Invesco

The Invesco PowerShares ETF
Monthly Report, Issue 2

CONNECTION

February 2014 | *Data as of January 2014*

Contents:

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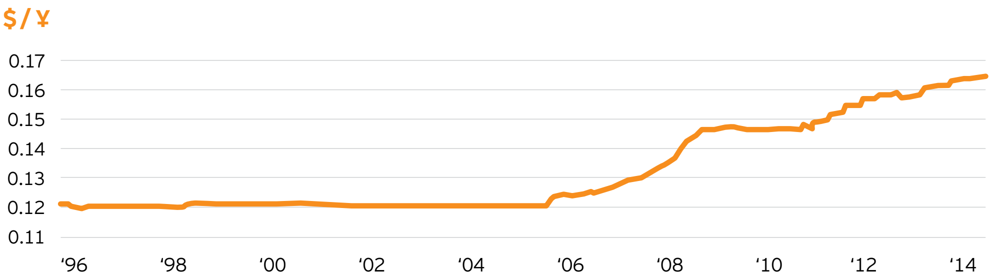
Background on Dim Sum Bonds

The origin of dim sum bonds begins with the Chinese yuan and its role in China's plans to grow its share of the global economy. The yuan (CNY) is the primary unit of renminbi (RMB), which is the official currency of China. For many years, the Chinese government maintained tight controls on the value of the yuan while also restricting its ability to circulate outside of mainland China.

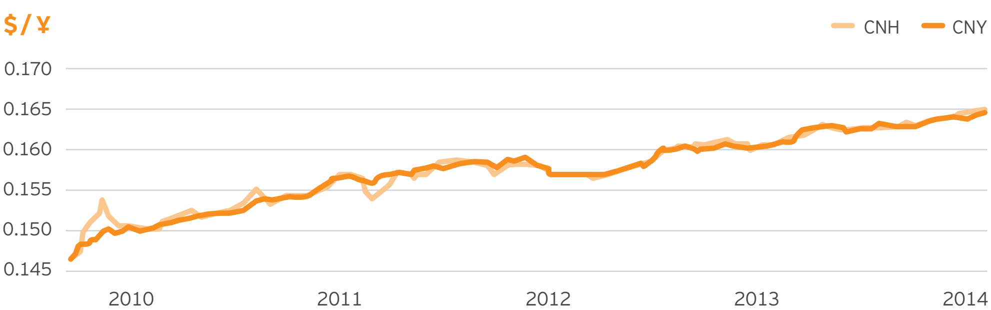
This changed in 2003 when Hong Kong banks were permitted to begin conducting retail RMB business, which led to permission to accumulate limited amounts of RMB the following year. In 2005, China began to allow the RMB to float within a managed range against a basket of currencies and the RMB began to rise against the USD:



Source: Bloomberg L.P., as of Jan. 31, 2014 Past performance is not a guarantee of future results.

In the years that have followed, China has continued to liberalize its currency regime by widening the yuan's trading range and by allowing more of it to circulate outside of mainland China. The Chinese government also liberalized its foreign trade policy, creating and then expanding a list of foreign trade partners who are permitted to be paid in RMB.

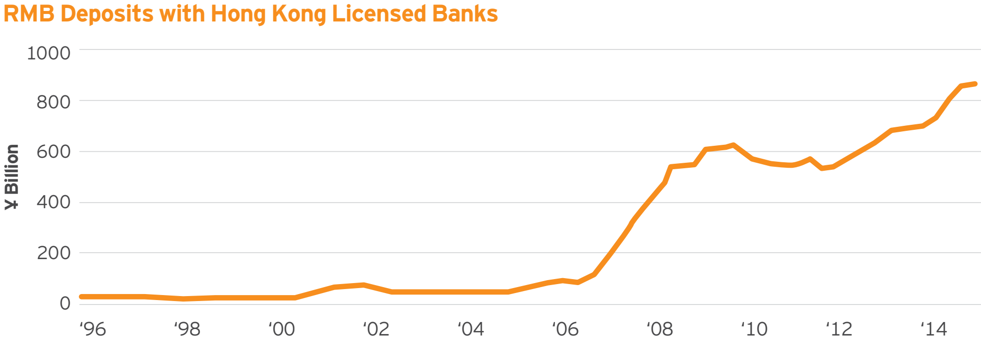
One of the implications of allowing RMB to circulate outside of mainland China is the reduced level of control that the government can exert on its value. This has essentially created a second Chinese currency that is free floating, but which is still regulated in terms of the onshore entities that are permitted to transact in it. The limited ability to transact in both currencies has at times resulted in divergence in value; but as the offshore currency (CNH) has matured, its tracking of the onshore yuan has become increasingly tighter:



Source: Bloomberg L.P., as of Jan. 31, 2014. Past performance is not a guarantee of future results.

One of the most significant outcomes of these policy implementations has been the growth in RMB deposits outside of mainland China. Since the beginning of 2012, CNH deposits in Hong Kong banks have increased by more than 45%:

RMB Deposits with Hong Kong Licensed Banks



Source: Bloomberg L.P., as of Jan. 31, 2014. Past performance is not a guarantee of future results.

The PowerShares Chinese Yuan Dim Sum Bond Portfolio (DSUM) offers investors a way to gain exposure to a portfolio of dim sum bonds in an ETF structure:

Ticker:	DSUM
30-Day SEC Yield:	3.2%
Expense Ratio:	0.45%
Issuer Types:	Corporate, Sovereign, Agency, Supranational
Distribution Frequency:	Monthly
Portfolio Characteristics	
Effective Duration:	2.5 years
Yield to Maturity:	3.4%

Please click here for DSUM Standardized Performance. Yield for DSUM is as of Feb. 5, 2014. Performance data quoted represents past performance. Past performance is not a guarantee of future results; current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and Shares, when redeemed, may be worth more or less than their original cost. See invescopowershares.com to find the most recent month-end performance numbers. After Tax Held represents total return after taxes on distributions and assumes Shares have not been sold. After Tax Sold represents total return after taxes on distributions and the sale of Fund Shares. After-tax returns reflect the highest federal income tax rate but exclude state and local taxes. Market returns are based on the midpoint of the bid/ask spread at 4 p.m. ET and do not represent the returns an investor would receive if shares were traded at other times.

The demand from depositors for a way to invest their growing deposits was one of the primary catalysts for the development of the market for offshore yuan-denominated bonds. The subsequent growth of this market has been fueled by issuance from corporations.

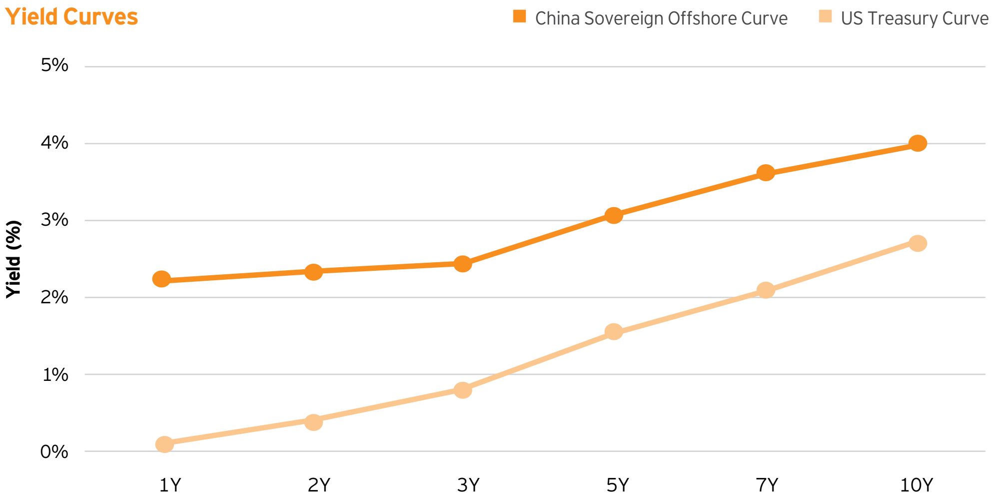
Investing in Dim Sum Bonds

Named after the Chinese cuisine that is popular in Hong Kong, dim sum bonds are denominated in offshore yuan and are issued by a variety of issuer types from countries around the world. Their unique characteristics may offer investors a way to meaningfully diversify the risks of a domestic bond portfolio.

The yuan-denominated nature of dim sum bonds helps to generate a diversification benefit in at least two ways. First, dim sum bonds offer exposure to the changing value of the offshore yuan. As noted earlier, China only recently decided to begin to let the yuan float in a managed range against the US dollar. A large part of the rationale behind the peg was to keep the yuan's value artificially low in an effort to boost Chinese exports. In January 2014, the People's Bank of China made public comments reaffirming their intentions to reduce forex market intervention, expand the yuan's trading band and increase the currency's flexibility. In doing so, it noted its expectation for the offshore yuan (CNH) to increase 2%-3% in value relative to the US dollar in 2014.

The second way that yuan-denomination helps generate a diversification benefit is that it provides exposure to China's yield curve. Rather than being linked to US interest rates, dim sum bonds move in response to changes in China's rates.

Yield Curves



Source: Bloomberg L.P., as of Jan. 31, 2014 Past performance is not a guarantee of future results.

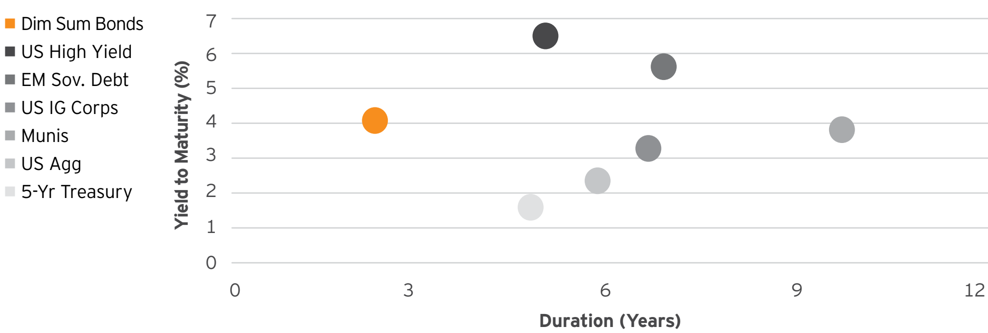
Gaining exposure to a different interest-rate term structure may provide a way to mitigate the domestic interest-rate risk that is currently front of mind for so many US investors.

Another feature of dim sum bonds is that they are issued by a variety of issuer types based in countries around the globe. Morningstar data indicates that only 10% of taxable bond fund assets offer international exposure, even though more than half of the world's outstanding bonds are issued outside of the US.

For many investors, dim sum bonds may provide a way to significantly increase the level of country and issuer diversification in their bond portfolios.

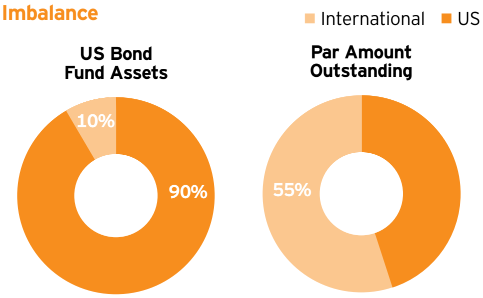
Perhaps the most compelling feature of dim sum bonds is their yield/risk profile. Relative to other segments of the bond market, dim sum bonds offer a high yield per unit of duration:

Yield vs. Duration



Source: Bloomberg L.P., as of Jan. 31, 2014 Past performance is not a guarantee of future results.

Imbalance



Sources: Bloomberg L.P. and Morningstar, as of Oct. 31, 2013 Based on total assets in Morningstar's Taxable Bond Fund category.

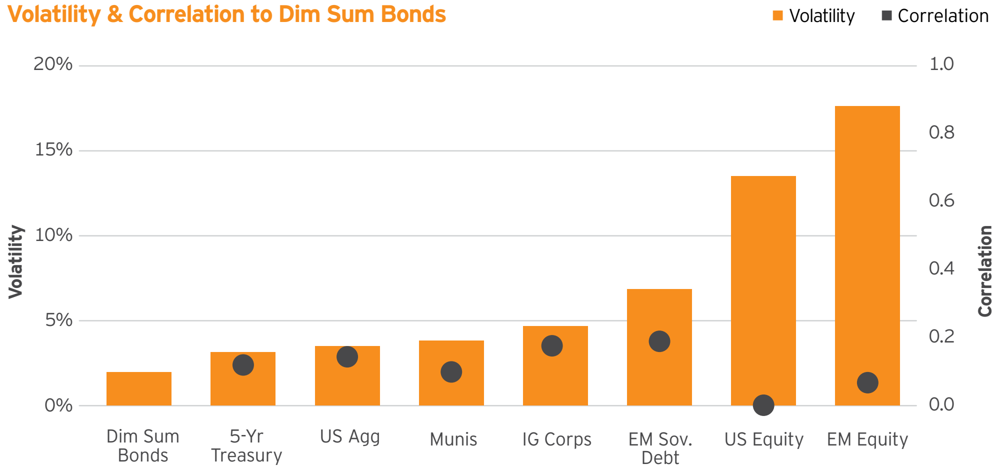
Their relatively higher yield, however, is not the result of lower credit quality, but rather is more a function of being tied to China's offshore yield curve:

Yield vs. Credit Quality

Source: Bloomberg L.P., as of Jan. 31, 2014 Past performance is not a guarantee of future results.

Combined, the characteristics of dim sum bonds have generated a performance profile that has exhibited both low volatility and low correlation to many other segments of the US bond market:

Volatility & Correlation to Dim Sum Bonds



Source: Bloomberg L.P., as of Jan. 31, 2014 Past performance is not a guarantee of future results.
Dim Sum Bonds, 5-Year Treasury, U.S. Aggregate Bonds, Municipal Bonds, Investment Grade Corporate Bonds, Emerging market Sovereign Debt are measured by the BofA ML Dim Sum Broad Market, Current 5-Year US Treasury Index, US Corporate and US Dollar Emerging Markets Sovereign Plus Indexes, respectively. US equity is measured by the S&P 500 Index and Emerging Market Equity is measured by the MSCI Emerging Markets Index.

DSUM Standardized Performance as of Dec. 31, 2013

Fund History	1 Year	3 Year	5 Year	10 Year	Fund Inception
NAV	6.40%	-	-	-	5.99%
After Tax Held	4.89%	-	-	-	4.69%
After Tax Sold	3.60%	-	-	-	4.06%
Market Price	6.37%	-	-	-	4.46%

Yield for DSUM is as of Feb. 5, 2014.
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February 2014

ETF Assets January Δ	ETF January Net Flows	Increase in # of ETFs in January
▼ **3.5%**	▼ **$15.6** Billion	**16**

ETF Assets and Net Flows by Provider (Ranked by January Assets)

		Assets - $Mil.			Net Flows - $Mil.	
	# ETFs	**1/31/14**	**Jan Δ**	**YTD Δ**	**Jan '14**	**YTD**
iShares	296	638,070	-23,486	-23,486	-6,541	-6,541
State Street	128	365,444	-26,129	-26,129	-16,574	-16,574
Vanguard	67	328,100	-5,677	-5,677	4,227	4,227
PowerShares (Total)	132	94,257	-2,622	-2,622	-784	-784
WisdomTree	61	33,203	-1,679	-1,679	-6	-6
ProShares	144	27,028	-246	-246	633	633
Guggenheim	68	21,963	-82	-82	375	375
Van Eck	57	21,769	-336	-336	-664	-664
First Trust	80	20,864	1,155	1,155	1,460	1,460
Schwab	21	17,037	140	140	619	619
PIMCO	22	13,575	298	298	230	230
ALPS	13	8,967	146	146	168	168
Northern Trust FlexShares	15	6,787	48	48	232	232
Direxion Shares	54	6,718	-60	-60	225	225
ETF Securities	7	2,878	-69	-69	-126	-126
Global X Management	37	2,824	114	114	185	185
United States CommFunds	12	2,078	-6	-6	-147	-147
Emerging Global Shares	12	1,386	-132	-132	2	2
AdvisorShares	19	1,226	179	179	180	180
DB ETFs	19	1,215	178	178	238	238
Exchange-Traded Concepts	10	1,080	133	133	168	168
IndexIQ	11	932	15	15	22	22
Fidelity Funds	11	758	117	117	135	135
RevenueShares	7	710	12	12	43	43
GreenHaven	1	308	-12	-12	-14	-14
Cambria	2	243	35	35	42	42
Precidian	1	130	-7	-7	-	-
Highland Capital	1	130	2	2	2	2
ArrowShares	1	94	4	4	6	6
Teucrium Trading LLC	7	67	1	1	1	1
VelocityShares	6	67	4	4	7	7
Pax ETFs	1	57	0	0	3	3
Krane Fund Advisors	1	56	34	34	35	35
Columbia	5	31	2	2	2	2
Huntington Strategy Shares	2	30	0	0	1	1
Franklin Templeton	1	28	0	0	-	-
Renaissance Capital	1	25	-5	-5	-5	-5
Russell	1	9	-2	-2	-2	-2
Rydex Funds	1	8	-0	-0	-	-
QuantShares	4	7	-0	-0	-	-
Total	**1,343**	**1,620,174**	**-57,935**	**-57,935**	**-15,619**	**-15,619**

ETF Assets:
In January, total assets in US-listed ETFs were down 3.5% decreasing by $57.9 billion to $1.62 trillion.

ETF Net Flows:
ETF flows were down in January with a total net outflow of $15.6 billion. Outflows were driven by $18.2 billion leaving US market-cap funds. The largest inflows went to US sector/industry products with $2.6 billion in inflows.

Product-related News:
The total number of ETPs increased by 16 in January with 20 new funds launched.

The net flow numbers by ETF sponsor is an approximate calculation based on outstanding shares and NAV available on Bloomberg. Δ represents change.

Total ETF Assets

$1.6 Trillion

Most Inflows in January by Investment Objective

US Sector/Industry

▲ $2.6 Billion

Most Outflows in January by Investment Objective

US Market Cap

▼ $18.2 Billion

ETF Assets and Net Flows by Investment Objective (Ranked by January Net Flows)

		Assets - $Mil.			Net Flows - $Mil.	
	# ETFs	1/31/14	Jan Δ	YTD Δ	Jan '14	YTD
US Sector/Industry	175	195,077	-273	-273	2,574	2,574
Global Specialty/Industry	166	49,784	196	196	936	936
Leveraged/Inverse	194	34,613	-317	-317	843	843
US Style	74	148,818	-3,772	-3,772	817	817
Dividend	70	94,485	-3,361	-3,361	747	747
US Specialty	59	10,860	237	237	596	596
Fixed Income	227	253,133	2,679	2,679	54	54
US Broad	46	135,173	-4,328	-4,328	-218	-218
Currency	18	2,798	-565	-565	-525	-525
Commodity	40	58,781	764	764	-690	-690
Global Region/Country	226	300,179	-19,595	-19,595	-2,572	-2,572
US Mkt. Cap	48	336,472	-29,601	-29,601	-18,181	-18,181
Total	**1,343**	**1,620,174**	**-57,935**	**-57,935**	**-15,619**	**-15,619**

Δ represents change.

Net Flows by Investment Objective: US sector/industry products saw the largest amount of inflows in January bringing in $2.6 billion. While US market-capitalization products saw the largest decrease dropping $18.2 billion.

ETF with Highest Net Inflows in January

VGK

Vanguard MSCI European ETF
▲ $1.3 Billion

ETF with Highest Net Outflows in January

SPY

SPDR S&P 500 ETF
▼ $14.6 Billion

10 Products with Highest Net Inflows in January ($M)

Ticker	Name	Flows	Ending AUM
VGK	Vanguard MSCI European ETF	1,269	14,329
VTI	Vanguard Total Stock Market	1,020	38,940
BND	Vanguard Total Bond Market	927	18,869
EZU	iShares MSCI EMU	891	8,812
VEA	Vanguard MSCI EAFE ETF	821	18,935
EFA	iShares MSCI EAFE	641	51,288
IYR	iShares Dow Jones US Real Estate	586	4,192
IJH	iShares Core S&P Mid-Cap ETF	484	22,745
EWU	iShares MSCI United Kingdom	474	3,920
VOO	Vanguard S&P 500 ETF	457	14,879

10 Products with Highest Net Outflows in January ($M)

Ticker	Name	Flows	Ending AUM
SPY	SPDR S&P 500 ETF	-14,562	154,470
EEM	iShares MSCI Emerging Markets	-5,491	32,057
IWM	iShares Russell 2000	-2,943	24,558
VWO	Vanguard FTSE Emerging Markets ETF	-2,919	40,341
QQQ	PowerShares QQQ	-1,550	42,916
HYG	iShares iBoxx $ High Yield Corporate Bond	-1,258	13,912
IVV	iShares Core S&P 500 ETF	-1,225	50,642
XLY	Cons Discretionary Select Sector SPDR	-1,087	6,052
MDY	Midcap SPDR Trust Series 1	-664	14,321
XLI	Industrial Select Sector SPDR	-559	8,892

Major Market Performance Summary

Best Performance in January

▲ Long Term Treasury
5.4%

Worst Performance in January

▼ MSCI EM Latin America
-9.5%

Major Market Index Performance

	Jan '14	YTD
US Broad Equity Indexes		
DJ Industrial Average	-5.30%	-5.30%
NASDAQ Composite Index	-2.97%	-2.97%
S&P 500	-3.46%	-3.46%
Dow Jones US Total Stock Market	-3.13%	-3.13%
Market Cap		
Russell 1000	-3.19%	-3.19%
Russell Midcap	-1.95%	-1.95%
Russell 2000	-2.77%	-2.77%
Growth and Value		
Russell 1000 Growth	-2.85%	-2.85%
Russell 1000 Value	-3.55%	-3.55%
Russell Mid Cap Growth	-2.17%	-2.17%
Russell Mid Cap Value	-1.69%	-1.69%
Russell 2000 Growth	-1.73%	-1.73%
Russell 2000 Value	-3.87%	-3.87%
US Sectors		
S&P Consumer Discretionary	-5.91%	-5.91%
S&P Consumer Staples	-5.13%	-5.13%
S&P Energy	-6.30%	-6.30%
S&P Financials	-3.62%	-3.62%
S&P Health Care	0.94%	0.94%
S&P Industrials	-4.48%	-4.48%
S&P Information Technology	-2.51%	-2.51%
S&P Materials	-4.57%	-4.57%
S&P Telecommunications Services	-3.14%	-3.14%
S&P Utilities	3.00%	3.00%

	Jan '14	YTD
International Equity Markets		
MSCI AC World	-3.98%	-3.98%
MSCI EAFE	-4.03%	-4.03%
MSCI EM (Emerging Markets)	-6.49%	-6.49%
MSCI Europe	-3.85%	-3.85%
MSCI EM Latin America	-9.45%	-9.45%
MSCI AC Asia Pacific	-5.07%	-5.07%
MSCI FM Frontier Markets	0.85%	0.85%
MSCI China	-6.70%	-6.70%
MSCI India	-2.71%	-2.71%
MSCI World ex USA	-4.54%	-4.54%
MSCI Japan	-3.86%	-3.86%
Commodity Markets		
CRB Commodity Index	1.21%	1.21%
Oil	-0.94%	-0.94%
Gold	3.23%	3.23%
Fixed Income Markets		
10-Year Treasury	3.18%	3.18%
Long Term Treasury (10+ Yrs)	5.39%	5.39%
High Yield Corp	0.74%	0.74%
US High Grade Corporate	1.78%	1.78%
Municipal Bonds	2.27%	2.27%
USD Emg Market Sov Plus	-0.95%	-0.95%
US TIPS	2.20%	2.20%
Developed Mkt Gov't Bonds	2.09%	2.09%
Currencies		
EU euro (vs. USD)	-1.87%	-1.87%
Japanese yen (vs. USD)	3.19%	3.19%
UK sterling (vs. USD)	-0.71%	-0.71%

US equities fell 3.5% in January. All style segments of the US markets were down, most notably the Russell 2000® Value Index which was down 3.9%.

Overall, US Sectors were down in January with the exception of utilities and healthcare which were up 3.0% and 0.9% respectively. Energy was the worst performer dropping 6.3% in January.

Commodities were up overall in January excluding oil which was down 0.9%.

Overall, fixed income was up in January with the exception of emerging markets sovereign plus which was down 1.0%. Long-term Treasury bills were the top performer, up by 5.4%.

The Japanese yen appreciated 3.2% versus the US dollar in January, while the euro and UK sterling depreciated 1.9% and 0.7% respectively versus the US dollar.

Performance data quoted represents past performance. Past performance is not a guarantee of future results; current performance may be higher or lower than performance quoted. Index returns do not represent Fund returns. An investor cannot invest directly in an index.

PowerShares ETFs

January 2014

PowerShares ETF with Highest Net Inflows in January

BKLN

PowerShares Senior Loan Portfolio

▲ $266 Million

PowerShares ETF with Highest Net Outflows in January

QQQ

PowerShares QQQ

▼ $1.6 Billion

10 PowerShares ETFs with Highest Net Inflows in January ($M)

Ticker	Name	Flows	Ending AUM
BKLN	PS Senior Loan Portfolio	266	6,719
PKW	PS Buyback Achievers Portfolio	241	2,611
PRF	PS FTSE RAFI US 1000 Portfolio	128	2,828
PJP	PS Dynamic Pharmaceuticals Portfolio	89	1,052
PIZ	PS DWA Dev Mkts Momentum Portfolio	63	640
DSUM	PS Chinese Yuan Dim Sum Bond Portfolio	52	206
PBE	PS Dynamic Biotech & Genome Portfolio	46	373
PRFZ	PS FTSE RAFI US 1500 Small-Mid Portfolio	43	900
PRN	PS Dynamic Industrials Sector Portfolio	41	164
PSP	PS Global Listed Private Equity Portfolio	39	521

10 Products with Highest Net Outflows in January ($M)

Ticker	Name	Flows	Ending AUM
QQQ	PS QQQ	-1,550	42,916
SPLV	PS S&P 500 Low Volatility Portfolio	-226	3,588
DBC	PS DB Commodity Index Tracking Fund	-130	5,402
DBA	PS DB Agriculture Fund	-44	1,194
PGX	PS Preferred Portfolio	-37	1,984
PGF	PS Financial Preferred Portfolio	-37	1,402
PIE	PS DWA Emg Markets Momentum Portfolio	-37	289
PHB	PS Fundamental High Yield Corp Bond	-14	631
PHO	PS Water Resources Portfolio	-13	962
DBE	PS DB Energy Fund	-11	249

Past 12 Months

PowerShares ETF with Highest Net Inflows in the Past 12 Months

BKLN

PowerShares Senior Loan Portfolio

▲ $4.8 Billion

PowerShares ETF with Highest Net Outflows in the Past 12 Months

DBC

PowerShares DB Commodity Index Tracking Fund

▼ $725 Million

10 PowerShares ETFs with Highest Net Inflows in the Past 12 Mo. ($M)

Ticker	Name	Flows	Ending AUM
BKLN	PS Senior Loan Portfolio	4,832	6,719
PKW	PS Buyback Achievers Portfolio	2,104	2,611
PRF	PS FTSE RAFI US 1000 Portfolio	905	2,828
QQQ	PS QQQ	895	42,916
DWAS	PS DWA SmallCap Momentum Portfolio	566	645
PJP	PS Dynamic Pharmaceuticals Portfolio	468	1,052
PIZ	PS DWA Dev Mkts Momentum Portfolio	417	640
PXF	PS FTSE RAFI Dev Mkts ex-U.S. Portfolio	297	707
SPHB	PS S&P 500 High Beta Portfolio	272	511
PID	PS Int'l Dividend Achievers Portfolio	250	1,052

10 PowerShares ETFs with Highest Net Outflows in the Past 12 Mo. ($M)

Ticker	Name	Flows	Ending AUM
DBC	PS DB Commodity Index Tracking Fund	-725	5,402
PCY	PS Emg Markets Sovereign Debt Portfolio	-560	1,823
BAB	PS Build America Bond Portfolio	-451	608
PZA	PS Insured Nat'l Municipal Bond Portfolio	-403	545
DBO	PS DB Oil Fund	-397	301
DBA	PS DB Agriculture Fund	-302	1,194
DGL	PS DB Gold Fund	-276	150
PGF	PS Financial Preferred Portfolio	-261	1,402
PHB	PS Fundamental High Yield Corporate Bond	-214	631
DBV	PS DB G10 Currency Harvest Fund	-149	180

The PowerShares DB Funds are not mutual funds or any other type of Investment Company within the meaning of the Investment Company Act of 1940, as amended, and are not subject to regulation thereunder. Commodities and futures generally are volatile and are not suitable for all investors. Funds focusing on a single sector generally experience greater volatility. Please review the prospectus for break-even figures for the funds. To download a copy of each PowerShares DB fund's prospectus, please visit invescopowershares.com/prospectus.

ETF Strategist Interview:

Main Management

A pioneer in managing all-ETF portfolios, Main Management, LLC is committed to delivering transparent, cost-efficient, and customized investment solutions. By combining asset allocation insights with smart implementation vehicles, Main Management offers a unique approach that translates into distinct advantages for our clients, including diversification, cost efficiency, tax awareness and transparency.

1. What is your investment strategy/philosophy?

Main Management's approach combines the best of active and passive management. Traditional passive management provides broad market diversification at a low cost but performance will not exceed market returns. However active portfolio management using passive indexes allows Main to allocate to undervalued asset classes using ETFs. This involves performing fundamental research to identify appealing sectors, sub-sectors or industries trading below their intrinsic value. These segments are reversion to the mean candidates. However the firm further seeks a catalyst that should lead to near-term price appreciation. Thereafter Main identifies the most appropriate ETFs to implement strategic asset allocation and express sector views.

2. What makes Main Management unique?

Main Management takes an investor-centric approach to all that we do. This entails adopting a diversified approach to investing to insulate portfolios from single stock risk. Strategies offer complete transparency of process and holdings. The key focus centers on post-fee performance so our clients keep more of the returns they earn. Furthermore the firm aligns our interests with those of our investors' by having a significant amount of partners' capital in our strategies. The goal, as with traditional asset managers, is to outperform a given benchmark. However Main feels its process allows it to achieve this goal in a more efficient and effective manner.

3. Why do you use ETFs within your portfolios?

Main believes that asset, sector and sub-sector allocation is the dominant driver of long-term portfolio returns. When it comes to the implementation of diversified portfolios, ETFs preserve the integrity of the allocation decision with liquidity, and cost efficiency. They offer tremendous advantages over purchasing hundreds of individual securities in the areas of tax efficiency, transparency and trading flexibility.

4. How do you manage risk?

For certain strategies Main will sell covered call options on the underlying portfolio of ETFs to reduce volatility, provide downside protection, and generate alpha. Selling covered calls ensures an inverse correlation between the long portfolio and the short options. Monthly options are commonly utilized to capitalize on non-linear decay in time value of option prices. In addition options are written in the money, at the money, or out of the money as determined by a multi factor model. Moreover allocating to ETF instruments inherently diversifies the risk from a single position to tens, hundreds or even thousands of underlying stocks.

5. What is your investment rationale behind holding BKLN?

Typically longer duration instruments provide greater yield but tend to be vulnerable in a rising interest rate environment. Lower credit quality instruments generally pay higher yields but are accompanied by greater default risks. An appealing compromise was a portfolio of senior bank loans (BKLN). While the yield is higher than the Barclays Capital Aggregate Bond benchmark, the key appeal is the fact that this is a floating instrument. What that means is that the loans offer protection from interest rate hikes as they typically 'reset' at higher interest rate levels (maintaining an interest rate 'spread') depending on the covenants of a given loan. Moreover, they tend to offer greater protection than high-yield debt as they are a senior instrument (in bankruptcy) and are often secured with collateral.

Important Risk Information For All Funds

There are risks involved with investing in ETFs including possible loss of money. Index-based ETFs are not actively managed. Actively managed ETFs do not necessarily seek to replicate the performance of a specified index. Both index-based and actively managed ETFs are subject to risks similar to stocks, including those related to short selling and margin maintenance. Ordinary brokerage commissions apply.

Risk Information for DSUM and BKLN

Investments in loans are subject to interest rate risk and credit risk. Interest rate risk refers to fluctuations in the value of a loan resulting from changes in the general level of interest rates. Credit risk refers to the possibility that the borrower of a loan will be unable and/or unwilling to make timely interest payments and/or repay the principal on its obligation. There is no organized exchange on which loans are traded and reliable market quotations may not be readily available.

Global bonds are subject to the same risks as other debt issues, notably credit risk, market risk, interest rate risk and liquidity risk. Investments in the securities of non-U.S. issuers involve risks beyond those associated with investments in U.S. securities, including greater market volatility, the availability of less reliable financial information, higher transactional costs, taxation by foreign governments, decreased market liquidity and political instability.

Adverse economic conditions, such as unfavorable or volatile currency exchange rates and interest rates, political events or other conditions may cause the Chinese government to intervene and impose "capital controls," including the prohibition of, or restrictions on, the ability to transfer currency, securities or other assets.

There are special risks associated with investing in securities designed to provide exposure to Chinese RMB, such as RMB-denominated bonds in which the Fund will invest. The Chinese government maintains strict currency controls and regularly intervenes in the currency market. As a result, the value of the Yuan, and the value of RMB-denominated securities, may change quickly and arbitrarily, potentially impacting the availability, liquidity, and pricing of securities designed to provide offshore investors with exposure to Chinese markets.

The Fund invests at least 80% of its assets in Chinese RMB-denominated bonds issued and settled outside of mainland China. Because the Fund's net asset value (NAV) is determined in U.S. dollars, the NAV could decline if the currency of the non- U.S. market in which the Fund invests depreciates against the U.S. dollar, even if the value of the Fund's holdings increases, as measured in the foreign currency, including securities denominated in the Chinese RMB. In addition, if the Chinese currencies, the RMB, which is traded in mainland China and the Yuan, which is traded off-shore (traded as "CNH" in Hong Kong), diverge in value, that divergence could negatively impact the Fund.

The Fund's underlying securities may be subject to call risk, which may result in the Fund having to reinvest the proceeds at lower interest rates, resulting in a decline in the Fund's income.

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