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. 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. Investment-grade credit spreads narrowed by 15 bps during the period, a modest rally. The U.S. corporate bond market outperformed the broader bond market, falling only 0.3% as tracked by the Bloomberg U.S. Corporate Bond Index.

Performance
IGHG rose 2.9% during the quarter, based on NAV, outperforming the U.S. investment-grade bond market by 3.2%. Credit spread narrowing positively impacted IGHG’s performance, and the embedded interest rate hedge helped shield the strategy from changes in rates during the quarter.

<table>
<thead>
<tr>
<th>Fund performance and index history</th>
<th>2Q 2023</th>
<th>YTD</th>
<th>1-Year</th>
<th>3-Year</th>
<th>5-Year</th>
<th>Fund Inception 11/5/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>IGHG NAV Total Return</td>
<td>2.91%</td>
<td>4.40%</td>
<td>9.93%</td>
<td>4.10%</td>
<td>3.10%</td>
<td>2.45%</td>
</tr>
<tr>
<td>IGHG Market Price Total Return</td>
<td>2.66%</td>
<td>4.53%</td>
<td>10.09%</td>
<td>4.34%</td>
<td>3.17%</td>
<td>2.48%</td>
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<tr>
<td>FTSE Corporate Investment Grade (Treasury Rate-Hedged) Index</td>
<td>1.72%</td>
<td>1.74%</td>
<td>8.13%</td>
<td>3.83%</td>
<td>2.80%</td>
<td>2.50%</td>
</tr>
<tr>
<td>Bloomberg U.S. Corporate Bond Index</td>
<td>-0.29%</td>
<td>3.21%</td>
<td>1.55%</td>
<td>-3.44%</td>
<td>1.76%</td>
<td>2.56%</td>
</tr>
</tbody>
</table>

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

IGHG consists of a portfolio of diversified investment-grade bonds combined with short positions in Treasury futures that are designed to offset the interest rate risk inherent in investment-grade bonds. The fund’s performance can be broken into these components: 1) investment-grade 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, IGHG’s bond portfolio yielded approximately 1.3%, while the Treasury hedge gained roughly 0.4%. The strategy had gains of approximately 1.3% from credit spreads narrowing. 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. 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.

IGHG 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. IGHG seeks to hedge investment grade bonds against the potential negative impact of rising Treasury interest rates by taking short positions in U.S. Treasury futures. These positions lose value as Treasury prices increase. Investors may be better off in a long-only investment grade investment than investing in IGHG when interest rates remain unchanged or fall, as hedging may limit potential gains or increase losses. 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 IGHG seeks to achieve an effective duration of zero, the hedge cannot fully account for changes in the shape of the Treasury interest rate (yield) curve. IGHG may be more volatile than long-only investment grade bond investments. Performance of IGHG could be particularly poor if investment grade credit deteriorates at the same time that Treasury interest rates fall. There is no guarantee the fund will have positive returns.

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