ProShares

A High Yield Strategy For Rising Rates

Key Takeaways

ProShares High Yield—Interest Rate Hedged ETF (HYHG) offers an appealing alternative to bank loan funds in a rising rate environment.

- **A diversified portfolio of high yield bonds with a built-in interest rate hedge.***
- **A target duration of zero to seek to virtually eliminate interest rate risk.**
- **Have outperformed bank loan strategies in previous periods of rising interest rates.**
- **While high yield bonds may offer greater return potential, they include additional risk including loss of principal. In addition:**
  - Bank loans are more senior in the capital structure and are secured by assets.
  - Historically, high yield bonds have exhibited greater volatility than bank loans.

Reasons to Consider Interest Rate Hedged Bond ETFs Rather Than Bank Loan ETFs

As interest rates have risen, many investors have turned to bank loan strategies to help mitigate rate risk. They let investors maintain a similar level of high yield credit exposure, but with generally less rate sensitivity and historically lower volatility than high yield bonds.

Bank loans offer floating coupon payments tied to short-term interest rates, which provide some protection from rising rates. But there are several important considerations investors should keep in mind when evaluating bank loan funds.

- **Bank loans are less liquid than high yield bonds.** As securities, bond trades settle quickly. Settlement for bank loans can take up to 20 days, which can affect liquidity and depress yields in bank loan funds.
- **Loans are callable at par.** Because bank loans are callable at par, the potential for a bank loan fund's upside price appreciation can be limited. In some high yield bond funds, callable bonds are excluded.
- **Coupon payments may not "float" or rise with rates as expected.**
  - If a loan has a floor, rates may need to rise substantially before the coupon increases.
  - Issuers can change reference rates (e.g., from three-month to one-month LIBOR). Coupons may not float as expected if the three-month LIBOR rises faster than the one-month rate.

* Diversification does not ensure a profit or guarantee against a loss.

High Yield Interest Rate Hedged Bond ETFs

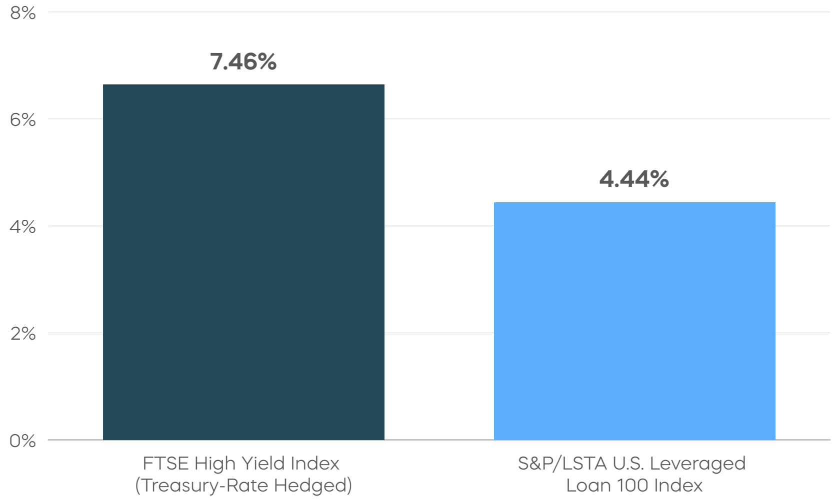
High yield interest rate hedged bond ETFs provide a unique solution for investors. They offer diversified portfolios of high yield bonds, with full exposure to credit risk as a primary source of return, and built-in hedges designed to alleviate the impact of rising rates. In addition, unlike many bank loan strategies, the FTSE High Yield (Treasury Rate-Hedged) Index—which is the index behind the ProShares High Yield—Interest Rate Hedged ETF (HYHG)—excludes callable bonds.

Let's compare the performance of hedged high yield bonds, as measured by the FTSE High Yield (Treasury Rate-Hedged) Index, with bank loan strategies, as measured by the S&P/LSTA U.S. Leveraged Loan 100 Index, in periods when interest rates rose. The indexes used in the chart below serve as the underlying indexes for a pair of popular high yield and bank loan ETFs. It is important to note that while the high yield interest rate hedged bond index outperformed during rising rates, it has historically underperformed during periods of falling rates by an average of 2.12% on an annualized basis.

When Rates Rose, HYHG's Index Outperformed a Bank Loan Index

On Average During Periods of Rising Rates

9/30/14 – 12/31/24



Source: Bloomberg, 9/30/13–12/31/24. 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, which are Q4 2013, Q3 2014, Q2 2015, Q4 2015, Q3 2016, Q4 2016, Q3 2017, Q4 2017, Q1 2018, Q2 2018, Q3 2018, Q4 2019, Q4 2020, Q1 2021, Q3 2021, Q4 2021, Q1 2022, Q2 2022, Q3 2022, Q2 2023, Q3 2023, Q4 2023 and Q1 2024. The S&P LSTA U.S. Leveraged Loan 100 Index is designed to reflect the performance of the largest facilities in the leveraged loan market and is a widely used benchmark for bank loan funds. Index returns are for illustrative purposes only and do not represent fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest in an index. Past performance does not guarantee future results.

Fund Performance and Index History

Fund inception (5/21/2013) through March 31, 2025

	YTD	1 YR	5 YR	10 YR	Since Fund Inception
HYHG (NAV)	-0.72%	6.95%	8.91%	4.56%	3.82%
HYHG (Market Price)	-1.16%	7.22%	9.15%	4.51%	3.83%
FTSE High Yield (Treasury Rate-Hedged) Index	-0.61%	7.18%	9.33%	5.19%	4.53%

Source: ProShares, Bloomberg. HYHG's total operating expenses are 0.50%.

Performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Shares are bought and sold at market price (not NAV) and are not individually redeemed from the fund. Market price returns are based upon the midpoint of the bid/ask spread at 4:00 p.m. ET (when NAV is normally determined for most funds) and do not represent the returns you would receive if you traded shares at other times. Brokerage commissions will reduce returns. Current performance may be lower or higher than the performance quoted. Standardized returns and performance data current to the most recent month end may be obtained by visiting ProShares.com.

About Us

ProShares now offers one of the largest lineups of ETFs, with over $60 billion in assets. The company is a leader in strategies such as crypto-linked, dividend growth, interest rate hedged bond and geared (leveraged and inverse) ETF investing. ProShares continues to innovate with products that provide strategic and tactical opportunities for investors to manage risk and enhance returns.

Have Questions?

Financial professionals can contact ProShares at 866-776-5125 or email info@proshares.com for additional information about ProShares and other investment products.

This information is not meant to be investment advice. 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. Diversification does not protect against market loss. Bonds will decrease in value as interest rates rise. High yield bonds may involve greater levels of credit, prepayment, liquidity and valuation risk than 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. The fund concentrates its investments in certain sectors. 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 seeks to hedge high yield bonds against the potential negative impact of rising Treasury interest rates by taking short positions in U.S. Treasury futures. 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, and there is no guarantee the short positions will completely eliminate interest rate risk. Investors may be better off in a long-only high yield investment when interest rates fall than investing in HYHG, where hedging may limit potential gains or increase losses. Performance could be particularly poor during risk-averse, flight-to-quality environments when high yield bonds commonly decline in value. HYHG may be more volatile than long-only high yield bond investments. HYHG may contain a significant allocation to callable high yield bonds, which are subject to prepayment and other risks that could result in losses for the fund. 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 adviser or broker/dealer representative or visit ProShares.com.

Shares are bought and sold at market price (not NAV) and are not individually redeemed from the fund. Market returns are based on the composite closing price and do not represent the returns you would receive if you traded shares at other times. Brokerage commissions will reduce returns.

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