BNY MELLON INVESTMENT MANAGEMENT | Dreyfus

Ultra Short Income ETF Investing

RETHINKING CASH AND FIXED INCOME ALLOCATIONS

As the Federal Reserve appears to be ending its tightening cycle,[1] investors may be rethinking their cash and fixed income allocations. We believe the current environment may provide an opportunity to extend cash allocation durations with potentially limited liquidity compromise. Incorporating ultra short income exchange traded funds (ETFs) may potentially capture yield and mitigate interest rate risks.

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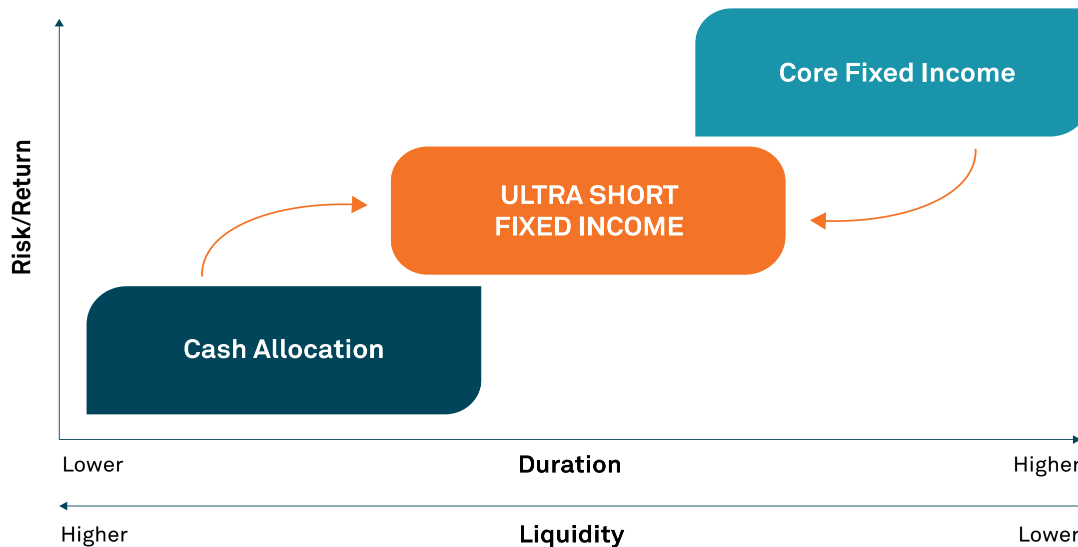
CONSIDER CASH AND CORE FIXED INCOME ALLOCATIONS

Investors can view the current interest rate and inflation environment as a potential opportunity to evaluate their strategic cash and fixed income allocations. Balancing risk in this environment can be challenging, so creatively thinking about the balance between a portfolio's cash and core fixed income allocation may help navigate the risks and potentially gather additional yield. We think investing in an ultra short duration income ETF stands out as a pragmatic solution.

The Potenial Role of Ultrashort in a Fixed Income Portfolio

As of March 2024



Source: BNY Mellon.

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[1] A market cycle is defined as the overall state of the economy as it goes through four stages in a cyclical pattern: expansion, peak, contraction and trough. A contraction, or tightening cycle, occurs when a central bank increases its policy rate multiple times.

Investment objectives may not be achieved. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

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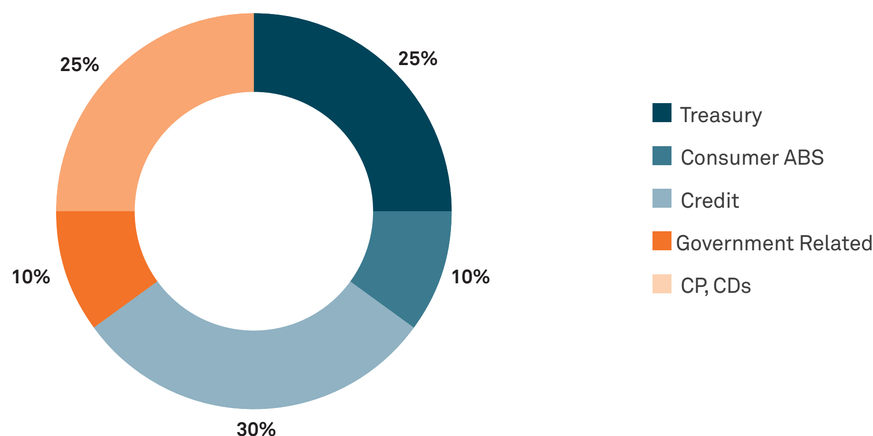
ULTRA SHORT INCOME ETF STRATEGY

Ultra short duration income investments are fixed-income strategies that have an average duration of 6 to 12 months — that seek to offer yields above traditional short-term investments such as money market funds or savings accounts. These investments are designed to seek higher returns with healthy liquidity.[2] In our view, the potential for a higher return over traditional cash management tools and for shortening the duration of a core fixed income allocation may help to navigate the risks associated with peak rates.

Ultra Short Income ETF Investment Example

Typical characteristics of this strategy



For illustrative purposes only. The fund's actual portfolio may be materially different than the model presented.

Ultra short income ETFs feature characteristics that might appeal to investors who seek to:

Generate stable income

Ultra short duration income ETFs can offer attractive yields. In general, the funds do so by having the ability to buy corporate credit and longer-duration securities with a maximum maturity of five years (though typical maturity length may differ).

Mitigate interest rate risk

Due to their shorter durations, ultra short duration income ETF investments are less sensitive to interest rate fluctuations. **This characteristic helps mitigate the impact from interest rate movements, potentially providing stability.**

Manage credit risk

By investing in a diversified portfolio of fixed-income securities, ultra short duration income ETFs can help reduce credit risk and enhance risk-adjusted returns. Additionally, the ETF structure allows for broad exposure to various issues and sectors, thereby providing investors with a diversified income stream.

[2] The ETF is not a money market fund, and the risks of investing in ultra-short bond funds is higher than investing in money market funds. In addition, ultra-short bond funds are not subject to the liquidity requirements and investment and credit quality restrictions applicable to money market funds. There can be no assurance that the fund will protect principal or generate higher returns than money market funds.

No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. There is no guarantee that the strategy described herein will be achieved.

POTENTIAL BENEFITS OF ULTRA SHORT INCOME ETFs

1 **Intraday liquidity**
ETFs are traded on stock exchanges, allowing investors to buy or sell shares throughout the trading day at market prices. This feature provides enhanced liquidity compared with traditional mutual fund vehicles, which are typically priced and traded only once per day.

2 **Price transparency**
ETFs provide real-time price transparency, as their prices are continuously updated throughout the trading day. Investors can monitor the ETF's market value and make informed investment decisions based on current market conditions.

3 **Cost efficiency**
ETFs generally have lower expense ratios compared with actively managed investment solutions (e.g., mutual funds).[3] This cost efficiency is primarily due to the investment approach typically employed by ETFs, which aims to replicate the performance of a specific index or asset class.

4 **Tax efficiency**[4]
The structure of ETFs may provide potential tax advantages for investors. ETFs are designed to minimize capital gains distributions because they allow for in-kind creation and redemption of shares. This mechanism may help to defer taxable events, potentially reducing the tax burden for investors. Additionally, ETFs can offer tax-efficient strategies, such as tax-loss harvesting, which may help to optimize after-tax returns.

5 **Diversification benefits and risk management**
ETFs offer investors access to a diversified portfolio of ultra short duration income investments. This diversification helps mitigate individual issuer risk and may enhance risk-adjusted returns. Additionally, ETFs provide transparency regarding the underlying holdings, allowing investors to assess the credit quality and diversification strategy of the portfolio. This transparency empowers investors to make informed decisions and manage risks effectively.

Approaching Liquidity Allocations Differently

We believe today's interest rate environment is well served with a trusted and experienced investment manager. By combining our focused liquidity experience with a full range of product solutions, we aim to offer investors product solutions which will help them plan for achieving their investment goals and optimizing their return potential.

We believe the BNY Mellon Ultra Short Income ETF (BKUI) may be a solution worth considering in this interest rate environment.

[3] Source: Morningstar Direct, eVestment.

[4] BNY Mellon, its affiliates and associates do not provide tax advice.
Consult with your own professional tax advisers before investing. ETF tax efficiency can be derived from certain structural elements, including; turnover in passive strategies are typically lower than that in active; and there can be structural tax benefits from in-kind redemptions. When assets are delivered from the ETF via an in-kind transfer, no capital gains are realized. This can allow investors more control over the timing of their tax liabilities based on when they generally sell their position. Please consult your own tax advisor or financial professional for more detailed information on tax issues as they relate to your specific situation.

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ETFs trade like stocks, are subject to investment risk, including possible loss of principal. The risks of investing in the ETF typically reflect the risks associated with the types of instruments in which the ETF invests. Diversification cannot assure a profit or protect against loss.

All investments involve risk including loss of principal. Certain investments involve greater or unique risks that should be considered along with the objectives, fees, and expenses before investing.

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ETF shares are listed on an exchange, and shares are generally purchased and sold in the secondary market at market price. At times, the market price may be at a premium or discount to the ETF's per share NAV. In addition, ETFs are subject to the risk that an active trading market for an ETF's shares may not develop or be maintained. Buying or selling ETF shares on an exchange may require the payment of brokerage commissions.

The ETF funds will issue (or redeem) fund shares to certain institutional investors known as "Authorized Participants" (typically market makers or other broker-dealers) only in large blocks of fund shares known as "Creation Units." BNY Mellon Securities Corporation ("BNYMSC"), a subsidiary of the BNY Mellon, serves as distributor of the fund. BNYMSC does not distribute fund shares in less than Creation Units, nor does it maintain a secondary market in fund shares. BNYMSC may enter into selected agreements with Authorized Participants for the sale of Creation Units of fund shares.

RISKS

Bonds are subject to interest rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines.

Fixed-income market risk. The market value of a fixed-income security may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. The fixed-income securities market can be susceptible to increases in volatility and decreases in liquidity. Liquidity can decline unpredictably in response to overall economic conditions or credit tightening. Increases in volatility and decreases in liquidity may be caused by a rise in interest rates (or the expectation of a rise in interest rates). An unexpected increase in redemption requests, including requests from Authorized Participants who may own a significant percentage of the fund's shares, which may be triggered by market turmoil or an increase in interest rates, could cause the fund to sell its holdings at a loss or at undesirable prices and adversely affect the fund's share price and increase the fund's liquidity risk, fund expenses and/or taxable distributions. Federal Reserve policy in response to market conditions, including with respect to interest rates, may adversely affect the value, volatility and liquidity of dividend and interest paying securities. Policy and legislative changes worldwide are affecting many aspects of financial regulation. The impact of these changes on the markets and the practical implications for market participants may not be fully known for some time.

Interest rate risk. Prices of bonds and other fixed rate fixed-income securities tend to move inversely with changes in interest rates. Typically, a rise in rates will adversely affect fixed-income securities and, accordingly, will cause the value of the fund's investments in these securities to decline. During periods of very low interest rates, which occur from time to time due to market forces or actions of governments and/or their central banks, including the Board of Governors of the Federal Reserve System in the US, the fund may be subject to a greater risk of principal decline from rising interest rates. When interest rates fall, the fund's investments in new securities may be at lower yields and may reduce the fund's income. The magnitude of these fluctuations in the market price of fixed-income securities is generally greater for securities with longer effective maturities and durations because such instruments do not mature, reset interest rates or become callable for longer periods of time.

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No investment strategy or risk-management technique can be guaranteed to be successful in any market environment.

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