

Sophisticated Strategies In A Simple Way

A major challenge for financial professionals is satisfying the expectations of a more educated and demanding client base. Advisors want to employ more sophisticated strategies but need to execute them in a simple way. That's the big picture behind the success of ProShares ETFs. They enable investors to easily hedge or magnify their exposure to broad indexes, sectors, asset classes, or styles.

Q: What's the investment philosophy behind the ProShares ETFs?

A: ProShares ETFs are designed to allow investors to easily execute sophisticated strategies for managing risk and enhancing return potential. We developed the concept for ProShares seven years ago. We already had seen substantial interest in shorting strategies and strategies that enable investors to magnify their exposure through our mutual fund products. We believed that an ETF, as a different delivery vehicle for those strategies, would bring the concepts of shorting and leverage to new markets. The \$5.0 billion that we have raised since our introduction last June suggests there is a real need in the marketplace for these products.

The ProShares ETFs are unique—they are the only ETFs that offer short and magnified exposure to well-known indexes, such as the NASDAQ-100, S&P 500, the Dow 30 and the Russell 2000. Short and UltraShort ProShares are designed to provide short exposure by moving in the opposite direction of their applicable indexes, while the Ultra ProShares are designed to double the daily performance of their applicable indexes—all, of course, before fees and expenses.

We also have sector ETFs for 11 Dow Jones U.S. sectors, as well as style ETFs that magnify the daily returns of Russell

large-, mid- and small-cap growth and value indexes—on both the long and short sides.

Q: For what specific purposes do financial professionals use those products?

A: ProShares makes it easier for investors to execute a number of sophisticated strategies. For example, Short and UltraShort ProShares provide an easy way to hedge. Today, many financial professionals are looking for a 'shock absorber' for their clients' portfolios. Those advisors sometimes are not allowed to short individual securities. Going "long" a Short ProShares ETF provides a very simple way to hedge existing holdings.

A specific example would be an advisor who likes the long term prospects of a particular small-cap stock his client owns, but thinks that the small-cap market is temporarily overvalued. He may want to create a hedge so that he can protect that investment without selling the stock. In the past, if he wanted short exposure, he would have to open a margin account, which can be difficult, expensive, and could result in losing more than he invested.

With ProShares, the advisor can get short exposure by simply buying an ETF. There's no margin account. In this case, he could buy the Short Russell2000



STEVE COHEN joined ProFund Advisors LLC in February 2002 as Vice President, Business Development and Strategic Marketing and is currently Managing Director. Prior to joining ProFund Advisors, Mr. Cohen was Vice President, Marketing at FOLIOfn.

Previous to his employment with FOLIOfn, Mr. Cohen served as Vice President, Marketing for Calvert. Mr. Cohen also spent 15 years in the advertising business working for several large agencies including Interpublic Group and Saatchi & Saatchi.

“Today, many financial professionals are looking for a ‘shock absorber’ for their clients’ portfolios... going ‘long’ a Short ProShares ETF provides them with a very simple way to hedge existing holdings.”

Fund Name	Ticker Symbol	NAV Total Returns Cum. Since Inception	Market Price Returns Cum. Since Inception
Short Dow30	DOG	-7.05%	-7.56%
Short MidCap400	MYI	-9.90%	-10.76%
Short QQQ	PSQ	-8.11%	-9.01%
Short Russell2000	RWM	-0.97%	-0.87%
Short S&P500	SH	-8.12%	-8.59%
Short SmallCap600	SBB	-1.86%	-1.33%
UltraShort Dow30	DXD	-14.55%	-15.34%
UltraShort MidCap400	MZZ	-16.96%	-17.52%
UltraShort QQQ	QID	-21.74%	-22.34%
UltraShort Russell2000	TWM	-3.47%	-3.24%
UltraShort S&P500	SDS	-15.05%	-15.51%
UltraShort SmallCap600	SDD	-4.90%	-4.29%
UltraShort Russell1000 Growth	SFK	7.11%	7.01%
UltraShort Russell1000 Value	SJF	4.74%	4.90%
UltraShort Russell2000 Growth	SKK	6.36%	6.41%
UltraShort Russell2000 Value	SJH	6.06%	5.90%
UltraShort Russell MidCap Growth	SDK	6.54%	6.41%
UltraShort Russell MidCap Value	SJL	4.76%	4.33%
UltraShort Basic Materials	SMN	-9.24%	-8.77%
UltraShort Consumer Goods	SZK	1.24%	0.57%
UltraShort Consumer Services	SCC	3.11%	3.36%
UltraShort Financials	SKF	7.41%	7.57%
UltraShort Health Care	RXD	4.96%	4.69%
UltraShort Oil & Gas	DUG	-8.24%	-8.36%
UltraShort Real Estate	SRS	10.10%	10.01%
UltraShort Semiconductors	SSG	4.49%	4.73%
UltraShort Technology	REW	5.33%	5.27%
UltraShort Utilities	SDP	-15.40%	-15.19%
UltraShort Industrials	SIJ	-2.46%	-2.63%
Ultra Dow30	DDM	24.60%	24.29%
Ultra MidCap400	MVV	29.60%	29.66%
Ultra QQQ	QLD	23.02%	23.02%
Ultra Russell2000	UWM	2.81%	2.46%
Ultra S&P500	SSO	27.57%	27.09%
Ultra SmallCap600	SAA	4.67%	4.41%
Ultra Russell1000 Growth	UKF	-6.81%	-7.00%
Ultra Russell1000 Value	UVG	-4.81%	-5.27%
Ultra Russell2000 Growth	UKK	-6.87%	-6.99%
Ultra Russell2000 Value	UVT	-6.57%	-7.16%
Ultra Russell MidCap Growth	UKW	-6.44%	-6.74%
Ultra Russell MidCap Value	UVU	-4.70%	-4.90%
Ultra Basic Materials	UYM	9.01%	8.99%
Ultra Consumer Goods	UGE	-0.89%	-1.20%
Ultra Consumer Services	UCC	-2.91%	-3.24%
Ultra Financials	UYG	-7.51%	-7.84%
Ultra Health Care	RXL	-4.09%	-4.36%
Ultra Industrials	UXI	2.64%	3.50%
Ultra Oil & Gas	DIG	8.21%	8.21%
Ultra Real Estate	URE	-11.10%	-11.31%
Ultra Technology	ROM	-5.30%	-5.67%
Ultra Utilities	UPW	18.21%	16.57%
Ultra Semiconductors	USD	-5.11%	-5.26%

DATA THROUGH: 03/31/2007

ProShares, which would provide the ability to hedge previous gains by shorting the asset class

But convenient shorting is only one benefit of these products. With Ultra ProShares, investors can increase the impact of their investment dollars. For instance, these funds can work well in a core/satellite strategy. For the core portion of a portfolio, an advisor who's looking for \$100,000 of large-cap exposure could buy Ultra S&P500 ProShares ETF. That fund would give him approximately \$100,000 of large-cap exposure for \$50,000. That approach frees up \$50,000 to put into a satellite investment like real estate or another low-correlated asset class. One could also use ProShares to ramp up satellite exposure, for instance, by investing in Ultra Sector ProShares, which seek to double the daily performance, on a daily basis, of a particular sector or industry.

Q: Could you give us some other examples for advisors of a specific product and its uses?

A: Isolating the stock-picking abilities of a small-cap manager is another sophisticated strategy that financial professionals can execute in a simple way. You may particularly like a small-cap mutual fund because you believe that its manager is a great stock picker, but at the same time, you may not want extra exposure to that asset class. You can isolate the manager's stock-picking ability by buying his fund and an equivalent amount in our short product, in this case, the Short Russell2000 ProShares or the Short SmallCap600 ProShares. Essentially, you'd be market neutral to the asset class but you may still add alpha based on the fund manager's stock-picking skill. Isolating alpha is clearly a strategy that many financial professionals are looking for as real returns start to stagnate.

Another example uses our largest product UltraShort QQQ, which is tied to the

NASDAQ-100. It has accumulated nearly \$2.0 billion in assets. That product can be used in the same way. If you like a technology stock but don't feel good about the NASDAQ-100 overall, you can hedge some of the risk associated with the NASDAQ-100 while attempting to benefit from the stock's potential outperformance. Also, if you think the NASDAQ-100 is poised to fall, you can buy the UltraShort QQQ to try and profit from the decline.

Q: How do you design your ETF products?

A: The design of the products starts with listening to our clients in the financial professional world. Our product development is based on what we hear from the market. For instance, we developed 22 Sector ProShares in response to market demand because there was no easy way to short or leverage a sector.

The process of creating the short or leveraged exposure is not new to us; we've done it for a long time on the mutual fund side. Of course, there are nuances on the ETF side but, basically, we consider it our job to provide tight correlation to the daily performance of a fund's benchmark. If the index behind an Ultra Short fund goes down by 1% on any given day, our fund is designed to go up by 2% that day (before fees and expenses, of course), and we use a variety of financial instruments that give us that exposure in a precise way.

Q: Could you describe the sector and the style funds in more detail?

A: We cover a broad array of sectors, including financial, health care, consumer goods, technology, utilities, basic materials, and consumer services. Our ETFs are tied to the Dow Jones U.S. Sector Indexes. On the short side, they're designed to create twice the inverse exposure to the index. That means that if the Dow Jones U.S. Financial Index goes down 1% on a given day, our fund is de-

signed to go up 2%. In this market environment, we've seen a lot of interest for our UltraShort Financial ProShares and the UltraShort Real Estate ProShares. The interest comes either from investors who want to hedge their gains in those sectors, or from people who anticipate a drop in those sectors seeking to profit from the fall.

The Style ProShares, which are pegged to the Russell value and growth indexes, are our newest products. Many advisors and investors might use the style funds to tilt their portfolio in a certain direction. On the long side, they can use ProShares to do that with half the money. If they're looking to tilt their core large-cap portfolio \$100,000 to the value side, they would have to invest \$100,000 in a traditional fund or an ETF. But using Ultra ProShares they can do that with approximately \$50,000. Also, many people have generated large gains in large-cap or mid-cap value funds over the last few years, when value outperformed. If an investor believes that the value cycle is over and will fall out of favor—but doesn't want to sell profitable holdings for fear of tax consequences—buying an UltraShort ProShare would be a simple way to hedge those gains.

Q: Are the products designed specifically for financial professionals or can they be used by individual investors as well?

A: We do not market our products to mom-and-pop individual investors. That said, there are many sophisticated individual investors who use these products much like financial advisors. We make it easier for sophisticated investors to use the strategies that institutions have used for a long time, such as hedging or portable alpha.

Q: What risks do you control and what risks are you exposed to through these products?

A: Overall, we believe that none of these products by themselves represents a

ProShares ETFs

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ETF FAMILY FACTS

Total Net Assets*	\$5,000
Total Number of ETFs	52

SHORT PROSHARES

Short & UltraShort MktCap ETFs	12
UltraShort Style ETFs	6
UltraShort Sector ETFs	11

ULTRA PROSHARES

Ultra MarketCap ETFs	6
Ultra Style ETFs	6
Ultra Sector ETFs	11

INVESTMENT INFORMATION

Min Initial Investment	N/A
Min Subsequent Investment	N/A
Min Initial IRA Investment	N/A

FEES AND EXPENSES

Max Sales Charge - Front**	N/A
Max Sales Charge - Deferred	N/A
Max Redemption Fee	N/A
Avg Total Expense Ratio	N/A

MANAGEMENT TEAM

Bill Seale
*millions
Data through: 05/03/07
Source: Company Documents

complete investment strategy. They are tools to be used to complement a broader portfolio. Individually, these products can be risky, but as part of a portfolio, many of these products can be used to mitigate risk. On the short side, they can help limit risk when used as a hedging vehicle. On the long side, Ultra ProShares create a given exposure with less cash than a traditional mutual fund or ETF. Since less money is at risk, there is a greater opportunity to diversify and to manage the risk. Whether you use ProShares to seek profit or manage risk, they are like any other investment—you should understand what you own and the role it plays in your portfolio. 