Invesco

Quantitative ETFs

Seeking Alpha Through Dynamic Indexing

powerSHARES®

Not FDIC Insured | May Lose Value | No Bank Guarantee

Quantitative ETFs
Seeking Alpha through Dynamic Indexing

Dynamic Industry

- **PKB** PowerShares Dynamic Building & Construction Portfolio
- **PXE** PowerShares Dynamic Energy Exploration & Production Portfolio
- **PXQ** PowerShares Dynamic Networking Portfolio
- **PJP** PowerShares Dynamic Pharmaceuticals Portfolio
- **PMR** PowerShares Dynamic Retail Portfolio
- **PSI** PowerShares Dynamic Semiconductors Portfolio
- **PSJ** PowerShares Dynamic Software Portfolio
- **PBE** PowerShares Dynamic Biotechnology & Genome Portfolio
- **PBJ** PowerShares Dynamic Food & Beverage Portfolio
- **PEJ** PowerShares Dynamic Leisure & Entertainment Portfolio
- **PBS** PowerShares Dynamic Media Portfolio
- **PXJ** PowerShares Dynamic Oil & Gas Services Portfolio

Dynamic Broad-Market

- **PWB** PowerShares Dynamic Large Cap Growth Portfolio
- **PWV** PowerShares Dynamic Large Cap Value Portfolio
- **PWC** PowerShares Dynamic Market Portfolio

Indicates Smart Beta Portfolios

Beta *is a measure of risk representing how a security is expected to respond to general market movements.**

Smart beta *represents an alternative and selection index based methodology that may outperform a benchmark or reduce portfolio risk, or both.***

To learn more about our approach to smart beta investing, please visit powershares.com/smart-beta

Alpha is a measure of performance on a risk-adjusted basis.

**For example, a beta of one means that the security is expected to move with the market. A beta of less than one means the security is expected to be less volatile than the overall market. Betas greater than one are expected to exhibit more volatility or movement than the general market.*

***Smart beta funds may underperform cap-weighted benchmarks and increase portfolio risk.*

PowerShares Quantitative ETFs are based on the Intellidex Methodology, which is designed to objectively identify those stocks within a particular market segment that are believed to have the greatest potential for capital appreciation.

The Problem

Precision, Mega-cap Exposure, and Investment Merit

Asset class drift can occur in any investment
Asset allocation has become a precise science. Financial advisors carefully craft client portfolios, seeking an optimum balance between growth and value stocks; large-,mid- and small-cap companies; and sector and industry groups. When the lines become blurred between asset classes, this balance is thrown off, which can cause unexpected and disappointing performance results.

Some active portfolio managers may allow technology stocks to creep into a utilities fund, for example, in an effort to outperform their stated benchmark. Some index funds are simplistic in their definitions of growth and value — in some cases making that distinction using only a single style determinant such as price-to-book ratio — which can lead to imprecise segment representations. Such imprecision may ultimately undermine an otherwise solid portfolio.

That's why PowerShares Dynamic Portfolios are based on Dynamic Indexes that use an "intelligent" selection methodology to thoroughly examine stocks and achieve accurate sector, industry, and market-cap and style exposure. When we say that our ETFs are intelligent, we mean that in several different ways. Our largest family of ETFs is based on Intellidexes™ — dynamic indexes (Intelligent Index) that use rules-based quantitative analysis to choose stocks for their capital appreciation potential. We believe this is an intelligent way for an index to select stocks.

A few stocks may make up the majority of a portfolio
Traditional indexing utilizes market-cap and float-weighted methodologies which may be more impacted by stock specific risk, or diversification risk. All portfolios bear these risks. However, traditional indexes may be more affected by them because of the high concentrations of mega-cap companies. The Dynamic Indexes use a tiered-weighting methodology, an approach that attempts to improve portfolio diversification by creating more uniform exposure across size groups within the index, mitigating single-stock exposure found in traditional cap-weighted indexes.

Broad market benchmarks may not be the optimal investment
Traditional benchmark indexes, such as the widely known S&P 500® Index, were developed to represent a snapshot of the overall market. For that reason, they select stocks primarily for their industry exposure.

But Dynamic Indexes were developed to serve as the basis for investments. Their intelligent methodology seeks to evaluate and select stocks on their investment merit.

The Solution
Seeking Alpha through Stock Selection

Factors to determine Investment Merit:

- **Valuation Determinant Multiples/Financial Ratios:** (Please see the Value Determinants in the table on page 6)
- **Earning Momentum:** Earnings surprise, weighted earnings estimate revisions, etc.
- **Quality:** Operating margin, return on total equity, free cash flow, etc.
- **Price momentum:** Closing price relative to 52-week high, return residual of market beta, etc.
- **Management Action:** Dividends paid, share buybacks, capital expenditures, etc.

Factor Weightings by Sector or Industry – Certain factors are more relevant to different sectors or industries, and therefore should be assigned a higher weighting. For example, price momentum is important for consumer discretionary stocks, but is not as important for healthcare stocks. Another example is that of management action. Dividends and buybacks are important for financial stocks, but are not important for utility or consumer discretionary stocks.

The Intellidex Methodology is designed to objectively identify those stocks within a particular market segment that have the greatest potential for capital appreciation. The indexes seek to go beyond traditional measurements to consider the fundamentals that drive healthy companies and growth. The methodology evaluates companies quarterly, based on a variety of factors grouped into five broad categories (Superfactors):

- Price momentum
- Earnings momentum
- Quality
- Management action
- Value

Through sophisticated quantitative analysis, over 150 individual factors were reviewed to determine which may be the best predictors of future returns while identifying stocks that strive to deliver alpha or excess return with no additional risk. Overall, 47 factors were found to be statistically significant independent variables in determining the best stocks.

Rigorous research has gone into how each of the factors performs across time and within different market conditions. Within each category, factors are combined to form a composite exposure. The model is then customized to each sector to potentially allow for more consistent alpha generation across sectors.

By offering 15 different variations, the Intellidex Index family provides a full complement of offerings to gain exposure to both broad and narrow investment objectives. The goal is to select stocks to achieve specific and accurate exposure relative to sector, industry, and market-cap or growth-value style.

The tiered weighting of the Intellidex Indexes also reduces large concentrations in mega-cap stocks and more evenly weights the group of companies across size. Each of the index subgroups has a detailed, transparent weighting structure.

The majority of the Intellidex Indexes are comprised of stocks chosen quarterly by NYSE Euronext (NYSE) from the 2,000 largest, most liquid domestic stocks listed on NYSE and NASDAQ.

Invesco PowerShares offers **15** domestic ETFs based on Dynamic Indexes.

**Please see the final page for additional terms and definitions.*

Intellidex Indexes

The first ETF sponsor to offer intelligent ETFs: Leading the Intelligent Revolution®
When the definitive history of exchange-traded funds (ETFs) is written, Invesco PowerShares Capital Management LLC should be identified as the company that sparked creative ideas in the ETF industry. We believe these ideas directly contributed to the development of ETFs that do more than simply track a capitalization weighted benchmark, but instead offer dynamic investment strategies.

Invesco PowerShares currently offers 15 ETFs that are designed to track "dynamic" indexes. These are indexes that apply a quantitative methodology designed to evaluate stocks across a broad universe and choose the candidates with the most investment merit.

Growth Determinants	Factor Weights	Value Determinants
Forecasted Earnings Growth*	50.0%	Forecasted Earnings/Price*
Earnings Growth*	12.5%	Book/Price*
Sales Growth*	12.5%	Sales/Price*
Cash Flow Growth*	12.5%	Cash Flow/Price*
Book Value Growth*	12.5%	Dividend Yield*

Factors to determine Investment Merit:

- **Valuation Determinant Multiples/Financial Ratios:** (Please see the Value Determinants in the table to the left).
- **Earning Momentum:** Earnings surprise, weighted earnings estimate revisions, etc.
- **Quality:** Operating margin, return on total equity, free cash flow, etc.
- **Price momentum:** Closing price relative to 52-week high, return residual of market beta, etc.
- **Management Action:** Dividends paid, share buybacks, capital expenditures, etc.

Factor Weightings by Sector or Industry — Certain factors are more relevant to different sectors or industries, and therefore should be assigned a higher weighting. For example, price momentum is important for consumer discretionary stocks, but is not as important for healthcare stocks. Another example is that of management action. Dividends and buybacks are important for financial stocks, but are not important for utility or consumer discretionary stocks.

**Please see the final page for additional terms and definitions.*
Beta is a measure of relative risk of an asset in relation to the general market or the tendency of a security's returns to respond to changes in the market. It is also the slope of regression.

Industry Funds Methodology	PWC Methodology	PWV/PWB Methodology
Define Universe: Includes 2000 largest & most liquid securities traded on domestic exchanges	**Define Universe:** Includes 2000 largest & most liquid securities traded on domestic exchanges	**Define Universe:** Includes 2000 largest & most liquid securities traded on domestic exchanges
Industry Classification: Uses proprietary NYSE Arca methodology for sector classification and Revere Hierarchy methodology for industry classification	**Constraint:** Weighting within the overall portfolio that is similar to that of the market benchmark	**Style Delineation:** Uses 10 independent style determinants to properly differentiate between US growth and value companies
Size Delineation: Separates stocks into two groups: Largest 20% and smallest 80% as defined by market capitalization	**Size Delineation:** Separates stocks into two groups: Largest 20% and smallest 80% as defined by market capitalization	**Exclude Core:** The 50 stocks which are neither strong growth nor value are excluded
Quantitative Investment Merit Rating: Five factor model	**Quantitative Investment Merit Rating:** Five factor model	**Quantitative Investment Merit Rating:** Five factor model
		Size Delineation: Separates stocks into two groups: Largest 20% and smallest 80% as defined by market capitalization
Fund Weighting: Stocks with the best investment merit rating are placed in a two-tiered, equally weighted basket	**Fund Weighting:** Stocks with the best investment merit rating are placed in a two-tiered, equally weighted basket	**Fund Weighting:** 50 stocks with the best investment merit rating in each sector are placed in a two-tiered, equally weighted basket.

Rebalanced and Reconstituted Quarterly

Intellidex Strategies

The goal of the PowerShares Dynamic Portfolios is to provide alpha by choosing stocks based on investment merit. This approach is far different from that of traditional benchmark indexes, which seek to select stocks primarily for their market capitalization and regardless of their actual investment value.

Industry
Industry Intellidex Indexes place US stocks into industry categories using the Revere Hierarchy industry classification system — a detailed research approach designed to provide precise company and industry classifications.

Accurate classifications are important because they help ensure that investments are properly focused, allowing investors to better capture the performance of a specific sector or industry.

Broad Market
Broad Market Intellidex Indexes are designed to mirror the sector allocations of the broad US equity market. However, only those companies displaying what we believe to be the highest overall investment merit are selected to represent each sector.

The goal of the Intellidex Indexes is to create professionally designed, market-like portfolios of financially strong, effectively managed, and attractively priced US companies.

Style
Within the Broad Market Intellidex Indexes, style determinants are used to properly differentiate between US growth and value companies. These 10 independent style determinants incorporate accounting data, market data and insight gained from analysts' forecasts.

In contrast, other indexes may categorize stocks as growth or value based on only a single style determinant such as price-to-book ratio — which can lead to imprecise segment representations.

Terms and Definitions

Book/price ratio: A measure used to determine if a stock is valued properly. The calculation is book value divided by current price where book value is defined as total assets minus intangible assets minus liabilities.

Book value growth: How much book value grows or increases over a given time frame. Book value is defined as total assets minus intangible assets and liabilities.

Cash flow/price: Cash flow-to-price ratio is the ratio of the market's expectations of a firm's future financial health. Because this measure deals with cash flow, the effects of depreciation and other non-cash factors are removed. Similar to the price-earnings ratio, this measure provides an indication of relative value.

Cash flow growth: How much cash flow grows or increases over a given time frame. Cash flow removes the effects of depreciation and other non-cash factors.

Dividend yield: Dividend yield is the yearly dividend per share divided by the market price at the time of purchase. It is the ratio that shows how much a company pays out in dividends each year relative to its share price.

Earnings growth: How much earnings actually grow or increase over a given time frame.

Forecasted earnings growth: How much earnings are expected or forecast to grow or increase over a given time frame.

Forecasted earnings/price ratio: Forecasted earnings per shares divided by price per share

NASDAQ: The NASDAQ stock market is the world's first and largest electronic stock market listing over 3,200 companies.

NYSE Euronext: The New York Stock Exchange merged with the European exchange in 2007 to form what is considered the largest equities-based exchange in the world supporting both floor and electronic trading.

Sales growth: How much sales grow or increase over a given time frame.

Sales/price: This is a valuation measure calculating how much sales or revenue investors receive for every dollar of a company's share price.

About Risk
There are risks involved with investing in ETFs, including possible loss of money. Shares are not actively managed and are subject to risks similar to those of stocks, including those regarding short selling and margin maintenance requirements. Ordinary brokerage commissions apply. The Fund's return may not match the return of the Underlying Index.

The Funds are considered non-diversified and may be subject to greater risks than a diversified fund.

Investments focused in a particular industry are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.

There are risks associated with "growth" and "value" styles of investing. The value of the PowerShares Quantitative ETFs will vary and at times may be lower or higher than that of other types of investments. Please see the prospectus for more complete risk information regarding growth and value investing.

Dynamic Broad-Market Information
Investing in securities of small and medium-sized companies may involve greater risk than is customarily associated with investing in large companies.

Returns on investments in securities of large US companies could trail the returns on investments in stocks of smaller companies.

Over-the-Counter (OTC) transactions involve additional risks, and OTC-listed companies may have limited product lines, markets or financial resources. Many OTC stocks trade less frequently and in smaller volume than exchange-listed stocks, leaving them more volatile

Dynamic Industry-Specific Risk Information
Investing in securities of small- and medium-sized companies may involve greater risk than is customarily associated with investing in large companies.

The Funds contain securities in the basic materials, biotechnology, consumer discretionary, energy, financial services, healthcare, industrials, technology, utilities, genome, food and beverage, building and construction, pharmaceuticals services, energy exploration and production, leisure and entertainment, media, networking, oil and gas services, retail, semiconductors, software and the pharmaceuticals industries. Companies engaged in these industries are subject to greater risks, and are more greatly impacted by market volatility, than more diversified investments.

The Intellidex™ Indexes are trademarks of NYSE Euronext or its affiliates and are licensed for use by Invesco PowerShares Capital Management LLC in connection with the PowerShares Intellidex investment products. The products are not sponsored or endorsed by NYSE Arca, and NYSE Arca makes no warranty or representation as to the accuracy and/or completeness of the Indexes or results to be obtained by any person from use of the Indexes or the trading of the products.

The value of the stocks in the Dynamic Intellidex indexes may be more volatile than stocks of other issues. An investor in the Funds 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 Intellidex indexes. At times, the segment of equity markets represented by each sector and industry Index universe may be out of favor and under-perform other segments. When a Fund is focused in a specific industry or sector, it presents greater risks than if it were broadly diversified over numerous industries and sectors of the economy. Please read the prospectuses for a summary of these risks pertaining to each industry. The S&P 500® Index is an unmanaged index considered representative of the US stock market. An investment cannot be made directly in an index.

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Invesco Distributors, Inc. is the distributor of the PowerShares Exchange-Traded Fund Trust and the PowerShares Exchange-Traded Fund Trust II.

Shares are not individually redeemable and owners of the shares may acquire those shares from the Funds and tender those shares for redemption to the Funds in Creation Unit aggregations only, typically consisting of 50,000, 75,000, 100,000 or 200,000 shares.

Before investing, investors should carefully read the prospectus/summary prospectus and carefully consider the investment objectives, risks, charges and expenses. For this and more complete information about the Funds call 800 983 0903 or visit invescopowershares.com for prospectus/ summary prospectus.

Note: Not all products are available through all firms.

PWB

PWV

PWC

PKB

PXE

PXQ

PJP

PMR

PSI

PSJ

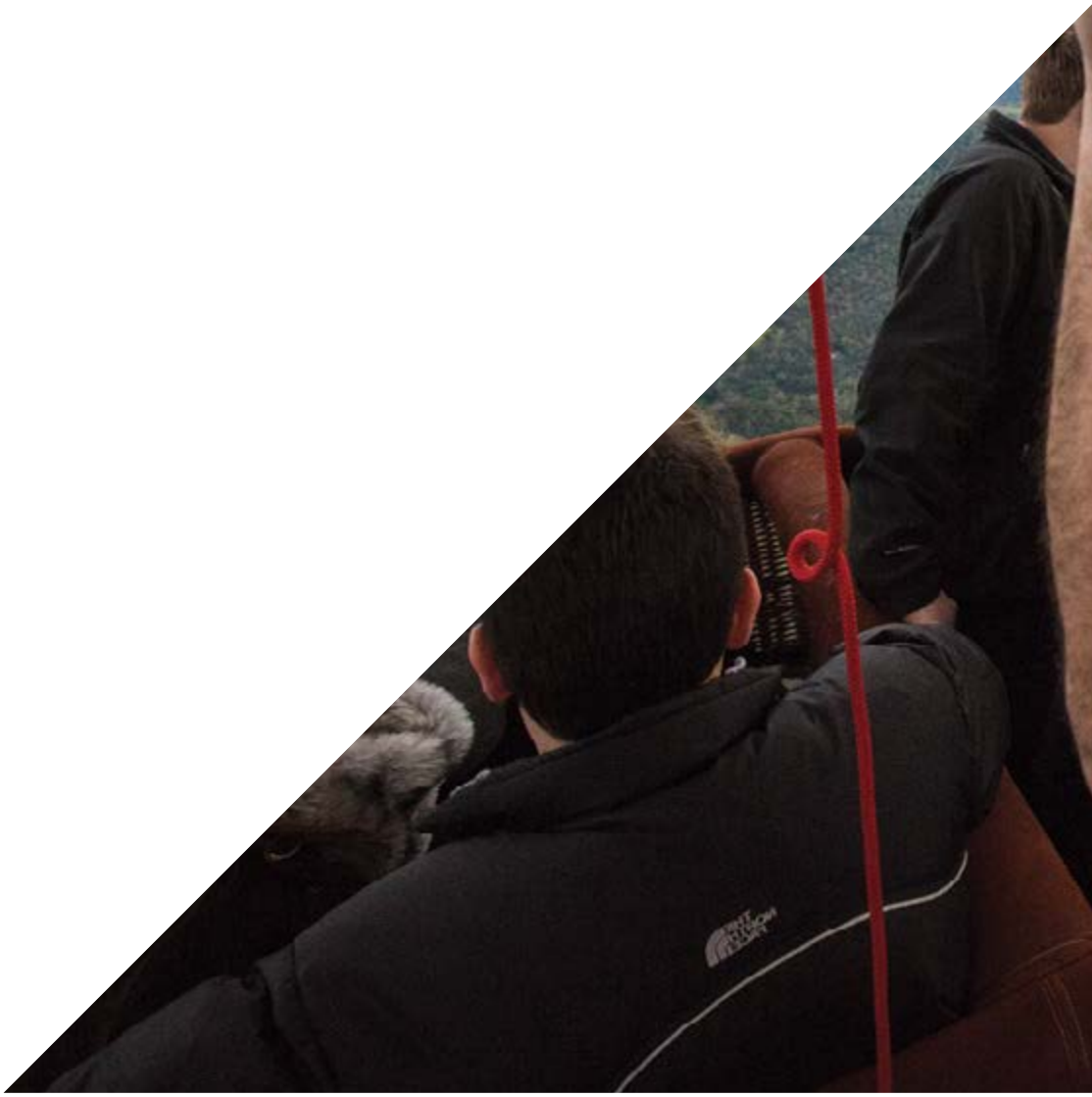
PBE

PBJ

PEJ

PBS

PXJ



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