DIVIDEND GROWTH ETFS

Small Caps May Be Poised to Outperform

December 2020

The Takeaway

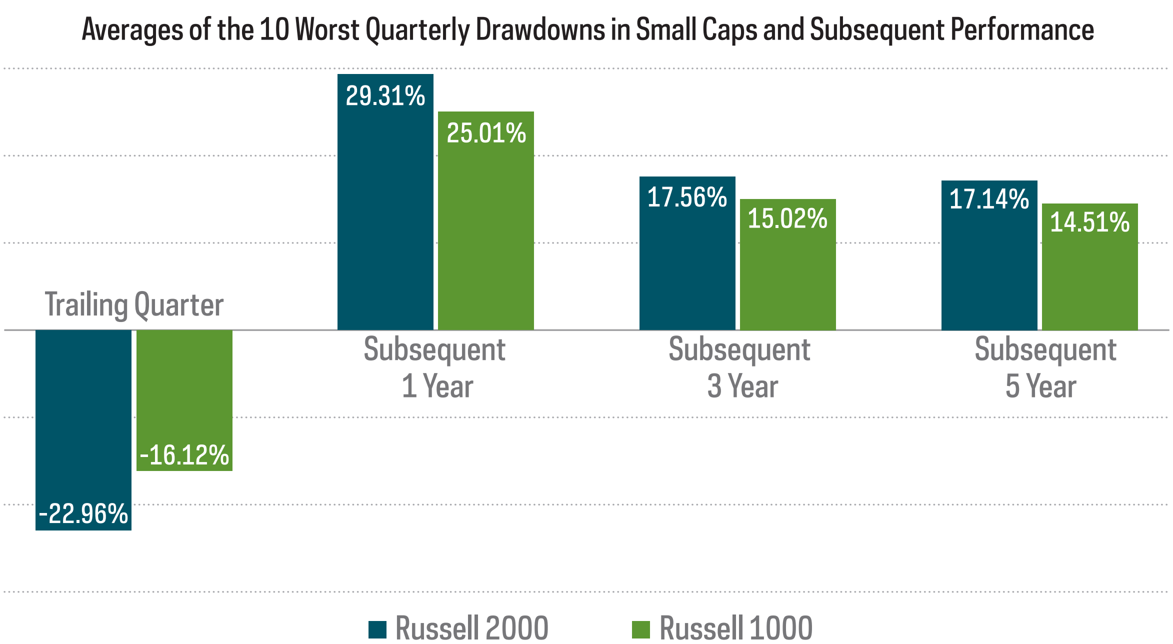
Small-cap stocks historically have outperformed large caps after significant market declines like the one we saw in early 2020. While small caps have outperformed since the lows in late March, the rally thus far has been led by low-quality stocks—the stocks of companies in the Russell 2000 in the lowest quintile of return on equity—a dynamic that may not be sustainable. Quality small-cap dividend growers with stable earnings, solid fundamentals, and records of profit and growth are well positioned in a period of great uncertainty and are attractively priced.

The Case for Small Caps After Market Drawdowns

Smart investors know that small-cap stocks can provide diversification and potentially higher returns—but recent returns have been disappointing. Small caps have lagged their large-cap company peers. Could that change now in the middle of a global pandemic? If history is any guide, the answer is potentially yes.

To find out, we looked at the Russell 2000 Index's 10 worst quarterly setbacks since its inception on January 1, 1984. When the markets dropped sharply—as they did in Q1 of 2020, when the Russell 2000 declined 30.6%—small-cap stocks underperformed large caps by over 7%. But after those large drawdowns, small-cap stocks tended to fare quite well. In fact, they outperformed large caps over the subsequent one-, three-, and five-year periods, as the chart that follows shows.

Small Caps Have Outperformed After Large Drawdowns



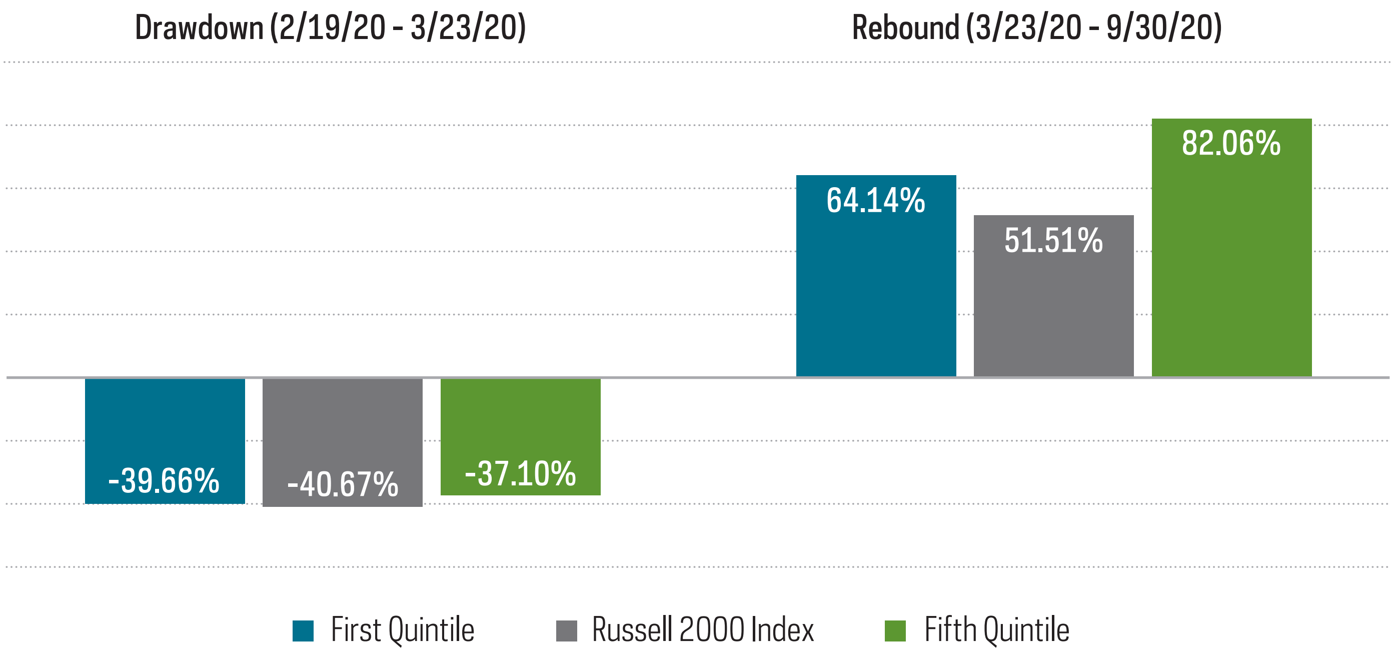
Source: Morningstar 1/1/84-9/30/20. Index returns are for illustrative purposes only and do not represent fund performance. Indexes are unmanaged and one cannot invest in an index. Index performance returns do not reflect any management fees, transaction costs or expenses. Past performance does not guarantee future results. See the last page for fund performance.

An Early Rally in "Junk" Small Caps

So far, 2020 is no different. Small caps underperformed large caps during the worst of the COVID-19 downturn in March, and they have outperformed during the recovery. But there is an interesting dynamic in the current small-cap rally: namely, it has been a "junk" or low-quality rally. The lowest quintile of the Russell 2000 ranked by return on equity—a key metric of quality—not only outperformed higher-quality small caps during the drawdown, but significantly outperformed since the market bottom.

Return on equity (ROE) is the measure of a company's annual return divided by the value of its total shareholders' equity, expressed as a percentage.

Low-Quality Small Caps Ruled During the Recovery



Sources: Bloomberg, ProShares. Index returns are for illustrative purposes only and do not represent fund performance. Indexes are unmanaged and one cannot invest in an index. Past performance does not guarantee future results.

Will this continue? No one knows for sure. However, it's important to remember these are the small-cap stocks that may be least likely to withstand a sustained period of economic weakness. If the recovery hits a few speed bumps, they're likely to face significant headwinds. Lower-quality companies are particularly vulnerable to further economic shocks. Fortunately, there's an alternative: quality small caps.

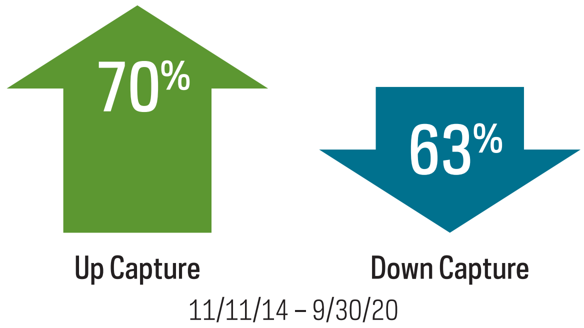
Why Quality Matters

ProShares Russell 2000 Dividend Growers ETF (SMDV) invests exclusively in the Russell 2000 companies with the longest track records of dividend growth. These are quality companies that have not only paid dividends but have grown them for at least 10 consecutive years, on average 21.4 years.

There is still a great deal of uncertainty around the pace of the economic recovery, corporate earnings and the mitigation of the COVID-19 pandemic. That said, while there is no guarantee going forward, the quality dividend growth companies in SMDV collectively have a demonstrated history of weathering market turbulence. Since its inception, SMDV's index, the Russell 2000 Dividend Growth Index, has weathered market turbulence well by capturing more of the market's gain in rising markets with less of the loss in falling markets.

SMDV's Strategy Has Captured Most of the Market's Gain with Less of the Loss

Russell 2000 Dividend Growth Index vs. Russell 2000 Index



Source: Morningstar, 11/11/14 to 9/30/20. Index returns are for illustrative purposes only and do not represent fund performance. Indexes are unmanaged and one cannot invest in an index. Past performance does not guarantee future results.

According to FactSet, collectively, companies in SMDV's portfolio produced almost nine times the return on equity as that of the broader small-cap market as of September 30, 2020. Of SMDV's current 73 holdings, 71 of them (97%) reported positive earnings in their last fiscal year as of September 30, 2020. This compares favorably to the Russell 2000, in which just 60% of companies reported positive earnings as of September 30, 2020.

Small-cap dividend growth stocks are also attractively priced relative to the broader Russell 2000. While quality small caps normally trade at higher valuations (i.e., a premium), the Russell 2000 Dividend Growth Index has been trading at a discount (i.e., 83% of the price-to-book value, as of September 30, 2020) to the Russell 2000.

The Russell 2000 Dividend Growth Index is also priced below its median (average) level, and just above its five-year low, making today's valuations a potentially attractive entry point.

ProShares offers the largest suite of ETFs focused on dividend growers, covering various U.S. market caps as well as international markets.

NOBL	REGL	TMDV	TDV	EFAD	EUDV	EMDV
S&P 500 Dividend Aristocrats	S&P MidCap 400 Dividend Aristocrats	Russell U.S. Dividend Growers	S&P Technology Dividend Aristocrats	MSCI EAFE Dividend Growers	MSCI Europe Dividend Growers	MSCI Emerging Markets Dividend Growers

Want to learn more? Visit ProShares.com or consult your financial professional.

Fund performance and index history

Fund inception (February 3, 2015) through September 30, 2020

	1-Year	3-Year	5-Year	Fund Inception
ProShares Russell 2000 Dividend Growers ETF (SMDV) NAV Total Return	-18.61%	-3.58%	—	4.95%
ProShares Russell 2000 Dividend Growers ETF (SMDV) Market Price Total Return	-18.63%	-3.59%	—	4.96%
Russell 2000 Dividend Growth Index	-18.20%	-3.14%	—	5.42%
Russell 2000 Index	0.39%	1.77%	—	5.64%

Sources: ProShares, Bloomberg

SMDV's total operating expenses are 0.41%. **The 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 price returns are based upon the midpoint of the bid/ask spread at 4:00 p.m. ET (when NAV is normally determined for most funds) and do not represent the returns you would receive if you traded shares at other times. 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.**

This information is not meant to be investment advice. 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. **There is no guarantee that small cap stocks will outperform in future recoveries.**

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. This ProShares ETF is diversified and entails certain risks, including imperfect benchmark correlation and market price variance, that may decrease performance. 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. 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.**

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. Obtain them from your financial professional or visit ProShares.com. Read them carefully before investing.