



## Information Circular: PowerShares Actively Managed ETF Trust

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**To:** Head Traders, Technical Contacts, Compliance Officers, Heads of ETF Trading, Structured Products Traders

**From:** William Slattery, Associate Vice President, NASDAQ Listing Qualifications Department

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<b>Exchange-Traded Fund</b>	<b>Symbol</b>	<b>CUSIP #</b>
PowerShares Active AlphaQ Fund	PQY	73935B102
PowerShares Active Alpha Multi-Cap Fund	PQZ	73935B201
PowerShares Active Mega Cap Fund	PMA	73935B300
PowerShares Active Low Duration Fund	PLK	73935B409

### Background Information on the Funds

The PowerShares Actively Managed Exchange-Traded Fund Trust (the "Trust") is a management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The Trust consists of several exchange-traded funds (each, a "Fund" and collectively, the "Funds"). This circular refers only to the four Funds listed above. The shares of each of the Funds listed above are referred to herein as "Shares." Invesco PowerShares Capital Management LLC (the "Adviser") serves as the investment adviser for the Funds. AER Advisors, Inc. ("AER") is the investment Sub-Adviser for PQY and PQZ. Invesco Institutional, Inc. ("Invesco") is the investment Sub-Adviser for the PMA and PLK.

PQY seeks to achieve its investment objective by investing, under normal market conditions, at least 95% of its total assets in Nasdaq-listed stocks selected by AER pursuant to a proprietary stock screening methodology, which utilizes fundamental and quantitative criteria. Using this methodology, AER tracks and rates the stocks of companies with a market capitalization of over \$400 million that are traded in the United States. On a weekly basis, AER generates its "Master Stock List" which ranks a universe of approximately 3,000 stocks, segmented by market capitalization. AER then narrows its universe to the 100 largest stocks listed on the Nasdaq Global Market from the Master Stock List for PQY (the "Q Universe"), excluding securities traded on other exchanges. Utilizing a proprietary methodology, PQY then generally selects and purchases approximately 50 stocks included in the Q Universe.

On the last business day of each week, AER reviews the Q Universe based on its proprietary ranking methodology generally to maintain the portfolio in the highest-ranking stocks within the Q Universe. AER currently may eliminate up to three stocks each week from PQY whose rankings fall below a prescribed threshold and replace those stocks with the highest ranking stocks not currently held in PQY. PQY will seek

to remain fully invested with approximately equal-weighted positions, i.e., 2.0% for each stock, and AER will rebalance weightings to the initial equal weight when the position reaches 3.0%. Proceeds from stocks sold will be reinvested in the replacement stocks on an equal-weighted basis.

AER's proprietary stock screening methodology was developed by AER in 1998 to combine the quantitative aspects of stock money flow with traditional fundamental security analysis. AER's investment methodology is designed to achieve returns in excess of the NASDAQ 100 Index ("NASDAQ-100") by focusing on the stocks within the Q Universe identified through its proprietary stock screening methodology as strong performers and avoiding or eliminating from PQY's portfolio stocks identified as weak performers.

PQZ seeks to achieve its investment objective by investing, under normal market conditions, at least 95% of its total assets in stocks in the Multi-Cap Universe (as defined below) selected by AER pursuant to a proprietary stock screening methodology, which utilizes fundamental and quantitative criteria. AER employs its unique stock screening methodology in the management of PQZ. Using its methodology, AER tracks and rates the stocks of companies with a market capitalization of over \$400 million that are traded in the United States. On a weekly basis, AER generates its "Master Stock List" which ranks a universe of approximately 3,000 stocks, segmented by market capitalization. AER then narrows its universe to the 2,000 largest stocks of companies with varying capitalizations from the Master Stock List for PQZ (the "Multi-Cap Universe"). Utilizing a proprietary methodology, PQZ then generally selects and purchases approximately 50 stocks from the Multi-Cap Universe.

On the last business day of each week, AER reviews the Multi-Cap Universe based on its proprietary ranking methodology to generally maintain the portfolio in the highest-ranking stocks within the Multi-Cap Universe. AER currently may eliminate up to three stocks each week from PQZ whose rankings fall below a prescribed threshold and replace those stocks with the highest ranking stocks, not currently held in PQZ. PQZ will seek to remain fully invested with approximately equal-weighted positions, i.e. 2.0% for each stock, and AER will rebalance weightings to the initial equal weight when the position reaches 3.0%. Proceeds from stocks sold will be reinvested in the replacement stocks on an equal-weighted basis.

AER's proprietary stock screening methodology was developed by AER in 1998 to combine the quantitative aspects of stock money flow with traditional fundamental security analysis. AER's investment methodology is designed to achieve returns in excess of the S&P 500 Index ("S&P 500") by focusing on the stocks within the Multi-Cap Universe identified through its proprietary stock screening methodology as strong performances and avoiding or eliminating from the portfolio stocks identified as weak performers.

PMA seeks to achieve its investment objective by investing, under normal market conditions, at least 80% of its assets in a portfolio of equity securities of mega-capitalization companies. The 80% investment policy is non-fundamental and requires 60 days' prior written notice to shareholders before it can be changed. The principal type of equity securities purchased by PMA is common stock.

PMA considers a company to be a mega-capitalization company if it has a market capitalization, at the time of purchase, equal to or greater than the market

capitalization of the smallest company in the Russell Top 200 Index (PMA's "Benchmark Index"). PMA uses a universe of securities that are selected using the Benchmark Index as a guide in structuring and selecting its investments, but will invest in securities included in the Benchmark Index as well as securities not included in the Benchmark Index.

In implementing its investment strategy, PMA may invest without limitation in derivative instruments, including, but not limited to, futures contracts. PMA's investments in derivative instruments will be counted toward the 80% policy discussed above to the extent they have economic characteristics similar to the securities included within that policy.

PMA's investments may vary from time to time, and at any time, PMA may not be invested in all types of securities described in the Prospectus.

In seeking to outperform the Benchmark Index, Invesco evaluates fundamental and behavioral factors to forecast individual security returns and applies proprietary and non-proprietary risk and transaction cost models to forecast individual security risk and transaction costs. Based on the individual security forecasts, Invesco seeks to construct the optimal portfolio holdings for PMA and to manage risk.

PMA will invest in securities that Invesco believes have favorable prospects for above average growth while attempting to maintain a high correlation between the return of the Benchmark Index and the return of PMA's portfolio. PMA will attempt to overweight securities with prospects for above average growth and favorable risk profile characteristics identified in the evaluation process and underweight securities with less advantageous characteristics. The security and portfolio evaluation process is generally repeated once per month.

Invesco will consider selling or reducing a security position (i) if the forecasted return of a security becomes less attractive relative to industry peers, or (ii) if a particular security's risk profile changes.

PLK seeks to meet its investment objective by investing, under normal market conditions, at least 80% of its assets in a portfolio of U.S. government, corporate and agency debt securities. The 80% investment policy noted above is non-fundamental and requires 60 days' prior written notice to shareholders before it can be changed.

PLK seeks to outperform its benchmark, the Lehman Brothers 1–3 Year U.S. Treasury Index, through an analysis of a variety of specific factors affecting the return on investments relative to the benchmark, and by applying an actively managed portfolio construction and security selection total return strategy. PLK will allocate its investments between U.S. government, corporate and agency debt securities based on current market conditions. In constructing the PLK's portfolio, Invesco, the Fund's sub-adviser, will consider macro-economic and sector level factors such as economic or political conditions and monetary policy, as well as issuer specific factors such as cash flow coverage, revenue growth, stable or improving credit ratings and business margin improvement. Invesco focuses on securities that it believes have favorable prospects for exceeding the benchmark's returns. In implementing its investment strategy, PLK may invest without limitation in derivative instruments, although initially PLK does not expect to utilize derivatives. Derivative instruments that PLK may invest in include, but are not limited to, swaps,

including interest rate, total return and credit default swaps, put options, call options, interest rate futures and futures contracts and options on future contracts.

PLK may also invest without limitation in dollar rolls and reverse repurchase agreements. Derivative instruments, dollar rolls and reverse repurchase agreements may have the effect of leveraging the PLK's portfolio. PLK's investments in derivative instruments will be counted toward the 80% policy discussed above to the extent they have economic characteristics similar to the securities included within that policy. Invesco will consider selling a particular security when the risk factors applicable to that security become unfavorable relative to that security's expected return.

Under normal market conditions, PLK's effective duration, as estimated by PLK's portfolio managers, will be in the range of zero to three years. Effective duration is a measure of PLK's price sensitivity to changes in interest rates.

PLK may invest up to 25% of its total assets in non-investment grade securities, commonly known as "junk bonds," as determined at the time of purchase. A fixed-income security is considered investment grade if it is rated at least "Baa3" by Moody's Investors Service, Inc., or "BBB-" by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc., or "BBB-" by Fitch Ratings, Inc., or, if unrated, PLK's Adviser and/or Sub-Adviser determine it to be of comparable credit quality at the time the investment is made.

For more information regarding each Fund's investment strategy, please read the prospectus for the Funds.

As described more fully in the Trust's prospectus and Statement of Additional Information ("SAI"), the Funds issue and redeem Shares at net asset value ("NAV") only in large blocks of 50,000 Shares (each block of Shares called a "Creation Unit") or multiples thereof. As a practical matter, only broker-dealers or large institutional investors with creation and redemption agreements (called Authorized Participants) can purchase or redeem these Creation Units. Except when aggregated in Creation Units, the Shares may not be redeemed with the Funds.

Ordinarily, dividends from net investment income, if any, are declared and paid annually, except with regard to PLK, for which dividends from net investment income, if any, are declared and paid monthly. Each Fund distributes its net realized capital gains, if any, to shareholders annually.

Shares are held in book-entry form, which means that no Share certificates are issued. The Depository Trust Company or its nominee is the record owner of all outstanding Shares of the Funds and is recognized as the owner of all Shares for all purposes.

The NAV per Share for each Fund is computed by dividing the value of the net assets of the Fund (i.e., the value of its total assets less total liabilities) by the total number of Shares outstanding. Expenses and fees are accrued daily and taken into account for purposes of determining NAV. The NAV of each Fund is determined each business day after the close of trading (ordinarily 4:00 p.m., Eastern Time or "ET") of the New York Stock Exchange. Any assets or liabilities denominated in currencies other than the U.S. dollar are converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

Investors should also note that the Funds may engage in transactions in futures contracts and that the Commodity Futures Trading Commission has regulatory jurisdiction over the trading of futures contracts.

The registration statement for the Funds describes the various fees and expenses for the Funds' Shares. For a more complete description of the Funds and the underlying indexes, visit the Funds' website at [www.powershares.com](http://www.powershares.com).

## **Purchases and Redemptions in Creation Unit Size**

NASDAQ members are hereby informed that procedures for purchases and redemptions of Shares in Creation Unit Size are described in the Trust's prospectus and SAI, and that Shares are not individually redeemable but are redeemable only in Creation Unit Size aggregations or multiples thereof.

## **Principal Risks**

Interested persons are referred to the discussion in the prospectus for the Funds of the principal risks of an investment in the Funds. These include tracking error risk (factors causing a Fund's performance to not match the performance of its underlying index), market trading risk (for example, trading halts, trading above or below net asset value), investment style risk, sector risk, investment approach risk, non-diversification risk, issuer-specific risk, management risk, derivatives risk, equity risk, portfolio turnover risk, credit risk, call risk, interest rate, high yield securities risk, large company risk and small and medium-sized company risk.

## **Exchange Rules Applicable to Trading in the Shares**

Trading in the Shares on NASDAQ is on a UTP basis and is subject to [NASDAQ equity trading rules](#).

## **Trading Hours**

The values of each index underlying the Shares are disseminated to data vendors every 15 seconds. The Shares will trade on NASDAQ between 7:00 a.m. and 8:00 p.m. ET. For trading during Nasdaq's Pre-Market and Post-Market Sessions, market participants should note that additional risks may exist with respect to trading the Funds during these sessions, when the underlying index's values may not be disseminated.

## **Suitability**

Trading in the Shares on NASDAQ will be subject to the provisions of [NASDAQ Rule 2310](#). Members recommending transactions in the Shares to customers should make a determination that the recommendation is suitable for the customer. In addition, members must possess sufficient information to satisfy the "know your customer" obligation that is embedded in the NASDAQ Conduct Rules.

Members also should review [NASD Notice to Members 03-71](#) for guidance on trading these products. The Notice reminds members of their obligations to: (1) conduct adequate due diligence to understand the features of the product; (2) perform a reasonable-basis suitability analysis; (3) perform customer-specific suitability

analysis in connection with any recommended transactions; (4) provide a balanced disclosure of both the risks and rewards associated with the particular product, especially when selling to retail investors; (5) implement appropriate internal controls; and (6) train registered persons regarding the features, risk and suitability of these products.

### Trading Halts

NASDAQ will halt trading in the Shares of a Fund in accordance with [NASDAQ Rule 4120](#). The grounds for a halt under NASDAQ Rule 4120 include a halt by the primary market because the intraday indicative value of the Fund and/or the value of its underlying index are not being disseminated as required, or a halt for other regulatory reasons. In addition, NASDAQ will also stop trading the Shares of a Fund if the primary market de-lists the Fund.

### Delivery of a Prospectus

NASDAQ members should be mindful of applicable prospectus delivery requirements under the federal securities laws with respect to transactions in the Funds.

Prospectuses may be obtained through the [Funds' website](#). The prospectus for the Funds does not contain all of the information set forth in the Funds' registration statement (including the exhibits to the registration statement), parts of which have been omitted in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). For further information about the Funds, please refer to the registration statement.

In the event that the Funds rely upon an order by the SEC exempting the Shares from certain prospectus delivery requirements under Section 24(d) of the 1940 Act and in the future make available a written product description, [NASDAQ Rule 4420\(j\)\(2\)](#) requires that NASDAQ members provide to all purchasers of Shares a written description of the terms and characteristics of such securities, in a form prepared by the Trust for the Funds, no later than the time a confirmation of the first transaction in the Shares is delivered to such purchaser. In addition, NASDAQ members shall include such a written description with any sales material relating to the Shares that is provided to customers or the public. Any other written materials provided by a NASDAQ member to customers or the public making specific reference to the Shares as an investment vehicle must include a statement in substantially the following form: "A circular describing the terms and characteristics of the Shares of the Fund has been prepared by the Trust and is available from your broker. It is recommended that you obtain and review such circular before purchasing Shares of the Fund. In addition, upon request you may obtain from your broker a prospectus for Shares of the Fund."

A NASDAQ member carrying an omnibus account for a non-member broker-dealer is required to inform such non-member that execution of an order to purchase Shares for such omnibus account will be deemed to constitute agreement by the non-member to make such written description available to its customers on the same terms as are directly applicable to NASDAQ member under this rule.

Upon request of a customer, NASDAQ members also shall provide a copy of the prospectus.

## **Exemptive, Interpretive and No-Action Relief Under Federal Securities Regulations**

The SEC has issued exemptive, interpretive or no-action relief from certain provisions of rules under the Securities Exchange Act of 1934 (the "Act") regarding trading in the above mentioned exchange-traded Funds.

### **Regulation M Exemptions**

Generally, Rules 101 and 102 of Regulation M prohibit any "distribution participant" and its "affiliated purchasers" from bidding for, purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of a distribution until after the applicable restricted period, except as specifically permitted in Regulation M. The provisions of the Rules apply to underwriters, prospective underwriters, brokers, dealers, and other persons who have agreed to participate or are participating in a distribution of securities.

The SEC has granted an exemption from Rule 101 under Regulation M to permit persons participating in a distribution of shares of the above-mentioned Funds to engage in secondary market transactions in such shares during their participation in such a distribution. In addition, the SEC has granted relief under Regulation M to permit persons who may be deemed to be participating in the distribution of Shares of the above-mentioned Funds (i) to purchase securities for the purpose of purchasing Creation Unit Aggregations of Fund Shares and (ii) to tender securities for redemption in Creation Unit Aggregations. Further, the SEC has clarified that the tender of Fund Shares to the Funds for redemption does not constitute a bid for or purchase of any of the Funds' securities during the restricted period of Rule 101. The SEC has also granted an exemption pursuant to paragraph (e) of Rule 102 under Regulation M to allow the redemption of Fund Shares in Creation Unit Aggregations during the continuous offering of Shares.

### **Customer Confirmations for Creation or Redemption of Fund Shares (SEC Rule 10b-10)**

Broker-dealers who handle purchases or redemptions of Fund Shares in Creation Unit size for customers will be permitted to provide such customers with a statement of the number of Creation Unit Aggregations created or redeemed without providing a statement of the identity, number and price of shares of the individual securities tendered to a Fund for purposes of purchasing Creation Unit Aggregations ("Deposit Securities") or the identity, number and price of shares to be delivered by the Trust for the Fund to the redeeming holder ("Redemption Securities"). The composition of the securities required to be tendered to the Fund for creation purposes and of the securities to be delivered on redemption will be disseminated each business day and will be applicable to requests for creations or redemption, as the case may be, on that day. This exemptive relief under Rule 10b-10 with respect to creations and redemptions is subject to the following conditions:

- 1) Confirmations to customers engaging in creations or redemptions must state that all information required by Rule 10b-10 will be provided upon request;

- 2) Any such request by a customer for information required by Rule 10b-10 will be filed in a timely manner, in accordance with Rule 10b-10(c);
- 3) Except for the identity, number and price of shares of the component securities of the Deposit Securities and Redemption Securities, as described above, confirmations to customers must disclose all other information required by Rule 10b-10(a).

### **SEC Rule 14e-5**

An exemption from Rule 14e-5 has been granted to permit any person acting as a dealer-manager of a tender offer for a component security of a Fund (1) to redeem Fund Shares in Creation Unit Aggregations from the issuer that may include a security subject to such tender offer and (2) to purchase Fund Shares during such tender offer. In addition, a no-action position has been taken under Rule 14e-5 if a broker-dealer acting as a dealer-manager of a tender offer for a security of a Fund purchases or arranges to purchase such securities in the secondary market for the purpose of tendering such securities to purchase one or more Creation Unit Aggregations of Shares, if made in conformance with the following:

- 1) such bids or purchases are effected in the ordinary course of business, in connection with a basket of 20 or more securities in which any security that is the subject of a distribution, or any reference security, does not comprise more than 5% of the value of the basket purchased; or
- 2) purchases are effected as adjustments to such basket in the ordinary course of business as a result of a change in the composition of the underlying index; and
- 3) such bids or purchases are not effected for the purpose of facilitating such tender offer.

### **Section 11(d)(1); SEC Rules 11d1-1 and 11d1-2**

Section 11(d)(1) of the Act generally prohibits a person who is both a broker and a dealer from effecting any transaction in which the broker-dealer extends credit to a customer on any security which was part of a new issue in the distribution of which he participated as a member of a selling syndicate or group within thirty days prior to such transaction. The SEC has clarified that Section 11(d)(1) does not apply to broker-dealers that are not Authorized Participants (and, therefore, do not create Creation Unit Aggregations) that engage in both proprietary and customer transactions in Shares of the Fund in the secondary market, and for broker-dealer Authorized Participants that engage in creations of Creation Unit Aggregations. This relief is subject to specific conditions, including the condition that such broker-dealer (whether or not an Authorized Participant) does not, directly or indirectly, receive from the fund complex any payment, compensation or other economic incentive to promote or sell the Shares of a Fund to persons outside the fund complex, other than non-cash compensation permitted under NASD Rule 2830(l)(5)(A), (B) or (C). (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.) The SEC also has taken a no-action position under Section 11(d)(1) of the Act that broker-dealers may treat Shares of a Fund, for purposes of Rule 11d1-2, as "securities issued by a registered open-end investment company as defined in the Investment Company Act" and thereby extend credit or maintain or



arrange for the extension or maintenance of credit on Shares that have been owned by the persons to whom credit is provided for more than 30 days, in reliance on the exemption contained in the rule.

### **SEC Rule 15c1-5 and 15c1-6**

The SEC has taken a no-action position with respect to Rule 15c1-5 and Rule 15c1-6 as to the required disclosure of control by a broker or dealer with respect to creations and redemptions of Fund Shares and secondary market transactions therein. (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.)

**This Information Circular is not a statutory prospectus. NASDAQ members should consult the Funds' prospectus and/or the [Funds' website](#) for relevant information.**

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Inquiries regarding this Information Circular should be directed to:

- [Will Slattery](#), NASDAQ Listing Qualifications, at 301.978.8088
- [NASDAQ Market Sales](#) at 800.846.0477