta Index
S&P 500® Low Volatility Portfolio	S&P 500® Low Volatility Index

### Note 2. Significant Accounting Policies

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements, including estimates and assumptions related to taxation. Actual results could differ from these estimates. In addition, the Funds monitor for material events or transactions that may occur or become known after the period-end date and before the date the financial statements are released to print.

#### A. Security Valuation

Securities, including restricted securities, are valued according to the following policies.

A security listed or traded on an exchange (except convertible bonds) is valued at its last sales price or official closing price as of the close of the customary trading session on the exchange where the security is principally traded, or lacking any sales or official closing price on a particular day, the security may be valued at the closing bid price on that day. Securities traded in the over-the-counter market are valued based on prices furnished by independent pricing services or market makers. Listed options, if no closing

# Notes to Financial Statements (Continued)

## PowerShares Exchange-Traded Fund Trust II

October 31, 2011

price is available, are valued at the mean between the last bid and ask prices from the exchange on which they are principally traded. Options not listed on an exchange are valued by an independent source at the mean between the last bid and ask prices.

Investments in open-end registered investment companies not traded on an exchange are valued at the end of day NAV per share.

Debt obligations (including convertible bonds) and unlisted equities are fair valued using an evaluated quote provided by an independent pricing service. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices, and may reflect appropriate factors such as institution-size trading in similar groups of securities, developments related to specific securities, dividend rate, yield, quality, type of issue, coupon rate, maturity, individual trading characteristics and other market data. Debt securities are subject to interest rate and credit risks. In addition, all debt securities involve some risk of default with respect to interest and/or principal payments.

Foreign securities (including foreign exchange contracts) are converted into U.S. dollar amounts using the applicable exchange rates as of the close of the London world markets. If market quotations are available and reliable for foreign exchange traded equity securities, the securities will be valued at the market quotations. Because trading hours for certain foreign securities end before the close of the New York Stock Exchange ("NYSE"), closing market quotations may become unreliable. If between the time trading ends on a particular security and the close of the customary trading session on the NYSE, events occur that are significant and make the closing price unreliable, the Fund may fair value the security. If the event is likely to have affected the closing price of the security, the security will be valued at fair value in good faith using procedures approved by the Board of Trustees. Adjustments to closing prices to reflect fair value may also be based on a screening process of an independent pricing service to indicate the degree of certainty, based on historical data, that the closing price in the principal market where a foreign security trades is not the current value as of the close of the NYSE. Foreign securities meeting the approved degree of certainty that the price is not reflective of current value will be priced at the indication of fair value from the independent pricing service. Multiple factors may be considered by the independent pricing service in determining adjustments to reflect fair value and may include information relating to sector indices, American depositary receipts and domestic and foreign index futures. Foreign securities may have additional risks including exchange rate changes, potential for sharply devalued currencies and high inflation, political and economic upheaval, the relative lack of issuer information, relatively low market liquidity and the potential lack of strict financial and accounting controls and standards.

Securities for which market prices are not provided by any of the above methods may be valued based upon quotes furnished by independent sources.

Securities for which market quotations are not readily available or are unreliable are valued at fair value as determined in good faith by or under the supervision of the Trust's officers following procedures approved by the Board of Trustees. Issuer specific events, market trends, bid/ask quotes of brokers and information providers and other market data may be reviewed in the course of making a good faith determination of a security's fair value.

Valuations change in response to many factors including the historical and prospective earnings of the issuer, the value of the issuer's assets, general economic conditions, interest rates, investor perceptions and

# Notes to Financial Statements (Continued)

## PowerShares Exchange-Traded Fund Trust II

October 31, 2011

market liquidity. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

### *B. Other Risks*

*Replication Management Risk.* Unlike many investment companies, the Funds do not utilize an investing strategy that seeks returns in excess of each Fund's respective Underlying Index. Therefore, a Fund would not necessarily sell a security unless that security is removed from its respective Underlying Index.

*Equity Risk.* The prices of equity securities change in response to many factors, including the historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates, investor perceptions and market liquidity.

*Non-Diversified Fund Risk.* Each Fund is considered non-diversified and can invest a greater portion of its assets in securities of individual issuers than a diversified fund. As a result, changes in the market value of a single investment could cause greater fluctuations in Share price than would occur in a diversified fund. This may increase the Fund's volatility and cause the performance of a relatively small number of issuers to have a greater impact on the Fund's performance.

*Non-Correlation Risk.* Each Fund's return may not match the return of its Underlying Index for a number of reasons. For example, each Fund incurs operating expenses not applicable to its Underlying Index, and incurs costs in buying and selling securities, especially when rebalancing the securities holdings to reflect changes in the composition of its Underlying Index. In addition, the performance of each Fund and its Underlying Index may vary due to asset valuation differences and differences between each Fund's portfolio and its Underlying Index resulting from legal restrictions, cost or liquidity constraints.

*Concentration Risk.* A significant percentage of the Underlying Index may be comprised of issuers in a single industry or sector of the economy. If the Fund is focused in an industry or sector, it may present more risks than if it were broadly diversified over numerous industries and sectors of the economy.

### *C. Federal Income Taxes*

Each Fund intends to comply with the provisions of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of the Fund's taxable earnings to its shareholders. As such, the Funds will not be subject to Federal income taxes on otherwise taxable income (including net realized gains) that is distributed to the shareholders. Therefore, no provision for Federal income taxes is recorded in the financial statements.

Income and capital gain distributions are determined in accordance with Federal income tax regulations, which may differ from GAAP. These differences are primarily due to differing book and tax treatments for in-kind transactions, losses deferred due to wash sales, and passive foreign investment company adjustments, if any.

The Funds file tax returns in the United States Federal jurisdiction and certain other jurisdictions. Generally, a Fund is subject to examinations by such taxing authorities for up to three years after the filing of the return for the tax period.

# Notes to Financial Statements (Continued)

## PowerShares Exchange-Traded Fund Trust II

October 31, 2011

### *D. Investment Income and Investment Transactions*

Dividend income is recorded on the ex-dividend date, net of foreign taxes withheld, if any. Interest income is recorded on the accrual basis. Investment transactions are recorded on the trade date. Realized gains and losses from the sale or disposition of securities are calculated on the specific identified cost basis. Dividends and interest received by a Fund may give rise to withholding and other taxes imposed by foreign countries. Corporate actions (including cash dividends) are recorded net of non-reclaimable foreign tax withholdings on the ex-dividend date. Tax conventions between certain countries and the United States may reduce or eliminate such taxes.

### *E. Expenses*

Each Fund has agreed to pay an annual unitary management fee to Invesco PowerShares Capital Management LLC (the “Adviser”). The Adviser has agreed to pay for substantially all expenses of the Funds, including the cost of transfer agency, custody, fund administration, legal, audit and other services, except for distribution fees, if any, brokerage expenses, taxes, interest, litigation expenses and other extraordinary expenses.

### *F. Dividends and Distributions to Shareholders*

Each Fund declares and pays dividends from net investment income, if any, to its shareholders quarterly and records such dividends on ex-dividend date. Each Fund distributes net realized taxable capital gains, if any, generally annually in cash and records them on ex-dividend date. Such distributions on a tax basis are determined in conformity with income tax regulations which may differ from GAAP. Distributions in excess of tax basis earnings and profits, if any, are reported in such Fund’s financial statements as a tax return of capital at fiscal period-end.

### *G. Equalization*

All of the Funds use the accounting practice of equalization. This accounting method is used to keep the continuing shareholder’s per Share equity in undistributed net investment income from being affected by the continuous sales and redemptions of capital Shares. Equalization is calculated on a per Share basis whereby a portion of the proceeds from the sales and cost of repurchases of capital Shares is applied to undistributed net investment income. The amount of equalization is disclosed in the Statements of Changes in Net Assets as undistributed net investment income (loss) included in the price of capital Shares issued or redeemed. The distributions to shareholders of amounts so applied may be deemed to be a return of capital for tax purposes to the extent that such distributions exceed taxable income.

### **Note 3. Investment Advisory Agreement and Other Agreements**

The Trust has entered into an Investment Advisory Agreement with the Adviser pursuant to which the Adviser has overall responsibility as the Funds’ investment adviser for the selection and ongoing monitoring of the Funds’ investments, managing the Funds’ business affairs and providing certain clerical, bookkeeping and other administrative services. As compensation for its services, each Fund has agreed to pay the Adviser an annual unitary management fee of 0.25% of the Fund’s average daily net assets. The Adviser has agreed to pay substantially all expenses of the Funds, including the cost of transfer agency, custody, fund administration, legal, audit and other services, except for distribution fees, if any, brokerage expenses, taxes, interest, litigation expenses and other extraordinary expenses.

# Notes to Financial Statements (Continued)

## PowerShares Exchange-Traded Fund Trust II

October 31, 2011

The Trust has entered into a Distribution Agreement with Invesco Distributors, Inc. (the “Distributor”), which serves as the distributor of Creation Units for each Fund. The Distributor does not maintain a secondary market in the Shares. The Distributor is an affiliate of the Adviser.

The Adviser has entered into a licensing agreement for each Fund with Standard & Poor’s Financial Services LLC (the “Licensor”). Each Underlying Index name trademark is owned by the Licensor. These trademarks have been licensed to the Adviser for use with the Funds. Each Fund is entitled to use its Underlying Index pursuant to the Trust’s sub-licensing agreement with the Adviser. The Funds are not sponsored, endorsed, sold or promoted by the Licensor and the Licensor makes no representation regarding the advisability of investing in any of these Funds.

The Trust has entered into service agreements whereby The Bank of New York Mellon, a wholly-owned subsidiary of The Bank of New York Mellon Corporation, serves as the administrator, custodian, fund accountant and transfer agent for each Fund.

### Note 4. Investments in Affiliates

The Fund’s Adviser is a subsidiary of Invesco Ltd. and, therefore Invesco Ltd. is considered to be affiliated with the Fund. The table below shows the transactions in and earnings from the investment in Invesco Ltd. for the period May 2, 2011 to October 31, 2011.

#### S&P 500® High Beta Portfolio

	Value May 2, 2011	Purchase at Cost	Proceeds from Sales	Change in Unrealized Appreciation (Depreciation)	Realized Gain (Loss)	Value October 31, 2011	Dividend Income
Invesco Ltd. . . . .	\$25,754	\$304,561	\$(172,672)	\$(12,185)	\$(10,688)	\$134,770	\$969

### Note 5. Additional Valuation Information

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, under current market conditions. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets (Level 1) and the lowest priority to significant unobservable inputs (Level 3) generally when market prices are not readily available or are unreliable. Based on the valuation inputs, the securities or other investments are tiered into one of three levels. Changes in valuation methods may result in transfers in or out of an investment’s assigned level:

Level 1 – Prices are determined using quoted prices in an active market for identical assets.

Level 2 – Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, yield curves, loss severities, default rates and discount rates, volatilities and others.

Level 3 – Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable

# Notes to Financial Statements (Continued)

## PowerShares Exchange-Traded Fund Trust II

October 31, 2011

inputs reflect the Fund's own assumptions about the factors market participants would use in determining fair value of the securities or instruments and would be based on the best available information.

As of October 31, 2011, the securities in each Fund were valued based on Level 1 inputs (see the Schedule of Investments for security categories). The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

With respect to each Fund, during the period May 2, 2011 to October 31, 2011, there were no significant transfers between investment levels.

### Note 6. Distributions to Shareholders and Tax Components of Net Assets

#### Tax Character of Distributions to Shareholders Paid During the Period May 2, 2011 to October 31, 2011:

	2011	
	Ordinary Income	Return of Capital
S&P 500 <sup>®</sup> High Beta Portfolio .....	\$ 23,608	\$ —
S&P 500 <sup>®</sup> Low Volatility Portfolio .....	2,292,895	462,096

#### Tax Components of Net Assets at Period-End:

	Undistributed Ordinary Income (Loss)	Net Unrealized Appreciation (Depreciation)	Capital Loss Carryforward	Shares of Beneficial Interest	Total Net Assets
S&P 500 <sup>®</sup> High Beta Portfolio .....	\$ 4,343	\$ (1,448,483)	\$ (88,502)	\$ 13,272,407	\$ 11,739,765
S&P 500 <sup>®</sup> Low Volatility Portfolio .....	—	19,768,458	(1,848,960)	554,713,520	572,633,018

Capital loss carryforward is calculated and reported as of a specific date. Results of transactions and other activity after that date may affect the amount of capital loss carryforward actually available for the Fund to utilize. The Regulated Investment Company Modernization Act of 2010 (the "Act") eliminated the eight-year carryover period for capital losses that arise in taxable years beginning after its enactment date of December 22, 2010. Consequently, these capital losses can be carried forward for an unlimited period. However, capital losses with an expiration period may not be used to offset capital gains until all net capital losses without an expiration date have been utilized. Additionally, post-enactment capital loss carryovers will retain their character as either short-term or long-term capital losses instead of as short-term capital losses as under prior law. The ability to utilize capital loss carryforward in the future may be limited under the Internal Revenue Code and related regulations based on the results of future transactions.

# Notes to Financial Statements (Continued)

## PowerShares Exchange-Traded Fund Trust II

October 31, 2011

The Funds listed below have a short-term capital loss carryforward as of October 31, 2011 which is not subject to expiration:

	<u>Capital Loss Carryforward Short-Term</u>
S&P 500® High Beta Portfolio . . . . .	\$ 88,502
S&P 500® Low Volatility Portfolio . . . . .	1,848,960

### Note 7. Investment Transactions

For the period May 2, 2011 to October 31, 2011, the cost of securities purchased and proceeds from sales of securities, excluding short-term securities, money market funds and in-kind transactions, were as follows:

	<u>Purchases</u>	<u>Sales</u>
S&P 500® High Beta Portfolio . . . . .	\$ 1,443,510	\$ 1,833,229
S&P 500® Low Volatility Portfolio . . . . .	25,725,892	26,357,014

For the period May 2, 2011 to October 31, 2011, in-kind transactions associated with creations and redemptions were as follows:

	<u>Securities Received</u>	<u>Securities Delivered</u>
S&P 500® High Beta Portfolio . . . . .	\$ 30,737,703	\$16,213,686
S&P 500® Low Volatility Portfolio . . . . .	577,227,046	22,245,593

Gains and (losses) on in-kind transactions are generally not considered taxable gains and (losses) for Federal income tax purposes.

At October 31, 2011, the aggregate cost and the net unrealized appreciation (depreciation) of investments for tax purposes were as follows:

	<u>Cost</u>	<u>Net Unrealized Appreciation (Depreciation)</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized (Depreciation)</u>
S&P 500® High Beta Portfolio . . . . .	\$ 13,183,463	\$ (1,448,483)	\$ 85,272	\$(1,533,755)
S&P 500® Low Volatility Portfolio . . . . .	553,698,834	19,768,458	20,493,785	(725,327)

### Note 8. Reclassification of Permanent Differences

Primarily as a result of differing book/tax treatment of in-kind transactions, on October 31, 2011, amounts were reclassified between undistributed net investment income (loss), undistributed net realized gain (loss) and Shares of beneficial interest. These reclassifications had no effect on the net assets of each Fund. For the period May 2, 2011 to October 31, 2011, the reclassifications were as follows:

	<u>Undistributed Net Investment Income (Loss)</u>	<u>Undistributed Net Realized Gain (Loss)</u>	<u>Shares of Beneficial Interest</u>
S&P 500® High Beta Portfolio . . . . .	\$7,782	\$ 865,717	\$(873,499)
S&P 500® Low Volatility Portfolio . . . . .	—	(364,036)	364,036

# Notes to Financial Statements (Continued)

## PowerShares Exchange-Traded Fund Trust II

October 31, 2011

### Note 9. Trustees' Fees

The Fund compensates each Trustee who is not an "interested person" as defined in the 1940 Act (an "Independent Trustee"). The Adviser, as a result of the unitary management fee, pays for such compensation. The Non-Independent Trustees of the Trust do not receive any Trustees' fees.

The Trust has adopted a deferred compensation plan (the "Plan"). Under the Plan, an Independent Trustee who has executed a Deferred Fee Agreement (a "Participating Trustee") may defer receipt of all or a portion of his compensation ("Deferral Fees"). Such Deferral Fees are deemed to be invested in select PowerShares Funds. The Deferral Fees payable to the Participating Trustee are valued as of the date such Deferral Fees would have been paid to the Participating Trustee. The value increases with contributions or with increases in the value of the Shares selected, and the value decreases with distributions or with declines in the value of the Shares selected.

### Note 10. Capital

Shares are created and redeemed by the Trust only in Creation Unit size aggregations of 50,000 Shares. Only Authorized Participants are permitted to purchase or redeem Creation Units from the Funds. Such transactions are generally permitted on an in-kind basis, with a balancing cash component to equate the transaction to the NAV per Share of each Fund of the Trust on the transaction date. Cash may be substituted equivalent to the value of certain securities generally when they are not available in sufficient quantity for delivery, not eligible for trading by the Authorized Participant or as a result of other market circumstances. Transactions in capital shares for each Fund are disclosed in detail on the Statements of Changes in Net Assets.

### Note 11. Indemnifications

Under the Trust's organizational documents, its officers and Trustees are indemnified against certain liabilities arising out of the performance of their duties to the Trust. Each Independent Trustee is also indemnified against certain liabilities arising out of the performance of his duties to the Trust pursuant to an Indemnification Agreement between the Independent Trustee and the Trust. Additionally, in the normal course of business, the Trust enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Trust that have not yet occurred. However, based on experience, the Trust believes the risk of loss to be remote.

# Report of Independent Registered Public Accounting Firm

## To the Board of Trustees and Shareholders of PowerShares Exchange-Traded Fund Trust II:

In our opinion, the accompanying statements of assets and liabilities, including the schedules of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of each of the portfolios indicated in Note 1 of the financial statements (each a portfolio of PowerShares Exchange-Traded Fund Trust II, hereafter referred to as the “Trust”) at October 31, 2011, and the results of each of their operations, the changes in each of their net assets, and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Trust’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at October 31, 2011 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP  
New York, New York  
December 27, 2011

## Tax Information

Form 1099-DIV, Form 1042-S and other year-end tax information provide shareholders with actual calendar year amounts that should be included in their tax returns. Shareholders should consult their tax advisors.

The following distribution information is being provided as required by the Internal Revenue Code or to meet a specific state's requirement.

Each Fund reports the following amounts or, if subsequently determined to be different, the maximum amount allowable for the period May 2, 2011 to October 31, 2011:

### Federal Income Tax Information

	Qualified Dividend Income*	Corporate Dividend Received Deduction*
PowerShares S&P 500® High Beta Portfolio . . . . .	95%	95%
PowerShares S&P 500® Low Volatility Portfolio . . . . .	100%	100%

\* The above percentages are based on ordinary income dividends paid to shareholders during the Fund's fiscal year.

## Trustees and Officers

The Independent Trustees, the Trustees who are affiliated with the Adviser (the “Non-Independent Trustees”) and the executive officers of the Trust, their term of office and length of time served, their principal business occupations during at least the past five years, the number of portfolios in the Fund Complex overseen by each Trustee and the other directorships, if any, held by a Trustee, are shown below.

The Trustees and officers information is current as of October 31, 2011.

Name, Address, and Age of Independent Trustees	Position(s) Held with Trust	Term of Office and Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex** Overseen by Independent Trustees	Other Directorships Held by Independent Trustees
Ronn R. Bagge (53) c/o Invesco PowerShares Capital Management LLC 301 West Roosevelt Road Wheaton, IL 60187	Trustee	Since 2007	Founder and Principal, YQA Capital Management LLC (1998-Present); formerly, Owner/CEO of Electronic Dynamic Balancing Co., Inc. (high-speed rotating equipment service provider)	112	None
Todd J. Barre (53) c/o Invesco PowerShares Capital Management LLC 301 West Roosevelt Road Wheaton, IL 60187	Trustee	Since 2010	Assistant Professor of Business, Trinity Christian College (2010-Present); formerly, Vice President and Senior Investment Strategist (2001-2008); Director of Open Architecture and Trading (2007- 2008); Head of Fundamental Research (2004-2007); and Vice President and Senior Fixed Income Strategist (1994-2001), BMO Financial Group/Harris Private Bank	112	None

\* This is the date the Trustee began serving the Trust. Each Trustee serves an indefinite term, until his successor is elected.

\*\* Fund Complex includes all open-end funds (including all of their portfolios) advised by the Adviser. At October 31, 2011, the Fund Complex consisted of the Trust’s 50 portfolios and three other exchange-traded fund trusts with 62 portfolios advised by the Adviser.

## Trustees and Officers (Continued)

Name, Address, and Age of Independent Trustees	Position(s) Held with Trust	Term of Office and Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex** Overseen by Independent Trustees	Other Directorships Held by Independent Trustees
Marc M. Kole (51) c/o Invesco PowerShares Capital Management LLC 301 West Roosevelt Road Wheaton, IL 60187	Trustee	Since 2007	Chief Financial Officer, Hope Network (social services) (2008-Present); formerly, Assistant Vice President and Controller, Priority Health (health insurance) (2005-2008); Senior Vice President of Finance, United Healthcare (2004-2005); Senior Vice President of Finance, Oxford Health Plans (2000-2004)	112	None
Philip M. Nussbaum (49) c/o Invesco PowerShares Capital Management LLC 301 West Roosevelt Road Wheaton, IL 60187	Trustee	Since 2007	Chairman, Performance Trust Capital Partners (2004-Present)	112	None

\* This is the date the Trustee began serving the Trust. Each Trustee serves an indefinite term, until his successor is elected.

\*\* Fund Complex includes all open-end funds (including all of their portfolios) advised by the Adviser. At October 31, 2011, the Fund Complex consisted of the Trust's 50 portfolios and three other exchange-traded fund trusts with 62 portfolios advised by the Adviser.

## Trustees and Officers (Continued)

Name, Address, and Age of Independent Trustees	Position(s) Held with Trust	Term of Office and Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex** Overseen by Independent Trustees	Other Directorships Held by Independent Trustees
Donald H. Wilson (51) c/o Invesco PowerShares Capital Management LLC 301 West Roosevelt Road Wheaton, IL 60187	Trustee	Since 2007	Chairman and Chief Executive Officer, Stone Pillar Advisers, Ltd. (2010-Present); formerly, Chief Operating Officer, AMCORE Financial, Inc. (bank holding company) (2007-2009); Executive Vice President and Chief Financial Officer, AMCORE Financial, Inc. (2006-2007); Senior Vice President and Treasurer, Marshall & Ilsley Corp. (bank holding company) (1995-2006)	112	None

\* This is the date the Trustee began serving the Trust. Each Trustee serves an indefinite term, until his successor is elected.

\*\* Fund Complex includes all open-end funds (including all of their portfolios) advised by the Adviser. At October 31, 2011, the Fund Complex consisted of the Trust's 50 portfolios and three other exchange-traded fund trusts with 62 portfolios advised by the Adviser.

## Trustees and Officers (Continued)

The Non-Independent Trustees and the executive officers of the Trust, their term of office and length of time served, their principal business occupations during the past five years, the number of portfolios in the Fund Complex overseen by the Non-Independent Trustees and the other directorships, if any, held by the Trustees are shown below.

Name, Address, and Age of Non-Independent Trustees	Position(s) Held with Trust	Term of Office and Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex** Overseen by Non-Independent Trustees	Other Directorships Held by Non-Independent Trustees
H. Bruce Bond (48) Invesco PowerShares Capital Management LLC 301 West Roosevelt Road Wheaton, IL 60187	Chairman of the Board and Trustee	Since 2006	Chairman, Invesco PowerShares Capital Management LLC (2009-Present); formerly, Managing Director, Invesco PowerShares Capital Management LLC (2002-2009); Manager, Nuveen Investments (1998-2002)	112	None

\* This is the date the Interested Trustee began serving the Trust. Each Trustee serves an indefinite term, until his successor is elected.

\*\* Fund Complex includes all open-end funds (including all of their portfolios) advised by the Adviser. At October 31, 2011, the Fund Complex consists of the Trust's 50 portfolios and three other exchange-traded fund trusts with 62 portfolios advised by the Adviser.

## Trustees and Officers (Continued)

Name, Address, and Age of Non-Independent Trustees	Position(s) Held with Trust	Term of Office and Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex** Overseen by Non-Independent Trustees	Other Directorships Held by Non-Independent Trustees
Kevin M. Carome (55) Invesco Ltd. Two Peachtree Pointe 1555 Peachtree St., N.E., Suite 1800 Atlanta, GA 30309	Trustee	Since 2010	Senior Managing Director and General Counsel, Invesco Ltd. (2006-Present); formerly, Senior Vice President and General Counsel, Invesco Advisors, Inc. (2003-2005); Senior Vice President and General Counsel, Liberty Financial Companies, Inc. (2000-2001); General Counsel of certain investment management subsidiaries of Liberty Financial Companies, Inc. (1998-2000); Associate General Counsel, Liberty Financial Companies, Inc. (1993-1998); Associate, Ropes & Gray LLP	112	None

\* This is the date the Interested Trustee began serving the Trust. Each Trustee serves an indefinite term, until his successor is elected.

\*\* Fund Complex includes all open-end funds (including all of their portfolios) advised by the Adviser. At October 31, 2011, the Fund Complex consisted of the Trust's 50 portfolios and three other exchange-traded fund trusts with 62 portfolios advised by the Adviser.

## Trustees and Officers (Continued)

Name, Address, and Age of Executive Officer	Position(s) Held with Trust	Length of Time Served*	Principal Occupation(s) During Past 5 Years
Andrew Schlossberg (37) Invesco Management Group, Inc. 11 Greenway Plaza Suite 2500 Houston, TX 77046	President	Since 2009	Managing Director, U.S. head of business strategy and chief marketing officer for Invesco Ltd. In the United States (2008-Present); formerly, Mr. Schlossberg served in multiple roles within Invesco, including head of corporate development, as well as global leadership roles in strategy and product development in the company's North American Institutional and Retirement divisions (2002-2007)
Benjamin Fulton (50) Invesco PowerShares Capital Management LLC 301 West Roosevelt Road Wheaton, IL 60187	Vice President	Since 2009	Executive Vice President – Global Product Development, Invesco PowerShares Capital Management LLC (2005-Present); formerly, principal of Clermont Consulting, a consulting firm focused on the creation and development of retail investment products (2003-2005); President and a founding partner of Claymore Securities, a financial services firm in the Chicago land area (2001-2003); Managing Director of Structured Investments at Nuveen Investments (1998-2001)
Peter Hubbard (30) Invesco PowerShares Capital Management LLC 301 West Roosevelt Road Wheaton, IL 60187	Vice President	Since 2009	Vice President and Director of Portfolio Management – Invesco PowerShares Capital Management LLC (2008-Present); formerly, Portfolio Manager, Invesco PowerShares Capital Management LLC (2007-2008); Research Analyst, Invesco PowerShares Capital Management LLC (2005-2007); Research Analyst and Trader, Ritchie Capital, a hedge fund operator (2003-2005)
David Warren (54) Invesco Trimark Ltd. 5140 Yonge Street Suite 900 Toronto, Ontario M2N 6X7	Vice President	Since 2009	Director, Executive Vice President and Chief Financial Officer, Invesco Canada Ltd. (formerly, Invesco Trimark Ltd.) and Chief Administrative Officer, North American Retail, Invesco Ltd (2007-Present); formerly, Director, Executive Vice President and Chief Financial Officer, Invesco Canada Ltd. (formerly, Invesco Trimark Ltd.) (2000-2006)

\* This is the period for which the Officers began serving the Trust. Each Officer serves an indefinite term, until his successor is elected.

## Trustees and Officers (Continued)

Name, Address, and Age of Executive Officer	Position(s) Held with Trust	Length of Time Served*	Principal Occupation(s) During Past 5 Years
<p>Todd Spillane (52) Invesco Management Group, Inc. 11 Greenway Plaza Suite 2500 Houston, TX 77046</p>	<p>Chief Compliance Officer</p>	<p>Since 2010</p>	<p>Senior Vice President, Invesco Management Group, Inc.; Chief Compliance Officer, Invesco Private Capital Investments, Inc. (holding company), Invesco Private Capital, Inc. (registered investment adviser) and Invesco Senior Secured Management, Inc. (registered investment adviser); Chief Compliance Officer and Senior Vice President, Invesco Advisers, Inc. (formerly Invesco Institutional, (N.A.), Inc. – registered investment adviser) and Vice President, Invesco Distributors, Inc. and Invesco Investment Services, Inc.; formerly, Chief Compliance Officer, Invesco Global Asset Management (N.A.), Inc. (registered investment adviser) and Invesco Advisers, Inc. (formerly Invesco Institutional (N.A.), Inc. – registered investment adviser); Senior Vice President and Chief Compliance Officer, Invesco Advisors, Inc., Invesco Capital Management, Inc. and Invesco Private Asset Management, Inc.; Vice President, Invesco Capital Management, Inc. and Fund Management Company</p>
<p>Steven M. Hill (47) Invesco PowerShares Capital Management LLC 301 West Roosevelt Road Wheaton, IL 60187</p>	<p>Treasurer</p>	<p>Since 2011</p>	<p>Treasurer, PowerShares Exchange-Traded Fund Trust, PowerShares Exchange-Traded Fund Trust II, PowerShares India Exchange-Traded Fund Trust, and PowerShares Actively Managed Exchange-Traded Fund Trust; Head of Global ETF Operations, Invesco PowerShares Capital Management LLC; formerly, Senior Managing Director and Chief Financial Officer, Destra Capital Management LLC and its subsidiaries (2010-2011); Chief Financial Officer, Destra Investment Trust and Destra Investment Trust II (2010-2011); Senior Managing Director, Claymore Securities, Inc. (2003-2010); and Chief Financial Officer, Claymore sponsored mutual funds (2003-2010).</p>

\* This is the period for which the Officers began serving the Trust. Each Officer serves an indefinite term, until his successor is elected.

## Trustees and Officers (Continued)

Name, Address, and Age of Executive Officer	Position(s) Held with Trust	Length of Time Served*	Principal Occupation(s) During Past 5 Years
Anna Paglia (37) Invesco PowerShares Capital Management LLC 301 West Roosevelt Road Wheaton, IL 60187	Secretary	Since 2011	Head of Legal, Invesco PowerShares Capital Management LLC (2010-Present); formerly, Partner, K&L Gates LLP (formerly, Bell Boyd & Lloyd LLP) (2007-2010). Associate Counsel at Barclays Global Investors Ltd. (2004-2006)

### Availability of Additional Information About the Trustees

The Statement of Additional Information includes additional information about the Trustees and is available, without charge, upon request at (800) 983-0903.

\* This is the period for which the Officers began serving the Trust. Each Officer serves an indefinite term, until his successor is elected.

# Board Consideration Regarding Approval of Investment Advisory Agreement for the PowerShares S&P 500<sup>®</sup> High Beta Portfolio and PowerShares S&P 500<sup>®</sup> Low Volatility Portfolio

At a meeting held on December 16, 2010, the Board of Trustees of the PowerShares Exchange-Traded Fund Trust II (the “Trust”), including the Independent Trustees, approved the Investment Advisory Agreement between Invesco PowerShares Capital Management LLC (the “Adviser”) and the Trust for the PowerShares S&P 500<sup>®</sup> High Beta Portfolio and PowerShares S&P 500<sup>®</sup> Low Volatility Portfolio (each a “Fund” and collectively, the “Funds”).

The Trustees reviewed information from the Adviser describing: (i) the nature, extent and quality of services to be provided, (ii) the costs of services to be provided and estimated profits to be realized by the Adviser, (iii) the extent to which economies of scale may be realized as each Fund grows, (iv) whether fee levels reflect any possible economies of scale for the benefit of Fund shareholders, (v) comparisons of services rendered and amounts paid to other registered investment companies and (vi) any benefits to be realized by the Adviser from its relationship with the Funds. Based on all of the information considered and the conclusions reached, the Board, including the Independent Trustees, determined to approve the Investment Advisory Agreement for each Fund. No single factor was determinative in the Board’s analysis.

*Nature, Extent and Quality of Services.* In evaluating the nature, extent and quality of the Adviser’s services, the Trustees reviewed information concerning the functions to be performed by the Adviser for each Fund, information describing the Adviser’s current organization and staffing, including operations assistance provided by the Adviser’s parent organization, Invesco Ltd., and the background and experience of the persons who will be responsible for the day-to-day management of the Funds, and considered the quality of services provided by the Adviser to other exchange-traded funds (“ETFs”). The Trustees also reviewed information related to the Adviser’s portfolio transaction policies and procedures, as well as reports on the correlation and tracking error between the underlying indexes and the performance of other ETFs for which the Adviser serves as investment adviser.

The Trustees also considered the services to be provided by the Adviser in its oversight of the Funds’ administrator, custodian and transfer agent. They noted the significant amount of time and effort that had been devoted to this oversight function for the other ETFs and that was expected to be provided for the Funds.

Based on their review, the Trustees concluded that the nature, extent and quality of services to be provided by the Adviser to each Fund under the Investment Advisory Agreement were expected to be appropriate and reasonable.

*Fees, Expenses and Profitability.* The Trustees reviewed and discussed the information provided by the Adviser on each Fund’s proposed advisory fee, as compared to the expense ratios of various comparable ETFs and of open-end actively managed funds, open-end index funds and other ETFs. The Trustees noted the information compiled by the Adviser from Lipper Inc. databases on the expense ratios and advisory fees of various types of ETFs and open-end funds, including index funds, that they had received in connection with the 2010 contract renewal process for other ETFs for which the Adviser serves as investment adviser. The Trustees noted that the annual advisory fee to be charged to each Fund was a unitary fee, and that the Adviser has agreed to pay all other expenses of each Fund except brokerage commissions and other trading expenses, taxes, interest and extraordinary expenses. The Trustees noted that each Fund’s unitary advisory fee generally was lower than or within an acceptable range of the expense ratios of the comparable ETFs, and was lower than the median of most index funds and ETFs included in the Adviser’s compilation of Lipper Inc. data. The Trustees considered the proposed advisory

## Board Consideration Regarding Approval of Investment Advisory Agreement for the PowerShares S&P 500<sup>®</sup> High Beta Portfolio and PowerShares S&P 500<sup>®</sup> Low Volatility Portfolio (Continued)

fee in light of the distinguishing factors of each Fund and the higher administrative, operational and management oversight costs for the Adviser. The Trustees also noted that each Fund's licensing fee was payable out of the unitary fee to be charged to the Fund. The Board concluded that the unitary advisory fee to be charged to each Fund is reasonable and appropriate in light of the services expected to be provided.

In conjunction with their review of the unitary advisory fee, the Trustees also considered information provided by the Adviser on the costs of services for the Funds and fees to be paid by the Adviser. The Trustees considered information previously provided by the Adviser on its profitability, as well as any profits or losses realized by the Adviser from its relationship with other ETFs for which it serves as investment adviser. The Trustees noted the Adviser's statement that its costs of managing those ETFs generally exceed the amount payable as management fees under the investment advisory agreement for those funds. The Trustees concluded that the estimated profits to be realized by the Adviser with respect to each Fund appeared to be reasonable in comparison with the costs of providing investment advisory services to the Funds.

*Economies of Scale and Whether Fee Levels Reflect These Economies of Scale.* The Trustees reviewed the information provided by the Adviser as to the extent to which economies of scale are realized as each Fund grows and whether fee levels reflect economies of scale for the benefit of shareholders. The Trustees noted that any reduction in fixed costs associated with the management of the Funds would be enjoyed by the Adviser, but that a unitary fee provides certainty in expenses for the Funds. The Trustees considered whether the advisory fee rate for each Fund is reasonable in relation to the projected asset size of the Fund, and concluded that the flat advisory fee was reasonable and appropriate.

The Trustees noted that the Adviser had not identified any further benefits that it would derive from its relationship with the Funds, and had noted that it does not have any soft-dollar arrangements.

Based on all of the information considered and the conclusions reached, the Board, including the Independent Trustees, determined to approve the Investment Advisory Agreement for each Fund. No single factor was determinative in the Board's analysis.

This page intentionally left blank

This page intentionally left blank

## PROXY VOTING POLICIES AND PROCEDURES

A description of the Trust's proxy voting policies and procedures that the Funds use to determine how to vote proxies relating to portfolio securities is available, without charge and upon request, by calling (800) 983-0903. This information is also available on the Securities and Exchange Commission's ("Commission") website at [www.sec.gov](http://www.sec.gov).

Information regarding how the Funds voted proxies for portfolio securities, if applicable, during the most recent 12-month period ended June 30, is also available, without charge and upon request, by (i) calling (800) 983-0903; or (ii) accessing the Trust's Form N-PX on the Commission's website at [www.sec.gov](http://www.sec.gov).

## QUARTERLY PORTFOLIOS

The Trust files its complete schedule of portfolio holdings for the Funds with the Commission for the first and third quarters of each fiscal year on Form N-Q. The Trust's Form N-Q is available on the Commission's website at [www.sec.gov](http://www.sec.gov). The Trust's Form N-Q may also be reviewed and copied at the Commission's Public Reference Room in Washington, D.C.; information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330.

powerSHARES®

Xchange Traded Funds™

301 West Roosevelt Road  
Wheaton, IL 60187  
800.983.0903  
[www.invescopowershares.com](http://www.invescopowershares.com)