



Like those movie characters who wake up one morning to find their car missing, fixed income investors are beginning to wake up to the troubling fact that dividend income has been missing from some of the most popular bond ETFs. Rising bond yields prompted investors to move back into fixed income, often through bond ETFs. Many of those investors, who had expected to capture current "As Seen On TV" yields, have been opening their monthly statements and asking, "Dude, Where's My Dividend?"

There is a difference between an ETF's yield and the portion of that yield that an ETF can distribute to investors, which is typically just the coupon of the ETF's underlying bonds. An ETF holding lower coupon bonds may ultimately deliver a market yield, but that ETF will provide less distributable income to investors along the way since it derives a larger portion of its yield from price appreciation.

Although this is not a novel issue, recent increases in interest and coupon rates have made it more pronounced. Most ETFs following broad indices hold many bonds issued long ago when coupon rates were considerably lower. Therefore, investors in those ETFs must wait years to receive the total return of that yield, and along the way, they will not see the dividend distributions they may have been expecting. With most of these bond indices spanning many years, this issue will persist for years to come.

A Current Coupon Solution

F/m Investments, with its innovative [US Benchmark Series](#) and more recent [US Credit Series](#), understands and appreciates the potential advantage of staying in sync with current bond markets. With ten ETFs in the US Benchmark Series spanning the entire yield curve and three distinct points on the US credit curve, F/m's ETFs give investors precise investing solutions with distributable income that are more in line with current market yields. The single-bond approach of the US Benchmark Series ETFs differs from the average maturity approach found in most fixed income ETFs — and enables investors to pinpoint the maturity that best fits their needs. The following example illustrates the potential advantages of an investment management philosophy that favors the newest, on-the-run bond issues.

The UTEN Advantage

F/m's US Treasury 10 Year Note ETF, [UTEN](#), holds the on-the-run 10 Year US Treasury note and consistently rolls into each new issue 10 Year note each quarter. Conversely, the iShares 7-10 Year Treasury Bond ETF holds numerous, older US Treasuries. Although it's reasonable to think these should be similar, the difference is clear: the newest bond pays a

WRITTEN:

August 14, 2024

SUMMARY:

A look at why Fixed Income ETFs holding only the most current, most liquid bonds have the ability to pay higher dividends than ETFs holding larger numbers of older, potentially less liquid, bonds.

FIGURE 1: CURRENT COUPON UTEN VS IEF

Characteristics	UTEN	IEF
	US Treasury 10 Year Note ETF	iShares 7-10 Year Treasury Bond ETF
# of Securities	1	19
Option Adjusted Duration	7.85	7.19
Average Maturity	9.75 years	8.48 years
Yield to Maturity	3.90%	3.88%
12-Month Dividend Yield	3.88%	3.23%
Indicated Yield	4.17%	3.57%
30 Day SEC Yield	3.94%	3.92%

Source: Bloomberg. Data as of 8/12/2024 except for 30-Day SEC Yield which is 8/9/2024. We chose IEF as it is the largest ETF in the fund category (maturity range) and often used as a default vehicle by many investors. Duration was comparable.

Standard Performance: [UTEN](#) | [IEF](#)

The performance data quoted represents past performance. Past performance does not guarantee future results. The 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 their original cost and current performance may be lower or higher than the performance quoted. For the most recent month-end performance, please call 1-800-617-0004 or visit our website at www.ustreasuryetf.com or www.fminvest.com.

higher coupon, and an ETF holding it has the ability to pay a higher dividend now. This income advantage is important. Bond investors are often looking for income in their fixed income investments. UTEN does just that, as Figure 1 illustrates. Many of the bonds held within IEF pay coupons well below the current rate. In fact, 23.5% of the bonds in IEF have coupons below 2%, and more than 60% of the fund holdings have coupons below 4%.^{*} UTEN, with its single 4.375% coupon (as of August 12, 2024), has additional potential advantages. On-the-run securities are more liquid than their aged (off-the-run) counterparts, allowing them to trade with more narrow spreads. Funds holding fewer, more liquid holdings can also potentially outperform their over-diversified, less liquid competitors because they incur fewer and smaller transaction fees.

“Dude, I Found My Dividend!”

The precise, current coupon solutions offered by the [US Benchmark Series](#) enable investors to choose their portfolio's maturity and duration while enjoying dividend income closely tied to the current market.

We can't help people find their missing cars, but we'll keep making it easy for investors to find their dividends.

^{*}Source: Bloomberg as of 8/12/2024

GLOSSARY

Option Adjusted Duration: A duration calculation for bonds that have embedded options. This measure of duration takes into account the fact that expected cash flows will fluctuate as interest rates change and is, therefore, a measure of risk.

Average Maturity: The average length of time to the repayment of principal for the securities in the fund. This metric considers the likelihood that bonds will be called or prepaid before the scheduled maturity date.

Yield to Maturity: The discount rate that equates the present value of a bond's cash flows with its market price (including accrued interest). The Fund Average Yield to Maturity is the weighted average of the fund's individual bond holding yields based on Net Asset Value ("NAV"). The measure does not include fees and expenses. For callable bonds, this yield is the yield-to-worst.

12-Month Dividend Yield: A ratio that compares a company's annual dividend to its share price, expressed as a percentage.

Indicated Yield: Estimates the annual dividend return of a stock based on its most recent dividend.

30-Day SEC Yield: Based on a 30-day period ending on the last day of the previous month. It is computed by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the period. The figure listed lags by one month. When a dash appears, the yield available is not available yet.

Duration: A measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

On-the-Run & Off-the-Run: The periodic transition to the most recently auctioned Treasury bill, note, or bond of a stated maturity, which is referred to as the "on-the-run" or "OTR" security of that maturity, occurs on one day. An OTR security is the most recently issued of a periodically issued security (as opposed to an off-the-run security, which is a security that has been issued before the most recent issue and is still outstanding).

Prospectus: [US Treasury 10 Year Note ETF](#) | [iShares 7-10 Year Treasury Bond ETF](#)

UTEN Details: Expense Ratio: 0.15%, Inception date: 8/9/2022

Investment Objective: The investment objective of the US Treasury 30 Year Bond ETF (the "UST 30 Year Bond Fund") is to seek investment results that correspond (before fees and expenses) generally to the price and yield performance of the ICE BofA Current 30-Year US Treasury Index (GA30).

Investment Strategy: The UST 10 Year Note Fund's investment strategy is to pursue its investment objective.

IEF Details: Expense Ratio: 0.15%, Inception date: 7/26/2002

Investment Objective: The iShares 7-10 Year Treasury Bond ETF (the "Fund") seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities between seven and ten years.

Investment Strategy: The Fund seeks to track the investment results of the ICE® U.S. Treasury 7-10 Year Bond Index (the "Underlying Index"), which measures the performance of public obligations of the U.S.

Treasury that have a remaining maturity of greater than or equal to seven years and less than ten years. As of February 29, 2024, there were 12 issues in the Underlying Index.

As with all ETFs, Shares may be bought and sold in the secondary market at market prices. Interest rate risk is the risk of losses attributable to changes in interest rates. In general, if prevailing interest rates rise, the values of debt instruments tend to fall, and if interest rates fall, the values of debt instruments tend to rise. Fund Risks: The UST 10 Year Note Fund may be susceptible to an increased risk of loss, including losses due to adverse events that affect the UST 10 Year Note Fund's investments more than the market as a whole, to the extent that the UST 10 Year Note Fund's investments are concentrated in a particular issue, issuer or issuers, country, market segment, or asset class. While U.S. Treasury obligations are backed by the "full faith and credit" of the U.S. Government, such securities are nonetheless subject to credit risk (i.e., the risk that the U.S. Government may be, or be perceived to be, unable or unwilling to honor its financial obligations, such as making payments).

US Treasury 10 Year Note ETF is distributed by Quasar Distributors, LLC

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3050 K Street NW, Suite 201 / Washington, DC 20007 / (202) 839-4910 / www.fminvest.com

24-02001
Printed Internally

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