



FAQs About Geared Funds

ProShares is the world's largest provider of leveraged and inverse funds¹—also called “geared” funds. Below are answers to frequently asked questions about this popular category of mutual funds and ETFs.

The Basics of Geared Funds

What are “geared” funds?

Geared funds are a type of mutual fund or ETF designed to provide investors with a targeted level of **leveraged** or **inverse** exposure to a benchmark for a specific period. That benchmark can be an index of stocks (e.g., the S&P 500), bonds, currencies, cryptocurrencies, commodities, or other assets:

- **Leveraged funds** enable investors to *magnify* their benchmark exposure, typically by a target multiple of 2x or 3x, over a specific period.
- **Inverse funds** move in the *opposite* direction of their benchmark—either directly (-1x) or by a target multiple of -2x or -3x—over a specific period.

All geared funds offered by ProShares have a **daily investment objective**. That means the funds aim to deliver their target multiple (i.e., daily target) for each individual day the market is open, and for no other period. This attribute also applies to 98% of geared fund assets in the U.S.² Unless otherwise noted, the following sections apply to geared funds with a daily investment objective only.

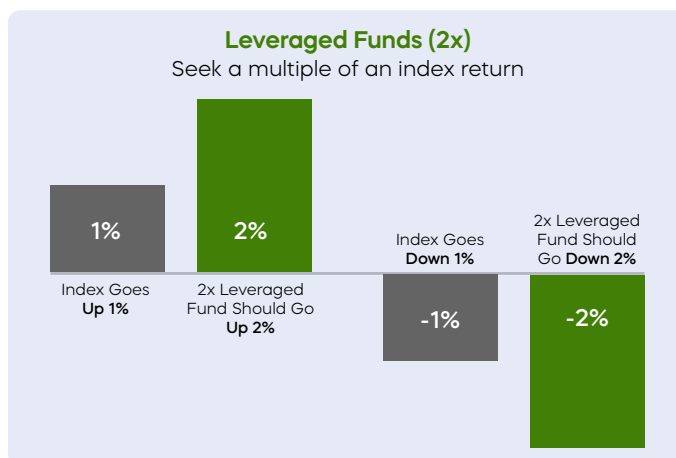
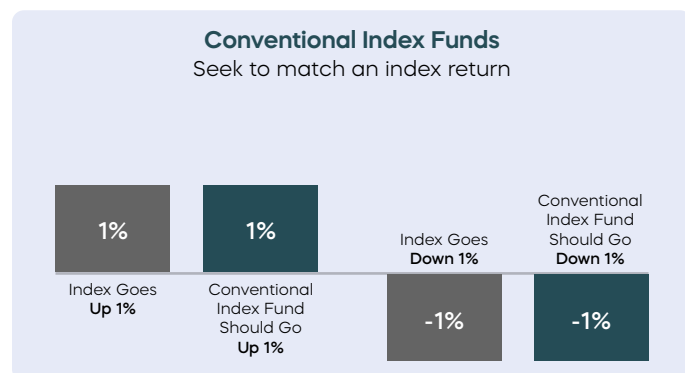
Geared funds, like all mutual funds and ETFs, incur management fees and other expenses. Hypothetical performance described in this Q&A is shown *before* fees and expenses, which vary by fund.

How is a leveraged fund designed to perform on a day when its benchmark rises? And how about on a day when its benchmark falls?

A leveraged fund with a 2x daily investment objective should:

- Go up by approximately 2% on a day when its benchmark goes up by 1%.
- Go down by approximately 2% on a day when its benchmark goes down by 1%.

In other words, a leveraged fund magnifies the one-day performance of its benchmark, both up and down.



* For illustrative purposes only. Not representative of an actual investment.

How is an inverse fund designed to perform on a day when its benchmark falls? And how about on a day when its benchmark rises?

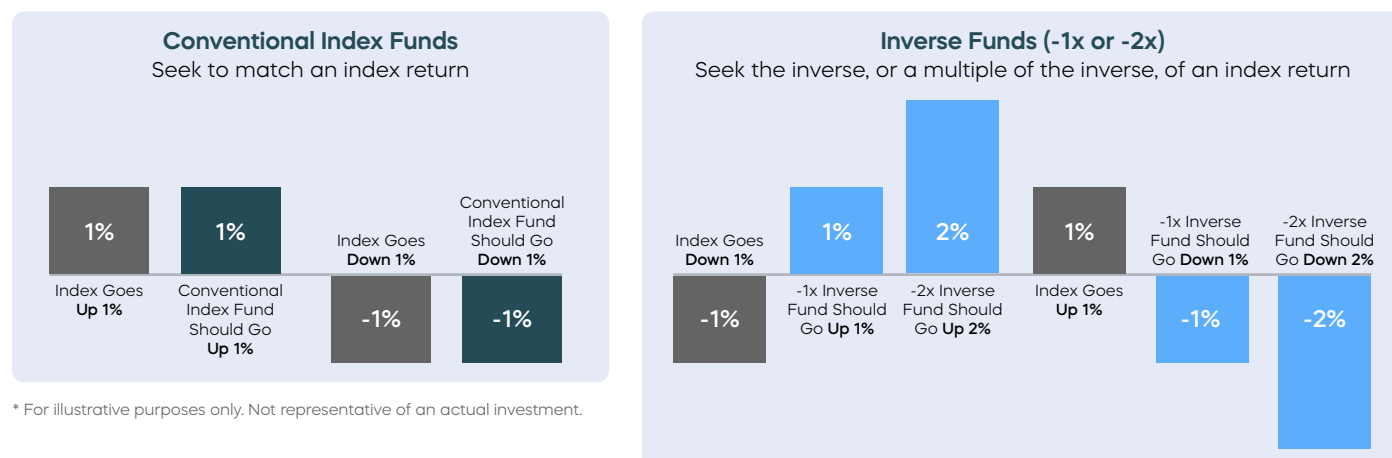
An inverse fund with a -1x daily objective should:

- Go up by approximately 1% on a day when its benchmark goes down by 1%.
- Go down by approximately 1% on a day when its benchmark goes up by 1%.

Some inverse funds also magnify performance. An inverse fund with a -2x daily objective should:

- Go up by approximately 2% on a day when its benchmark goes down by 1%.
- Go down by approximately 2% on a day when its benchmark goes up by 1%.

These examples are highlighted in the charts that follow:



Have geared funds been successful at meeting their daily investment objective?

Yes. Geared funds have consistently achieved their daily investment objective.³ At ProShares, we publish the degree to which each geared fund achieves its daily investment objective on our quarterly fact sheets.

Understanding a Daily Investment Objective

Over what period do geared funds generally aim to achieve their investment objectives?

Geared funds generally have daily investment objectives, and this Q&A focuses on those funds.

What does it mean to have a daily investment objective?

A daily investment objective means that a geared fund aims to achieve a daily target (e.g., 2x) of its benchmark from the close of each day the markets are open to the close of the next day the markets are open (i.e., “one-day period”).

This differs from conventional index funds, which are generally designed to track the performance of a benchmark over any period.

Why do most geared funds aim to achieve a daily investment objective?

Geared funds are designed with a daily investment objective to deliver their stated exposure—such as 2x the daily return of the S&P 500—so investors know what to expect each day. To achieve this, the fund manager rebalances the fund’s exposure to its benchmark at the end of each day the markets are open.

What would happen if a geared fund did *not* rebalance to its daily target each day?

If a geared fund's leverage weren't rebalanced to its daily target at each day's close, its exposure could drift—sometimes greatly.

Without this rebalancing, the leverage experienced by a new investor could differ dramatically from the fund's stated objective. For example, a fund that began with 2x exposure could end up at 10x or more, or drop to 1x or less.

To manage this, issuers typically reset geared fund exposure daily. This structure ensures that investors can buy the fund knowing it aims to deliver a specific multiple (e.g., 2x) of its benchmark's return for each one-day period.

Why isn't there a mutual fund or ETF that delivers a set multiple of a benchmark over any holding period, no matter when an investor buys or sells?

Mathematically, it's simply not possible for a mutual fund or ETF to deliver to its shareholders a fixed multiple of a benchmark over all periods, regardless of when shares are bought or sold.

Holding Geared Funds for More than One Day

Should investors expect that geared funds will produce their daily objective over periods other than one day?

No. The investment results over periods other than one day will differ from the daily target (e.g., 2x) over the time the geared fund is held.

Can it be appropriate to hold geared funds for more than one day?

Yes. While geared funds generally have daily investment objectives, it can be appropriate to hold geared funds for more than one day, depending on an investor's objective and risk tolerance. Many investors hold geared funds for longer periods with the understanding that the geared funds aim to deliver their objectives on a daily basis.

Investors should consider monitoring positions regularly to ensure fund performance aligns with their individual goals and risk tolerance.

How does volatility affect the performance of geared funds over periods other than one day?

All else equal, geared funds tend to underperform their daily target in volatile markets, while outperforming their daily target in calmer, less volatile conditions.

What fees and expenses affect the performance of geared funds?

All mutual funds and ETFs have certain costs—such as management fees—that appear in the fee table and are reflected in the total expense ratio. Other costs, like brokerage commissions and any embedded cost of financing for leverage, are not shown in the fee table. For geared funds, these additional costs can be significant.

Common Benefits of Geared Funds

Why do investors choose geared funds?

Investors seeking leveraged or inverse exposure may prefer geared funds for several advantages over common alternatives, such as using margin for leverage or selling short for inverse exposure:

- **Convenience:** Geared funds provide leveraged or inverse exposure through a single ticker, simplifying the investment process.
- **Easy to Monitor and Trade:** With a single ticker, investors can track performance—and, for geared ETFs, implement stop and limit orders—just as they would with stocks or bonds.
- **Limited Risk of Loss:** Unlike some popular alternatives, the maximum loss is capped at the amount invested, providing a clear risk boundary.
- **Potentially Lower Cost:** Geared funds can be more cost-effective than alternatives, especially those that require direct borrowing.

Background on Leveraged Investing

Is leveraged investing new?

No. Leveraged investing has been part of financial markets for centuries.

Leverage has long been common in business and personal finance. For example, a \$50,000 down payment on a \$250,000 house is a form of leverage, giving exposure to an asset 5x larger via a mortgage. If the house appreciates 10%, the \$25,000 gain boosts equity by 50% above the initial investment.

How have investors traditionally accessed leverage?

Investors commonly use margin accounts to access leverage. This typically involves depositing money into a separate margin account and borrowing against those funds to invest a larger sum. The amount an investor can borrow on margin will vary.

How does margin borrowing compare to using a leveraged fund?

Leveraged funds enable investors to increase their market exposure with less cash at risk. For example, a \$10 investment in a 2x leveraged fund provides \$20 of exposure to a benchmark, but the maximum loss is limited to the initial \$10 investment.

Conversely, borrowing \$10 on margin to invest \$20 risks losses up to the full \$20. A sharp decline could also trigger a margin call, requiring the investor to deposit additional funds or sell assets. However, investors may prefer to use their margin account for leverage if they are seeking an investment objective or exposure that isn't available through a geared fund.

Background on Inverse, or “Short,” Investing

Is inverse investing new?

No. Taking inverse or “short” positions has a long history, dating back centuries. Many view shorting as a healthy part of the financial ecosystem, because it can correct overvaluations, increase liquidity, and even help protect a portfolio.

How have investors traditionally shorted stocks and other assets?

Shorting, or short selling, involves borrowing shares of a stock or other asset on margin and selling them with the expectation that the price will decline. If the price drops, investors can buy back the shares at a lower cost, return them to the lender, and profit from the difference.

However, if the price instead rises, losses are potentially unlimited, as the asset could continue to appreciate indefinitely.

How does shorting compare to using an inverse fund?

Inverse funds allow investors to short a benchmark, while capping losses to the initial investment and eliminating the need for margin borrowing. Although this can be more convenient than shorting individual stocks, some investors prefer a more targeted approach, which may not be available through a geared fund.

More About Geared Funds

How long have geared funds been available to investors?

Geared funds were first introduced to the U.S. market as mutual funds in 1993 and as ETFs by ProShares in 2006. The arrival of geared ETFs provided investors with the flexibility to buy and sell these funds throughout the trading day, just like any other stock or bond.

How popular are geared funds?

Geared funds are a popular way to gain leveraged or inverse exposure. There are more than 1,000 geared funds available in over 50 countries, with assets under management exceeding \$130 billion—including more than \$100 billion in the U.S. alone.⁴

Where can I learn more about geared investing?

Like any other investment, geared funds offer distinct advantages, disadvantages, and risks. A fund's prospectus provides important information on the investment objective, daily target, and principal risks associated with investing in a particular product.

Individual investors may also benefit from consulting a financial advisor who can help monitor their investments.

Finally, fund sponsors like ProShares offer resources on their websites for both individual investors and financial professionals seeking more information about geared funds.

¹Source: Morningstar, as of July 31, 2025. ²Source: Bloomberg, as of July 31, 2025. ³Source: Bloomberg, as of July 31, 2025. ⁴Source: Morningstar Direct, as of July 31, 2025. Includes U.S. geared exchange-traded funds (ETFs), exchange-traded commodities (ETCs), and mutual funds.

Geared ProShares ETFs seek daily investment results that correspond, before fees and expenses, to a multiple of (e.g., 2x or -2x) the daily performance of its underlying benchmark (the "Daily Target"). While the Funds have a daily investment objective, you may hold a Fund's shares for longer than one day if you believe it is consistent with your goals and risk tolerance. For any holding period other than a day, your return may be higher or lower than the Daily Target. These differences may be significant. Smaller index gains/losses and higher index volatility contribute to returns worse than the Daily Target. Larger index gains/losses and lower index volatility contribute to returns better than the Daily Target. The more extreme these factors are, the more they occur together, and the longer your holding period while these factors apply, the more your return will tend to deviate. Investors should consider periodically monitoring their geared fund investments in light of their goals and risk tolerance.

Investing involves risk, including the possible loss of principal. ProShares ETFs are generally non-diversified and each entails 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. **There is no guarantee any ProShares ETF will achieve its investment objective.**

Carefully consider the investment objectives, risks, charges and expenses of ProShares before investing. This and other information can be found in the summary and full prospectuses. Read them carefully before investing. Separate ProShares Trust II prospectuses are available for Volatility, Commodity and Currency ETFs. Obtain prospectuses at ProShares.com.

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