



# Overview to Exchange-Traded Funds

800.983.0903

## Risks

**Market Risk:** Fund Shares are subject to market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock prices.

**Non-Correlation Risk:** The Funds' returns may not match the return of the underlying Index as the Funds may not be fully invested at times and the Funds are also subject to expenses not applicable to the Index.

**Replication Management Risk:** Unlike many investment companies, the Fund is not "actively" managed. The Funds will not sell a stock unless that stock is removed from the Index.

**Non-Diversified Fund Risk:** The Fund is considered non-diversified and can invest a greater portion of assets in securities of individual issuers than a diversified fund.

**Small & Medium Sized Company Risk:** Investing in securities of small and medium-sized companies involves greater risk than is customarily associated with investing in more established companies. The stocks of small and medium-sized companies are generally more volatile, more sensitive to changing market conditions and less liquid than those of larger, more established companies. These stocks may have returns that vary, sometimes significantly, from the overall stock market.

**Large Sized Company Risk:** Returns on investments of Large U.S. companies could trail the returns on investments in stocks of smaller companies.

**Foreign Securities Risk:** Funds that invest in foreign securities involve risks that are in addition to the risks associated with domestic securities. Please refer to a prospectus for more complete risk information.

## Risks

**Fluctuation of Net Asset Value:** Shares of the Funds may trade above or below the Funds' net asset value ("NAV"). An investor selling Shares may receive less than the NAV of the Funds' Shares. The Adviser believes, however, that due to the structure of Shares, large premiums or discounts to the NAV should not be substantial. Please visit our website to see the premiums and discounts at which Shares of the Funds have traded.

**Industry Concentration Risk:** Certain Funds may be concentrated in a single industry. A concentration makes these funds subject to more risk. Additionally, there are individual risks inherent to each industry which should be taken into consideration. Please refer to a prospectus for more complete risk information.

**Growth Investing Style Risk:** Certain Funds emphasize a "growth" style of investing. The market values of such securities may be more volatile than other types of investments. The returns on "growth" securities may or may not move in tandem with the returns on other styles of investing or the overall stock markets.

**Value Investing Style Risk:** Certain Funds emphasize a "value" style of investing which emphasizes undervalued companies with characteristics for improved valuations. This style of investing is subject to the risk that the valuations never improve or that the returns on "value" equity securities are less than returns on other styles of investing or the overall stock market. The value of the Funds' investments will vary and at times may be lower or higher than that of other types of investments.

## Disclosures

Intellidex is a service mark of the American Stock Exchange LLC (Amex), licensed for use by PowerShares Capital Management, LLC in connection with PowerShares Portfolios.

The Products are not sponsored or endorsed by the Amex and the Amex makes no warranty or representation as to the accuracy and/or completeness of the Indexes or the results to be obtained by any person from the use of the Indexes or the trading of the Products.

Except where indicated, all information is as of date noted and source of data is PowerShares Capital Management, LLC. PowerShares and PowerShares XTF are registered trademarks of PowerShares Capital Management, LLC.

All benchmark indexes are unmanaged indexes used as a measurement of change in stock market conditions based on the average performance of a specified number of common stocks.

The value of the stocks in some of the underlying indexes may be more volatile than stocks of other issues. An investor in those 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 underlying Indexes. The PZI Fund invests primarily in micro-cap companies which involve substantially greater risks of loss and price fluctuations than more established companies. The PGJ Fund invests in companies which derive the majority of their revenues from China and is likely to be more volatile than that of other issues. The PZD Fund invests in the Cleantech Industry and the value of the stocks in the Cleantech Index is likely to be more volatile than stocks of other issuers. The PSP Fund invests in companies which derive the majority of their revenues from private equity which involve substantially greater risks of loss and price fluctuations than other industries or sectors. The PUW Fund invests in the Progressive Energy Industry and the value of the stocks in the Progressive Energy Index is likely to be more volatile than stocks of other issuers. The PPA, PXN, PHO, PBW, PJB, PYZ, PBE, PKB, PEZ, PSL, PXE, PXI, PFI, PBJ, PHW, PTH, PTJ, PPN, PZO, PEJ, PBS, PXQ, PXH, PJP, PMR, PSJ, PTF, PTE, PUJ, PRFM, PRFG, PRFS, PRFE, PRFF, PRFH, PRFN, PRFQ

## Index Descriptions

**PowerShares Dynamic Industry Portfolios** are based on sixteen Dynamic Industry Intellidex Indexes which include the **Dynamic Biotech & Genome Intellidex Index**, **Dynamic Food & Beverage Intellidex Index**, **Dynamic Hardware & Consumer Electronics Intellidex Index**, **Dynamic Leisure & Entertainment Intellidex Index**, **Dynamic Media Intellidex Index**, **Dynamic Networking Intellidex Index**, **Dynamic Pharmaceutical Intellidex Index**, **Dynamic Semiconductor Intellidex Index**, **Dynamic Software Intellidex Index**, **Dynamic Building & Construction Intellidex**, **Dynamic Energy Exploration & Production Intellidex**, **Dynamic Insurance Intellidex**, **Dynamic Oil & Gas Intellidex**, **Dynamic Retail Intellidex**, **Dynamic Utilities Intellidex**, **Dynamic Hardware & Consumer Electronics Intellidex**, and the **Dynamic Telecommunications & Wireless Intellidex**. The Industry Intellidex indexes apply a rigorous stock evaluation process based on the Intellidex methodology which selects 30 stocks for their capital appreciation potential.

**PowerShares High Yield Equity Dividend Achievers Portfolio** A portfolio based on the based on the Mergent Dividend Achievers 50 Index. It is comprised of the fifty highest yielding companies with at least ten fiscal years of consecutive annual dividend increases.

**PowerShares International Dividend Achievers Portfolio** A portfolio based on the International Dividend Achievers Index. This index is comprised of U.S. listed foreign companies with a minimum of five consecutive years of dividend increases.

**PowerShares Dividend Achievers Portfolio** A portfolio based on the Broad Dividend Achievers Index. This index is comprised of companies with a minimum of ten consecutive years of annual dividend increases.

**PowerShares High Growth Rate Dividend Achievers Portfolio** A portfolio based on the High Growth Rate Dividend Achievers Index. This index consists of the 100 Dividend Achievers with the fastest dividend growth rate over the last 10 years.

**PowerShares Aerospace & Defense Portfolio** A portfolio based on the SPADE Defense Index. This index seeks to identify a group of companies involved in the development, manufacturing and support of U.S. defense, homeland security and aerospace operations.

**PowerShares Golden Dragon Halter USX China Portfolio** A portfolio based on the Halter USX China Index. This index seeks to identify a group of companies which derive a major portion of their revenue from the People's Republic of China.

**PowerShares Lux Nanotech Portfolio** A portfolio based on the Lux Nanotech Index. This index seeks to identify a group of companies involved in developing, manufacturing and funding nanotechnology applications.

**PowerShares Value Line Timeliness Select Portfolio** A portfolio based on the Value Line Timeliness Select Index. In this index stocks are selected using a proprietary rules-based discipline based on the three core Value Line Ranking System factors of Timeliness, Safety, and Technicals.

**PowerShares Water Resources Portfolio** A portfolio based on the Palisades Water Index. This index seeks to identify a group of companies that focus on the provision of potable water, the treatment of water and the technology and services that are directly related to water consumption.

**PowerShares FTSE RAFI US 1000 Portfolio** A portfolio is based on the FTSE RAFI US 1000 Index. This index consists of the 1000 largest US companies weighted based on four fundamental factors.

## Index Descriptions

**PowerShares WilderHill Clean Energy Portfolio** A portfolio based on the WilderHill Clean Energy Index. The index includes companies that focus on renewable energy sources, technologies facilitating cleaner energy, and environmentally friendly companies.

**PowerShares Dynamic Market Portfolio** A portfolio based on the Dynamic Market Intellidex Index that evaluates 2000 domestic companies by fundamentals, valuation, timeliness and risk. 100 companies are selected from all 10 sectors for broad market exposure.

**PowerShares Dynamic OTC Portfolio** A portfolio based on the Dynamic OTC Intellidex that evaluates 1000 domestic OTC companies by fundamentals, valuation, timeliness and risk. 100 companies are selected from all 9 OTC market sectors for broad OTC market exposure.

**PowerShares Dynamic Small Cap Value Portfolio** A portfolio based on the Dynamic Small Cap Value Intellidex Index. The index applies a rigorous ten factor style isolation process and selects 100 stocks by evaluating companies for their appreciation potential based on the Intellidex methodology.

**PowerShares Dynamic Mid Cap Value Portfolio** A portfolio based on the Dynamic Mid Cap Value Intellidex Index. The index applies a rigorous ten factor style isolation process and selects 75 stocks by evaluating companies for their appreciation potential based on the Intellidex methodology.

**PowerShares Dynamic Large Cap Value Portfolio** A portfolio based on the Dynamic Large Cap Value Intellidex Index. The index applies a rigorous ten factor style isolation process and selects 50 stocks by evaluating companies for their appreciation potential based on the Intellidex methodology.

**PowerShares Dynamic Small Cap Growth Portfolio** A portfolio based on the Dynamic Small Cap Growth Intellidex Index. The index applies a rigorous ten factor style isolation process and selects 100 stocks by evaluating companies for their appreciation potential based on the Intellidex methodology.

**PowerShares Dynamic Mid Cap Growth Portfolio** A portfolio based on the Dynamic Mid Cap Growth Intellidex Index. The index applies a rigorous ten factor style isolation process and selects 75 stocks by evaluating companies for their appreciation potential based on the Intellidex methodology.

**PowerShares Dynamic Large Cap Growth Portfolio** A portfolio based on the Dynamic Large Cap Growth Intellidex Index. The index applies a rigorous ten factor style isolation process and selects 50 stocks by evaluating companies for their appreciation potential based on the Intellidex methodology.

**PowerShares Zacks Micro Cap Portfolio**. An equal weight portfolio based on the Zacks Micro Cap Index. The index seeks to identify a group micro cap stocks with the best investment merit.

## Index Descriptions

**Dow Jones Industrial Average** A price-weighted index of the 30 largest, most widely held stocks traded on the New York Stock Exchange.

**NASDAQ 100 Index** A modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ.

**Nasdaq Composite Index** A market value weighted index measuring all Nasdaq domestic and non-U.S. based common stocks listed on The Nasdaq Stock Market (also referred to as over-the-counter or OTC stocks).

**Russell 1000 Index** Measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

**Russell 3000 Index** Measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

**S&P 500 Index** A capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

**S&P/BARRA Growth Index** A capitalization-weighted index of all the stocks in the S&P 500 that have low price-to-book ratios. It is designed so that approximately 50% of the SPX market is in the Value Index.

**S&P/BARRA Value Index** A capitalization-weighted index of all the stocks in the S&P 500 that have high price-to-book ratios. It is designed so that approximately 50% of the SPX market is in the Growth Index.

## Disclosures

There are risks involved with investing in ETFs including possible loss of money. Shares are not actively managed and are subject to risk similar to stocks, including those related to short selling and margin maintenance. Shares are not FDIC insured, may lose value and have no bank guarantee.

Past performance does not guarantee future results. Index returns do not represent Fund returns. The Index performance results are hypothetical. The Index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the hypothetical performance shown nor does the Index lend securities, and no revenues from securities lending were added to the performance shown. You cannot invest directly in the Index. 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.

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A I M Distributors, Inc. is the distributor of the PowerShares Exchange-Traded Fund Trust.

*An investor should consider investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus, which contains this and other information regarding investment objectives, risks, charges and expenses, as well as other information please call 800.983.0903. Please read the prospectus carefully before investing.*

:: created by Jason T. J. Schoepke

# Introduction to Exchange-Traded Funds (ETFs)

ETF Industry

ETFs

Index Construction: Not all Indexes are Alike

# ➤ ETF Industry

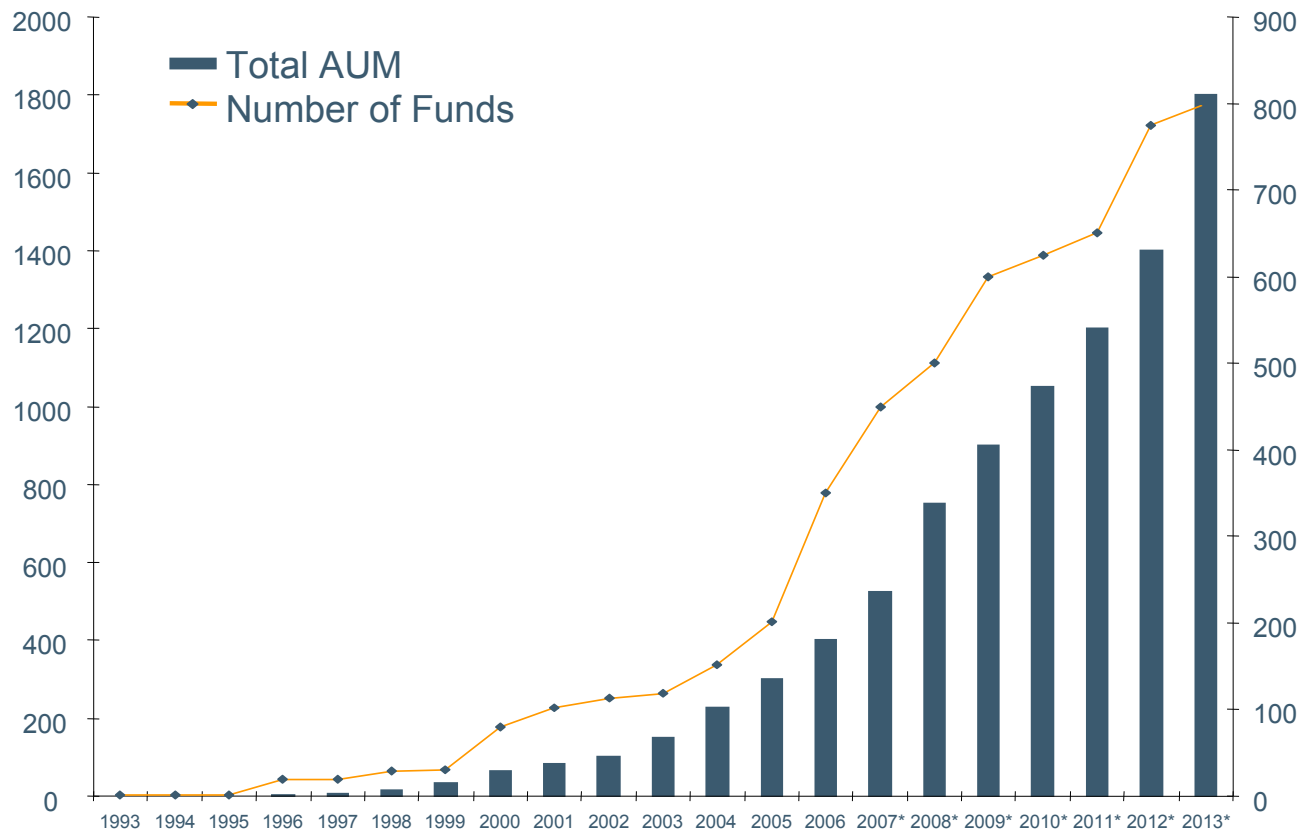
## ETF Industry

One of the fastest-growing investment products.

First ETF created in 1992.

ETFs seek to replicate the price and yield of a listed index before fees and expenses.

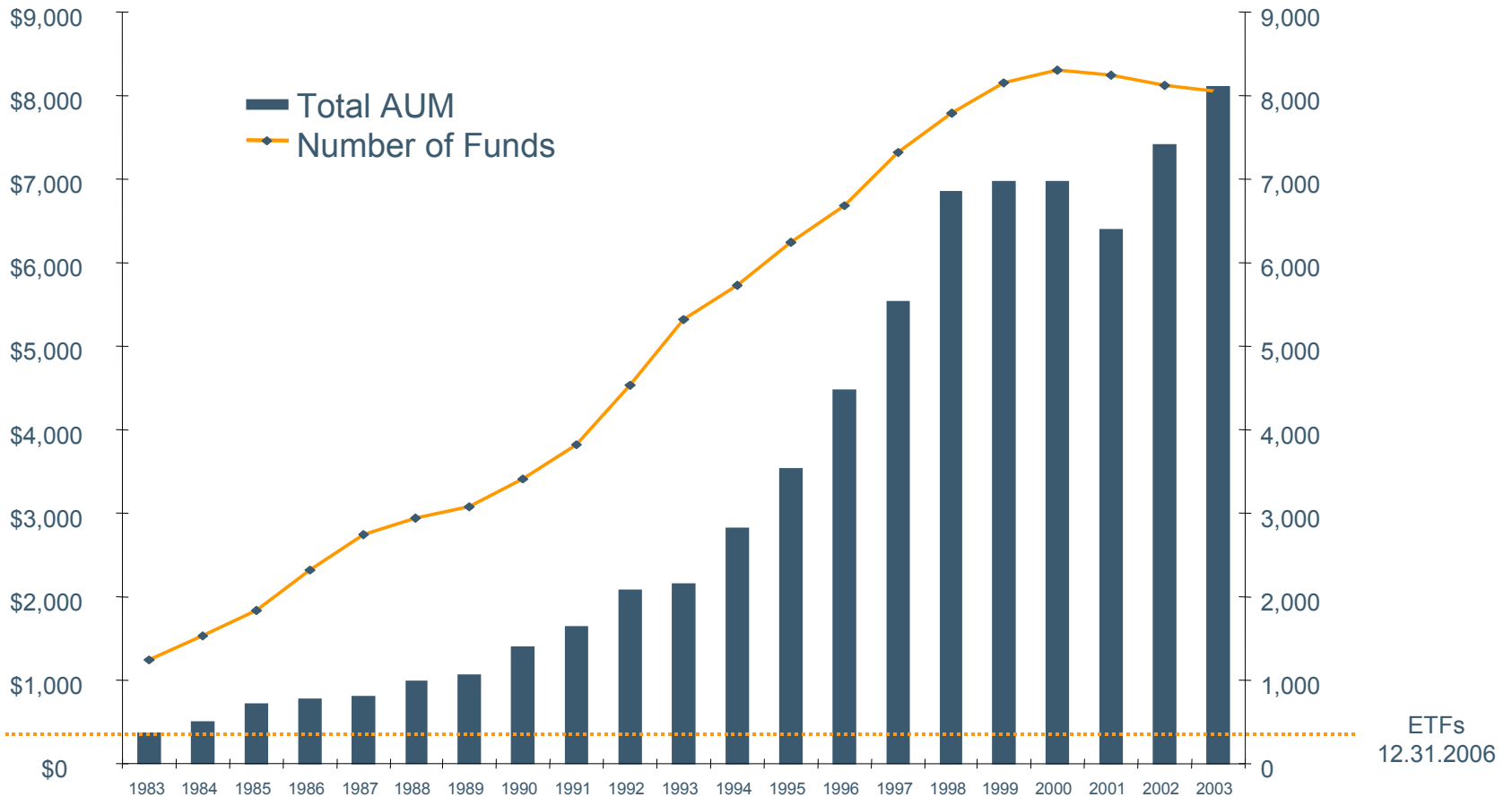
## U.S. ETF Historic and Projected Growth



Source: ICI Data and PowerShares Projections for the US

\* Projections

## U.S. Mutual Fund Historic Growth



Source: ICI Data

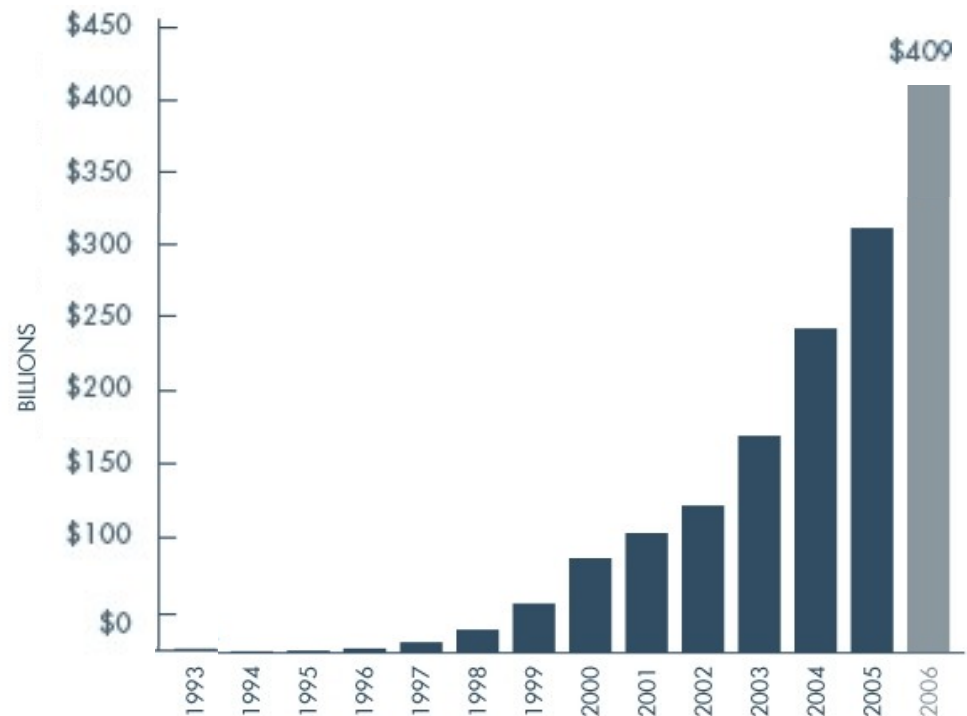
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## Growth of Exchange-Traded Funds

It took the entire mutual fund

industry 55 years to surpass  
\$100 billion in assets. It only  
took a leading ETF provider 5  
years to surpass \$100 billion.

More than 350 ETFs are listed



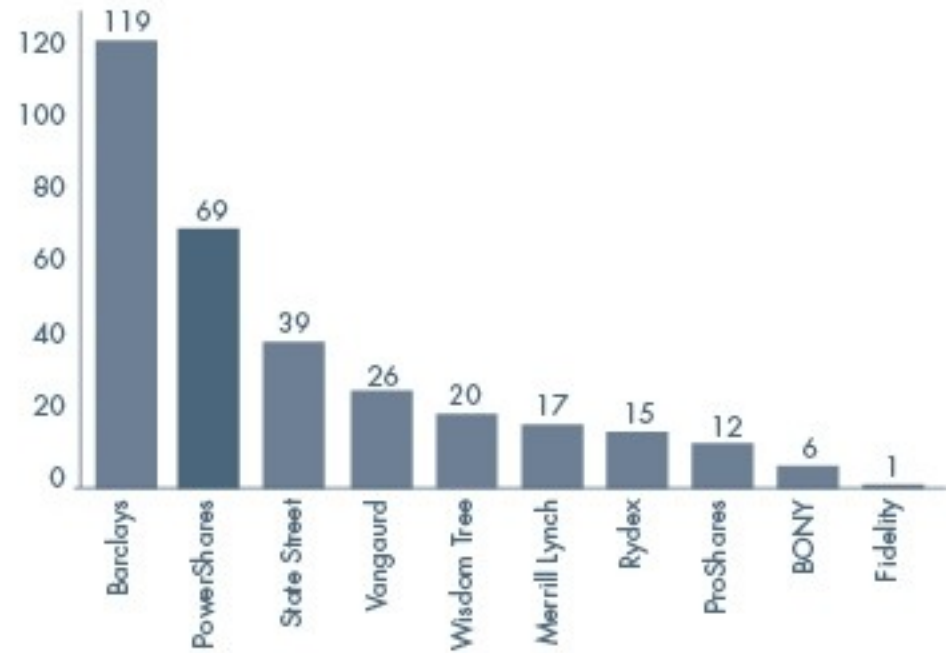
As of 12.31.2006

Source: ICI

## ETF Sponsors

Barclays Global Investors

PowerShares Capital Management LLC



Source: PowerShares Capital Management LLC

as of 6.30.2006

State Street

## Broad Range of ETF Product Availability

Broad Market

Sector & Industry

Size & Style



Introduction of  
Exchange-Traded Funds

## Traditional Indexes

### Index Defined

An index is "a *statistical measure* of the changes in a portfolio of stocks representing a *portion of the overall market*." Committees pick which stocks are included in the index, and they change these stocks over time in order to reflect the economy as it is for that year.

## Indexes as Benchmarks

### The Dow

Charles Dow created the first and, consequently, most widely known index in May 1896. At that time, the Dow contained 12 of the largest public companies in the United States. Today, the Dow Jones Industrial Average (DJIA) contains 30 of the largest and most influential companies in the U.S.

### The S&P 500

## Indexes as a Basis for Investment

### Past

The investment industry dates from before the Roman Empire, making indexes a relatively modern concept. In the late 1800s, simple technology and formulas enabled companies to calculate an index. The primary focus of these indexes was to publish a financial indicator for the general public. While these served an important purpose, many agree that the originators did not intend them to be used as a stock-selection process for investing.

### Present

## Exchange-Traded Funds

ETFs are investment funds that trade like individual stocks on all of the major

exchanges, similar to shares of publicly held companies. They can be bought and sold on an exchange at any moment during market hours. Because they are listed and traded on an exchange, investors may find peace from investing within a highly regulated market.

ETFs are index-based products in that each ETF holds a portfolio of securities seeking

## Limitations of ETFs

We believe there are overlooked limitations in the conventional indexes used by ETF sponsors that create embedded portfolio risks, namely:

### Valuation Risk

Because conventional market-cap-weighted indexes simply mimic market movements, there is a valuation void in the index construction process, and often the most overvalued names have the largest representation.

### Diversification Risk

## Types of ETF Structures

### Open-End Investment Company

1940 Act Registered Investment Company

PowerShares, iShares, Select Sector SPDRs, StreetTracks, VIPERs

### Unit Investment Trust (UIT)

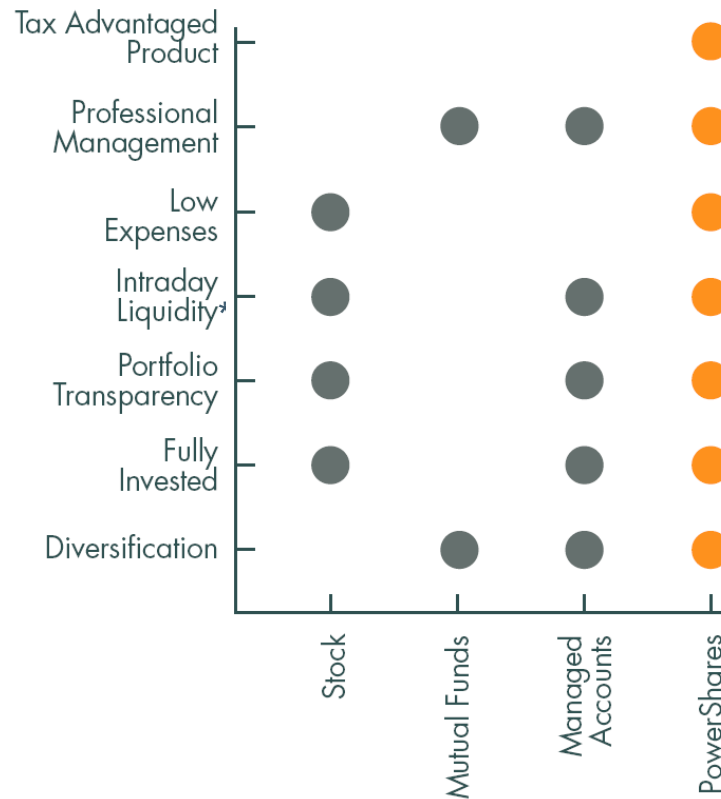
## Summary of ETF Benefits

Transparency – Holdings are published daily. You know exactly what securities are in the portfolio.

Intraday Liquidity\* – Trade on an exchange throughout the day.

\* Shares are not actively managed and are subject to risk similar to stocks, including those related to short selling and margin maintenance.  
Low Cost – Provide lower ownership cost because of their efficient structure. Ordinary brokerage fees

## Key ETF Benefits



\* Shares are not actively managed and are subject to risk similar to stocks, including those related to short selling and margin maintenance.

## ETF Characteristics

Tax-Efficient Framework

Long or Short

Low Expenses

Marginable and Purchase on Margin

Open-Share Structure

Registered and Listed Security

## Taxes

By underestimating the impact that taxes from investments can have on investors, goals

and plans can be greatly affected by unforeseen tax implications such as embedded gains, income and capital-gain distributions.

ETF shareholders have greater control over their tax destiny, as they have the ability to

buy and sell from one another on an exchange and are thus unaffected by fellow

## Tax-Efficient Framework

ETFs have a unique product structure and unique trading characteristics, which allow them to substantially mitigate or possibly remove capital gain distribution exposure at the fund level. Shareholders of ETFs can expect to defer some, most or possibly all capital gains until they sell.

The tax efficiency of ETFs stems from their unique product characteristics, including:

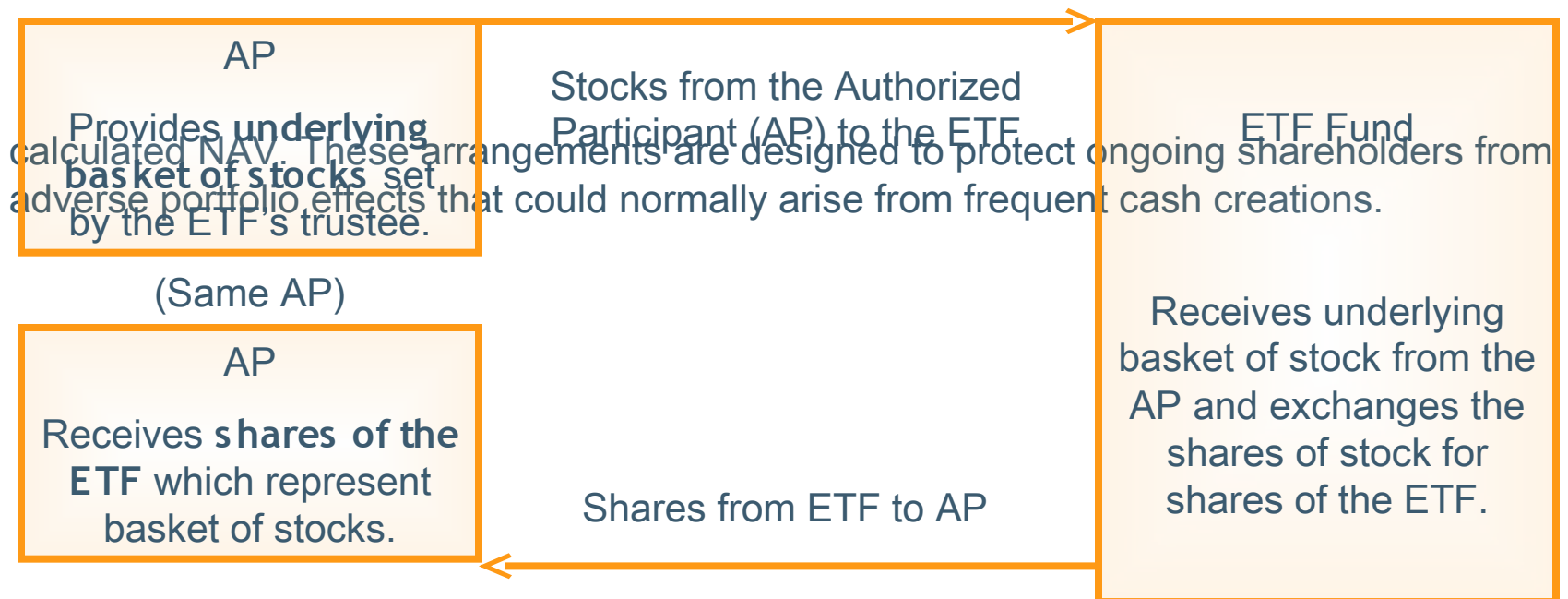
### In-Kind Share Creation/Redemption

**TAX ADVANTAGED PRODUCT STRUCTURE**  
*Unlike conventional mutual funds, the Shares are traded throughout the day on the AMEX, whereas mutual funds are only bought and sold at closing net asset values. The Shares have been designed to be tradable in the secondary market on the AMEX on an intra-day basis, and to be created and redeemed principally in-kind in Creation Units at each day's next calculated NAV. These arrangements are designed to protect ongoing shareholders from adverse effects on the portfolio of each fund that could arise from frequent cash creation and redemption transactions. In a conventional mutual fund, redemptions can have an adverse tax impact on taxable shareholders because of the mutual fund's need to sell portfolio securities to obtain cash to meet fund redemptions. These sales may generate taxable gains for the shareholders of the mutual fund, whereas the Shares' in-kind redemption mechanism generally will not lead to a tax event for the funds or their ongoing shareholders.*

### Secondary Exchange-Traded

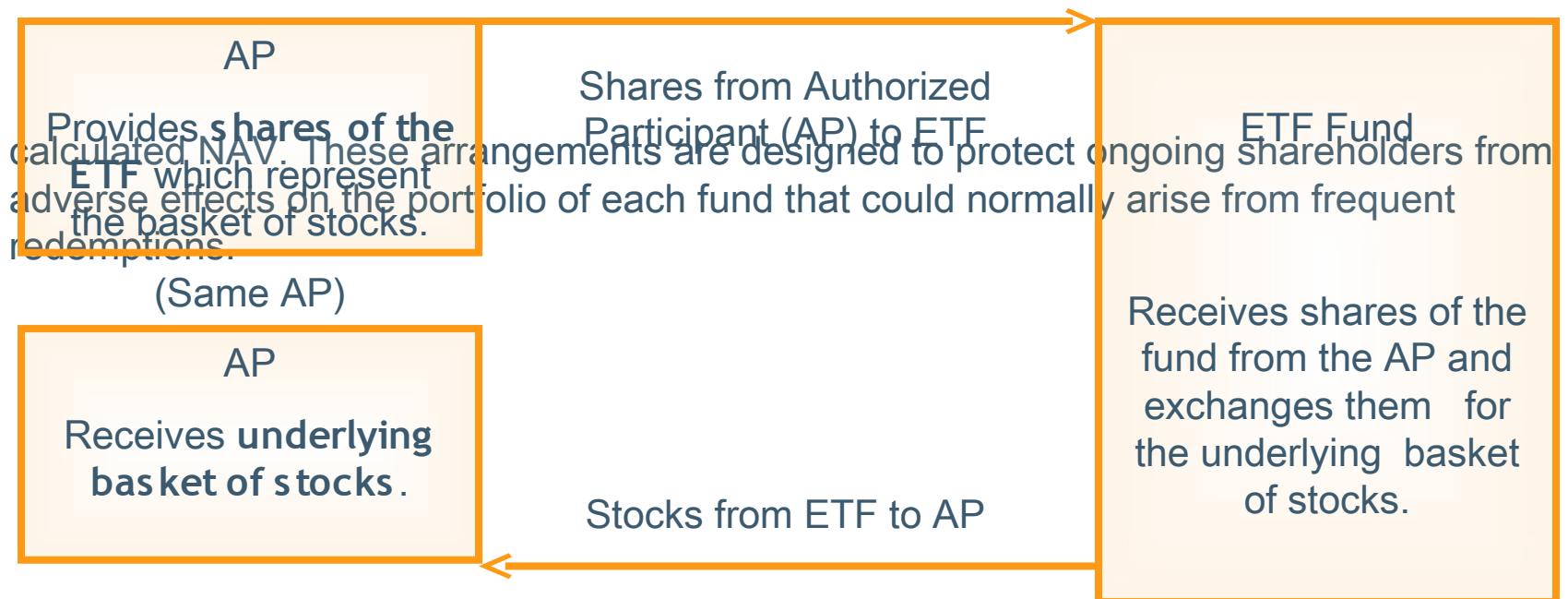
## In-Kind Share Creation

ETF shares can be created principally in-kind in Creation Units at each day's next



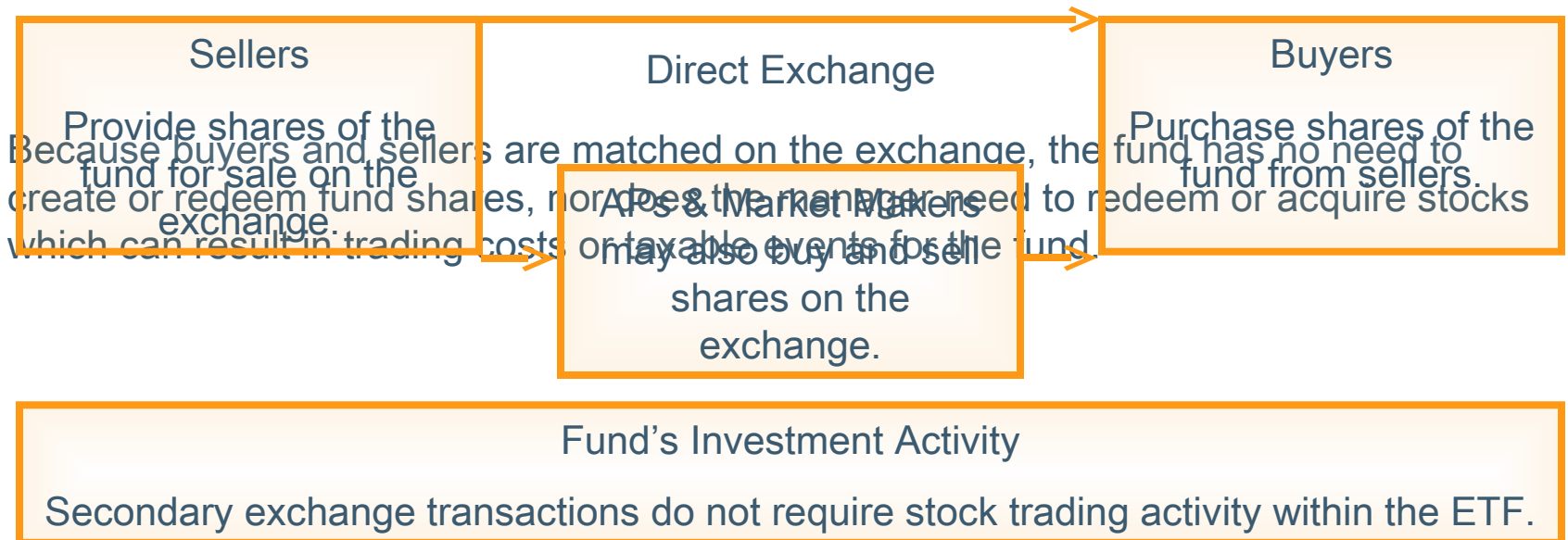
## In-Kind Share Redemption

ETF shares can be redeemed principally in-kind in Creation Units at each day's next



## Secondary Exchange-Traded

Buyers and sellers of listed ETF shares are matched on a secondary exchange.



## Portfolio Reconstitution and Rebalance

Reconstitution – The process of changing the securities by adding new positions and

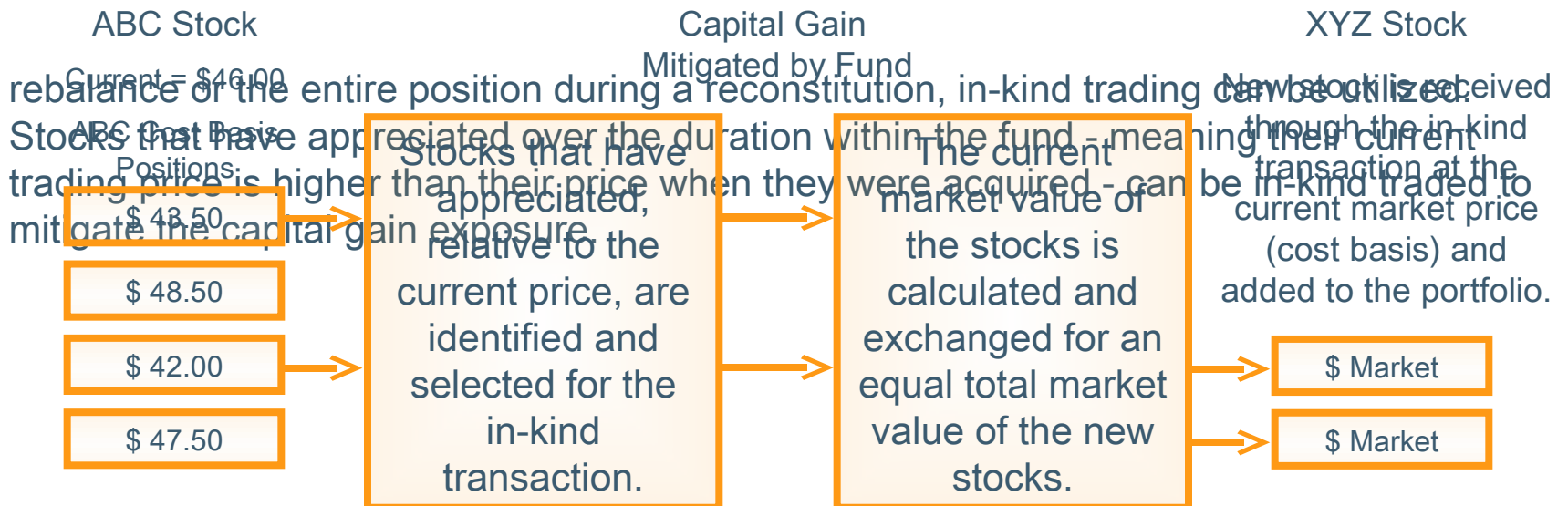
removing old ones. This process will eliminate all shares of specific securities and will implement an entirely new security to the fund.

Rebalance – This is the process of adjusting the weights of the current securities.

Positions may be reduced or increased on an annual, quarterly, monthly or even weekly

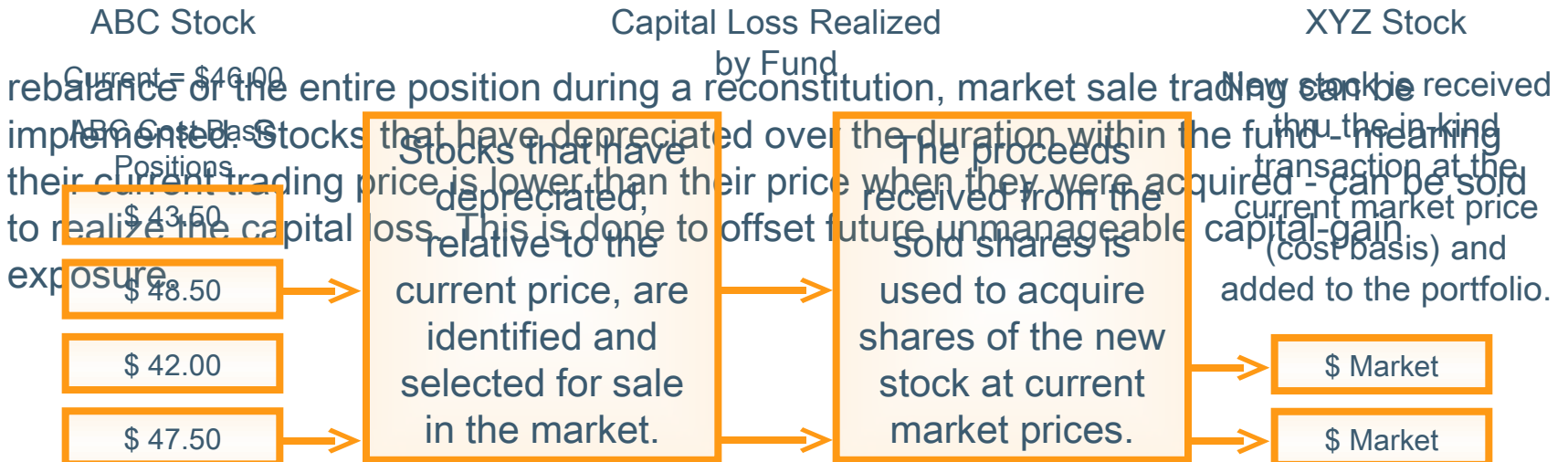
## In-Kind Lowest Cost-Basis Stocks to Mitigate the Gain

When securities within the fund need to be reduced, with either a few shares during a



## Sell Highest Cost-Basis Stocks to Realize the Loss

When securities within the fund need to be reduced, with either a few shares during a



## Low Expenses

Expenses can play a major role in investors' long-term returns or effectively the amount

that they truly realize.

According to Morningstar's ETF Screener, most ETFs have an expense ratio between

0.25% to 0.60%.

## Low Expenses

### 10 Year Average of U.S. Diversified Equity Funds

<b>Gross Total Return</b>			<b>11.70%</b>
<hr/>			
Less: Fees & Expenses	-1.68%	10.02%	
Less: Transaction Costs	-1.00%	9.02%	
Less: Taxes on Capital Gain Distributions	-1.93%		7.09%
<hr/>			
<b>Net Pre-Sale Total Return</b>		<b>7.09%</b>	

Source: 2004 Lipper Tax Study

Creation Unit: Aggregate unit size of fund shares which an Authorized Participant can create or redeem.

Portfolio Composition File: A daily file created by the ETF fund manager or trustee provides the Authorized Participant with a list of securities and specific quantities required to execute a Creation or Redemption Unit.

## Intraday Purchase & Liquidity

Shares of ETFs trade like stocks with orders placed and executed throughout the

trading day. Mutual funds, on the other hand, are priced once per day at market close.

ETF shares may be purchased with the same types of orders that investors use for

stocks, including limit buy and stop-loss sell orders.

## Index Tracking

Shares of ETFs have demonstrated an ability to track closely with their paired indexes.

The ability of an ETF to track its underlying index makes it a reliable tool for

implementing indexing strategies and adding targeted market exposures.

## Trading Near or At NAV

Due to the structure of ETFs, shares typically trade at or near their net asset value.

Trading Volume  $\neq$  Liquidity

It is a great misconception that the level of volume dictates the liquidity of ETF shares. While this may be true of shares of closed-end funds, the structure of an ETF allows shares to be created/redeemed by Authorized Participants. Supply and demand play a

## Transparency

Most ETFs make full portfolio holding details available with daily updates. Many

providers also offer investors the ability to download complete fund holdings throughout the trading day.

The high level of transparency enables arbitrageurs to make opportunistic trades that

serve to keep ETF unit prices closely aligned with the portfolio's net asset value.

## Fully Invested

Unlike mutual funds, which must maintain cash reserves to meet redemption, ETFs can

be nearly fully invested.

An ETF's objective is typically to match the performance, before fees and expenses, of

a stated index. Since indexes typically do not have cash positions, the tracking ETF manager will not target a cash level position as part of the allocation.

## Long and/or Short

Shares can be purchased long like shares of mutual funds, stocks and UITs.

Shares can also be shorted to benefit from a declining share price.

Unlike most stocks, ETF shares can be sold or sold-short on a downtick.

## Marginable and Purchase on Margin

ETFs can be used as a marginable security within a margin account. ETFs are typically

marginable within 30 days of possessive settlement; however, investors should review their individual account policies before proceeding with any margin trading activity.

ETFs can also be purchased on margin like publicly traded securities.

There are risks associated with margin investing, including: You can lose more funds than you deposit in the margin account. The broker/dealer may force the sale of securities or other assets in your account. The broker/dealer may be able to sell your securities or other assets without contacting you. You may not be entitled to choose which securities or other assets in your account are liquidated or sold to meet a margin call. The broker/dealer can increase its “house” maintenance margin requirements at any time and is not required to provide you advance written notice. You are not entitled to an extension of time on a margin call.

Consult with a financial professional to discuss if margin accounts are appropriate for your investment plan.

## Available Options

Options are available on most ETFs.

On most occasions these are created by third-party institutions or markets that

Options involve risk and are not suitable for everyone.

Specialize in the options market.  
Consult with a financial professional to discuss if options are appropriate for your investment plan.

Option strategies may be utilized as part of a risk-management or income-generating

## Diversification

A risk-management technique that mixes a wide variety of investments within a

portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and/or pose a lower risk than any individual investment found within the portfolio. *Inves topedia*

Diversification strives to smooth out unsystematic risk events in a portfolio so that the

## Convenience

All ETFs are held in street name with a brokerage firm, making it easy to buy, sell or

transfer shares.

Clients with Internet account access or those that are mailed regular account

statements can view ETF positions as they are typically listed on the consolidated statements of brokerage firms, along with clients' other assets.

## Tickers & Symbols

### Buy & Sell Fund Shares: PWC

Used to execute buy and sell orders of fund shares on a listed secondary exchange.

Index: DYI

Used to attain the historical performance of the index. One can not invest directly in an index.

## Tickers & Symbols

Shares Outstanding: FZM.SO

Used to identify the total number of shares outstanding for the fund in thousands, as of the prior day's market close. Multiplying the number of shares outstanding times the current price with yield equals the total assets in the ETF.

Accumulated Dividend: FZM.DV



Components of  
Index Construction

## Index Construction

Target Category + Objective = Index

An Index is a selection process or appointed committee that groups selected securities

together to track their movement in aggregate. There are hundreds of indexes in existence today, and while only a few of these are mentioned on the daily news, a further look into their construction will reveal that indexes can be quite different.

## Index Construction

Due to the underperformance of many money managers relative to index benchmarks,

some investors have chosen to take an 'indexed' approach to money management.

However, we believe there are overlooked limitations in the conventional indexes used

by indexers which create embedded portfolio risks, namely:

## Target Category

All indexes are designed to target a specified investment category such as a sector, market segment, income type or company size. This may be a broad-based category to including all stocks listed or a specific category consisting of as few as 10 stocks.

Some indexes are designed to include a single category while other indexes may

reflect exposure to multiple categories.

Benchmarks – These are not a target category. When a benchmark index was created

## Categories

Broad Market

Bonds or Fixed Income

Composite

Commodity

Sector or Industry

Currency

## Objective

All indexes are also designed with a stated objective. Index objectives can be matched up with clients' investment objectives. Financial professionals should always ask, "Does the index's stated objective match my client's investment objective?"

An objective gives an index an actionable function.

iShares has stated that indexes possess only two objectives:

## Objectives

Gauge the Market

Capital Appreciation

Measure Managers' Performance

Risk Management

Replication

Income

➤ ETF Vehicle  
+ Intelligent Index  
= PowerShares XTF<sub>TM</sub>

## ETF Vehicle + Intelligence = PowerShares XTF

Benefit-rich ETF vehicle.

Intelligent index.

ETFs seek to replicate the price and yield of a listed index before fees and expenses.

## PowerShares XTF

Given the scope of objectives and targets of the underlying indexes utilized by

PowerShares ETFs, PowerShares may offer the most diverse ETF product line in the US financial industry.

## A Different Direction

When ETFs were first created they utilized most existing indexes in the market. The

Traditional Index

ETF

Intelligent Index

most recent wave of indexes have been built to expand the ETF investment options for advisors seeking investments beyond “Beta”.  
Gauge the Market

Intelligent Index

“Beta”

“Alpha”

Measure Managers Performance

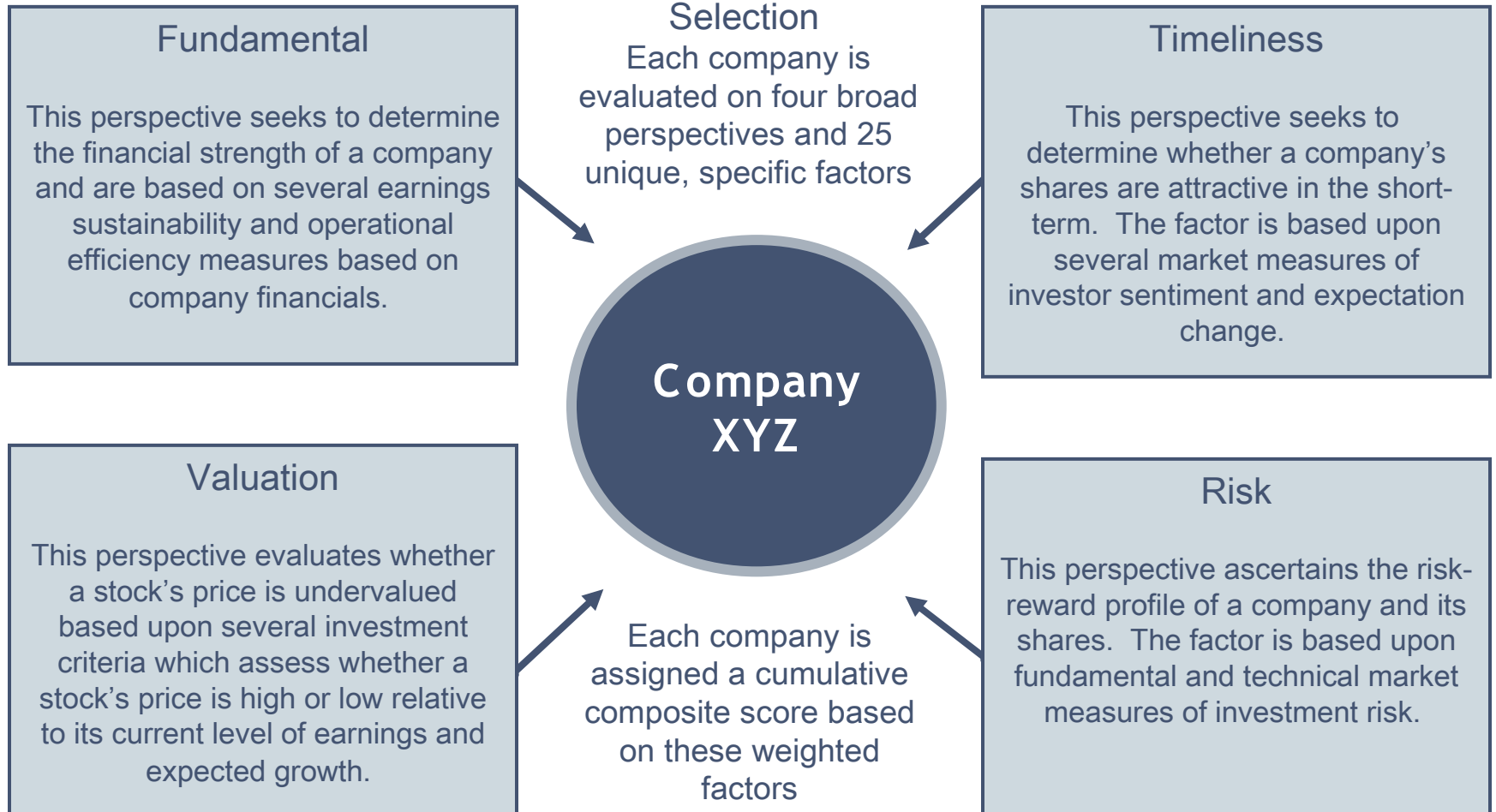
Intelligent Exposure

## Intelligent Index

PowerShares believes that having insight into a stock's investment merit can have a

positive impact on performance. Therefore, PowerShares' 'Dynamic' ETFs are based

## Intelligent Index: Intellidex



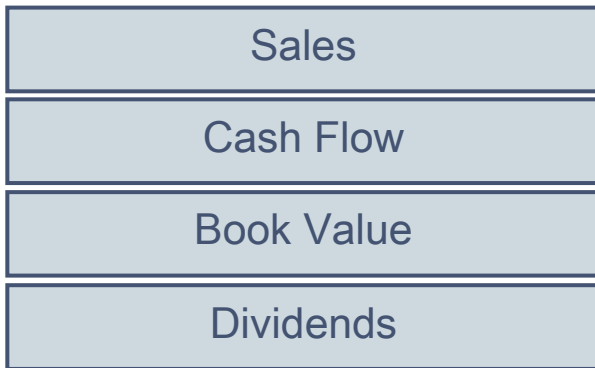
## Intelligent Exposure

For investors who are looking for more market-like exposure, PowerShares offers a

lineup of ETFs that seek to track indexes with an Intelligent Exposure objective. These indexes seek to provide accurate exposure to the economy, yet are constructed using more sophisticated techniques than traditional benchmark indexes, which typically use a weighting structure based on market capitalization. Under this traditional structure, market speculation can lead to significant mispricing of stocks and, therefore, improper weights in the index.

Indexes seeking Intelligent Exposure use a weighting structure based on company fundamentals: sales, cash flow, book value and dividends. PowerShares believes these factors paint a financial picture of a company's size and lead to more appropriate index weightings.

## Intelligent Exposure: RAFI (Research Affiliates)



Company size is determined by evaluating all four fundamental measures.



Market Capitalization



5 Year Average Sales

## Intelligent Exposure: RAFI (Research Affiliates)

### Market Cap Weighting

Incorporate analyst optimistic growth

projections

Outdated research technology

### Fundamentals Weighting

Designed to identify the fair value

of each company

Utilizes fundamental variables that

do not depend on the fluctuations

## Intelligent Access

Without targeted investment products, unique market segments such as currency or

**Unique Market Segments**  
nanotech may be difficult for investors to access. These segments are the focus of indexes that promote Intelligent Access. PowerShares has a diverse lineup of ETFs based on indexes that offer exposure to specific, unique or previously uncovered market areas.

Difficult to Reach Areas

## Intelligent Access: Examples

Clean Energy

Dorsey Wright Technical Leaders

Dividend Achievers

## PowerShares May Add Value To:

Advisor: Needs/Goals, Allocations, Timing, Strategy, Research

Wholesaler: Product and Industry Education, Tools, Product Guidance (+/-)

Index: Research, Discipline, Target Category, Objective, History, Consistency

## Professional Investment Management

Many times an ETF will be referred to as “passively managed.” While they are generally

referring to the manager’s discretion of what securities to remove or add, there are still many considerations that an ETF manager must address to efficiently manage the fund.

Many indexes are created with objectives that operate similarly to some asset

## Tax Efficient Investment

With over 60 ETFs currently available, PowerShares has not distributed a single \$1 of

capital gain to their investors.

Tax efficiency is managed through the investment structure of an exchange-traded

fund. It is not an avoidance of any tax, but, rather, taxes are managed through proper management and execution of institutional trade activity such as in-kind trades.

## Accolades

Greatest Contribution to the ETF Industry 2004

Greatest Contribution to the ETF Industry 2005

Listed the Most ETFs in 2005

## We Believe PowerShares are Good for Clients & Good for Business

Growth of ETFs is compelling

Ease of use within a portfolio context

Tactical implementation

➤ Intelligent Index:  
Intellidex

➤ Intelligent Exposure:  
Fundamental Index™

➤ Intelligent Access:  
Dorsey Wright  
Technical Leaders™ Index



Combining  
Beta & Alpha

## Beta

A measure of the volatility, or systematic risk, of a security or a portfolio in comparison

## Alpha

A measure of a fund's risk relative to the market.  
to the market as a whole.

## Sharpe

The Sharpe ratio tells us whether the returns of a portfolio are due to smart investment

decisions or a result of excess risk. This measurement is very useful because although

## What is Active Management?

“An investing strategy that seeks returns in excess of a specified benchmark.”

-Investopedia

”Active management refers to a portfolio management strategy where the manager

makes specific investments with the goal of outperforming a benchmark index.”

-InvestorDictionary

## Seek Alpha

Traditional indexes that are utilized as benchmarks inherently become the market beta.

ETFs based on these indexes provide a market beta investment.

In the past, advisors would use stocks, mutual funds, SMAs to seek alpha.

Some of today's indexes have historically carried lower risk, outperformed, or both



## Active Risk Management with ETFs

## Risk Management

The process of identification, analysis and either acceptance or mitigation of uncertainty

in investment decision-making.

**Essentially, risk management occurs anytime an investor or fund manager analyzes and attempts to quantify the potential for losses in an investment and then takes the appropriate action (or inaction) given their investment objectives and risk tolerance.**

**Simply put, risk management is a two-step process - determining what risks exist in an investment and then handling those risks in a way best-suited to your investment objectives .**

Risk management occurs everywhere in the financial world. It occurs when an investor buys low-risk government bonds over more risky corporate debt, when a fund manager hedges their currency exposure with currency derivatives and when a bank performs a

## Exposure Risk: Transparency

Transparency helps advisors and investors to truly gauge their risk exposure by

## Exposure Risk: Modified Weighting

knowing exactly where they are invested. Items like stock risk, overlap and cash drag can be monitored to help ensure investors are invested and allocated properly. In contrast, other investments may only report portfolio holdings as a whole, which frequently reduces an advisors ability to manage risk.

does this, is important in understanding the existing or potential overweight in a few select securities.

## Opportunity Risk: Fully Invested

Cash positions can bring 'cash drag' to performance but may 'cushion' downside

performance in a bear market. However, cash positions within a fund will be subject to  
**Opportunity Risk: Shorting**

Investor's cash positions are best managed by financial professionals to meet specific  
Short positions may be taken to benefit from downside movement. Investments without

short- term needs. Cash positions can be mismanaged if they fluctuate greatly at the fund

## Opportunity Risk: Marginability

ETFs can be used as a marginable security within a margin account. ETFs are typically

## Market Risk: Options

marginable within 30 days of possessive settlement; however, investors should review their individual account policies before proceeding with any margin trading activity.

Options are available on most ETFs.

ETFs can also be purchased on margin like publicly traded securities.

On most occasions these are created by third-party institutions or markets that specialize in

## Style Exposure Risk: Pure Style Intellidex

The Dynamic Style Intellidex indexes utilize 5 Growth and 5 Value determinants each

## Tax Risk: Capital Gain Distributions Not Anticipated

ETFs to evaluate a stock but its growth and trading characteristics. This index was also utilized the core rated stocks for Pure Style exposure.

## Exit Risk: Sell on a Downtick

substantially mitigate or possibly remove capital gain distribution exposure at the fund level. Shareholders of ETFs can expect to defer some, most or possibly all capital gains until they sell.



# Investment Strategies Utilizing ETFs

## Investment Strategies

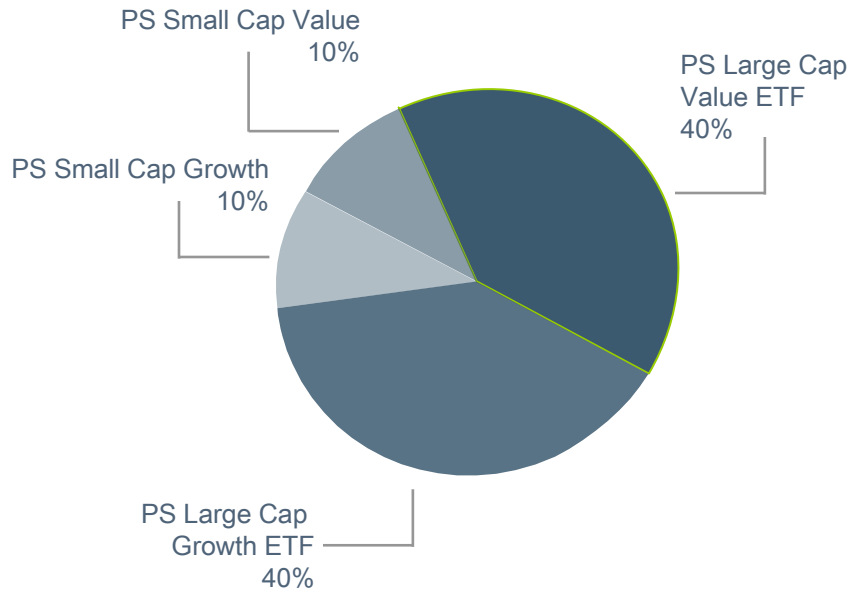
PowerShares can be used in multiple investment strategies. The flexibility and characteristics of PowerShares funds continues to open a wide array of strategies for financial professionals.

Completion Strategy

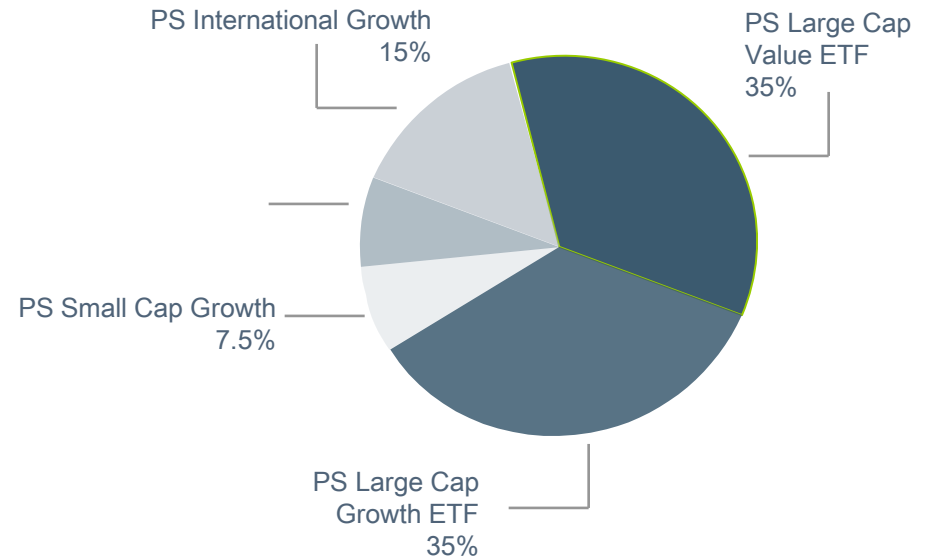
Core / Satellite Portfolio Construction

## Completion Strategy

### Broad Market Portfolio



### Global Broad Market Portfolio



## Completion Strategy



***“Fill in gaps and diversify an “incomplete” portfolio of stocks, bonds, mutual funds or separately managed accounts”***

Weightings based on optimization of country indexes. July 2004.

Source: BARRA Global Equity Model

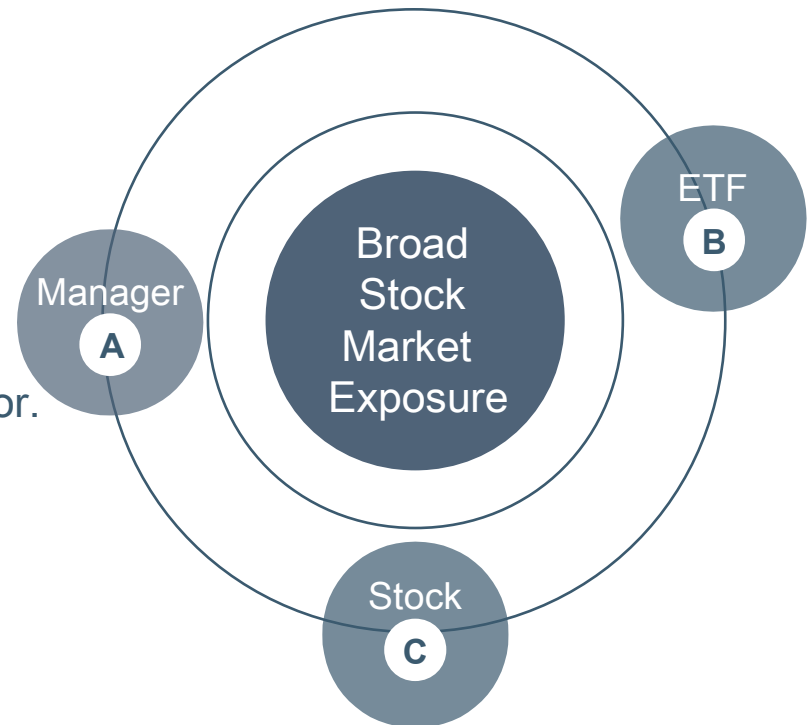
## Core / Satellite Portfolio Construction

### Core Portfolio -- Diversification

History of predictable performance relative to performance of market sector.  
Potential for tax efficiency.

### Satellite – Adding alpha

### Core / Satellite Strategy

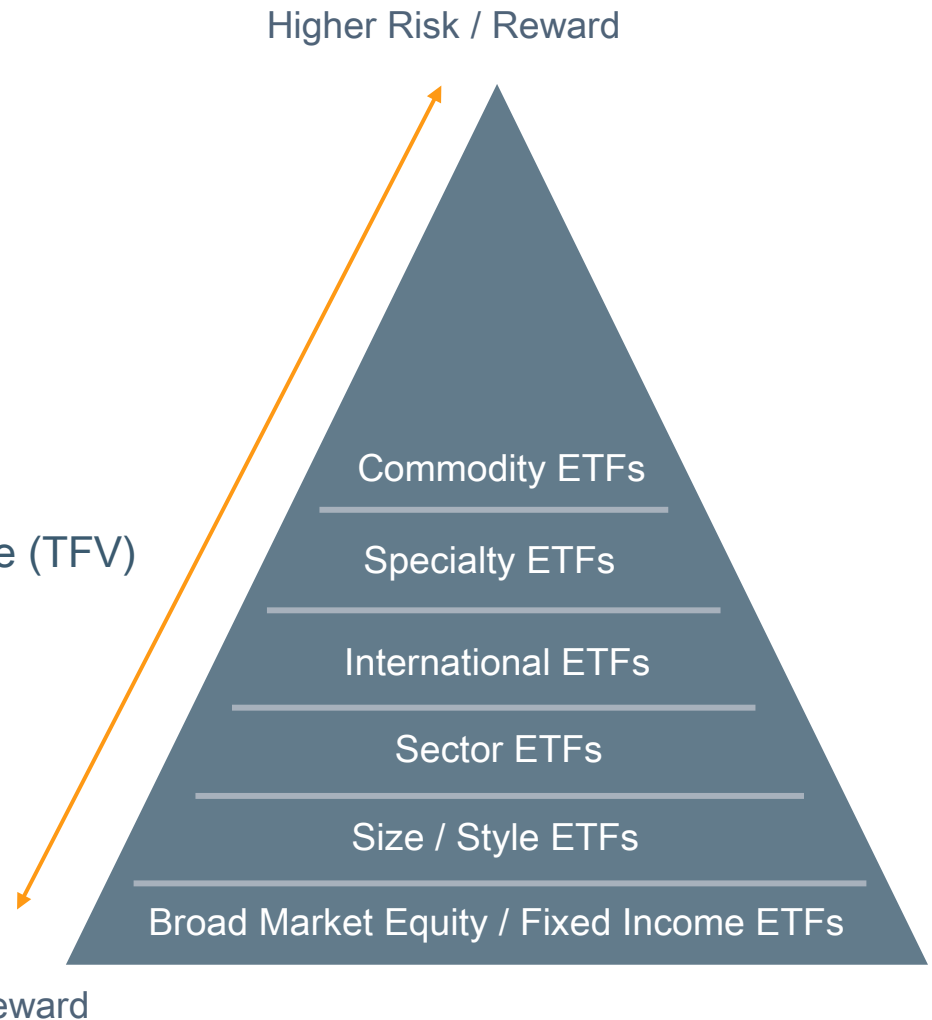


## Sector / Style Exposure

Develop Core / Satellite Asset Allocation

Market Value (MV) equals True Fair Value (TFV)  
Index is perfectly mean variance efficient

Behavior






PowerShares  
Tools

## Professional Tools

PowerShares offers financial professionals an array of tools to help select the best products for their clients. Many of these tools can be found on the advisor section of the PowerShares website.

Portfolio Allocation Builder

Portfolio Reconstruction & Order Builder



Questions &  
Answers