

# THE LIMITATIONS OF SHORT TERM HIGH YIELD BOND FUNDS

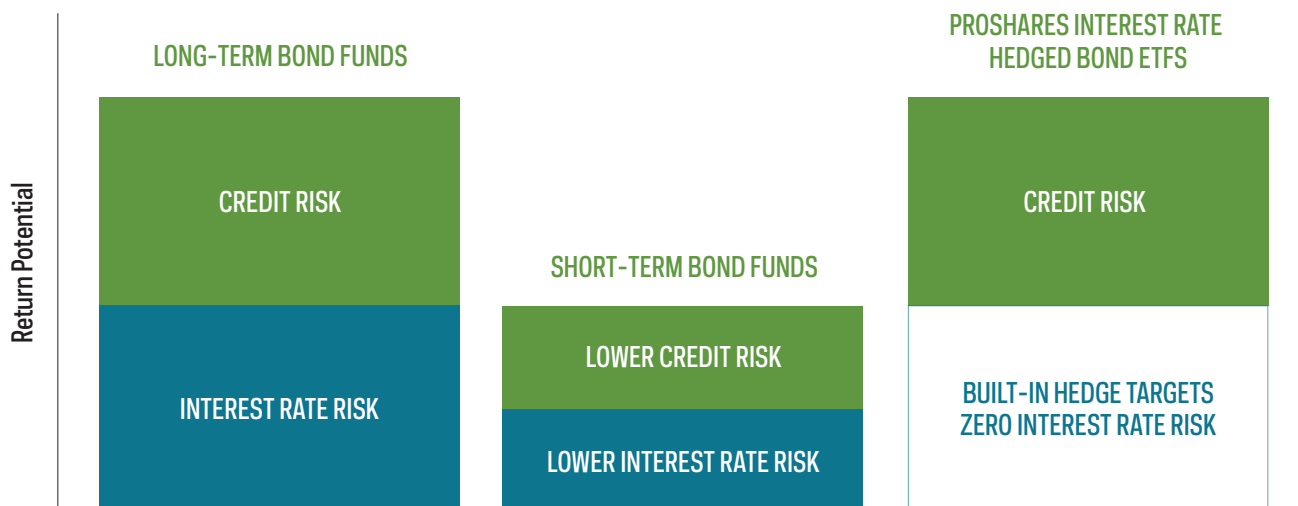
## Diminished Return Potential

Bond prices fall when interest rates rise. So when interest rates are on an uptrend, many investors shift their fixed income holdings to short-term bonds in order to reduce interest rate risk. What they may not realize is that by doing so, they shortchange their potential returns in two ways:

- First, moving to short-term bonds reduces interest rate risk but it doesn't eliminate it. Short-term bonds still have interest rate risk.
- Second, short-term bonds have less exposure to credit opportunities (and of course, risk), a key driver of bond returns.

An alternative approach aims to eliminate interest rate risk while maintaining full exposure to credit opportunities. This is what an interest rate hedged strategy aims to do. **It's important because, when rates rise, credit spreads have typically tightened and boosted returns.**

## An Interest Rate Hedged Strategy Maintains Full Exposure to Credit Opportunity/Risk



*For illustrative purposes only.*

## A Better Way to Prepare?

ProShares High Yield—Interest Rate Hedged (HYHG) tracks the Citi High Yield (Treasury Rate-Hedged) Index, which offers a diversified portfolio of high yield bonds with a built-in interest rate hedge. HYHG maintains full exposure to the credit risk of high yield bonds as a primary source of return, while the hedge is designed to alleviate the impact of rising rates.

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# THE TAKEAWAY

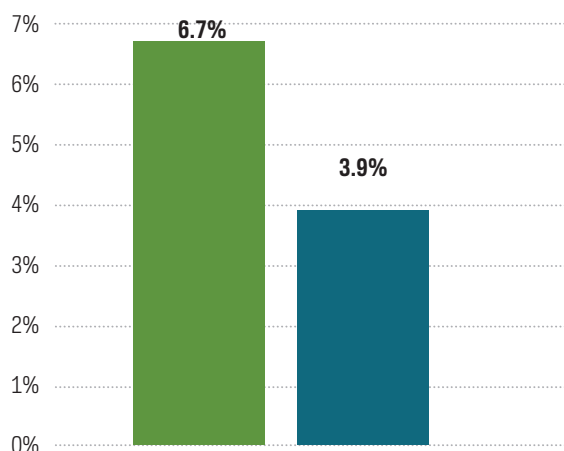
Short term high yield bond funds help investors reduce their interest rate risk, but they have shortcomings. If you're looking for a potentially better solution to rising rates, consider an interest rate hedge bond ETF like HYHG.

## Your Bond Portfolio. Prepared.

ProShares Interest Rate Hedged Bond ETFs



### When Rates Rose, HYHG's Index Outperformed Short Term High Yield Bond Funds



- Interest Rate Hedged (Citi High Yield (Treasury-Rate Hedged))
- Short Duration (Bloomberg Barclays US High Yield 350mn Cash Pay 0-5 Yr 2% Capped)

As of 12/31/17			
Fund Inception 5/21/13	1-Year	3-Year	Since Inception
ProShares High Yield—Interest Rate Hedged (HYHG)—NAV	4.43%	2.69%	1.77%
ProShares High Yield—Interest Rate Hedged (HYHG)—Market Price	3.77%	2.83%	1.72%

Source: Bloomberg, June 2013–December 2017. Average performance based on quarterly changes in the 5-Year Treasury yield. Rising rate periods are any calendar quarter where the 5-Year Treasury yield increased. As of 12/31/17, the duration of the Citi High Yield (Treasury-Rate Hedged) Index was 3.92 years. Duration is a measure of a fund's sensitivity to interest rate changes, reflecting the likely change in bond prices given a small change in yields. Higher duration generally means greater sensitivity. The Bloomberg Barclays US High Yield 350mn Cash Pay 0-5 Yr 2% Capped Index is designed to measure the performance of short-term publicly issued U.S. dollar-denominated high yield corporate bonds.

HYHG's expense ratio is 0.50%.

**Investing involves risk, including the possible loss of principal.** This ProShares ETF is diversified and entails certain risks, including risks 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. Bonds will decrease in value as interest rates rise. High yield bonds may involve greater levels of credit, liquidity and valuation risk than for higher-rated instruments. High yield bonds are more volatile than investment grade securities, and they involve a greater risk of loss (including loss of principal) from missed payments, defaults or downgrades because of their speculative nature. Short positions in a security lose value as that security's price increases. Narrowly focused investments typically exhibit higher volatility. Please see summary and full prospectuses for a more complete description of risks. **There is no guarantee any ProShares ETF will achieve its investment objective.**

HYHG does not attempt to mitigate factors other than rising Treasury interest rates that impact the price and yield of corporate bonds, such as changes to the market's perceived underlying credit risk of the corporate entity. HYHG seeks to hedge high yield bonds against the negative impact of rising rates by taking short positions in Treasury futures. These positions lose value as Treasury prices increase. Investors may be better off in a long-only high yield investment than investing in HYHG when interest rates remain unchanged or fall, as hedging may limit potential gains or increase losses. The short positions are not intended to mitigate credit risk or other factors influencing the price of the bonds, which may have a greater impact than rising or falling interest rates. No hedge is perfect. Because the duration hedge is reset on a monthly basis, interest rate risk can develop intra-month, and there is no guarantee the short positions will completely eliminate interest rate risk. Furthermore, while HYHG seeks to achieve an effective duration of zero, the hedges cannot fully account for changes in the shape of the Treasury interest rate (yield) curve. HYHG may be more volatile than a long-only investment in high yield bonds. Performance of HYHG could be particularly poor if high yield credit deteriorates at the same time that Treasury interest rates fall. There is no guarantee the fund will have positive returns.

**Carefully consider the investment objectives, risks, charges and expenses of ProShares before investing. This and other information can be found in their summary and full prospectuses. Read them carefully before investing. Obtain them from your financial advisor or broker/dealer representative or visit ProShares.com.**