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Components of Leveraged and Inverse Funds

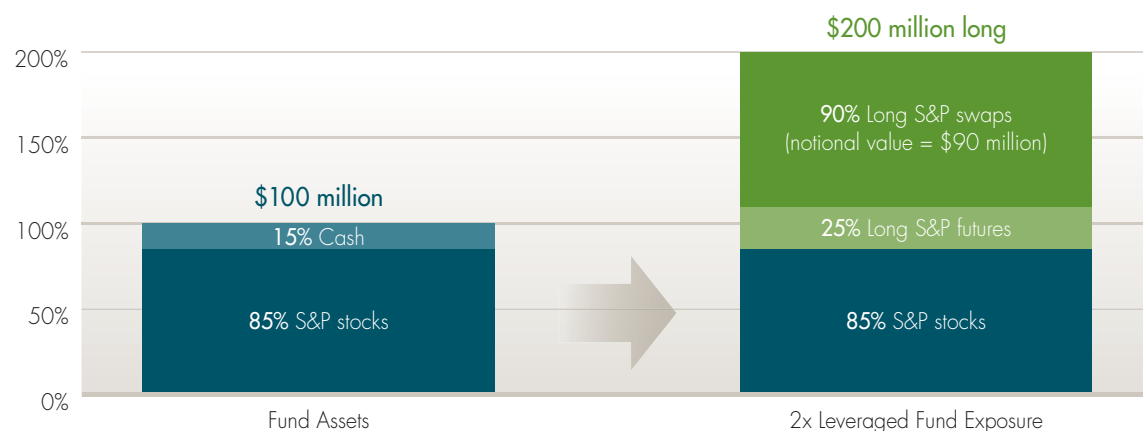
A leveraged or inverse fund seeks to return a multiple (such as 2x, or -2x) of its underlying index return on a daily basis, before fees and expenses. There are a number of ways that leveraged or inverse funds can be constructed to achieve this objective. For example, one way to get leveraged or inverse exposure to an index is to use derivatives.

Constructing a Sample 2x S&P 500 Fund

Consider a 2x S&P 500 fund with \$100 million in underlying assets. To generate 200% daily exposure to the S&P 500, it must invest the \$100 million in a combination of S&P-related instruments with an aggregate exposure value of \$200 million. The fund might be produced as follows:

1. The fund might invest 85% of its underlying assets in S&P 500 stocks. 15% of the assets would remain in cash.
2. The fund might apply a portion of its cash to purchase S&P futures contracts—enough to provide \$25 million of index exposure. This would bring the portfolio’s index exposure to 110%.
3. The fund might also enter into long equity index swap agreements tied to the S&P 500, with a notional value of \$90 million. The fund would **receive** the index’s total return on the \$90 million notional value in return for interest payments on the same amount. The index return (positive or negative) and the interest payments would be accounted for on a daily basis.

A 2x S&P 500 fund might invest in a combination of equities and S&P-related derivatives to get 200% exposure to the index



For illustrative purposes only. This example shows just one method for creating 200% exposure to an index and does not represent the investment components of an actual fund.

About Futures and Swaps

- Index futures – Exchange-traded derivatives¹ used to gain exposure to an underlying index without direct ownership. Index futures are standardized contracts between two parties that agree to buy (or sell) an underlying index at a future date, at prices determined by current market forces of supply and demand. The buyer, or holder, of the contract has the long position. The contract seller has the short position. The exchange’s clearinghouse acts as the counterparty on all contracts and provides the mechanism for contract settlement.
- Index swaps – Derivatives¹ traded over-the-counter (OTC) and used to gain exposure to an index without direct ownership. Swaps are customized agreements between two parties (counterparties) to exchange two sets of cash flows over a specified time period. In an equity index swap, one party agrees to receive/pay cash equal to the total return on an index as calculated at market close. In exchange, the counterparty often pays/receives a floating interest rate. (The party that receives the total return of the underlying index has the long position; the party that pays the index return has the short position.) Cash flows are calculated relative to a particular “notional amount²” that is usually **not** exchanged between the two parties.
Using swaps subjects a fund to the risk that a counterparty defaults on a payment due.

¹Derivative: A financial instrument (usually a contract) whose value changes in response to changes in an underlying asset—such as an index.

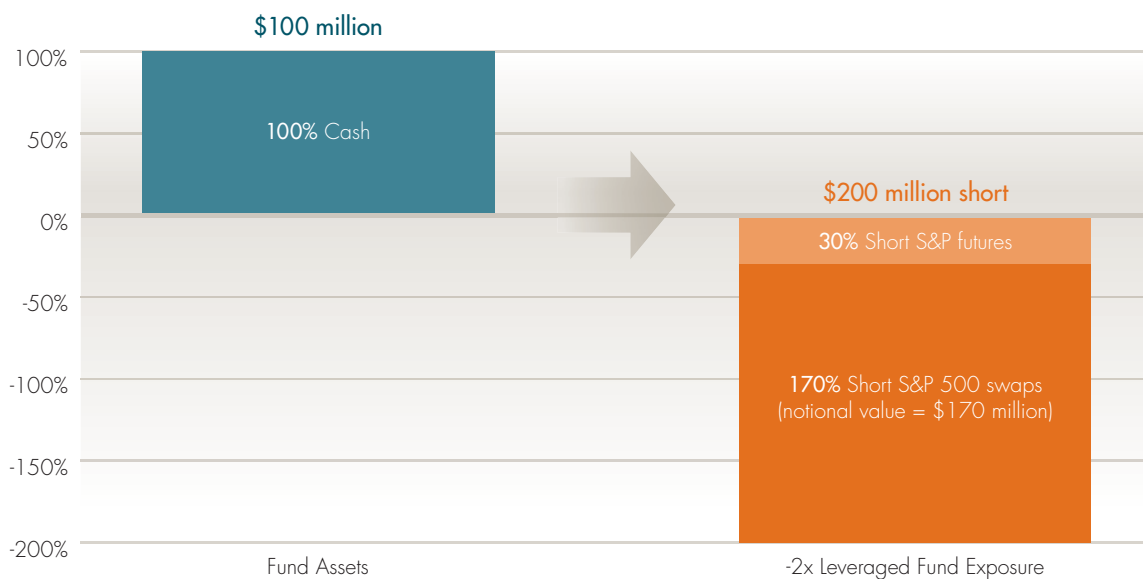
²Notional value: The face amount of a financial instrument (e.g., a swap contract) used to calculate payments made on that instrument.

Constructing a Sample -2x S&P 500 Fund

Consider a -2x S&P 500 fund with \$100 million in underlying assets. To generate -200% daily exposure to the S&P 500, it might invest in a combination of S&P-related instruments as follows:

1. The fund might keep nearly all of its assets in cash.
2. The fund might use some of its cash to open short positions on S&P futures contracts—enough to provide about 30% of inverse index exposure.
3. The fund might also enter into short equity index swap agreements tied to the S&P 500 with a notional value of \$170 million. The fund **pays** the index's total return on the \$170 million notional value and receives interest payments on the same amount. The index return (positive or negative) and the interest payments would be accounted for on a daily basis.

A -2x S&P 500 fund may generate its -200% exposure entirely through S&P-related derivatives.



For illustrative purposes only. This example shows just one method for creating -200% exposure to an index and does not represent the investment components of an actual fund.

Note: Leveraged and inverse funds are designed to return a multiple (e.g., 2x, -2x) of their underlying index returns on a daily basis, before fees and expenses. These funds do not attempt to produce these returns over any period other than a day. Results for longer than one trading day will likely differ in amount, and possibly direction, from the return of the index times the fund multiple. Using leverage and aggressive investment techniques in a fund (including the use of futures, swaps, or other similar instruments) increases the magnitude of the fund's gains and losses. The use of swaps subjects a fund to counterparty risk. Leveraged and inverse strategies can incur significant costs. Leveraged and inverse funds are not suitable for all investors. Investors in these funds should actively monitor their holdings consistent with their strategies, as frequently as daily. Read the prospectus carefully before you invest.

Investing involves risk, including possible loss of principal. Carefully consider the investment objectives, risks, charges and expenses of ProFunds and ProShares before investing. This and other information can be found in the funds' prospectuses. For a ProFunds mutual fund prospectus, call 888-PRO-5717 or visit www.profunds.com. For a ProShares ETF prospectus, call 866-PRO-5125 or visit www.proshares.com. Read the prospectuses carefully before investing, and seek the advice of your financial adviser or broker/dealer representative. "ProFunds Group" includes ProFunds mutual funds and ProShares ETFs. ProFunds are distributed by ProFunds Distributors, Inc. ProShares are distributed by SEI Investments Distribution Co., which is not affiliated with ProFunds Group. "S&P 500®" is a trademark of The McGraw-Hill Companies, Inc. 2009-4171