

REBALANCING GEARED FUNDS

Most leveraged and inverse funds, also called “geared” funds, aim to provide a multiple of the return of a benchmark for a single day, before fees and expenses. To maintain their investment objectives, geared funds rebalance their exposure to their underlying benchmarks each day. As a result of daily fund rebalancing, an investor holding a geared fund longer-term is unlikely to continue to receive the fund’s multiple times the benchmark’s returns. As long as the fund is held, compounding can cause the investor’s exposure to the underlying benchmark to continue to deviate from the fund’s stated objective.

Investors using geared funds over periods longer than one day are encouraged to actively monitor their investments, as frequently as daily, and to consider a rebalancing strategy for their holdings.

Leveraged and inverse investing is not for everyone. Geared funds are generally riskier than funds without leveraged or inverse exposure. Before investing, read each fund’s prospectus to fully understand all the risks and benefits. For a prospectus and other information, visit [ProShares.com](https://www.proshares.com) or [ProFunds.com](https://www.profunds.com).

What Is Rebalancing?

Rebalancing involves periodically adding to or trimming an investment in a fund to reduce the difference between the benchmark's return and the fund's return over time—sometimes called the “gap”—to help keep exposure in line with the fund's stated objective. Rebalancing can buffer the negative effects of compounding during volatile periods, but it can also reduce the positive effects of compounding during trending periods. In addition, because rebalancing involves buying and selling shares, it may require additional cash and can result in transaction costs and tax consequences.

Establishing a Rebalancing Strategy

There are two common rebalancing strategies: trigger-based and calendar-based. No matter which rebalancing approach is used, investors should monitor their positions as frequently as daily.

TRIGGER-BASED REBALANCING

HOW IT WORKS

Rebalance each time the difference between the benchmark's return and the fund's return reaches a certain threshold, such as when the gap reaches 10%.

ADVANTAGES

Attuned to market conditions—triggers a rebalance more frequently in volatile periods.

DISADVANTAGES

May require frequent rebalancing, especially with inverse funds and funds with volatile benchmarks or larger multiples.

CALENDAR-BASED REBALANCING

Rebalance at predetermined intervals such as weekly, monthly or quarterly.

Convenience of knowing exactly when and how often to rebalance.

Not attuned to market conditions, and performance may stray significantly from the benchmark return times the fund multiple between rebalances.

Rebalancing an Inverse Fund Position Step by Step

The example below shows the returns of a -2x fund and its underlying benchmark. Each started at an initial value of \$100. Over time, the benchmark return was 5%. The fund return was -10%, making its current value \$90.

STEP 1:

Decide when to rebalance using a trigger- or calendar-based rebalancing strategy.

STEP 2:

Calculate the gap between the benchmark's return and the fund's return.

$$\text{Benchmark Return (5\%)} - \text{Fund Return (-10\%)} = \text{Gap (15\%)}$$

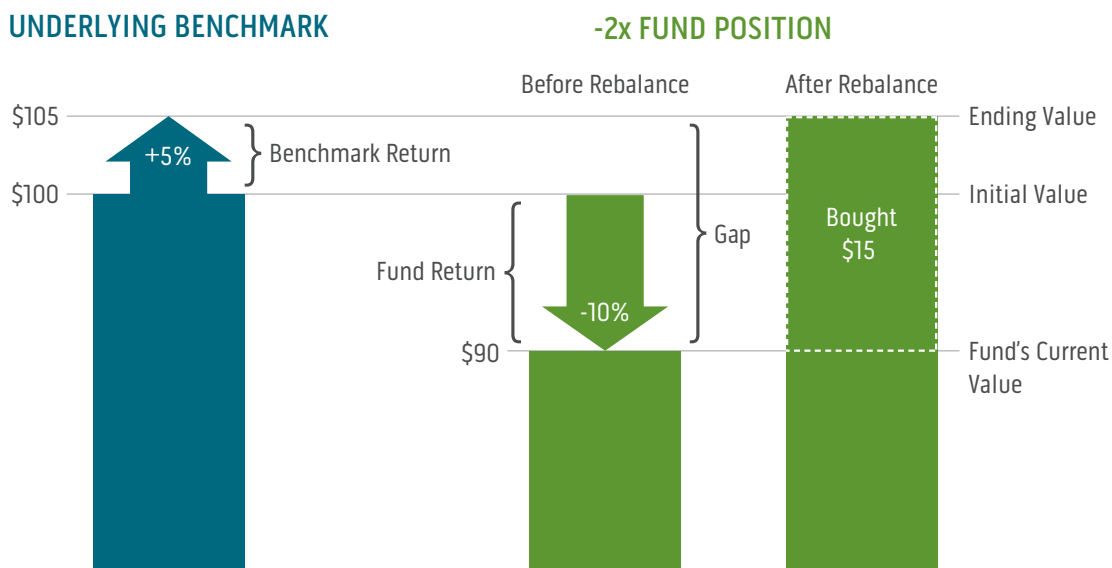
STEP 3:

When it is time to rebalance, calculate how much to increase or decrease the position.

$$\text{Initial Value (\$100)} \times (1 + \text{Benchmark Return (0.05)}) - \text{Fund's Current Value (\$90)} = \text{Rebalance Trade Amount (\$15)}$$

STEP 4:

Add \$15 to the current position of \$90 to realign the dollar exposure to the ending index price of \$105. Monitor and repeat if necessary.



For illustrative purposes only.

Factors that Affect Rebalancing Frequency

Before implementing a rebalancing strategy, investors should evaluate its potential benefits against likely transaction costs and tax consequences, as well as the possibility of sacrificing positive returns. When using any geared fund rebalancing strategy, monitor the position as frequently as daily, no matter how often you intend to rebalance. How often you may need to implement a rebalancing trade is influenced by the characteristics of the fund and the index as well as by market conditions.

- **Fund Multiple:** The higher the fund multiple (e.g., 3x versus 2x), the more frequently you will generally need to rebalance. In addition, an inverse fund requires more rebalancing compared to a corresponding leveraged fund (e.g., -2x versus 2x) because it moves in the opposite direction of the underlying index each day.
- **Volatility:** A geared fund based on an index with higher volatility may require more frequent trades to rebalance than one based on an index with lower volatility.
- **Percentage Trigger or Interval:** In a trigger-based rebalancing strategy, a larger trigger implies fewer rebalances over time. In a calendar-based rebalancing strategy, fewer intervals implies fewer rebalances over time. All other factors being equal, a percentage trigger of $\pm 10\%$ will require less rebalancing than one of $\pm 5\%$, just as quarterly intervals will require less rebalancing than weekly. In both instances; however, the size of the trades may be larger.

This information is not meant to be investment advice. There is no guarantee that rebalancing will help you achieve your investment objective or prevent investment losses.

Geared ProShares ETFs and ProFunds mutual funds seek returns that are a multiple of (e.g., 2x or -2x) the return of a benchmark (target) **for a single day**, as measured from one NAV calculation to the next, before fees and expenses. Due to the compounding of daily returns, geared ProShares and ProFunds returns over periods other than one day will likely differ in amount and possibly direction from the target return for the same period. These effects may be more pronounced in funds with larger or inverse multiples and in funds with volatile benchmarks. Investors should monitor their holdings as frequently as daily. For more on risks, please read a ProShares or ProFunds prospectus.

Investing involves risk, including the possible loss of principal. Geared ProShares ETFs and ProFunds mutual funds entail certain risks, which may include risk associated with the use of derivatives (swap agreements, futures contracts and similar instruments), imperfect benchmark correlation, leverage and market price variance, all of which can increase volatility and decrease performance. Short ProShares ETFs and ProFunds mutual funds should lose money when their benchmarks or indexes rise. Geared ProShares ETFs are non-diversified. Please see their summary and full prospectuses for a more complete description of risks. **There is no guarantee any investment will achieve its investment objective. Past performance is no guarantee of future results.**

Carefully consider the investment objectives, risks, charges and expenses of ProShares and ProFunds before investing. This and other information can be found in their summary and full prospectuses. Read them carefully before investing. For a ProShares ETF prospectus, visit ProShares.com or obtain one from your financial advisor or broker-dealer representative. For a ProFunds mutual fund prospectus, visit ProFunds.com.

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