To prepare for rising interest rates, many investors move to short-term bond funds. This may help reduce their interest rate risk, but it doesn’t eliminate it. Is there a way to virtually eliminate it? There is—by targeting zero interest rate risk with interest rate hedged bond funds.

One example is ProShares High Yield—Interest Rate Hedged (HYHG), which tracks the FTSE High Yield (Treasury Rate-Hedged) Index, a diversified portfolio of high yield bonds with a built-in hedge against interest rate risk. The index maintains exposure to credit opportunities as a primary source of return (remember, high yield bonds are higher risk). The portfolio’s hedge is designed to alleviate the drag on return when interest rates rise. The index has a history of performing well during periods of rising rates.

**HYHG’s Index Outperformed Unhedged- and Short-Duration High Yield Bond Indexes When Rates Rose**

![Graph showing index performance](image)

Source: Bloomberg. Average performance based on quarterly changes in the 5-Year Treasury yield. Rising rate periods are any calendar quarter where the 5-Year Treasury yield increased. As of 9/30/2019, the duration of the FTSE High Yield (Treasury-Rate Hedged) Index was 0.08 years. Duration is a measure of a fund's sensitivity to interest rate changes, reflecting the likely change in bond prices given a small change in yields. Higher duration generally means greater sensitivity. The Markit iBoxx USD Liquid High Yield Index consists of liquid USD high yield bonds, selected to provide a balanced representation of the broad USD high yield corporate bond universe. The index represents typical duration for the broad high yield bond market. The Bloomberg Barclays U.S. High Yield 350Mn Cash Pay 0-5 Yr 2% Capped Index is designed to measure the performance of short-term publicly issued U.S. dollar-denominated high yield corporate bonds.

Returns for the ProShares High Yield—Interest Rate Hedged ETF (HYHG) as of 9/30/2019 were 1-year: 0.43% (NAV)/0.33% (mkt price); 5-year 2.27% (NAV)/2.34% (mkt price); since-inception (from 5/21/13): 2.17% (NAV)/2.21% (mkt price). HYHG’s total operating expenses are 0.50%.

Performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor’s shares, when sold or redeemed, may be worth more or less than the original cost. Shares are bought and sold at market price (not NAV) and are not individually redeemed from the fund. Market 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. Brokerage commissions will reduce returns. Current performance may be lower or higher than the performance quoted. Standardized returns and performance data current to the most recent month end may be obtained by visiting ProShares.com.
**THE TAKEAWAY**

Short-term bond funds are not the only answer to rising rates. Another way to remain invested in bonds is to remove the interest rate risk entirely with a built-in hedge. If rates continue to rise, now may be a good time to prepare with an interest rate hedged bond ETF.

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**Investing involves risk, including the possible loss of principal.** These ProShares ETFs are diversified and 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. Bonds will decrease in value as interest rates rise. High yield bonds may involve greater levels of credit, liquidity and valuation risk than for higher-rated instruments. High yield bonds are more volatile than investment grade securities, and they involve 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. Narrowly focused investments typically exhibit higher volatility. 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.**

HYHG 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. HYHG seeks to hedge high yield bonds against the negative impact of rising rates by taking short positions in Treasury futures. These positions lose value as Treasury prices increase. Investors may be better off in a long-only high yield investment than investing in HYHG when interest rates remain unchanged or fall, as hedging may limit potential gains or increase losses. 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. 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 HYHG seeks to achieve an effective duration of zero, the hedges cannot fully account for changes in the shape of the Treasury interest rate (yield) curve. HYHG may be more volatile than a long-only investment in high yield bonds. Performance of HYHG could be particularly poor if high yield credit deteriorates at the same time that Treasury interest rates fall. **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 adviser or broker/dealer representative or visit ProShares.com.

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