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PowerShares Global Clean Energy Fund

Clean Technology: The Green Revolution



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About Invesco PowerShares

Invesco PowerShares Capital Management LLC, part of Invesco Ltd., is the manager of the Invesco PowerShares suite of exchange-traded funds. Invesco PowerShares is “Leading the Intelligent ETF Revolution” by providing professional and retail investors with a full suite of ETFs that seeks to replicate enhanced indices. Invesco PowerShares delivers sophisticated investment management through one of the most exciting investment vehicles available in the marketplace today, the exchange-traded fund. Invesco PowerShares is committed to sound portfolio construction and empirically verifiable investment management approaches. The investment management philosophy and investment discipline are deeply rooted in the application of factor analysis and models to enhance investment decisions. For more information on Invesco PowerShares and the suite of available ETFs, please visit our website, www.invescopowershares.net.

For much the 20th century, environmentalism stood at odds with economic growth. “Green” protesters railed against the environmental impacts of capitalism, tying economic progress together with pollution, deforestation and a host of other injuries to the planet. Corporations, meanwhile, resisted any attempt to curtail emissions or cut the use of natural resources as a *de facto* tax on growth. “Making green from green” was a popular marketing slogan, but not much else.

Today, however, that dynamic has changed. A convergence of events, highlighted by sustained high energy prices, has aligned environmental and economic interests closer together than ever before. Today, pundits like the *New York Times*’ Thomas Friedman and CEOs like GE’s Jeffrey Immelt call the “greening” of America one of the greatest business opportunities of the 21st century.

If they’re right, the “clean tech” industry is positioned for a sustained run of strong performance. Clean tech companies create products, services and processes that harness renewable materials, reduce our demand for natural resources and cut or eliminate emissions and wastes; in other words, they help reduce our impact on the environment.

The industry incorporates familiar players like ethanol manufacturers and wastewater treatment companies, along with a host of new and emerging technologies, including:

- Nanotech companies working on lightweight carbon panels that help cars achieve better fuel economy;
- Technology companies producing better, more efficient superconductors to reduce electrical demand; and
- Wind and solar power companies looking to create low-carbon power alternatives.

The desire for more environmentally friendly products and processes is not new, but the economic incentives are. With oil prices growing every day, the cost advantage of doing more with less now allows “green technologies” to compete head-to-head with older, more polluting industries... and win. Wind power, for instance, is now cost-competitive with fossil fuels, and thanks to technological advances, solar power is moving that way too. These improved economics are supported by a popular and political push to reduce demand on imported commodities, leading to policy incentives and sustained public support for an expanded clean tech industry.

This unique alignment of forces - political, economic, social and technological - has laid the foundation for a sustained boom in the clean tech industry. This white paper aims to examine and analyse the trends driving that boom, and consider the investment implications of working in this space.

I. Clean Tech: An Overview

The clean tech industry uses new and innovative technology to create products and services that reduce our demand on the environment.

The terminology surrounding the clean tech market can be a bit confusing, in part because so many different labels have sprouted up. Alternative energy, clean energy, new energy and even green power are synonymous with each other, and as such fall under the clean tech umbrella.

But clean tech extends beyond just energy to include many new companies and industries operating over a wide range of products and services. Today, clean tech encompasses everything from alternative energy generation to wastewater treatment to more efficient industrial processes. Although some of these industries are very different, all share a common theme: they use new, innovative technology to create products and services that reduce our impact on the environment.

The clean tech industry, though in relative infancy, will likely emerge as the innovation standard-bearer for a world whose natural resources are becoming increasingly constrained. Like most early-stage industries, clean tech offers immense market opportunity, technological promise and tremendous support from government, industry and the investment community. It also offers a huge set of risks, as the relative merits and demerits of the various technologies are still being sorted out.

We may have only begun to tap clean tech's potential to create quality jobs, generate new wealth, improve our environment, and protect the world's citizens from a variety of harms. But we also haven't yet begun to figure out which of the various clean technologies will actually win out.

Clean Tech Defined

"Clean tech," as it is defined here, differs from traditional environmental technologies such as air pollution control, remediation, and hazardous waste management. These conventional environmental technologies tend to be "end-of-pipe" add-ons to existing businesses or systems; they are adopted primarily to clean up existing problems and to comply with state or federal regulations.

Clean tech products and services, by contrast, are designed to prevent these problems from happening in the first place. Clean tech products are developed and adopted primarily to meet an economic need; their environmental benefits are a significant but secondary consequence. As such, while policy is an important driver of clean tech growth, it is by no means the only driver.

On a similar note, at various times, renewable energy technologies have experienced periods of heightened interest, notably during and just after the 1970s oil crisis when a nascent solar industry was born. However, the renewable energy technologies of that era never approached cost competitiveness with conventional technologies, and once oil prices fell, both policy support and investor interest in the sector waned.

By contrast, many of today's clean tech products and services do compete and win on cost versus conventional alternatives. Furthermore, the broad range and sustained nature of the forces driving clean tech today suggest that the industry's growth will be far less susceptible to the diminishing of any one driver, such as energy prices or shifting political winds.

To be considered “clean tech,” products and services should meet one of the following categories:

- Optimise use of natural resources, offering a cleaner or less wasteful alternative to traditional products and services
- Have originated as an innovative or new technology or application
- Add economic value compared to traditional alternatives

When you hear a company being described as a clean tech company, you are generally hearing about a company that falls into one of the following six categories. The list comes courtesy of Cleantech Network, which is a clearinghouse for information, data and insight on the clean tech industry and its many subsectors:

- 1 Agriculture and nutrition**, such as bio-based materials, micro-irrigation systems and natural pesticides.
- 2 Air quality**, including purification products and air filtration systems, as well as fuel additives to increase efficiency and reduce toxic emissions.
- 3 Energy-tech**, a multifaceted category that includes clean energy generation, storage, efficiency and infrastructure. Fuel cells, geothermal, wind, solar, advanced metering, demand response, energy management software, batteries and automated energy conservation networks all fall into this category.

4 Materials recovery & recycling, including methods such as recycling technologies and waste treatment, as well as hazardous waste remediation.

5 Transportation and logistics, including hybrid vehicle technology, lighter materials for cars, and, believe it or not, carpooling and telecommuting.

6 Water purification, covering water recycling and ultra-filtration systems (e.g., UV membrane & ion exchange systems), sensors and automation systems, water utility submetering technology and desalination equipment.

The irony is that companies in these categories may not always consider themselves clean tech, even though others may put them in the clean tech category. And investors who place capital into these firms likewise may not necessarily consider themselves to be “clean tech” investors. However, the vast majority of investments (and investors) in clean tech are intentional and are being done for one distinct purpose to catch the wave of excitement and interest that now surrounds the clean tech boom.

II. Industry Drivers

A perfect storm of sorts is brewing for the clean tech industry. According to a 2006 study published by the National Resources Defense Council and the Clean Tech Venture Network, there are six fundamental drivers that have coalesced in the last three years to spur the rapid growth of the industry. All six are long-term, systemic drivers, suggesting that clean tech could enjoy sustained growth for decades to come. Those drivers are:

1 Technological Advances.

Materials and biological science innovations; improvements in research and manufacturing processes; and the rapidly falling cost, increasing power, and near ubiquity of information technology (IT) are leading to breakthroughs in clean products and services. The resulting reductions in cost and advances in functionality have spurred business and consumer demand for many of these green products. Indeed, many purchasers choose clean tech products purely on their economic merits.

2 High Energy Prices.

Sustained high energy prices have catalyzed interest in energy efficiency and alternative technologies, and improved the relative economics of some clean tech offerings.

3 Global urbanisation and corresponding environmental pressures.

Sometime this decade, for the first time in history, more people in the world will live in cities than in rural areas. Between 2000 and 2030, the world's urban population is expected to expand by more than 2 billions, aggravating air pollution and public health problems, and creating huge demands on municipalities to provide clean air, clean water, energy and other basic services. These challenges create enormous potential markets for companies with products that are cleaner, less resource-intensive or more energy-efficient.

4 U.S. National Policy Evolution.

Increasingly, policy makers at the national and state level are recognizing that clean tech can be a valuable asset in creating jobs, improving environmental performance and promoting national security and resource independence. For example, in his 2006 State of the Union address, President Bush highlighted the U.S.' "addiction to foreign oil," and called for major increases in spending for R&D of alternative sources of energy. President Bush has outlined a climate change proposal that includes creating an "international clean technology fund," to be supported by contributions from governments around the world, which would help finance clean-energy projects in developing countries. Local governments are also supporting clean tech initiatives through public policy and their own purchasing initiatives.

5 Global Policy Action.

With the introduction of the Kyoto Protocol and the European Trading Scheme in February 2005, the global clean tech industry received a powerful shot in the arm. Mandatory caps on European greenhouse gas emissions, coupled with voluntary programs the world over, have spurred significant R&D and project finance investments in low-carbon technologies and related products, services and markets.

6 Capital Markets Acceptance.

In past years, clean tech and environmental technologies were sometimes viewed as "alternative" investments, suitable primarily for socially responsible investors. No longer. In the past two years, some of the biggest and most respected names in the banking, private equity, institutional and corporate arenas have made significant investments or commitments to clean tech businesses or markets. All of these players forecast clean tech in some shape or form to be one of the most important industries of the 21st century.

III. Clean Tech: The Investment Case

The clean tech business has turned into the next big investment boom. Investors are rushing to finance start-ups in clean technology, especially in energy. Research firm Venture Business Research reports that investment by venture capitalists and private equity firms has quadrupled over the past two years. Another research firm, New Energy Finance, pegs all clean tech investment (public and private capital) last year at USD 63 billion, compared with USD 30 billion in 2004. Investment banks are following the money, and ramping up their analyst teams and bankers that cover the sector.

Investors are rushing into clean tech for the same reason businesspeople are starting up clean tech companies in droves. They are salivating over potential returns of 20-30% a year or more, depending on which industry analyst you're reading. High oil prices, fears over energy supplies and security, and a concern over global warming are driving grandiose expectations of the clean tech industry. For those of us who remember the dot-com bubble, predictions of hyper-growth come with a grain of salt. But the clean tech industry is on stronger footing, as regulators, politicians and the public are all aligned squarely behind clean tech advances.

Clean tech investors are pointing to other state-sponsored "green" initiatives as proof that clean tech isn't a bubble. According to *The Economist* magazine, California plans to generate more than 20% of its power from renewable sources by 2010. Nearly half (21) of the other 50 states have such "renewable portfolio standards," that utilities are obliged to meet. New Jersey will require 22.5% of energy to come from renewable sources by 2021.

The world is also demanding clean energy technology. Europe wants 5.75% of all transport fuel to come from non-fossil sources by 2010. The EU also has a target for power from renewable sources of 18% by 2010. Goldman Sachs says that solar output would have to grow by over 30% a year to meet it. All over the world governments have pledged billions to advance the clean tech cause, effectively "pre-booking" growth, according to clean tech supporters.

Clean Tech VCs - Investing at the Source

Investor interest in an industry can be gauged by the amount of venture capital dollars flowing in, and by this account, clean tech is doing extremely well. Recently, we've seen strong flows of VC money into solar energy, wind power, fuel cells, biofuels, wastewater and management, water distribution, transportation, and power conversion and supply.

In the U.S. alone during the first half of 2007, venture capital investors increased their funding in clean tech by a huge percentage over 2006. According to data from Ernst & Young and VentureOne, clean tech venture investing reached USD 892.6 million in 71 deals during the first six months of 2007, a 70% increase over the USD 525.1 million invested in 49 deals during the first half of 2006.

The pace of venture capital investment into clean tech did not slow in the third quarter of 2007, either, judging by recently announced funding such as the USD 70 million venture investment in Amyris Biotechnologies by venture legends such as Khosla Ventures and Kleiner Perkins Caufield & Byers*. Clean technology accounted for 5.4% of all venture investments in the first half of this year, up from 1.4% in 2001. Ernst & Young also reported that solar is the dominant clean tech investment segment in the U.S., accounting for 15 of 26 deals and USD 305 million of the USD 458 million invested in energy generation.

* For illustrative purposes only. There is no guarantee that these securities will be held by Invesco funds/ETFs in the future.

Clean Tech Investing - Institutional Interest Growing

Clean tech is quickly becoming a mainstream investment category. In recent years, some of the largest companies in the world have made significant investments in clean tech, including General Electric, Goldman Sachs, JPMorgan Chase, BP, and Shell. GE* expects USD 2 billion in wind energy revenues this year, and forecasts renewables to account for 25% of its energy infrastructure sales in five years. Large public pension funds such as CalPERS and CalSTRS have invested nearly USD 450 million over the last two years in clean tech private equity. And new project finance entities such as Riverstone-Carlyle* have created clean tech project finance companies with resources of USD 500 million.

GE's clean tech initiative is worth highlighting. Their "eco-magination" program, launched in 2005, is perhaps the most high-profile example of corporate investment and commitment to clean tech. Using 2004 as its benchmark, the company commits to reduce its greenhouse gas emissions by 1% by 2012, reduce the intensity of emissions 30% by 2008 and improve energy efficiency 30% by 2012. It also promised to double R&D investments in clean tech from USD 700 million in 2004 to USD 1.5 billion in 2010. GE claims that its eco-magination initiative will increase revenues from USD 6 billion in 2004 to at least USD 20 billion in 2010.

Wall Street is also getting into the act. Many of the early venture-capital-backed clean tech companies are now tapping the public markets. Initial public offerings for clean tech companies rose nearly 90% in the second quarter of 2007 versus the same time period in 2006. Over the past year, Bank of America launched a USD 20 billion, 10-year initiative to invest in environmentally sound businesses, while Morgan Stanley formed a joint venture with Distributed Energy Systems to back renewable power generation projects. A survey of 70 institutional investors by Jefferies & Co., a U.S. midmarket investment bank, found that investors view clean tech as a very attractive investment opportunity, and solar and wind companies as the most attractive long-term investments.

Morgan Stanley has spent a fair amount of time researching the market potential for clean tech and has come up with an impressive number: USD 1 trillion in sales a year by 2030. As a benchmark, GDP in the U.S. last year was USD 13.2 trillion. Drivers include global population growth, soaring prices for fossil fuels and concerns about climate change. The bank issued a major report on clean tech in which they reserved special optimism for solar power, which they say will take more market share as costs decline for panels that convert the sun's rays into power. The bank also said that bio-fuels like ethanol and bio-diesel could increase market share from 1% in 2005 to 21% in 2030. Morgan Stanley is putting its money where its mouth is, saying it plans to invest some USD 3 billion in carbon markets over the next five years.

Other banks have also been highlighting clean tech recently, including Deutsche Bank, which said that governments are creating a "mega trend" opportunity in the pursuit of tackling climate change. Deutsche Bank has raised close to USD 9 billion in "climate change" funds, which target companies that cut greenhouse gases or help people adapt to a warmer world.

The buyout and private equity firms that have been such a driving factor in today's M&A landscape are also "going green." According to *Forbes*, since 2000, private equity funds have placed USD 4.2 billion into clean tech and other alternative energy companies. The big buyout firms like Kohlberg Kravis Roberts* and Carlyle* are focused more on the mature utility and energy sectors, where many of the biggest buyouts of the past year have taken place.

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IV. Clean-Cut Indexes

The key sign that an industry is gaining investor recognition is the launching of investment vehicles tracking it. In this regard, the clean tech sector is on its way. Having gained acceptance in the venture, buyout fund and institutional money communities, clean tech is now gaining traction among fund managers and individual investors alike, with passive investment vehicles emerging as the products of choice for gaining diversified exposure to this fast-growing space.

The underlying reasons for investing in clean tech are the same for individuals as they are for the large investment banks mentioned above. Global warming, fossil fuel shortages and secure energy are drawing people to clean tech investing. Individuals also are drawn to clean tech for the opportunity to participate in a growing industry while “feeling good” about their investment in the process.

WilderHill LLC is widely considered to be the sponsor of the first major clean tech index, the WilderHill Clean Energy Index, launched in August 2004. Since then, we have witnessed a growth spurt in clean tech indexes. The various indexes are packaged differently, with broad labels such as “sustainability”, “clean energy” or “renewable energy.” All try to capture the increased awareness and recognition among retail and institutional investors about the challenges of climate change and the growing scarcity of natural resources.

The year 2006 was a banner year for the growth of clean tech indexes. There was practically a doubling of “green indexes.” As at year-end 2006, the list of indexes that tracked the clean tech industry was as follows:

| Green Indexes | Symbol | Launch |
|---|--------|--------|
| WilderHill Clean Energy Index | ECO | Aug 04 |
| ISE-CCM Alternative Energy Index | POW | Jan 05 |
| Distributed Energy Stock Index | DESI | Jul 05 |
| KLD Global Climate 100 Index | GC100 | Jul 05 |
| European Renewable Energy Index | ERIX | Oct 05 |
| WilderHill New Energy Global Innovation Index | NEX | Jan 06 |
| Cleantech Index | CTIUS | Mar 06 |
| Ardour Global Alternative Energy Index | AGIGL | Mar 06 |
| Merriman Next-Generation Energy Index | NGE_X | May 06 |
| Nasdaq Clean Edge US Index | CLEN | May 06 |
| WilderHill Progressive Energy Index | WHPRO | Oct 06 |
| Jefferies Global Clean Technology Composite Index | JGCTC | Dec 06 |
| Jefferies Global Clean Technology Energy Generation Index | JGCTEG | Dec 06 |
| Jefferies Global Clean Technology Energy Storage Index | JGCTES | Dec 06 |

Source: KLD Research & Analytics

ECO: The WilderHill Clean Energy Index

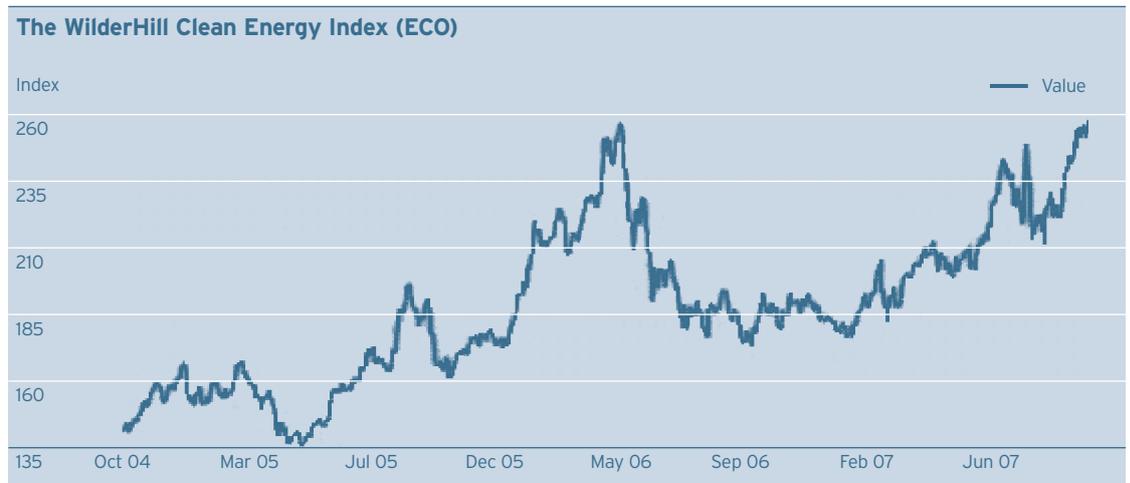
The WilderHill Clean Energy Index (ECO) is the most-closely followed clean tech index. Functioning as the industry proxy, ECO was the first pure index that, according to the WilderHill Web site, “defined and tracked the clean energy sector, specifically, businesses that will benefit from a societal transition toward the use of cleaner energy and conservation.”

The Clean Energy Index uses modified equal dollar weighting, where no single stock can exceed 4% of the total Clean Energy Index weight at the start of quarterly rebalancings. For a stock to be included in the selection universe, the company must have significant exposure to clean energy, or contribute to the advancement of clean energy or be important to the development of clean energy. The stock universe is broad, but, according to WilderHill, “there is a strong bias in favour of the pure-play companies in wind power, solar power, hydrogen and fuel cells, biofuels, and related fields.”

There are currently 42 stocks in the index, in six broad categories, including:

- Renewable Energy Harvesting (Applied Materials, Evergreen Solar, First Solar)
- Power Delivery and Conservation (American Superconductor, Comverge, Echelon)
- Cleaner Fuels (Nova Biosource Fuels, Praxair, VeraSun)
- Energy Storage (Fuel Systems Solutions, Maxwell, OM Group)
- Energy Conversion (Ballard Power, FuelCell Energy, Medis)
- Greener Utilities (Portland General Electric, Puget Energy)

Using ECO as a proxy for the clean tech market, you can see that it’s been quite a run for the sector. Consider the following three-year performance chart:



Source: AMEX.
Data as at end October 2007. Past performance is not an indication of future performance, provides no guarantee for the future and is not constant over time.

On August 25, 2004, the WilderHill Clean Energy Index stood at 142. Three years later, the Index stood at 253, representing a 78.2% increase over three years, and a compound annual growth rate of 21.2%. Compare this with the performance in the S&P 500, which returned 38.7% and generated a compound annual growth rate of 11.5% over the same period.



Source: BigCharts.

Data as at end October 2007. Past performance is not an indication of future performance, provides no guarantee for the future and is not constant over time.

Unlike the steady and gradual upward chart of the broader S&P 500, there have been some noticeable short-term dramatic declines over the three-year period, which WilderHill itself notes in its quarterly ECO index report. The one-year volatility is even more pronounced, particularly when you look at a chart comparing the two indexes. Though ECO returned a robust 36.8% over the past year, compared with the relatively paltry 10% one-year gain of the S&P 500, it required a lot more intestinal fortitude along the way, particularly during the summer:



Source: BigCharts.
Data as at end October 2007. Past performance is not an indication of future performance, provides no guarantee for the future and is not constant over time.

The longer-term perspective, however, shows that clean tech is indeed in a major upward incline, with occasional pockets of volatility. The ECO index includes stocks that are small and risky, with unproven technologies. In particular, some companies (fuel cells, superconductors) may never bring products to the market. The indexing approach, which is based on assembling a basket of stocks, can help mitigate the risk the individual companies will fail, but cannot eliminate it completely. As WilderHill says in its recent quarterly report: “[W]e embrace inevitable volatility, because that’s part and parcel of this emerging sector ... (ECO) will be exceptionally volatile over time and likely see very dramatic short- or long-term declines (or increases).”

New and Progressive Energy

WilderHill's clean tech index franchise extends to two other indexes: the WilderHill New Energy Global Innovation Index (NEX) and the WilderHill Progressive Energy Index (WHPRO). Neither index is as representative as the original Clean Energy Index, but they are no doubt variations on a theme. NEX tracks clean tech companies worldwide, but mostly those that trade on exchanges outside of the U.S. The NEX index uses a double-modified equal-weighting methodology. This approach first modifies weighting by sector to ensure fair representation across different technologies within the clean energy industry; and then separates into two market capitalisation bands within each sector, to reflect the mix of larger and smaller companies in the sector.

The NEX Index has 88 stocks divided into nine sectors, with solar remaining the largest (18 companies). Biofuels, biomass and waste-to-energy are second largest, with wind a close third. As its name suggests, the 88 companies in the New Energy Global Innovation Index are quoted in 25 markets around the world. NASDAQ and the NYSE combined have 30 stocks, comprising 34.1% of the index (down from 44.2% in Q1 2006). Fifteen of the NEX stocks are traded in Germany, on the XETRA; nine on the Tokyo Stock Exchange; and five in Madrid.

Together with ECO, which focuses on U.S. stocks, NEX extends the WilderHill franchise to cover the world of clean energy technology. More than half of the stocks in NEX are listed on non-U.S. exchanges, which results in low correlation with ECO. What the two indexes do share in common are impressive one-year returns, with NEX up 61.2%, as of October 24, 2007.



Source: AMEX.
Data as at end October 2007. Past performance is not an indication of future performance, provides no guarantee for the future and is not constant over time.

As mentioned above, despite returns that were slightly better than ECO over the past year, NEX experienced some of the same volatility, particularly during the turbulent summer months.



Source: BigCharts.
Data as at end October 2007. Past performance is not an indication of future performance, provides no guarantee for the future and is not constant over time.

The Wilder Hill Progressive Energy Index (WHPRO), which was launched October 13, 2006, offers a contrast to the other WilderHill clean tech indexes, particularly the seminal ECO index. In contrast to zero-carbon approaches such as solar and wind power defined by the ECO, or clean energy opportunities mainly outside the U.S. (NEX), WHPRO focuses on technologies that can, in the near term, reduce the pollutants now stemming from fossil fuels dominant today, such as coal, oil and natural gas. WilderHill says they do not use words like “clean” or “solutions” to describe the components in WHPRO. Instead, these companies apply transition technologies that incrementally improve still-dirty fuels. To put it another way, the WHPRO tracks companies that aren’t trying to invent new solutions for old problems; they are trying to make those old problems less problematic.

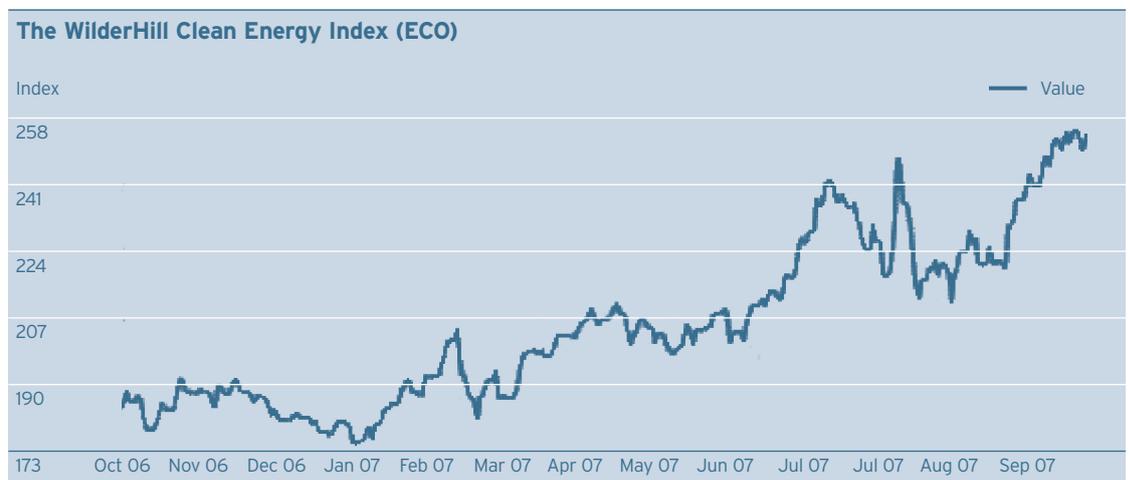
According to WilderHill, there is no overlap between the stocks in the two indexes. At times, a company may migrate from one Index into the other.

For a company to be considered for WHPRO, its share price should be impacted in a meaningful way by work they may do in a relevant energy endeavour. While WHPRO is expected to have significant large-cap holding, the more pure-play ECO instead focuses on smaller (and often more volatile) companies with market caps in the USD 1 billion to USD 10 billion range.

Below are two charts that showcase the mild correlation between WHPRO and ECO. Over the one-year period, there was less volatility in WHPRO, compared with ECO, though both charts illustrate the sharp drop that occurred during midsummer 2007:



Source: AMEX. Data as at end October 2007. Past performance is not an indication of future performance, provides no guarantee for the future and is not constant over time.



Source: AMEX. Data as at end October 2007. Past performance is not an indication of future performance, provides no guarantee for the future and is not constant over time.

Clean Edge, Cleantech

As discussed above, there has been a growth spurt in the number of clean tech indexes, most of which are not sponsored by WilderHill.

The list of index providers includes some Wall Street heavyweights. Jefferies & Co*, a New York investment bank, created a set of three clean tech indexes (one composite, one focused on energy generation and another on energy storage). NASDAQ teamed up with Clean Edge, an environmental research group, to develop a new index designed to track the performance of clean energy companies on the U.S. market. The index is called the NASDAQ Clean Edge U.S. Index, and it was officially launched on May 18, 2006.

Another industry bellwether is the AMEX-listed Cleantech Index (CTIUS), which was launched in December 1999, making it one of the first indexes to reflect the demand for clean tech products and services. Currently, CTIUS is an equal-dollar-weighted index of 47 companies across a broad range of industry sectors, including alternative energy, energy efficiency, air and water purification, and eco-friendly agriculture. Because of its relative maturity compared with every other clean tech index, CTIUS affords us one of the few longer-term chronicles of the industry's growth:



Source: AMEX. Data as at end October 2007. Past performance is not an indication of future performance, provides no guarantee for the future and is not constant over time.

To be considered for CTIUS, companies must derive 50% of either their sales or operating profits from clean tech businesses, and have a market cap of at least \$150 million. There are a handful of speculative stocks in CTIUS, comprising no more than 2-5% on an ongoing basis.

Not surprisingly, the components of the various clean tech indexes show significant overlap, even if the overall composition differs. The NASDAQ Clean Edge U.S. Index, for instance, shares two-thirds of its components with the WilderHill Clean Energy Index. The WilderHill index, however, weights sectors in the alternative energy space based on their "importance and technological relevance," and then uses an equal-weighting methodology for the individual components within each sector. In contrast, the NASDAQ Clean Edge Index follows a more traditional modified market cap weighting.

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Clean-Cut Funds

The potential market opportunity for clean tech is tremendous, but investors still need to exercise caution when contemplating investing, particularly if they want to invest in individual companies. For every success story like a First Solar (NASDAQ: FSLR), up over 400% since its November 2006 IPO there is a Canadian Solar (NASDAQ: CSIQ) which is down nearly 50% since its IPO that same month. There are tremendous possibilities in clean tech investing, but there is inherent danger in trying to select the right companies.

Though it is possible to invest directly in the hundreds of publicly listed companies that fall into the clean tech category, it can be difficult for the average investor to fully understand a particular niche, whether it's energy demand response, biofuels, wind, or fuel cells. Even if an investor does grasp the company's position and technology, the "all the eggs in one basket" approach can be risky.

Given these issues, index funds and clean tech exchange-traded funds (ETFs) offer a viable and cost-effective way to invest in the sector, without the risk of concentrating all of your exposure to one company. Several such ETFs have been launched in 2007, and more are in development. As of midyear, there are at least five ETFs that are focused on clean tech, and several new indexes that track the industry as a whole as well as subsectors (i.e., solar power).

V. Conclusion

The clean technology industry currently appears to have everything going for it - from huge investor interest to great stock returns to rising concerns about climate change and pollution. Unlike the Wild West-type atmosphere of the dot-com era, there appear to be strong underlying factors driving the clean tech boom, such as increased energy prices, peak oil concerns and climate-motivated legislation. While not all the present players may survive, the market is set for sustained growth into the future, as the rate of technological advancement increases and clean energy systems that were once price-prohibitive become more and more profitable.

While our economy is almost inevitably headed in a more environmentally sustainable direction, however, there's no way of telling which of the many emerging technologies will succeed and which will go the way of the plug-in electric car. There is definitely some hype that has overtaken parts of the clean tech industry. Moreover, unexpected challenges are bound to arise for this brand new industry. Take, for example, ethanol firms, which recently were caught off guard by narrow distribution channels and the high costs of actually refining their material; or solar-power companies, which have had to absorb rocketing silicon prices. These sorts of obstacles could prove devastating for some of the small, narrowly focused companies in which clean tech ETFs tend to invest.

With the technology difficult to understand or envision, the average investor should be cautious when picking individual alternative energy stocks. Despite the risk, clean tech investing, and clean tech ETFs, offer a tempting entrance to the wave of the future, so investors may indeed want to hold a small stake in what is likely to become a highly sustainable industry.

Other useful links:

- www.borsaitaliana.it
- www.deutsche-boerse.com
- www.nyseuronext.com

Important information

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Data as at end December 2007, unless otherwise stated.

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