

Smart beta: A time-tested, powerful tool for both equity and fixed income investors

Smart beta has become one of the most popular concepts in modern finance, but the idea is far from new. Smart beta is supported by decades of academic research, and investors have long used alternative weighting methodologies and factors to manage portfolio risk and return. Today, smart beta is about providing exposure to risk factors across asset classes that have also been found to explain additional sources of returns over extended time horizons. Smart beta methodologies aim to make risk factors available, while attempting to provide different risk/return characteristics than the broad market.

Characterizing smart beta

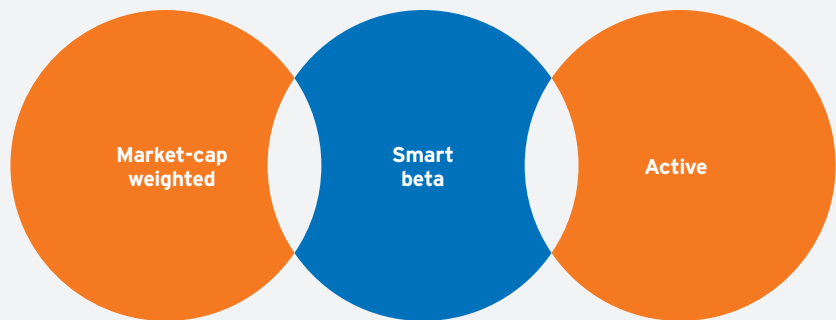
Smart beta strategies, which are often delivered through cost- and tax-efficient exchange-traded funds (ETFs), are based upon alternative weighting and rules-based index methodologies. Through smart beta ETF strategies, we believe investors can retain broad market exposure, potentially achieve long-term outperformance when compared with an index, and reduce portfolio risk in a liquid¹, low-cost², and transparent³ manner.

Smart beta investment strategies offers two key attributes:

1. Alternative index weighting and
2. Rules-based index construction

Smart beta ETFs:

- May outperform a benchmark
- Replicate an index with rules-based methodology
- Have the ability to potentially reduce risk with diversification beyond a single security
- Offer liquidity¹, lower costs² and transparency³



PRFZ Lipper peer group ranking:

6th percentile since inception
(27 of 456)

Small-Cap Core Funds as of Dec. 31, 2017. The Lipper one-year rank was 35% (355 of 1021), the three-year rank was 31% (258 of 844), the five-year rank was 18% (126 of 718) and the ten-year rank was 5% (25 of 516).

Overall Morningstar Rating™:



Small Blend (652 funds) as of Dec. 31, 2017. The Morningstar three-year rating was 4 stars (652 funds), five-year rating was 4 stars (558 funds) and the ten-year rating was 4 stars (400 funds).

Lipper fund percentile rankings are based on total returns, excluding sales charges and including fees and expenses, and are versus mutual funds, ETFs and funds of funds in the category tracked by Lipper. Since inception Lipper Rank data begins the month-end date of the ETF's inception month. Morningstar ratings are based on a risk-adjusted return measure that accounts for variation in a fund's monthly performance, placing more emphasis on downward variations and rewarding consistent performance.

Smart beta in the equity market

Do we have an example that smart beta works? In 2006, PowerShares by Invesco launched the first Fundamental Index[®] strategy ETF in the US small- and mid-cap space with the introduction of the PowerShares FTSE RAFI US 1500 Small-Mid Portfolio (PRFZ). Fundamental Index strategies, which later became known as smart beta, employ a disciplined rebalancing process that mitigates market biases embedded in market-cap-weighted indexes. Instead, smart beta strategies seek to buy low and sell high by anchoring constituent weight on fundamental measures of company size. The results are clear. Since its inception in September 2006 through December 31, 2017, PRFZ has outperformed the Russell 2000 index.

Standardized performance as of Dec. 31, 2017

Index history	YTD	1Yr	3Yr	5Yr	10Yr	Since fund inception
FTSE RAFI US 1500 Mid Small Index	14.19	14.19	10.41	14.91	10.76	10.21
Russell 2000 Index	14.65	14.65	9.96	14.12	8.71	8.24

Fund history	YTD	1Yr	3Yr	5Yr	10Yr	Since fund inception
Fund NAV	13.96	13.96	10.17	14.65	10.56	9.94
Fund Market Price	14.06	14.06	10.18	14.64	10.57	9.95

PRFZ total expense ratio: 0.41%. Fund inception date of Sept. 20, 2006. Performance quoted represents past performance. Past performance is not a guarantee of future results; current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. See powershares.com to find the most recent month-end performance numbers. Market returns are based on the midpoint of the bid/ask spread at 4 p.m. ET and do not represent the returns an investor would receive if shares were traded at other times. Fund performance reflects fee waivers, absent which, performance data quoted would have been lower. Index returns do not represent fund returns. An investor cannot invest directly in an index.

Smart beta in the fixed income market

Recently, there have been questions on how smart beta works within a fixed income framework. This too, is not really a new concept, as PowerShares is a pioneer in this space. We launched the first fixed income smart beta ETF in 2007.

The PowerShares Emerging Markets Sovereign Debt Portfolio (PCY) launched in October 2007. PCY is considered smart beta due to its equal weighting methodology. The countries in PCY's underlying index are equally weighted annually and the eligible bonds are rebalanced quarterly. This helps to avoid overweighting countries with greater debt burdens. Since PCY's inception, the fund NAV has outperformed the broader-based JP Morgan EMBI Global Index.

But not all fixed income ETFs represent smart beta strategies. For example, many issue-weighted fixed income ETFs weight holdings by the amount of debt outstanding. That can leave ETF investors exposed to the riskiest, most indebted issuers - with no mechanism in place for rebalancing.

Smart beta ETFs, on the other hand, typically weight companies based on alternative criteria, such as dividends and cash flow. A smart beta approach stresses an issuer's ability to service debt and generate income, rather than its level of indebtedness or share price. Another feature of smart beta ETFs is systematic rebalancing, which prevents funds from incorporating behavioral biases that can build up over time. Smart beta strategies can be applied in many other ways, as well. Smart beta funds may underperform cap-weighted benchmarks and increase portfolio risk.

Standardized performance as of Dec. 31, 2017

Index history	YTD	1Yr	3Yr	5Yr	10Yr	Since fund inception
DB Emerging Market USD Liquid Balanced Index	10.17	10.17	7.41	4.41	8.16	8.12
JP Morgan EMBI Global Index	9.32	9.32	6.84	3.75	7.06	7.07

Fund history	YTD	1Yr	3Yr	5Yr	10Yr	Since fund inception
Fund NAV	9.44	9.44	6.75	3.69	7.14	7.05
Fund Market Price	9.66	9.66	6.97	3.66	6.72	6.99

PCY total expense ratio: 0.50%. Fund inception date of Oct. 11, 2007. Performance quoted represents past performance. **Past performance is not a guarantee of future results;** current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. See powershares.com to find the most recent month-end performance numbers. Market returns are based on the midpoint of the bid/ask spread at 4 p.m. ET and do not represent the returns an investor would receive if shares were traded at other times. Fund performance reflects fee waivers, absent which, performance data quoted would have been lower. Index returns do not represent fund returns. An investor cannot invest directly in an index.

Not all fixed income weighting methodologies are the same



For illustrative purposes only.

Consider the power of smart beta

By considering smart beta solutions for both equity and fixed income, investors can potentially increase risk-adjusted returns and income, while enjoying the convenience, transparency, and tax efficiency of the ETF structure. PowerShares offers unique product lines built to power your portfolio with one of the broadest smart beta suites in the industry.

PCY Lipper peer group ranking:

22nd percentile since inception
(11 of 49)

Emerging Markets Hard Currency Debt Funds as of Dec. 31, 2017. The Lipper one-year rank was 66% (177 of 270), the three-year rank was 33% (72 of 219), five-year was 22% (29 of 133), and the ten-year rank was 24% (12 of 50).

Overall Morningstar Rating™:



Emerging Markets Bond (226 funds) as of Dec. 31, 2017. The Morningstar three-year rating was 3 stars (226 funds), five-year rating was 3 stars (136 funds) and the ten-year rating was 4 stars (51 funds).

Lipper fund percentile rankings are based on total returns, excluding sales charges and including fees and expenses, and are versus mutual funds, ETFs and funds of funds in the category tracked by Lipper. Since inception Lipper Rank data begins the month-end date of the ETF's inception month. Morningstar ratings are based on a risk-adjusted return measure that accounts for variation in a fund's monthly performance, placing more emphasis on downward variations and rewarding consistent performance.

About PowerShares by Invesco

We offer unique product lines precisely built to power your portfolio with one of the broadest factor suites using some of the most recognized index providers in the industry.

- Single- and multi-factor ETFs focused on low volatility, momentum, quality, value and size
- 100 smart beta ETFs and 75 with a five-year track record
- \$51B in smart beta ETF assets
- 60 smart beta ETFs with over \$100 mm AUM
- 84% of the entire smart beta fixed income ETF market is managed by PowerShares

Founded in 2003, PowerShares by Invesco is leading the Intelligent ETF Revolution® through its family of 315 domestic and international PowerShares ETFs. PowerShares ETFs seek to outperform traditional benchmark indexes while providing advisors and investors access to an innovative array of focused investment opportunities. With global assets of approximately \$172 billion as of Nov. 30, 2017, PowerShares ETFs trade on the NYSE ARCA, NASDAQ and BATS exchanges.



PowerShares is an industry innovator and leader in the smart beta fixed income ETF market. Contact us to learn more:

Financial Advisors

800.983.0903

Registered Investment Advisors and Institutions

866.406.5693

- 1 *Liquidity: Shares are not individually redeemable and owners of the shares may acquire those shares from the fund and tender those shares for redemption to the fund in creation unit aggregations only, typically consisting of 10,000, 50,000, 75,000, 100,000 or 200,000 shares.*
- 2 *Lower costs: Since ordinary brokerage commissions apply for each buy and sell transaction, frequent trading activity may increase the cost of ETFs.*
- 3 *Transparency: ETFs disclose their full portfolio holdings daily. Diversification does not guarantee a profit or eliminate the risk of loss.*

Important information

Morningstar: Open-end mutual funds and exchange-traded funds are considered a single population for comparison purposes. Ratings are calculated for funds with at least a three year history. The overall rating is derived from a weighted average of three-, five- and 10-year rating metrics, as applicable, excluding sales charges and including fees and expenses. Had fees not been waived and/or expenses reimbursed currently or in the past, the Morningstar rating would have been lower. Morningstar ratings are as of December 31, 2017, and are subject to change every month. The top 10% of funds in a category receive five stars, the next 22.5% four stars, the next 35% three stars, the next 22.5% two stars and the bottom 10% one star.

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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 seeks to outperform a benchmark or reduce portfolio risk, or both in active or passive vehicles. Smart beta funds may underperform cap-weighted benchmarks and increase portfolio risk.

The **Russell 2000® Index**, a trademark/service mark of the Frank Russell Co.®, is an unmanaged index considered representative of small-cap stocks. The **FTSE RAFI US 1500 Small-Mid Index** is designed to track the performance of small and medium-sized US companies. The **DBIQ Emerging Market USD Liquid Balanced Index** measures liquid emerging markets US dollar-denominated government bonds issued by approximately 30 emerging-market countries. The **JP Morgan Emerging Markets Bond Index Global (JP Morgan EMBI Global)** is an unmanaged index that tracks debt securities of emerging markets.

Risk information

There are risks involved with investing in ETFs, including possible loss of money. Shares are not actively managed and are subject to risks 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 fund is subject to certain other risks. Please see the current prospectus for more information regarding the risk associated with an investment in the fund.

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

PRFZ

Stocks of small- and mid-sized companies tend to be more vulnerable to adverse developments, may be more volatile, and may be illiquid or restricted as to resale.

PCY

An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa.

The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods.

Government obligors in emerging market countries are among the world's largest debtors to commercial banks, other governments, international financial organizations and other financial instruments. Issuers of sovereign debt or the governmental authorities that control repayment may be unable or unwilling to repay principal or interest when due, and the fund may have limited recourse in the event of default. Without debt holder approval, some governmental debtors may be able to reschedule or restructure their debt payments or declare moratoria on payments.

Global bonds are subject to the same risks as other debt issues. Securities of non-US issuers may be subject to greater market volatility based on factors such as availability of reliable financial information, higher transactional costs, taxation, decreased market liquidity and political instability.

The fund may hold illiquid securities that it may be unable to sell at the preferred time or price and could lose its entire investment in such securities.

The fund may invest in foreign bonds and because foreign exchanges may be open on days when the fund does not

price its shares, the value of the non-US securities in the fund's portfolio may change on days when you will not be able to purchase or sell your shares.

The fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the underlying Index, and may be subject to greater volatility.

Shares are not individually redeemable and owners of the shares may acquire those shares from the fund and tender those shares for redemption to the funds in creation unit aggregations consisting 10,000, 50,000, 75,000, 100,000 or 200,000 shares.

Deutsche Bank Securities Inc. is the index provider for the PowerShares Emerging Markets Sovereign Debt Portfolio. DB is not affiliated with the Trust, the Adviser or the Distributor. The Adviser has entered into a license agreement with the index provider to use the Deutsche Bank Emerging Market US Dollar Balanced Liquid Index. The PowerShares Emerging Markets Sovereign Debt Portfolio is entitled to use the Deutsche Bank Emerging Market US Dollar Balanced Liquid Index pursuant to a sub-licensing arrangement with the Adviser.

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This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Note: Not all products available through all firms.

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 powershares.com for prospectus/summary prospectus.