

PROSHARES HEDGE REPLICATION ETF

Breaking Down the Barriers

Investors have sought hedge funds to diversify traditional portfolios of stocks and bonds. But hedge funds may be out of reach for many investors.

Hedge funds: The appeal... and the challenge

Many investors are aware of the risks of investing only in traditional asset classes like stocks and bonds. They may be seeking diversification through alternative investments like hedge funds.

But hedge funds have been out of reach for many investors because they often restrict access, have high investment minimums, or may be closed to new investment.

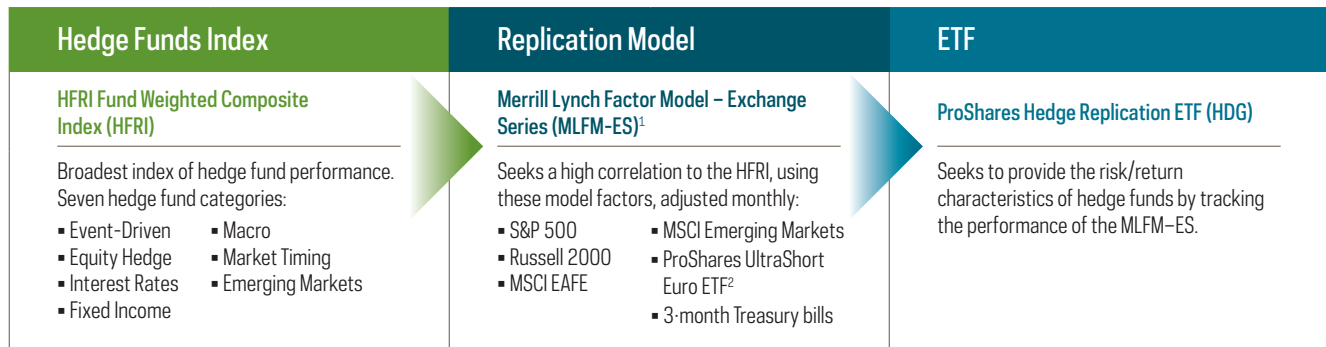
An approach known as hedge fund replication may provide an alternative to investing directly in a hedge fund—without those challenges.

Hedge fund exposure in a flexible ETF format

HDG seeks to generate the risk and return characteristics of a broad universe of hedge funds while avoiding or overcoming many of the challenges of investing in a hedge fund. HDG:

- Follows a hedge fund replication benchmark, Merrill Lynch Factor Model – Exchange Series (MLFM-ES)
- Aims to replicate an index of more than 2,000 hedge funds, representing multiple investment strategies
- Offers the liquidity, transparency and cost effectiveness of an ETF

How Hedge Fund Replication Works



Source: Merrill Lynch

What is factor replication?

Hedge fund replication is a quantitative, rules-based strategy that attempts to recreate the risk and return profile of a broad universe of hedge funds.

Factor replication is one type of replication approach:

- Determines combinations and weightings of financial market factors, such as index returns
- Seeks high correlation with hedge fund performance

Hedge fund returns are largely derived from exposure to market factors, according to academic research.

¹ Merrill Lynch Factor Model® – Exchange Series (MLFM-ES) is a benchmark, created in 2011, that is similar to, but not the same as, the Merrill Lynch Factor Model (MLFM), which was introduced in 2006. Each factor model aims to achieve similar market exposures using comparable but different underlying instruments. The MLFM-ES is likely to underperform the MLFM over time due to differences in the underlying cash instruments.

² ProShares UltraShort Euro (EUO) is used as a proxy for the euro-U.S. dollar exchange rate. HDG will typically achieve this exposure through futures or forwards linked to the euro-U.S. dollar exchange rate and will not typically hold shares of EUO.

Investment process

Broad index of hedge fund performance

HFRI, an index of hedge funds:

- Represents over 2,000 hedge funds and a variety of investing styles
- Was created by Hedge Fund Research, Inc., a global leader in the alternative investments industry

Replication model

MLFM-ES, which targets a high correlation to HFRI:

- Aims to replicate the portion of hedge fund returns attributable to market exposure
- Updates factor weightings monthly using HFRI performance data
- Was established by Merrill Lynch, a pioneer in hedge fund replication

The ETF

HDG seeks exposure to market factors underlying MLFM-ES:

- Obtains exposure through readily available, liquid and marketable securities or derivatives
- Invests in equities, ADRs, derivatives such as swaps, forwards and futures, and U.S. Treasury bills
- Does not invest directly in hedge funds

| About the ETF | Advantages of HDG |
|--|--|
| <p>Ticker Symbol: HDG</p> <p>Intraday Symbol: HDG.IV</p> <p>Bloomberg Index Symbol: MLEIFCTX</p> <p>Investment Objective: HDG seeks investment results, before fees and expenses, that track the performance of the Merrill Lynch Factor Model – Exchange Series (MLFM-ES).</p> <p>Inception: 7/12/2011</p> | <p>Unlocks the potential of hedge funds HDG may add diversification to a traditional portfolio of stocks and bonds.</p> <p>Convenient, flexible access The ETF is a way to access the risk/return characteristics of hedge fund investing, offering liquidity, transparency and cost effectiveness.</p> <p>Complement to core holdings HDG can serve as an important complement to core portfolio holdings.</p> |
| | <p>Potential risks</p> |
| | <p>Index performance There are no guarantees that the fund or its index will achieve intended objectives.</p> <p>Derivatives exposure Derivatives used to seek long and short exposure may increase volatility and decrease performance under certain market conditions.</p> <p>See prospectus For more on risks, obtain a prospectus from your financial advisor or visit ProShares.com.</p> |

About ProShares

ProShares has been at the forefront of the ETF revolution since 2006. ProShares now offers one of the largest lineups of ETFs, with more than \$26 billion in assets. The company is the leader in strategies such as dividend growth, interest rate hedged bond and geared (leveraged and inverse) ETF investing. ProShares continues to innovate with products that provide strategic and tactical opportunities for investors to manage risk and enhance returns.

Find out more

Visit [ProShares.com](https://www.proshares.com) or consult your financial advisor.

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. Short positions lose value as security prices increase. Leverage can increase market exposure and magnify investment risk. These risks 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.**

ProShares Hedge Replication ETF (HDG) does not invest in any hedge funds or funds-of-hedge-funds. There is no guarantee that HDG will successfully achieve its investment objective or that the "Merrill Lynch Factor Model® – Exchange Series" (MLFM-ES) will successfully provide the risk/return characteristics of a broad universe of hedge funds or achieve a high correlation with the HFRI Fund Weighted Composite Index (HFRI). Performance differences between MLFM-ES and HFRI are expected to be material at times. Even if HDG achieves its benchmark tracking objective, MLFM-ES may not produce the risk/return characteristics of a broad universe of hedge funds, as measured by HFRI or any other hedge fund benchmark. Individual hedge funds or funds-of-hedge-funds have the potential to provide materially higher or lower returns than HDG, MLFM-ES, or the average return of a broad universe of hedge funds.

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 advisor or broker-dealer representative or visit ProShares.com.

"Merrill Lynch Factor Model® – Exchange Series," "Merrill Lynch Factor Model,®" and "Merrill Lynch International™" are intellectual property of Merrill Lynch, Pierce, Fenner & Smith Incorporated™ or its affiliates ("BofAML") and have been licensed for use by ProShares. Certain trademarks and other marks are property of Standard & Poor's Financial Services LLC, MSCI, Inc., Russell Investments, or their respective affiliates (collectively, "the Index Entities") and have been licensed for use by BofAML. ProShares have not been passed on by BofAML or the Index Entities as to their legality or suitability. ProShares are not sponsored, endorsed, recommended, sold or promoted by BofAML or the Index Entities, and they make no representation regarding the advisability of investing in ProShares. **THE ML FACTOR MODEL AND THE MARKS ARE LICENSED ON AN "AS IS" BASIS. BOFAML AND THE INDEX ENTITIES MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE ML FACTOR MODEL OR MARKS, THEIR USE, OR PROSHARES.**