

March 2021

Consider a UCITS compliant exchanged traded fund (ETF) offering exposure to US treasury floating rate notes with low duration exposure.

WisdomTree US Treasury Floating Rate Notes (FRNs) Strategy

For investors looking for ways to reduce the overall interest rate exposure within their fixed income portfolios, the landscape of available solutions has evolved. Historically, many investors have utilized short-duration strategies when positioning themselves for potentially higher bond yields. Investors will typically aim to reduce the interest rate exposure within their fixed income portfolios by reducing exposure from intermediate/longer dated maturities into shorter-dated instruments. **For US dollar-based investors or for investors taking active currency exposure to the US dollar, some of the most widely used methods to reduce interest rate exposure involve US Treasury (UST) bonds such as Treasury bills (T-bills) or focusing on the one-to-three-year Treasury note sector. US Treasury FRNs provide investors with an additional tool within their toolkit to reduce duration exposure.**

Understanding the basics: What is a Floating Rate Treasury Note?



US Treasury FRNs make payments to bondholders each quarter with the coupon amount **linked to movements in short interest rates.**



Coupon rate is reset daily in reference to the highest accepted discount rate of the **most recent 13-week Treasury bill auction, plus or minus a fixed spread** determined at the securities' initial issuance.



Since auctions for new 13-week Treasury Bills typically occur once a week, the **coupon rate effectively changes weekly.** Interest is accrued daily and distributed quarterly.



They are backed by the full faith and credit of the US government and have a 2-year final maturity.



Given the longer-duration aspect of US Treasury Inflation-Protected Securities (TIPS), **TIPS have higher sensitivity to increases in longer-term interest rates and inflation.** On the other hand, **US Treasury FRNs** are more directly tied to changes in interest rates directly influenced by Federal Reserve rate moves and **have very little duration exposure.**

What role can US Treasury FRNs play in investor portfolios?

While the US Federal Reserve has indicated that it would take a more dovish monetary policy approach as the US economy recovers from the global health pandemic, there is still a possibility that we could see yields on longer dated US Treasuries rise. We believe the low duration characteristic of US Treasury FRNs can represent an effective way for investors to help reduce their exposure to rising US Treasury bond yields meanwhile maintaining exposure to bonds that are backed by the full faith and credit of the US government. US Treasury FRNs could also potentially serve as an alternative solution to floating rate corporate bonds (corporate FRNs) which carry corporate credit risk as US Treasury FRNs can help an investor reduce their corporate credit risk meanwhile maintain a low duration profile.

Introducing USFR: Floating Rate Notes which are backed by the US Government

The WisdomTree USD Floating Rate Treasury Bond UCITS ETF (the "Fund") seeks to track the price and yield performance, before fees and expenses, of the Bloomberg Barclays US Treasury Floating Rate Bond Index (the "Index"):

- + Methodology: Rules-based market value weighted
- + Individual bond screening: Minimum amount outstanding of \$250 million
- + Rebalanced Monthly
- + UCITS compliant

Fund info: WisdomTree's USD Floating Rate Treasury Bond UCITS ETF

Policy	Exchange	ISIN	Bloomberg Ticker	Trading Currency	Base Currency	TER*
Distributing	LSE	IE00BJFN5P63	USFR LN	USD	USD	0.15%
Accumulating	LSE	IE00BJJYX67	TFRN LN	USD	USD	0.15%

* Total Expense Ratio

Source: WisdomTree, US Treasury

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