



Betashares Inflation-Protected U.S. Treasury Bond Currency Hedged ETF

ASX: UTIP

Target what's real

US Treasuries are generally considered to be the world's premier safe haven asset, providing the key risk-free benchmark for many other financial instruments. US Treasuries are not only used for financing the US government and for implementing the Fed's monetary policy, they are typically included as a core allocation for most of the world's major pension and sovereign wealth funds, as well as forming part of many countries' central bank reserves.

At Betashares, we have crafted our fixed income suite to empower asset allocators and investors with enhanced control over their fixed income strategies. Our suite of funds delivers efficient building blocks to implement for desired risk-return profiles. UTIP enhances this concept, allowing duration itself to be further segmented, enabling investors to obtain the real yield from US Treasuries without the concern of realised inflation or upswings in inflation expectations catching them off guard.

UTIP aims to track an index of US Treasury Inflation Protected Securities (TIPS) weighted according to free-float adjusted market value.

Investors might consider UTIP as a long-term core fixed income allocation, or if they believe realised inflation will eclipse expected inflation over the medium term, or alternatively if they believe inflation expectations will rise in the shorter term.



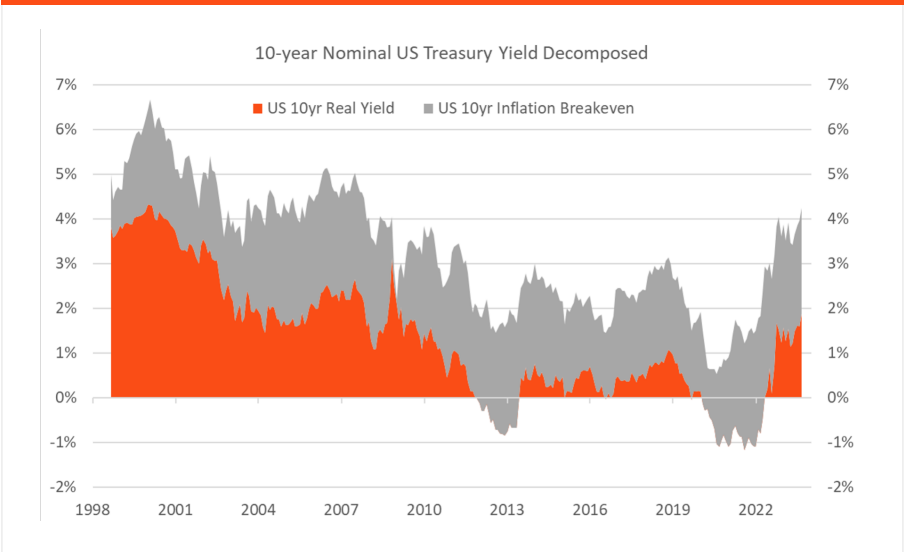
Isolating real yields

Yields on traditional fixed-rate nominal US Treasuries ('nominals') comprise two elements: the inflation-adjusted yield ('real yield') and the inflation compensation ('breakeven').

With the introduction of TIPS in 1997, both components became directly observable and tradable. This development enables investors to obtain returns relative to realised US inflation (CPI) over a chosen period.

The gap between the yield on nominals and the real yield on TIPS is termed the inflation breakeven, serving as our benchmark to assess relative value between the two Treasury types. This is grounded in the fact that the breakeven represents the level of inflation compensation embedded in nominals.

Figure 1: 10-year Nominal US Treasury Yields Decomposed



Source: Bloomberg, as of 31 August 2023. Past performance is not an indicator of future performance of any index or ETF.

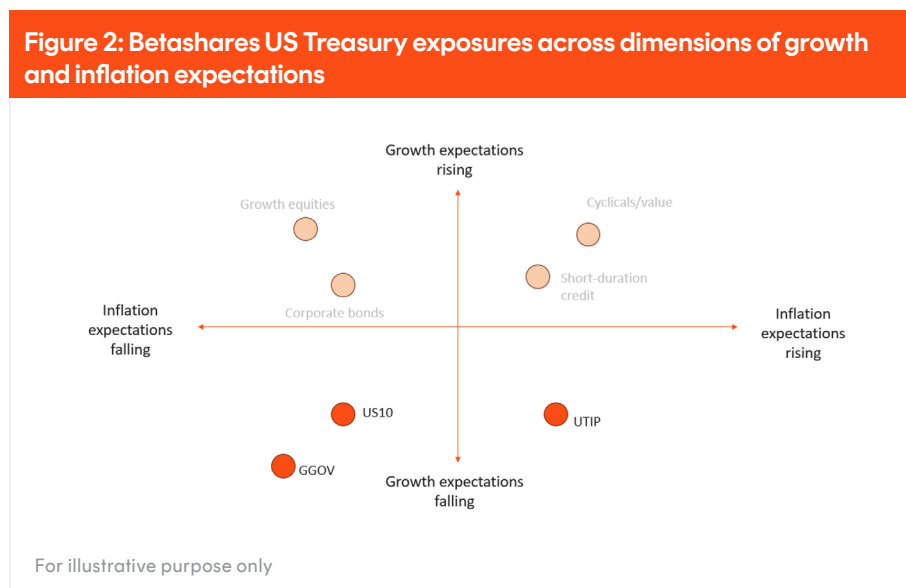
The case for TIPS and long-term performance

So, what economic environment should favour TIPS over fixed-rate nominal US Treasuries?

If we anticipate realised inflation to exceed the currently priced rate (the breakeven expectation), TIPS are likely to outperform nominals over the specified maturity period. Conversely, if you predict inflation will be below what is implied in breakevens, then nominals should take the lead over that maturity span. Over shorter time horizons, fluctuations in inflation breakevens dictate relative performance.

Essentially, TIPS can be expected to thrive in scenarios where US growth faces challenges, but where

1. inflation consistently surpasses expectations or
2. inflation expectations rise.



Over the past two decades, the Bloomberg US TIPS index has outperformed comparable indices of nominal Treasury bonds, demonstrating a lack of an inflation risk premium on the broad US Treasury universe historically and providing a compelling case to focus on real yields over the long-term.

UTIP's index* vs. broad US Treasuries vs. US CPI (to 31/8/23) (% p.a.)				
	US CPI	UTIP's index*	Broad UST Index	Difference
1y	3.67%	-5.54%	-3.94%	-1.60%
3y	5.71%	-2.48%	-6.07%	3.59%
5y	4.01%	1.32%	-0.52%	1.85%
10y	2.76%	2.29%	1.42%	0.88%
15y	2.27%	3.89%	3.49%	0.40%
Inception	2.61%	4.90%	4.34%	0.56%

*Inception date 31/1/2004

Source: Bloomberg. Past performance is not an indicator of future performance of any index or ETF. You cannot invest directly in an index. Table shows performance of UTIP's Index, being the Bloomberg Global Inflation-Linked: U.S. TIPS Total Return Index Hedged AUD, against the iBoxx USD Treasuries AUD Hedged Index ('Broad UST Index'). It does not show the actual past performance of UTIP. UTIP's inception date was 18/9/2023. It does not take into account UTIP's management fees and costs (0.22% p.a.).



Index Methodology and Fund characteristics

UTIP has been designed to provide broad exposure to the TIPS market, through its objective of tracking the Bloomberg Global Inflation-Linked: U.S. TIPS Total Return Index Hedged AUD.

To be eligible for inclusion at index rebalance a security must:

- be issued by the US Treasury
- have principal and interest that are inflation-linked and denominated in USD
- be rated investment grade
- have a minimum issue size of US\$500 million
- pay a fixed-rate coupon, and
- have at least 1 year until maturity.

UTIP provides exposure to TIPS across the curve, with maturities between 1 year and 30 years, with an average duration (and sensitivity to real yield movements) of around 6.5 years, broadly in line with the duration of the nominal Treasury universe, and a AA+ credit rating¹. For investors looking to take advantage of the recent jump in real yields, while seeking to mitigate the risks of US inflation overshooting in the coming years, UTIP offers a compelling alternative to fixed-rate bonds.

Summary

US Treasury yields have increased markedly over the past two years on the back of the most aggressive policy tightening cycle in a generation. Notably, the entirety of the move has been via real yields, which are trading at their highest level in over a decade, whereas inflation breakevens continue to trade around long-term averages. This presents compelling relative value for TIPS over nominal Treasuries over the medium-to-longer term, particularly if you believe there is a risk of structurally higher inflation in the future.

Betashares Inflation-Protected U.S. Treasury Bond Currency Hedged ETF (ASX: UTIP) provides simple access to the world's largest inflation protected securities markets, in a single ASX trade.

There are risks associated with an investment in the Fund, including country risk, credit risk, currency hedging risk and inflation (deflation) risk. For more information on risks and other features of the Fund, please see the Product Disclosure Statement.

¹ Source: Bloomberg, as of 31 August 2023.