ProShares

Tax Loss Harvesting

This year's selloff in stocks and bonds has made 2022 a challenging year for many investors. The silver lining, however, could be the opportunity to sell funds with losses to offset capital gains elsewhere.

For investors in actively managed mutual funds, the prospect of capital gains distributions could increase the importance of exiting positions with losses. Capital gains distributions may be more likely when mutual funds experience outflows—and mutual funds are on pace for their largest-ever total net outflows in 2022.*

Harvesting Losses with a Tax Swap Strategy

A tax swap is a loss harvesting strategy utilized in taxable accounts. It involves selling a fund that has experienced market losses and buying a fund with similar, but not identical, investment characteristics. By making this swap, a capital loss can be realized. That loss may then be used to offset capital gains realized in other funds, and potentially reduce an investor's tax liability.

To help identify opportunities for loss harvesting, we have analyzed several market segments that have posted losses so far this year. Our analysis includes all U.S.-listed mutual funds and ETFs within the specified categories.

*Source: Investment Company Institute website - "Summary: Long-Term Mutual Fund Net New Cash Flow". November 9, 2022. https://www.ici.org/research/stats/weekly-mfflows. November 9, 2022.

An Opportunity to Reposition Portfolios

The year-end may also be an opportunity to revisit investment strategies and prepare portfolios for the year ahead.

Investment Opportunity	Investment Area	Why Consider Harvesting Losses?	Morningstar Category Average Return YTD (%) *As of 10/31/22*		Potential ProShares ETF Solution	ETF Features
Reinforce Your Core with Quality	Large Cap	• The down market has left the S&P 500 and Nasdaq-100 in the red, and now may be the time to reposition portfolios with quality. • **71%** of actively managed funds paid capital gains distributions in 2021.	Large Cap Blend	-17.25%	S&P 500 Dividend Aristocrats ETF (NOBL)	• ProShares dividend growth strategies invest in companies with the longest consecutive years of dividend growth in their respective categories. • Generally, these high-quality companies have durable business models, stable earnings, solid fundamentals, and strong histories of profit and growth. • Each strategy has a demonstrated history of weathering market turbulence and has typically displayed highly favorable up/down capture ratios.
	Mid Cap	• Mid- and small-cap stocks have not been immune from the market drawdown, but potentially attractive valuations could be an opportunity for investors to fine-tune their smaller-cap allocations. • **76%** of actively managed mid-cap and **85%** of small-cap funds, respectively, paid capital gains distributions in 2021.	Mid Cap Blend	-15.04%	S&P MidCap 400 Dividend Aristocrats ETF (REGL)	
	Small Cap		Small Cap Blend	-14.81%	Russell 2000 Dividend Growers ETF (SMDV)	
Fight Inflation with Infrastructure	Infrastructure	• Infrastructure equities have been strong relative performers, but are still ripe for loss-harvesting. Investors resetting their infrastructure allocations may consider a pure-play approach. • **67%** of actively managed infrastructure funds paid capital gains distributions in 2021.	Infrastructure	-11.76%	DJ Brookfield Global Infrastructure ETF (TOLZ)	• The growing need for infrastructure spending could create a long-term investment opportunity. • Investors might wish to consider a pure-play infrastructure fund like TOLZ—which invests in companies with limited sensitivity to economic cycles and offers stable cash flows and attractive yields.

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Keep Pace with Innovation	FAANG and Innovation Themes	• Stocks from growth-oriented businesses have been among the market's hardest hit, but may represent buying opportunities for long-term investors. • **52%** of actively managed funds in this group paid capital gains distributions in 2021.	Technology Theme	-39.34%	MSCI Transformational Changes ETF (ANEW)	• Technology is transforming just about every aspect of our daily lives—how we work, shop, eat and manage our health. • ANEW brings together an array of investable themes related to transformational changes.
Reposition Fixed Income for Rising Rates	Core Bond	• Rising interest rates have left bond fund investors facing steeper losses than many have seen in their lifetimes. • **56%** of actively managed investment grade, **24%** high yield, and **2%** of bank loan funds paid capital gains distributions in 2021.	Investment Grade Bond	-16.04%	Investment Grade—Interest Rate Hedged (IGHG)	• Traditional bond strategies for rising rate environments—short duration, floating rates, and bank loans—may not be the most effective choices, while Investment* tools such as interest rate-hedged bond strategies may represent an attractive alternative. • ProShares Investment Grade—Interest Rate Hedged (IGHG) and ProShares High Yield—Interest Rate Hedged (HYHG) are corporate bond ETFs with a built-in hedge that targets a duration of zero to virtually eliminate interest rate risk.
	Below Investment Grade Bond		High Yield Bond	-11.82%	High Yield—Interest Rate Hedged (HYHG)	
			Bank Loan	-3.79%		

Sources: Morningstar, ProShares (1/1/22 – 10/31/22). All categories are based on Morningstar categorizations. The Technology Theme category is made up of mutual funds and ETFs that "target the disruptive growth potential of technological change" as identified in Morningstar's global thematic funds landscape report. Index performance returns are for illustrative purposes only, and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest in an index. Performance data for ProShares ETFs current to the most recent month-end may be obtained at ProShares.com.

Have Questions?

Visit ProShares.com or call our client services team at 866-776-5125 to learn more about our ETFs.

NOBL — **S&P 500 Dividend Aristocrats ETF**

REGL — **S&P MidCap 400 Dividend Aristocrats ETF**

SMDV — **Russell 2000 Dividend Growers ETF**

TOLZ — **DJ Brookfield Global Infrastructure ETF**

ANEW — **MSCI Transformational Changes ETF**

IGHG — **Investment Grade—Interest Rate Hedged ETF**

HYHG — **High Yield—Interest Rate Hedged ETF**

This material is not intended to be tax or investment advice. Tax consequences may vary by individual taxpayer. For specific tax advice, we recommend you speak with a qualified tax professional. There is no guarantee dividends will be paid. Companies may reduce or eliminate dividends at any time, and those that do will be dropped from the indexes at reconstitution.

Investing is currently subject to additional risks and uncertainties related to COVID-19, including general economic, market and business conditions; changes in laws or regulations or other actions made by governmental authorities or regulatory bodies; and world economic and political developments.

Investing involves risk, including the possible loss of principal. ProShares ETFs entail 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. 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.**

Investments in smaller companies typically exhibit higher volatility. Small- and mid-cap companies may have limited product lines or resources, may be dependent upon a particular market niche and may have greater fluctuations in price than the stocks of larger companies. Small- and mid-cap companies may lack the financial and personnel resources to handle economic or industry-wide setbacks and, as a result, such setbacks could have a greater effect on small- and mid-cap security prices. International investments may involve risks from: geographic concentration, differences in valuation and valuation times, unfavorable fluctuations in currency, differences in generally accepted accounting principles, and from economic or political instability. Some ETFs concentrates investments in certain sectors. Narrowly focused investments typically exhibit higher volatility.

TOLZ is subject to risks faced by companies in the infrastructure, energy and utilities industries to the same extent as the Dow Jones Brookfield Global Infrastructure Composite Index is so concentrated. This ETF invests in master limited partnerships (MLPs). Investments in MLPs expose the ETF to certain tax risks associated with investing in partnerships. Changes in U.S. tax laws could revoke the pass-through attributes that provide the tax efficiencies that make MLPs attractive investment structures. MLPs may also have limited financial resources, may be relatively illiquid, and may be subject to more erratic price movements because of the underlying assets they hold. In addition, a portion of the ETF's distributions may be a return of capital, which constitutes the return of a portion of a shareholder's original investment. Under tax rules, returns of capital are generally not currently taxable, but lower a shareholder's tax basis in their shares. Such a reduction in tax basis will result in larger taxable gains and/or lower tax losses on a subsequent sale of shares.

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 risks 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.

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 professional or visit ProShares.com.