

# WHY ACTIVE ETFs MAY MAKE SENSE IN TODAY'S BOND MARKET

Investing beyond benchmark constraints with ETFs allows active bond managers to expand performance potential while pursuing cost efficiencies.

## KEY TAKEAWAYS

- Active fixed-income managers can exploit bond market inefficiencies and anomalies to seek attractive returns and manage diverse risks.
- Unlike their passive peers, active bond strategies can breach an index's boundaries to enhance income and return prospects and help manage risk.
- The ETF structure provides a low-cost, tax-efficient, liquid vehicle for investors to pursue income, total return and diversification goals.



**GREG TORRETTI**  
Senior Director  
Product Development



**JOYCE HUANG, CFA**  
Vice President  
Senior Client Portfolio Manager

We believe investors have timely opportunities to capture attractive income and total return potential. Actively managed fixed-income ETFs may be among the most appealing vehicles to pursue these opportunities.

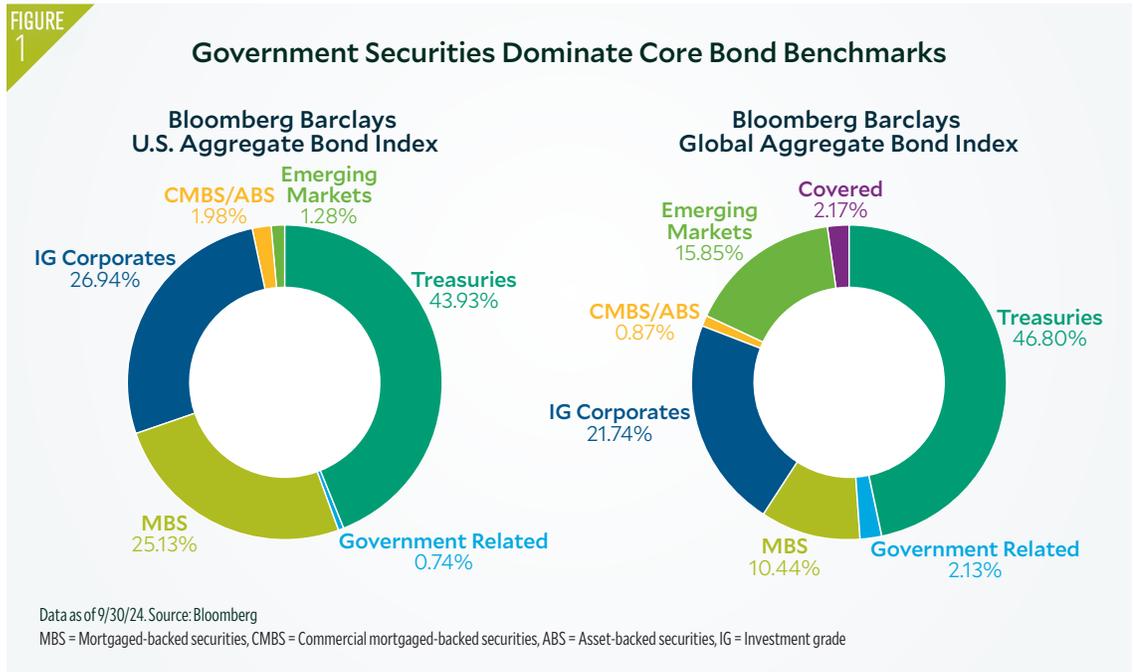
Unlike passive bond strategies, active managers have the flexibility to invest outside an index's boundaries to enhance income and performance prospects and help manage risk. Additionally, the ETF structure offers cost and tax efficiencies unavailable from other portfolio types.

## THE DRAWBACKS OF PASSIVE FIXED-INCOME STRATEGIES

Passively managed ETFs seek to mimic the makeup and performance of a stated market index, which generally reduces fund costs versus actively managed funds. However, we believe ETF strategies tracking passive fixed-income indices may expose investors to unnecessary risks:

- **Overweights to big debt issuers.** Within popular bond indices, issuers with the most debt usually have the largest index weightings. This means passive portfolios may be overexposed to issuers with heavy debt burdens, potential credit weakness and concentration risk.

- **Credit concerns.** Unlike active portfolios, market indices don't consider an issuer's declining credit rating or default risk. This risk tends to be more prevalent in slowing economies, when credit risk typically rises. Passive strategies with investment-grade mandates may have to sell securities with declining credit ratings as their prices are falling.
- **Index replication.** Investors cannot invest directly in a market index, so fund managers must do their best to replicate the index's composition. However, it's unlikely that all the bonds represented in a broad market index will be available for purchase. So, index managers typically engage in sampling or optimizing in their attempts to mimic a broad fixed-income index.
- **Limited investment universe.** Broad bond indices—and the portfolios that track them—provide exposure to longer-maturity, high-quality government, government-related and corporate bonds, as **Figure 1** illustrates. Conversely, investors in actively managed portfolios may pursue opportunities from these and other non-index sectors, including asset-backed, securitized, non-U.S., and high-yield securities.



## THE ADVANTAGES OF ACTIVE FIXED-INCOME ETF INVESTING

Active fixed-income ETFs generally seek to outperform a specific market index via the managers' market, research and security-selection insights. Accordingly, active fixed-income ETF managers have many tools in their arsenal to potentially add value versus passive indices.

### Seeking the Best Values in the Market

Securities in broad benchmark indices may not represent the best values in the market. Finding value often requires a deeper dive.

Active managers seek to uncover value across the fixed-income spectrum, including the new-issues market. They can invest in places that popular market indices often ignore, such as smaller and underfollowed sectors, securities, issuers and countries. Additionally, active managers are free to exit securities they believe have reached their valuation potential, while passive indexes must continue holding them if they're a benchmark component.

### **Keeping an Eye on Credit Opportunities**

Active managers can monitor and respond to credit market trends—another potential key advantage over passive portfolios. Active managers typically rely on proprietary research and analysis. They can proactively sell securities with weakening credit quality or buy securities as credit quality improves.

Unlike their passive counterparts, they can potentially get ahead of potential credit-rating changes. In addition to possibly avoiding these “fallen angels,” active managers have the flexibility to purchase “rising stars.” These are bonds poised for a credit-rating upgrade from the high-yield to investment-grade universe.

Active research also may help managers exploit market inefficiencies and anomalies. This feature could lead to performance advantages versus market benchmarks.

### **Diversifying Income, Return Potential**

Many investors seek to balance interest rate and credit risk in pursuit of attractive income and total return. Active fixed-income ETFs can help by evaluating and securing diversified sources of income in all interest-rate environments. They offer the flexibility to actively adjust sector exposures and credit quality to help enhance yield and return potential and actively manage risk.

### **Managing Interest Rate Risk**

Unlike passive portfolios, active managers can adjust their exposure to interest rate risk (duration) as the economic climate changes. This important feature may aid performance potential relative to the benchmark in rising and falling interest rate environments. This flexibility has been particularly important through bouts of interest rate volatility.

### **What Active Investors Should Keep in Mind**

Investors who desire better-than-benchmark performance potential often choose actively managed funds. In pursuing those opportunities, investors should keep in mind:

- The fees associated with actively managed ETFs are typically higher than the fees on passively managed portfolios. Active funds rely on professional investors to research markets, select securities and manage portfolio exposures and risks to deliver outperformance potential.
- Conversely, passive funds pursue a less-costly strategy of replicating an index with the goal of matching the benchmark's results.
- Performance is dependent on the manager's skills experience and security-selection abilities. As such, they may fail to produce their intended results.
- Overall, active managers have had varying degrees of historical success. Outperforming a benchmark index has been difficult, particularly within certain asset classes and market segments. Investors often turn to actively managed funds when volatility escalates or

the economy falters, as managers can employ strategies that may help counter market uncertainty.

- No investment strategy can ensure a profit or eliminate the risk of loss. When market and economic conditions change, it's possible for actively- and passively-managed ETFs to lose value.

## SIMPLIFIED ETF INVESTING WITH ALL-IN-ONE FIXED-INCOME OPTIONS

American Century Investments has been managing active fixed-income portfolios for more than 50 years. We have continually expanded our investment capabilities across taxable and tax-exempt fixed-income solutions.

Our strategies are deeply rooted in active management, relying on experienced analysts and portfolio managers. Our teams build portfolios bond by bond, using in-depth proprietary research and seeking to minimize risks inherent in indexed strategies.

A subset of our extensive fixed-income platform includes all-in-one, multisector ETFs targeting different duration ranges:

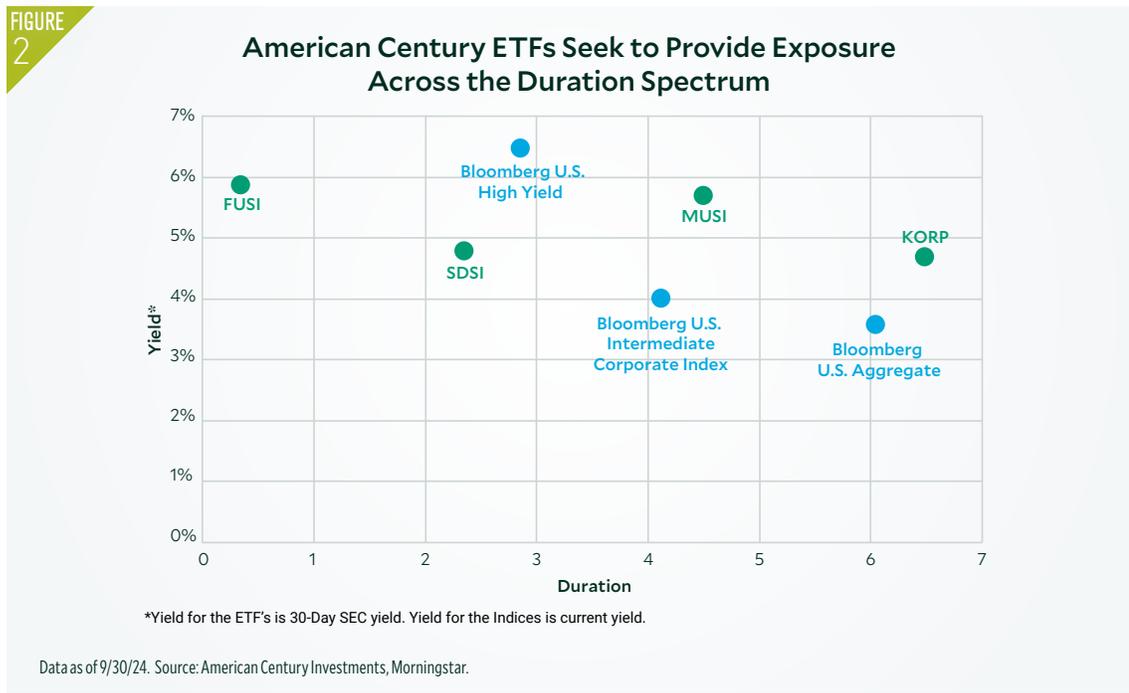
- **Multisector Floating Income ETF (FUSI)** invests primarily in investment-grade floating-rate instruments and offers an ultrashort duration (less than one year).
- **Short Duration Strategic Income ETF (SDSI)** invests in a diverse portfolio of investment-grade, high-yield, securitized and emerging markets debt securities. The fund seeks high levels of current income and attractive risk-adjusted returns while maintaining a short duration (three years or shorter).
- **Multisector Income ETF (MUSI)** invests across diversified fixed-income market segments, including investment-grade and high-yield corporates, securitized and emerging markets bonds to pursue attractive yield and returns. The fund has no duration mandate, but typically maintains an intermediate duration of three to seven years.

Each fund within this multisector suite shares the same investment team, philosophy and investment approach. They seek to increase income across multiple sectors while moderating interest rate and credit risks, consistent with each fund's individual objective.

### **KORP: A Corporate Bond-Specific Diversifier for Core Bond Portfolios**

As a companion to our multisector income suite, and a diversifier for core bond portfolios, we offer Diversified Corporate Bond ETF (KORP). This portfolio emphasizes intermediate-maturity, investment-grade corporates while dynamically allocating up to 35% of its assets to high-yield corporates. Top-down analysis determines KORP's allocation to high yield, while bottom-up research drives security selection and sector, industry and duration exposures.

**Figure 2** highlights each ETF's duration characteristics versus the broad U.S. bond market, illustrating the broad range of opportunities.



Performance	Quarter	YTD	1Year	3Year	5Year	Inception	30-Day SEC Yield (as of 9/30)	Expense Ratio
FUSI - Multisector Floating Income ETF <sup>1</sup> (NAV)	1.84%	5.15%	7.07%	-	-	7.22%		
FUSI - Multisector Floating Income ETF <sup>1</sup> (Market Price)	1.83%	5.15%	6.99%	-	-	7.41%	FUSI: 5.88%	0.35%
Bloomberg U.S. 1-3 Month Treasury Bill	1.36%	4.08%	5.52%	-	-	5.38%		
Excess Return (NAV)	0.48%	1.07%	1.55%	-	-	1.84%		
MUSI - Multisector Income ETF <sup>2</sup> (NAV)	5.25%	6.69%	13.71%	0.96%	-	1.09%	MUSI: 5.67%	0.35%
MUSI - Multisector Income ETF <sup>2</sup> (Market Price)	5.26%	6.46%	13.36%	0.87%	-	1.04%		
Bloomberg U.S. Aggregate	5.20%	4.45%	11.57%	-1.39%	-	-1.24%		
Excess Return (NAV)	0.05%	2.24%	2.14%	2.35%	-	2.33%		
SDSI - Short Duration Strategic Income ETF <sup>3</sup> (NAV)	3.21%	5.50%	9.01%	-	-	7.02%	SDSI: 4.80%	0.35%
SDSI - Short Duration Strategic Income ETF <sup>3</sup> (Market Price)	3.24%	5.68%	8.97%	-	-	7.13%		
Bloomberg U.S. 1-3 Year Government/Credit Bond	2.96%	4.38%	7.19%	-	-	5.07%		
Excess Return (NAV)	0.25%	1.12%	1.82%	-	-	1.95%		
KORP - Diversified Corporate Bond ETF <sup>4</sup> (NAV)	6.16%	7.30%	13.89%	0.93%	2.23%	2.76%	KORP: 4.69%	0.35%
KORP - Diversified Corporate Bond ETF <sup>4</sup> (Market Price)	6.30%	7.32%	14.12%	1.02%	2.18%	2.79%		
Bloomberg U.S. Intermediate Corporate Bond	4.66%	5.71%	11.90%	0.72%	2.02%	2.80%		
Excess Return (NAV)	1.50%	1.59%	1.99%	0.21%	0.21%	-0.04%		

Data as of 9/30/2024. Performance in UDS, net of fees. Periods greater than one year have been annualized. Source: FactSet

<sup>1</sup>Inception date: 3/14/2023.

<sup>2</sup>Inception date: 6/29/2021.

<sup>3</sup>Inception date: 10/11/2022.

<sup>4</sup>Inception date: 1/11/2018.

Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. Returns less than one year are not annualized. NAV prices are used to calculate market price performance prior to the date when the Fund first traded on the New York Stock Exchange. Market performance is determined using the bid/ask midpoint at 4:00 p.m. Eastern time, when the NAV is typically calculated. Market performance does not represent the returns you would receive if you traded shares at other times. To obtain performance data current to the most recent month end, please visit <https://ipro.americancentury.com/etf-performance>. Index performance does not represent the fund's performance. It is not possible to invest directly in an index.

## ACTIVE FIXED INCOME MANAGEMENT MATTERS

We believe today's interest rate dynamics and bond market environment offer multisector opportunities for active fixed-income ETF investors. Backed by insight and experience, active portfolio managers are attuned to market opportunities and risks. They have the flexibility to respond to changing market and economic conditions and explore income and total return opportunities beyond those of a broad market index.

### Bringing New Meaning to Healthy Returns

Twenty years ago, our founder had an audacious idea. Use profits from his investment firm to end diseases that touch everyone. Like cancer. And Alzheimer's.

That's why over 40% of our profits go to the Stowers Institute for Medical Research, a world-class biomedical research organization dedicated to defeating life-threatening diseases.

Investing with us means investing in a healthier world for everyone.

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**DEFINITIONS**

**Bloomberg Barclays U.S. Aggregate Bond Index.** The component of the U.S. Aggregate Bond Index that includes U.S. government-sponsored agency securities with a remaining maturity of at least one year.

**Bloomberg Barclays Global Aggregate Bond Index.** A broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities.

**Covered bonds.** Debt securities backed by cash flows from pools of mortgages or public sector loans. The asset pools help secure or “cover” these bonds if the originating financial institution becomes insolvent.

**Commercial Mortgage-Backed Securities (CMBS).** MBS that represent ownership in pools of commercial real estate loans used to finance the construction and improvement of income-producing properties, including office buildings, shopping centers, industrial parks, warehouses, hotels, and apartment complexes.

**Asset-backed securities (ABS).** A form of securitized debt (defined below), ABS are structured like mortgage-backed securities (MBS, defined below). But instead of mortgage loans or interest in mortgage loans, the underlying assets may include such items as auto loans, home equity loans, student loans, small business loans, and credit card debt. The value of an ABS is affected by changes in the market’s perception of the assets backing the security, the creditworthiness of the servicing agent for the loan pool, the originator of the loans, or the financial institution providing any credit enhancement.

**Investment-grade.** Typically used in reference to fixed income securities that possess relatively high credit quality and have credit ratings in the upper ranges of those provided by credit rating services. Using Standard & Poor’s ratings as the benchmark, investment-grade securities are those rated from AAA at the highest end to BBB- at the lowest. To earn these ratings, securities, in the judgment of the rating agency, are projected to have relatively low default risk.

**Mortgage-backed securities (MBS).** A form of securitized debt (defined below) that represents ownership in pools of mortgage loans and their payments. Most MBS are structured as “pass-throughs”--the monthly payments of principal and interest on the mortgages in the pool are collected by the financial entity that is servicing the mortgages and are “passed through” monthly to investors. The monthly and principal payments are key differences between MBS and other bonds such as Treasuries, which pay interest every six months and return the whole principal at maturity. Most MBS are issued or guaranteed by the U.S. government, a government-sponsored enterprise (GSE), or by a private lending institution.

**U.S. Treasury securities (Treasuries).** Debt securities issued by the U.S. Treasury and backed by the direct “full faith and credit” pledge of the U.S. government. Treasury securities include bills (maturing in one year or less), notes (maturing in two to 10 years) and bonds (maturing in more than 10 years). They are generally considered among the highest quality and most liquid securities in the world.

**High-yield bonds.** High-yield bonds are fixed income securities with lower credit quality and lower credit ratings. High-yield securities are those rated below BBB- by Standard & Poor’s.

**Duration.** Duration is an important indicator of potential price volatility and interest rate risk in fixed income investments. It measures the price sensitivity of a fixed income investment to changes in interest rates. The longer the duration, the more a fixed income investment’s price will change when interest rates change. Duration also reflects the effect caused by receiving fixed income cash flows sooner instead of later. Fixed income investments structured to potentially pay more to investors earlier (such as high-yield, mortgage, and callable securities) typically have shorter durations than those that return most of their capital at maturity (such as zero-coupon or low-yielding noncallable Treasury securities), assuming that they have similar maturities.

**Exchange Traded Funds (ETFs) are bought and sold through exchange trading at market price (not NAV), and are not individually redeemed from the fund. Shares may trade at a premium or discount to their NAV in the secondary market. Brokerage commissions will reduce returns.**

***You should consider a fund's investment objectives, risks, and charges and expenses carefully before you invest. The fund's prospectus or summary prospectus, which can be obtained at [AmericanCenturyETFs.com](http://AmericanCenturyETFs.com), contains this and other information about the fund, and should be read carefully before investing.***

FUSI, MUSI, SDSI and KORP: These funds are actively managed ETFs that do not seek to replicate the performance of a specified index. To determine whether to buy or sell a security, the portfolio managers consider, among other things, various fund requirements and standards, along with economic conditions, alternative investments, interest rates and various credit metrics. If the portfolio manager considerations are inaccurate or misapplied, the fund's performance may suffer.

FUSI, MUSI, SDSI and KORP: Generally, as interest rates rise, the value of the securities held in the fund will decline. The opposite is true when interest rates decline. If the portfolio managers' considerations are inaccurate or misapplied, the fund's performance may suffer.

FUSI: The interest rate and corresponding payment that floating rate securities are expected to pay adjust at predetermined dates on a periodic basis. Securities with floating interest rates are generally less sensitive to interest rate changes than securities with fixed interest rates, but they may decline in value if their interest rates do not rise as much, or as quickly, as comparable market interest rates. In addition, floating rate securities held by the fund may be less liquid or more difficult to sell than other securities. If it becomes necessary for the fund to sell less liquid securities, it could have an adverse effect on the fund, especially during periods of market turbulence or unusually low trading activity.

The value of the securities that the fund principally invests in may be secured or backed by other underlying assets or obligations. As such, the value of these securities may be affected by the market value of the underlying assets, changes in the distributions on the underlying assets, defaults and recoveries on the underlying assets, capital gains and losses on the underlying assets, prepayments on underlying assets and the availability, prices and interest rate of underlying assets. In addition, these securities may be subject to number of additional risks, including interest rate, market, credit and correlation risk. Use of certain types of these securities can create economic leverage in the fund's portfolio, which may result in significant volatility and cause the fund to participate in losses in an amount that exceeds the fund's initial investment. Also, the value of these securities may decrease based on the inability or perceived inability of a security's issuer or obligated party to make interest and principal payments.

MUSI: International investing involves special risks, such as political instability and currency fluctuations. Investing in emerging markets may accentuate these risks.

FUSI, MUSI and SDSI: The lower rated securities in which the fund invests are subject to greater credit risk, default risk and liquidity risk.

MUSI and SDSI: Derivatives may be more sensitive to changes in market conditions and may amplify risks.

SDSI: Duration, which is an indication of the relative sensitivity of a security's market value to changes in interest rates, is based upon the aggregate of the present value of all principal and interest payments to be received, discounted at the current market rate of interest and expressed in years. The longer the weighted average duration of the fund's portfolio, the more sensitive its market value is to interest rate fluctuations. Duration is different from maturity in that it attempts to measure the interest rate sensitivity of a security, as opposed to its expected final maturity.

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Investment return and principal value of security investments will fluctuate. The value at the time of redemption may be more or less than the original cost. Past performance is no guarantee of future results.

Generally, as interest rates rise, the value of the bonds held in the fund will decline. The opposite is true when interest rates decline.

Diversification does not assure a profit, nor does it protect against loss of principal.

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#### American Century Investments®

4500 Main Street  
Kansas City, MO 64111  
1-866-628-8826

330 Madison Avenue  
New York, NY 10017  
1-866-628-8826

3945 Freedom Circle, Suite 800  
Santa Clara, CA 95054  
1-866-628-8826

360 East 2nd Street, 5th Floor  
Los Angeles, CA 90012  
1-866-628-8826

2 Ice House Street  
Hong Kong  
+852 3405 2600

12 Henrietta Street  
London, WC2E 8LH  
+44 20 7024 7080

1 Farrer Place  
Sydney, NSW, 2000  
+612 8823 3403

Taunusanlage 8  
60329 Frankfurt, Germany  
+49 69 8088 5501

