MRGR **PROSHARES MERGER ETF**

Targeting Consistent Positive Returns

The markets' ups and downs have many investors turning toward alternative strategies to find a smoother path to their financial goals.

Merger arbitrage is a popular strategy used by hedge funds to help manage risk and seek consistent, positive returns regardless of market direction.

Merger arbitrage: A portfolio diversifier

- A merger arbitrage strategy's goal is to produce consistent, positive returns under virtually any market conditions.
- The key drivers of merger arbitrage returns are different from equities, so the performance is not expected to be correlated to equity markets over time.

### How merger arbitrage generates returns

- Merger arbitrage seeks to profit from the price difference, called the "spread," between a target company's stock price after a deal is announced and the price an acquiring company will pay for it.
- Typically, a target's stock price continues to rise toward the deal price until the transaction successfully closes—this increase is the primary source of the strategy's returns.
- Of course, merger arbitrage strategies can lose money, particularly when deals fail to close or the target's stock price declines.

Merger arbitrage in an ETF

ProShares Merger ETF (MRGR), which follows the S&P Merger Arbitrage Index, is the first ETF based on a true merger arbitrage strategy.

How merger arbitrage works

A true merger arbitrage strategy involves both buying the target company's stock and, in certain cases, taking other action to "lock in" the spread.
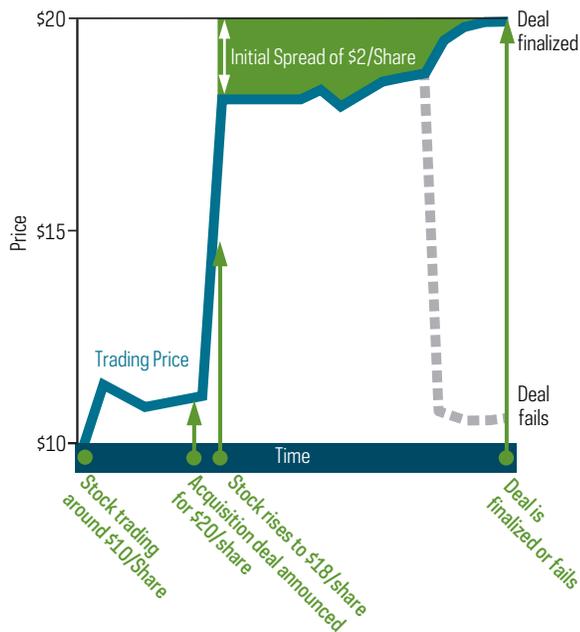
This illustration is hypothetical and not indicative of any actual investment.

- A target company's stock is bought when a merger is announced, then sold when the deal is finalized—ideally at a higher price. The price difference is the "spread" (see above).
- When an acquiring company includes its own stock as part of the deal, a short position in the acquirer's stock is needed to counter any drops in its price and lock in the spread. Some merger arbitrage funds do not do this and some simply short the broader market, which may not lock in the spread as effectively.
- The size of the spread depends on factors such as the perceived risk of the deal not closing and length of time it will take to close. Riskier or longer-term deals may earn higher spreads, but are more prone to failure as well as losses.
- If a merger fails, the stock price of the target company typically falls to pre-announcement levels or lower, resulting in significant losses.

S&P Merger Arbitrage Index

Long positions
- Maximum of 40 companies from developed markets around the world currently targeted in merger/acquisition deals.

Short positions (if stock is included in the offer)
- Maximum of 40 companies currently acquiring the targeted long position companies.

Uses a rules-based approach
- Companies must be domiciled and listed in developed markets.
- Deals are screened for size and liquidity.
- Target companies are initially included in the index at a 3% weight.
- Short positions in acquirers, if applicable, initially range between zero and 3% weight, depending on what percent of the deal is stock.
- If net exposure from included deals is under 100%, a Treasury bill component will constitute the remaining balance of the index.
- Index additions and deletions occur on a rolling basis, as new deals are added and older or poorly performing deals are removed.
- New deals are added two days after an announcement.

About the ETF

Ticker Symbol: MRGR

Intraday Symbol: MRGR.IV

Bloomberg Index Symbol: SPLSALP

Investment Objective: MRGR seeks investment results (before fees and expenses) that track the performance of the S&P Merger Arbitrage Index.

Inception: 12/12/2012

Advantages of MRGR

Targets consistent positive returns
Can provide a liquid, low volatility component within a portfolio's alternative investment allocation.

Enhances portfolio diversification
Designed to provide an alternative source of return that is not expected to be correlated to equity holdings over time.

Potential risks

Index performance
There are no guarantees that the fund or its index will achieve intended objectives.

Derivative exposure
Derivatives used to seek long and short exposure or to hedge currency may increase volatility and decrease performance under certain market conditions.

Short sales
Short positions lose value as security prices increase.

Foreign investments/foreign currency
The fund is exposed to securities of foreign issuers and foreign currency values that may negatively impact performance.

About ProShares

ProShares offers the nation's largest lineup of alternative ETFs. We help investors to go beyond the limitations of conventional investing and face today's market challenges. ProShares helps investors build better portfolios by providing access to alternative investments delivered with the liquidity, transparency and cost effectiveness of ETFs. Our wide array of alternative ETFs can help you reduce volatility, manage risk and enhance returns.

Find out more

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