

4 T H A N N U A L

Innovative **ALTERNATIVE** **INVESTMENT STRATEGIES**

Liquid Alternatives: Generating Alpha with ETFs, ETNs and Hedge Fund Mutual Funds

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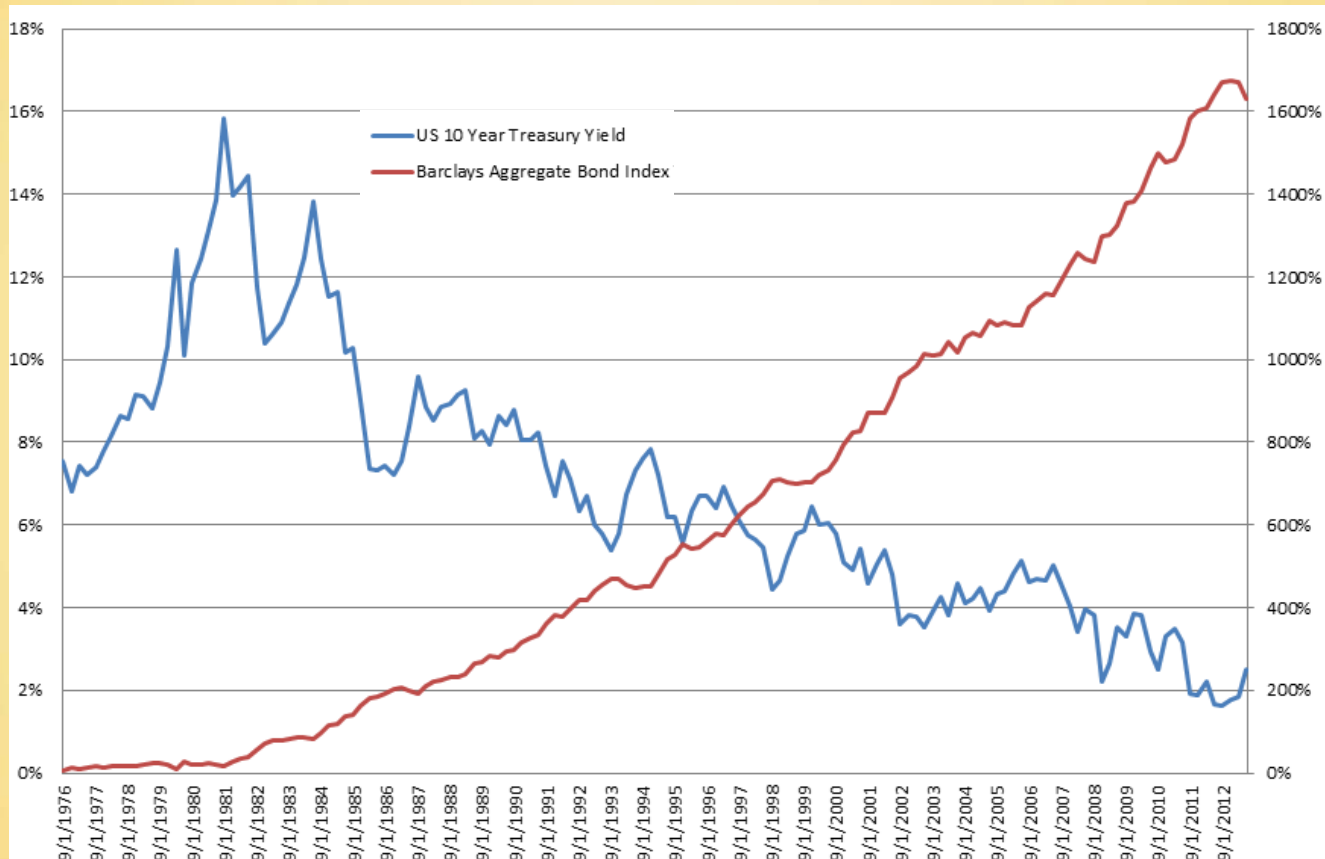


Why Alternatives?

- Alternatives have multiple objectives:
 - Reduce volatility
 - Manage risk
 - Enhance returns
- Not long-only stocks, U.S. bonds or cash
- Generally not highly correlated with traditional asset classes
- Can refer to asset classes or strategies
- Not in the mainstream today
- Definition changes over time



U.S. 10 Year Treasury Yield vs. Barclays Aggregate Bond Index



Source: FactSet and Bloomberg. All Data as of 7/2/13. Past performance does not guarantee future results. Please see important disclosure on slide 2. See index disclosure on slide 6.

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Correlation to Changes in Interest Rates

	% Change of 10 Year U.S. Treasury Yield	HFRI Fund WC Index	Barclays Aggregate Bond Index	S&P 500 Index
% Change of 10 Year U.S. Treasury Yield	1			
HFRI Fund Weighted Composite (WC) Index	0.20	1		
Barclays Aggregate Bond Index	-0.81	0.07	1	
S&P 500 Index	0.16	0.74	0.12	1

Source: FactSet and Bloomberg. Data as of 6/27/13. Past performance does not guarantee future results.

Please see important disclosure on slide 2. See index disclosure on slide 6.

The **correlation coefficient** is a measure that determines the degree to which two variables' movements are associated and will vary from -1.0 to 1.0. -1.0 indicates perfect negative correlation, and 1.0 indicates perfect positive correlation.

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Minimize Portfolio Drawdown

Number of portfolio drawdowns that exceeded 2%, 3% and 4% based on a 60/40 portfolio of the S&P 500 Index and Barclays Aggregate Bond Index: 1990-2012

Loss >	Number of Drawdowns
2%	40
3%	23
4%	14

Number of portfolio drawdowns that exceeded 2%, 3% and 4% based on a 40/40/20 portfolio of the S&P 500 Index, Barclays Aggregate Bond Index and HFRI Fund WC Index: 1990-2012

Loss >	Number of Drawdowns
2%	30
3%	16
4%	6

Source: Fact Set. All Data as of December 31, 2012. Past performance does not guarantee future results. Please see important disclosure on slide 2. See index disclosure on slide 6.

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Index Definitions

These indices do not reflect the performance of a fund. All indices listed are unmanaged indices and include the reinvestment of all dividends, but do not reflect the payment of transaction costs, advisory fees or expenses that are associated with an investment in a fund. An index's performance is not illustrative of a fund's performance. Indices are not securities in which investments can be made.

The **S&P® 500 Index**, calculated with dividends reinvested, consists of 500 leading companies in leading industries of the U.S. economy.

The **HFRI Fund Weighted Composite (WC) Index** is a global, equal-weighted index of over 2,000 single-manager funds that report to HFR Database. Constituent funds report monthly net of all fees performance in US Dollar and have a minimum of \$50 Million under management or a twelve (12) month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds.

The **Barclays Aggregate Bond Index** is composed of the mortgage-backed and asset-backed securities and government/credit bonds.

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The Case for Long/Short Equity

Long/short equity has emerged as a potential substitute for a traditional 60/40 blend

- 10-Year Treasury yield remains close to all-time lows
- S&P 500 is back near all-time highs
- History shows that long/short equity funds have outperformed both the S&P 500 and a 60/40 blend
 - **Given current market levels, the time is ripe to allocate to long/short equity funds**

	January 1998 - June 2013						
	Annual Return	Standard Deviation	Beta vs. S&P 500	Alpha vs. S&P 500	Correlation vs. S&P 500	Sharpe Ratio	Max Drawdown
S&P 500	5.2%	16.1%	1.00	0.00%	1.00	0.17	-51.0%
60% S&P 500/40% Barclays U.S. Aggregate	5.9%	9.4%	0.57	2.56%	0.99	0.37	-30.8%
HFRI Equity Hedge (Total) Index	7.9%	9.7%	0.47	5.19%	0.78	0.56	-30.6%
45% SP500/30% Agg/25% HFRI EH	6.5%	9.0%	0.55	3.25%	0.97	0.44	-30.6%
50% SP500/35% Agg/15% HFRI EH	6.3%	9.0%	0.55	3.04%	0.98	0.42	-30.1%

Source: Zephyr StyleADVISOR

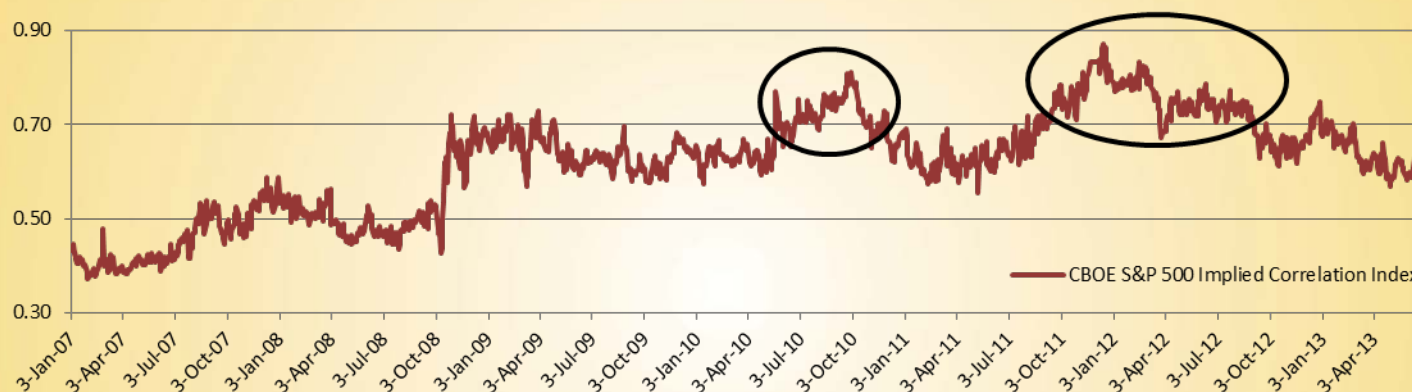
Past performance is no guarantee of future results



The Return of Alpha in L/S Equity

A large portion of the past three years was marred by a “risk on/risk off” market psychology, but we are back to a “normal” level

Correlation of the S&P 500 constituents to the S&P 500 Index spiked above 0.70 on two separate occasions since the financial crisis, highlighting a market driven by tail risk



If correlations remain under 0.70, long/short equity is poised to potentially outperform again

Long/Short Equity Alpha Generation January 2007 - June 2013

	Low Correlation Months (<70%)		High Correlation Months (>70%)	
	HFRI Equity Hedge	S&P 500	HFRI Equity Hedge	S&P 500
Annualized Return	1.19%	-1.05%	6.21%	25.19%
Alpha	1.45%	0.00%	-7.12%	0.00%
Beta	0.49	1.00	0.58	1.00
# of Periods	61	61	17	17

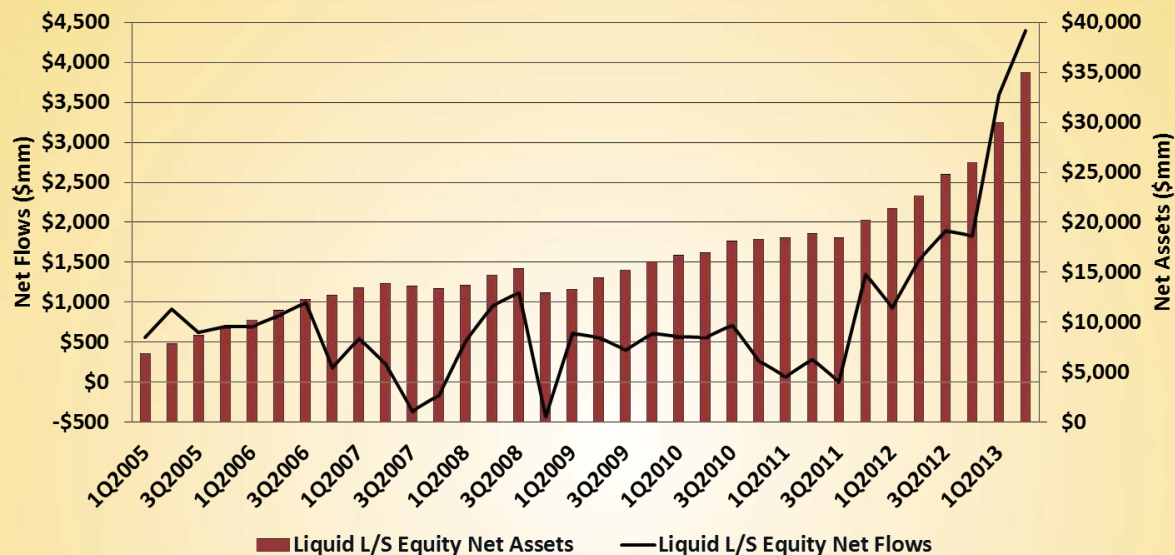
Source: Long Short Advisors, Hedge Fund Research

Past performance is no guarantee of future results



Investors are Voting with their Feet

Long/short equity mutual fund flows continue to accelerate . . .



. . . Especially relative to traditional hedge funds

May 2013 Year-to-Date Long/Short Equity Fund Flows

Traditional Hedge Funds
(HFRI Equity Hedge Index)

YTD Net Return 6.81%
YTD Net Flows -\$7.74 Billion

1940 Act Mutual Funds
(Morningstar L/S Equity Category)

YTD Net Return 6.81%
YTD Net Flows +\$6.14 Billion

Source: Morningstar, Hedge Fund Research, eVestment

Past performance is no guarantee of future results



Important Notes

You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses of the Fund before investing. The Fund's prospectus contains this and other information about the Fund, and should be read carefully before investing. You may obtain a current copy of the Fund's prospectus by calling

1-877-336-6763. Past performance is no guarantee of future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

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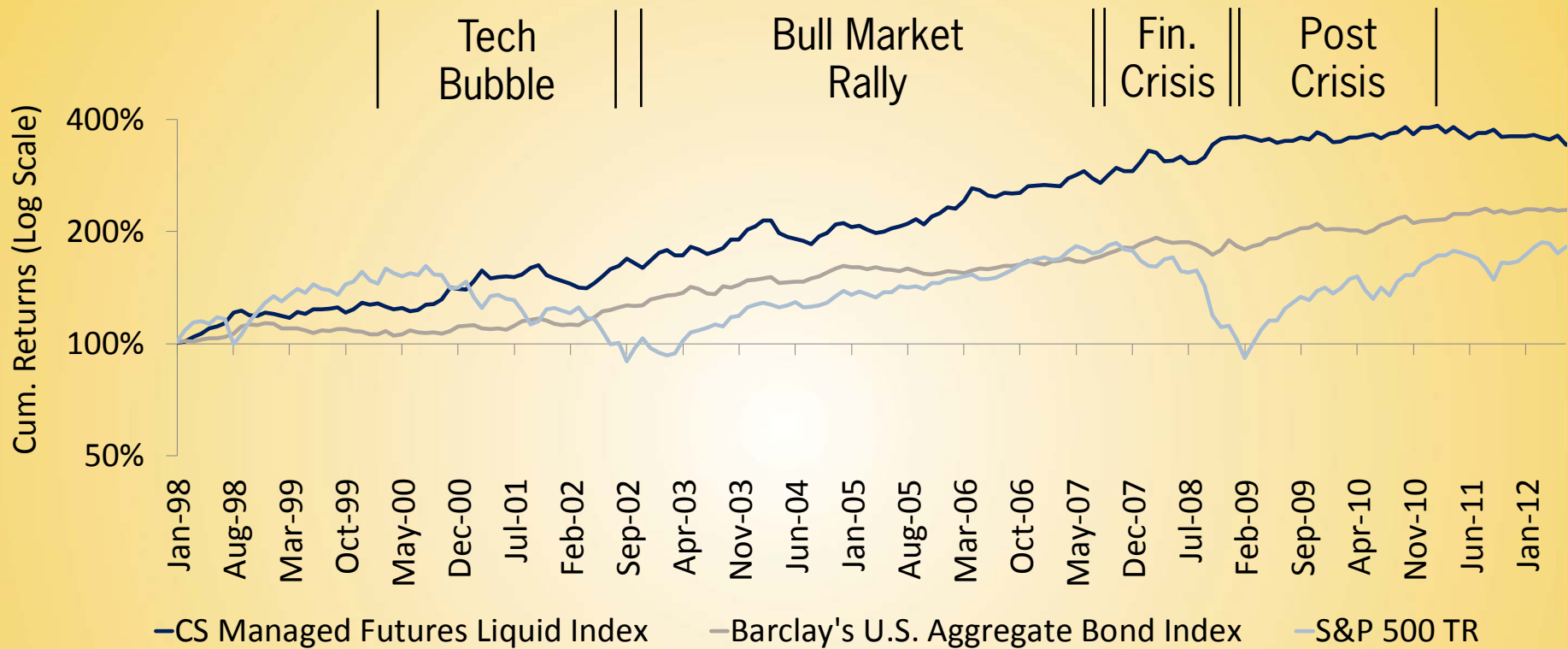
There is no guarantee that this or any investment strategy will succeed; the strategy is not an indicator of future performance; and investment results may vary.

Investment in shares of a Long/Short equity fund is more volatile and risky than some other forms of investments. Since the Long/Short equity fund has both a long and a short portfolio, an investment in the Fund will involve risks associated with twice the number of investment decisions made for a typical stock fund. These types of funds typically have a high portfolio turnover that could increase transaction costs and cause short-term capital gains to be realized.

Given the significant differences between separately managed accounts and mutual funds, investors should consider the differences in expenses, tax implications and the overall objectives between separately managed accounts and mutual funds before investing. Past performance of the strategy/separately managed account is not indicative of future performance of the fund.



Managed Futures Performance



Managed Futures Correlations to Other Asset Classes

Commodities	Bonds	Equities	Currencies
0.09	0.25	-0.24	-0.14

Sources: Credit Suisse Asset Management LLC, Bloomberg. Managed Futures represented by the Credit Suisse Managed Futures Liquid Index. Equities represented by the S&P 500 TR Index. Commodities represented by the S&P GSCI Index TR. Bonds represented by the Barclays Global Aggregate Bond Index, Currencies represented by the US Dollar Currency Index. Data from 12/31/97 – 6/31/13. The above shows **hypothetical performance** of the Credit Suisse Managed Futures Liquid Index from **January 1998 to January 2011** and **actual historical performance** since **February 2011**. **Past performance is not a guarantee or indicator of future results.**



Using Liquid Alternatives in Portfolios

Function	Features
Improve Return–Risk Profile/Diversification	<ul style="list-style-type: none"> • Attractive return–risk profile • Lower beta to equities • Absolute return objectives (Use leverage, shorting and derivatives)
Manage Equity Risk	<ul style="list-style-type: none"> • Negative correlation to equity returns • Some may have large gains in periods of market stress
Manage Interest Rate/Inflation Risk	<ul style="list-style-type: none"> • Returns positively correlated with rising interest rates or expected inflation
Manage Exposure to Asset Classes	<ul style="list-style-type: none"> • Strategies to address changing markets • Opportunities to do it yourself or outsource • May need to monitor/rebalance

For illustrative purposes only.



Liquid Alts in ETF/Fund Packaging

Improve Return–Risk
Profile/
Diversification

Manage
Equity Risk

Manage Interest
Rate/Inflation Risk

Manage Exposure to
Asset Classes

Hedge Replication
Equity Market
Neutral
Equity Long/Short
Managed Futures
Global Macro
Global Debt
Private Equity

Inverse Equity
VIX Futures
Dedicated Short
Bias

TIPS
Inverse Fixed
Income
Hedged High Yield
Breakeven Inflation
Commodities
Real Estate

Leveraged and
Inverse ETFs:
Global Equity
Fixed Income
Sector/Industry
Commodities
Currencies



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Carefully consider the investment objectives, risks, and 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. For a ProShares ETF prospectus, please visit ProShares.com.

This information must be accompanied or preceded by a current ProShares Trust II prospectus (http://www.proshares.com/funds/trust_ii_prospectuses.html).

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