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PowerShares DB Exchange-Traded Notes (ETNs)



In 2008, Invesco PowerShares expanded its relationship with Deutsche Bank (DB) to offer the PowerShares DB ETNs. These ETNs seek to provide investors with a cost-effective¹ and convenient way to take a long, short or leveraged view on the performance of some of the most important commodities, currencies and sovereign fixed-income in the world. ■

¹ Since ordinary brokerage commissions apply for each buy and sell transaction, frequent trading activity may increase the cost of ETNs.

An Introduction to PowerShares DB ETNs

Understanding the Basics

Definition. PowerShares DB exchange-traded notes (ETNs) are senior, unsecured obligations issued by Deutsche Bank (DB) that are linked to the performance of specific indexes. The indexes are designed to reflect the performance of respective futures contracts.

ETNs vs ETFs. PowerShares DB ETNs are unsecured obligations of Deutsche Bank AG, London Branch; whereas the underlying securities contained in PowerShares DB ETFs are held in a fund. Holders of PowerShares DB ETNs currently receive Form 1099 for tax purposes only when they sell their ETNs. Holders of PowerShares DB ETFs receive Form K-1 for tax purposes each year even when not selling.¹

Mechanics. Investors can buy and sell the ETNs on the NYSE Arca exchange or receive a cash payment at the scheduled maturity or early redemption, based on the performance of the index less investor fees. Investors may redeem commodity- and U.S. fixed-income-based ETNs in blocks of no less than 200,000 securities and integral multiples of 50,000 securities thereafter, subject to the procedures described in the pricing supplement. Sovereign fixed-income-

based ETNs are redeemed in blocks of no less than 50,000 securities and multiples of 50,000 securities thereafter, subject to the procedures described in the pricing supplement. Redemptions may include a fee of up to \$0.03 per security.

In the secondary market, the ETNs track the value of the index because DB's obligatory repurchase price is a function of the index value.

Benefits & Risks. ETNs are some of the more benefit-rich investment vehicles available in the marketplace today. Considerations include:

Benefits

- Long, short or leveraged
- Relatively low cost
- Intraday access
- Listed
- Transparent
- Tax treatment*

Risks

- Non-principal protected
- Leveraged losses
- Subject to an investor fee
- Limitations on repurchase
- Concentrated exposure
- Credit risk to the issuer

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Leveraged ETNs

The leveraged commodity-based ETNs offer investors two times the exposure to the monthly performance or inverse monthly performance of the respective index, plus the monthly T-Bill Index return, subject to the investor fee of 0.75% per year. The leveraged sovereign debt-based ETNs offer investors three times the exposure to the monthly performance or inverse monthly performance of the relevant futures index plus the monthly T-Bill Index return, subject to the investor fee of 0.95% per year.

In contrast to many leveraged exchange-traded funds (ETFs), which generally reset their leverage daily, PowerShares DB ETNs reset their leverage on a monthly basis. The reset schedule can have a significant impact on returns and should be understood prior to investing.

The following three tables are for illustrative purposes only, showing how different leverage resetting schedules can impact returns positively or negatively in different market environments. They are not depictive of any particular market conditions.

Scenario 1:

	Monthly Leverage Reset					Daily Leverage Reset				
	Base Index	Calc. Base	% Change	Daily Value	Implied Leverage	Base Index	Calc. Base	% Change	Daily Value	Implied Leverage
Day 1	100.00	-	-	100.00		100.00	-	-	100.00	
Day 2	110.00	100.00	10.00%	120.00	200%	110.00	100.00	10.00%	120.00	200%
Day 3	100.00	100.00	-10.00%	100.00	183%	100.00	110.00	-9.09%	98.18	200%

Scenario 2:

	Monthly Leverage Reset					Daily Leverage Reset				
	Base Index	Calc. Base	% Change	Daily Value	Implied Leverage	Base Index	Calc. Base	% Change	Daily Value	Implied Leverage
Day 1	100.00	-	-	100.00		100.00	-	-	100.00	
Day 2	110.00	100.00	10.00%	120.00	200%	110.00	100.00	10.00%	120.00	200%
Day 3	120.00	100.00	10.00%	140.00	183%	120.00	110.00	9.09%	141.82	200%

Scenario 3:

	Monthly Leverage Reset					Daily Leverage Reset				
	Base Index	Calc. Base	% Change	Daily Value	Implied Leverage	Base Index	Calc. Base	% Change	Daily Value	Implied Leverage
Day 1	100.00	-	-	100.00		100.00	-	-	100.00	
Day 2	90.00	100.00	-10.00%	80.00	200%	90.00	100.00	-10.00%	80.00	200%
Day 3	80.00	100.00	-10.00%	60.00	225%	80.00	90.00	-11.11%	62.22	200%

The difference in performance between daily and monthly leverage reset arises from the difference in the base amount used for calculation. For monthly leverage reset, one base is used for the entire calendar month. For daily leverage reset, each closing value becomes the day one base for the next day's calculation:

Monthly leverage reset calculation: $(\text{Daily Closing Value} - \text{Day One Base}) / \text{Day One Base}$

Daily leverage reset calculation: $(\text{Daily Closing Value} - \text{Previous Day Closing Value}) / \text{Previous Day Closing Value}$

