COMPONENTS OF GEARED FUNDS

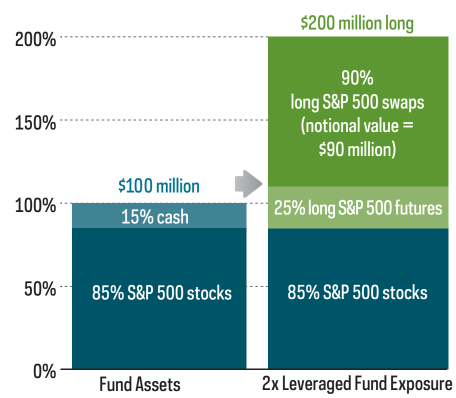
Geared (leveraged and inverse) funds seek to return a multiple or inverse multiple (e.g., 2x, -2x) of the one-day return of an index or other benchmark, before fees and expenses. There are a number of ways geared funds can be constructed to achieve this objective.

Constructing a Sample 2x S&P 500 Fund

Consider a 2x S&P 500 fund with $100 million in underlying assets. To generate two times daily exposure to the S&P 500, it must invest the $100 million in a combination of S&P 500-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. The remainder of the assets (15%) would remain in cash.
2. The fund might apply a portion of its cash to purchase S&P 500 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 500-related derivatives to get the target exposure to the index



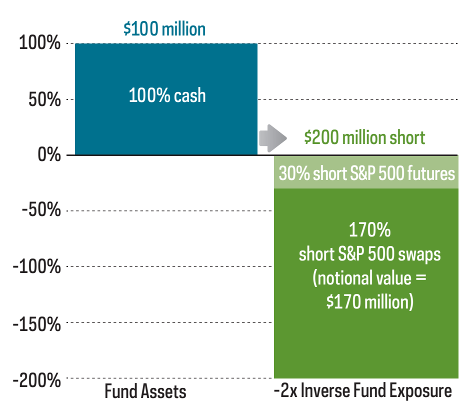
For illustrative purposes only. This example shows just one method for creating 2x exposure to an index and does not represent the investment components of an actual fund.

Constructing a Sample -2x S&P 500 Fund

Consider a -2x S&P 500 fund with $100 million in underlying assets. To generate -2x inverse daily exposure to the S&P 500, it might invest in a combination of S&P 500-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 500 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 target exposure entirely through S&P-related derivatives



For illustrative purposes only. This example shows just one method for creating -2x exposure to an index and does not represent the investment components of an actual fund.

About Futures and Swaps

Index futures—Exchange-traded derivatives[1] 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—Derivatives[1] generally 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 amount"[2] 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.

[1]Derivative: A financial instrument (usually a contract) whose value changes in response to changes in an underlying asset—such as an index.
[2]Notional value: The face amount of a financial instrument (e.g., a swap contract) used to calculate payments made on that instrument.

Geared (leveraged and inverse) funds seek returns that are multiples (e.g., 2x, -1x) of the return of an index or other 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 funds' 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 consistent with their strategies, as frequently as daily. ProShares and ProFunds each 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. ProShares are generally non-diversified. For more on correlation, leverage and other risks please read the ProShares or ProFunds prospectus. There is no guarantee that any fund will achieve its investment objective.

Investing involves risk, including the possible loss of principal. Carefully consider the investment objectives, risks, charges and expenses of ProShares and ProFunds before investing. This and other information can be found in the funds' 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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