



## INFORMATION CIRCULAR: POWERSHARES EXCHANGE-TRADED FUND TRUST II

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

**FROM:** BX / PHLX Listing Qualifications Department

**DATE:** June 14, 2016

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### EXCHANGE-TRADED FUND

### SYMBOL

### CUSIP #

PowerShares DWA Momentum & Low Volatility Rotation Portfolio

DWLV

73937B381

### BACKGROUND INFORMATION ON THE FUND

The PowerShares Exchange-Traded Fund Trust II (the “Trust”) is a management investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”), consisting of several investment portfolios. This circular relates only to the PowerShares DWA Momentum & Low Volatility Rotation Portfolio (“Fund”). The shares of the Fund are referred to herein as “Shares.” Invesco PowerShares Capital Management LLC (the “Adviser”) serves as the investment adviser to the Fund.

The Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Dorsey Wright Multi-Factor Global Equity Index (the “Underlying Index”).

The Fund generally will invest at least 90% of its total assets in securities that comprise the Underlying Index. The Fund is a “fund of funds,” meaning that it invests its assets in the shares of other exchange-traded funds (“ETFs”), rather than in securities of individual companies. The Underlying Index includes other ETFs that are advised by the Fund’s adviser or its affiliates (the “PowerShares ETFs”), as well as 1- to 6-month U.S. Treasury Bills. The Fund and the PowerShares ETFs are part of the same group of investment companies.

Strictly in accordance with its guidelines and mandated procedures, Dorsey, Wright & Associates, LLC (the “Index Provider” or “Dorsey Wright”) compiles, maintains and calculates the Underlying Index, which, at any given time, is composed of up to eight PowerShares ETFs that invest in either domestic or international equity securities, and that employ either a “momentum” or a “low volatility” investment strategy.

The PowerShares ETFs are first divided into two groups: one composed of four ETFs that represents investments in the U.S. domestic equity market—the PowerShares DWA Momentum Portfolio, PowerShares DWA SmallCap Momentum Portfolio, PowerShares S&P 500 Low Volatility Portfolio and

PowerShares S&P SmallCap Low Volatility Portfolio (the “Underlying Domestic Equity ETFs”)—and one composed of the other four ETFs that represents investments in international equity markets—the PowerShares S&P Developed Markets Low Volatility Portfolio, PowerShares S&P Emerging Markets Low Volatility Portfolio, PowerShares DWA Developed Markets Momentum Portfolio and PowerShares DWA Emerging Markets Momentum Portfolio (the “Underlying International Equity ETFs”).

Next, the PowerShares ETFs are divided into two groups that use either a momentum or low volatility investment strategy. Dorsey Wright maintains the underlying indexes of the four PowerShares ETFs that employ a momentum strategy (i.e., those PowerShares ETFs listed above with “DWA” in their name). A “momentum” investment style emphasizes investing in securities that recently have had better relative performance compared to other securities. S&P Dow Jones Indices LLC (“S&P”) maintains the underlying indices of the four PowerShares ETFs that employ a low volatility strategy (i.e., those PowerShares ETFs listed above with “S&P” in their name). A low volatility investment style emphasizes investing in securities with the least asset price fluctuations (i.e., increases or decreases in a stock’s price) over time.

The Underlying Index seeks to gain exposure to the equity market (i.e., domestic or international) that displays the strongest relative strength at any given time. “Relative strength” is an investing technique that seeks to determine the strongest performing securities by measuring certain factors, such as by comparing the amount of increase of the security’s price over a set period as compared to that of a reference point, such as a benchmark index, another security or the market as a whole. If a security outperforms (i.e., its price increases in an amount greater than) a given reference point over a set period of time, that security is said to be relatively stronger—that is, it displays strong “relative strength”—than the index, security or market segment against which it is compared.

The Index Provider compares the relative strength of (i) U.S. equities, (ii) international equities, and (iii) cash to one another and, at each rebalance, weights the components of the Underlying Index to emphasize those PowerShares ETFs (or Treasury Bills) that the Index Provider believes offer the greatest potential for outperformance.

Specifically, using its proprietary methodology, each month the Index Provider calculates the relative strength of each of the U.S. and international equity markets and allocates approximately 70% of the weight of the Underlying Index to eligible PowerShares ETFs that invest in the equity market with greater relative strength and allocates the remaining 30% to the eligible PowerShares ETFs that invest in the equity market with lesser relative strength. For example, if the U.S. equity market has better relative strength than the international equity markets, 70% of the Underlying Index’s weight will be allocated to the Underlying Domestic Equity ETFs and the remaining 30% will be allocated to the Underlying International Equity ETFs. More information about the specific countries in which the Underlying International Equity ETFs invest, including the methodology used by the index provider to the indices of those ETFs to classify certain countries’ economies as “developed” or “emerging,” is contained in each Underlying International Equity ETF’s prospectus.

However, during periods when one or both of these equity markets do not demonstrate sufficient relative strength compared to cash (i.e., when the U.S. and/or international equity markets are out of favor when compared to a cash proxy), the Underlying Index may allocate that portion of its weight to cash, as represented by 1- to 6-month U.S. Treasury Bills. For example, if cash has greater relative strength than one, (but not both) of the two equity markets, the Underlying Index will be comprised

70% of the Underlying Equity ETFs from the stronger equity market and 30% of Treasury Bills (with no allocation to the weaker equity market). During periods when equity securities as a whole are out of favor (i.e., when cash's relative strength outranks both the U.S. and international equity markets), the Underlying Index may hold a 100% cash position.

Once the Index Provider has determined the weightings among U.S. equities, international equities, and cash as described above, it subdivides those allocations between "momentum strategy" PowerShares ETFs and "low volatility strategy" PowerShares ETFs, depending on the relative strength of U.S. and International equities compared to other asset classes, such as fixed income securities, currencies, and commodities. The Index Provider begins this process by ranking the relative strength of all six asset classes (U.S. equities, international equities, fixed income securities, currencies, commodities and cash). If the U.S. equity market's relative strength ranks first or second among the six asset classes, 70% of the U.S. equity market's portion of the Underlying Index is composed of the two Underlying Domestic Equity ETFs that use a momentum strategy (PowerShares DWA Momentum Portfolio, PowerShares DWA SmallCap Momentum Portfolio) and the remaining 30% of the U.S. equity market's portion of the Underlying Index is composed of the two Underlying Domestic Equity ETFs that use a low volatility strategy (PowerShares S&P 500<sup>®</sup> Low Volatility Portfolio and PowerShares S&P SmallCap Low Volatility Portfolio). The same is true for the international equity market: if its relative strength ranks first or second among the six asset classes, the two Underlying International Equity ETFs that use a momentum strategy will account for 70% of the international equities portion of the Underlying Index and the two Underlying International Equity ETFs that use a low volatility strategy will account for the remaining 30% of that portion. The opposite (i.e., a 70% allocation to low volatility and a 30% allocation to momentum) will occur within the U.S. or international asset class if their respective relative strength ranking is third, fourth, fifth or sixth among all asset classes.

The Index Provider evaluates the Underlying Index constituents each month to determine whether, based on potential changes in relative strength of the markets, any change to the composition of, or component weightings within, the Underlying Index is necessary.

The Fund generally invests in all of the components of the Underlying Index in proportion to their weightings in the Underlying Index. By doing so, the Fund is "non-diversified" and therefore is not required to meet certain diversification requirements under the Investment Company of 1940, as amended (the "1940 Act").

The Fund will concentrate its investments (i.e., invest more than 25% of the value of its net assets) in securities of issuers in any one industry or group of industries only to the extent that the Underlying Index reflects a concentration in that industry or group of industries. The Fund will not otherwise concentrate its investments in securities of issuers in any one industry or group of industries.

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

As described more fully in the Trust's prospectus and Statement of Additional Information, the Fund will issue and redeem Shares on a continuous basis at their net asset value ("NAV") only in large blocks of 50,000 Shares (each, a "Creation Unit"). Creation Units will be issued and redeemed principally in-kind for securities included in the underlying index. Except when aggregated in Creation Units, the Shares may not be redeemed with the Fund.

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 the 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.

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

#### **PURCHASES AND REDEMPTIONS IN CREATION UNIT SIZE**

BX members and PHLX members and member organizations are hereby informed that procedures for purchases and redemptions of Shares in Creation Unit Size are described in the Trust's prospectus and Statement of Additional Information 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 Fund of the principal risks of an investment in the Fund. These include tracking error risk (factors causing the Fund's performance to not match the performance of the underlying index), market trading risk (for example, trading halts, trading above or below net asset value), underlying funds risk, equity risk, industry concentration risk, foreign investment risk, emerging markets investment risk, currency risk, small- and mid-capitalization company risk, momentum investing risk, portfolio turnover risk, geographic concentration risk, Asia Pacific investment risk, central and south American investment risk, European investment risk, north American economic risk, U.S. government securities risk, market risk, market trading risk, non-correlation risk, index risk, non-diversified fund risk, issuer-specific changes risk.

#### **EXCHANGE RULES APPLICABLE TO TRADING IN THE SHARES**

Trading of the Shares on BX is on a UTP basis and is subject to BX equity trading rules. Trading of the Shares on PHLX's PSX system is on a UTP basis and is subject to PHLX rules.

#### **TRADING HOURS**

The values of each index underlying the Shares are disseminated to data vendors every 15 seconds. The Shares will trade on BX between 8:00 a.m. and 7:00 p.m. ET. The Shares will trade on PSX between 9:00 a.m. and 5:00 p.m. ET. For trading during each market's pre-market and post-market sessions, market participants should note that additional risks may exist with respect to trading the

Fund during these sessions, when the underlying index's values, intraday indicative value, or similar value may not be disseminated or calculated.

### DISSEMINATION OF FUND DATA

The Consolidated Tape Association will disseminate real time trade and quote information for the Funds to Tape C.

Fund Name	Listing Market	Trading Symbol	IOPV Symbol	NAV Symbol
PowerShares DWA Momentum & Low Volatility Rotation Portfolio	NASDAQ	DWLV	DWLV.IV	DWLV.NV

### SUITABILITY

Trading in the Shares on BX will be subject to the provisions of BX Equity Rule 2310. Shares trading on PSX will be subject to the provisions of PHLX Rule 763. Members and member organizations 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 BX Conduct Rules.

BX members and PHLX members and member organizations should also 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

BX will halt trading in the Shares of a Fund in accordance with BX Equity Rule 4120. PHLX will halt trading in the Shares of a Fund in accordance with PHLX Rule 3100. The grounds for a halt under these rules include a halt by the primary market because the intraday indicative value of the Fund, the value of its underlying index, or a similar value are not being disseminated as required, or a halt for other regulatory reasons. In addition, BX and PHLX will also stop trading the Shares of a Fund if the primary market delists the Fund.

## **DELIVERY OF A PROSPECTUS**

BX members and PHLX members and member organizations should be mindful of applicable prospectus delivery requirements under the federal securities laws with respect to transactions in the Fund.

Prospectuses may be obtained through the Fund's website. The prospectus for the Funds does not contain all of the information set forth in the Fund's 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 Fund, please refer to the registration statement.

In the event that the Fund relies 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, BX Equity Rules 4420 and 4421, and PHLX Rule 803 require that members and member organizations, respectively, 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 Fund, no later than the time a confirmation of the first transaction in the Shares is delivered to such purchaser. In addition, members and member organizations 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 members or member organizations 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."

Any BX or PHLX member or member organization 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 BX members and PHLX members or member organizations under this rule.

Upon request of a customer, BX members and PHLX members or member organizations 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 Fund.

## **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 Fund 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 Fund (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 Fund for redemption does not constitute a bid for or purchase of any of the Fund's 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 the 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 the 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 the 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 the 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 the 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. BX members and PHLX members and member organizations should consult the Fund's prospectus and/or the Fund's website for relevant information.**



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Inquiries regarding this Information Circular should be directed to:

- Will Slattery, Listing Qualifications, at 301.978.8088
- BX / PSX Market Sales, at 800.846.0477