Market overview
The broad U.S. bond market saw its rebound stall, with the Bloomberg U.S. Aggregate Bond Index losing 0.8% during the second quarter and yields across a still-inverted Treasury curve rising. The Bloomberg U.S. Corporate Bond Index declined 0.3% for the period. Inflationary measures trended lower against an economic backdrop that was stronger than expected. The consensus GDP forecast for the second quarter increased steadily throughout the period, and markets reacted positively to the prospect of a soft landing. At the May meeting, the Federal Reserve increased the target policy rate another 25 bps, but held steady in June. The Fed’s forward guidance kept alive the potential for future rate increases, should the downward trend in inflation need to be reaffirmed. The 2-year Treasury yield increased 87 bps during the quarter, and the 10-year yield increased 37 bps. The continued rally in high-yield corporate bonds saw high-yield credit spreads narrow 65 bps. The U.S. high-yield bond market outperformed higher-quality bonds, returning 1.8%, as measured by the Bloomberg U.S. Corporate High-Yield Bond Index.

Performance
HYHG rose 3.9% during the quarter, based on NAV, outperforming the U.S. high-yield bond market by 2.2%. Credit spread narrowing positively impacted HYHG’s performance during the quarter, and the embedded interest rate hedge helped shield the strategy from changes in rates.

<table>
<thead>
<tr>
<th>Fund performance and index history¹</th>
<th>2Q 2023</th>
<th>YTD</th>
<th>1-Year</th>
<th>3-Year</th>
<th>5-Year</th>
<th>10-Year</th>
<th>Fund Inception 5/21/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>ProShares High Yield—Interest Rate Hedged</td>
<td></td>
<td></td>
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<tr>
<td>HYG NAV Total Return</td>
<td>3.94%</td>
<td>6.78%</td>
<td>14.68%</td>
<td>6.98%</td>
<td>3.64%</td>
<td>3.08%</td>
<td>2.79%</td>
</tr>
<tr>
<td>HYG Market Price Total Return</td>
<td>4.04%</td>
<td>7.35%</td>
<td>14.35%</td>
<td>7.12%</td>
<td>3.83%</td>
<td>3.05%</td>
<td>2.85%</td>
</tr>
<tr>
<td>FTSE High Yield (Treasury Rate-Hedged) Index</td>
<td>3.01%</td>
<td>4.50%</td>
<td>11.94%</td>
<td>6.49%</td>
<td>3.49%</td>
<td>3.54%</td>
<td>3.24%</td>
</tr>
<tr>
<td>Bloomberg U.S. Corporate High Yield Bond Index</td>
<td>1.75%</td>
<td>5.38%</td>
<td>9.06%</td>
<td>3.13%</td>
<td>3.36%</td>
<td>4.43%</td>
<td>3.98%</td>
</tr>
</tbody>
</table>

Sources: ProShares and Morningstar. Periods greater than one year are annualized.

¹Market returns are based on the composite closing price and do not represent the returns you would receive if you traded shares at other times. The first trading date is typically several days after the fund inception date. Therefore, NAV is used to calculate market returns prior to the first trading date.
Performance attribution

The strategy consists of a portfolio of diversified high-yield bonds, combined with short positions in Treasury futures that are designed to offset the interest rate risk inherent in high-yield bonds. The strategy’s performance can be broken into these components: 1) high-yield bond yields, 2) the cost of the Treasury hedge, 3) the impact of credit spread changes, and 4) the impact of interest rate changes.

During the quarter, HYHG’s bond portfolio yielded approximately 2.1%, while the Treasury hedge gained roughly 0.3%. The strategy had gains of approximately 1.6% from credit spreads narrowing during the quarter. Because of the interest rate hedge constructed within the portfolio, the strategy experienced approximately zero impact from interest rate movements during the quarter.

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Bonds will generally decrease in value as interest rates rise. High-yield bonds may involve greater levels of credit, 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.

The index does not attempt to mitigate factors other than rising 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 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 risk and other risks that could result in losses for the fund. There is no guarantee the fund will have positive returns.

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