T-Bill ETFs: What Are They and How Do They Work?

What are Treasury Bills?

Treasury Bills ("T-Bills") are short-term debt instruments issued by the treasury of governments with maturities of one year or less. Federal T-Bills, which are issued by the federal governments of Canada or the United States, generally represent the lowest risk available to investors as they are short-term securities that are backed by the full faith and credit of their related government. Short-term T-Bills have almost no interest rate risk or credit risk, apart from the very remote potential of a major federal government defaulting on short-term debt obligations.

Here's how T-Bills work:

When the government needs to raise capital, it issues T-Bills with various maturities, usually ranging from a few days up to one year. T-Bills are then issued and sold at public auctions regularly. Typically, the longer the maturity date, the higher the interest paid to the investor.

T-Bills can be purchased through a dealer in the primary or secondary market throughout the trading day. T-Bills work a little differently than other fixed-income securities in that they don't have a coupon payment. Instead, an investor buys the T-Bill at a discount from their face value at maturity.
For example, an investor might pay $9,800 for a T-Bill with a face value of $10,000 that matures in 90 days. When the T-Bill matures, the investor receives the full value of the T-Bill, in this case, $10,000. The accrual represents the implied interest rate.
From a taxation perspective, income earned on a T-Bill is considered interest income. At a minimum investment of $1,000, T-Bills can be purchased in denominations of $1,000, $5,000, $10,000, $25,000, $50,000, and $100,000 – but some institutions will require varying minimum investments.

Some investors would view cash deposits at a bank as potentially "safer" than government debt securities, also known as "treasuries", which can have losses when interest rates rise. However, T-Bills, due to their short-term maturities, have little to no-interest rate risk. Additionally, in the case of cash deposits, that are not insured by the Canada Deposit Insurance Corporation (CDIC) or the Federal Deposit Insurance Corporation (FDIC), the value deposited would still be backed by the creditworthiness of the holding bank. Generally, the risk of default of a bank, particularly a well-capitalized one, is extremely unlikely. As history has shown, there have been times when the creditworthiness of private banks has been called into question. In the case of T-Bills, the risk is explicitly tied to the issuing government. In the case of the Canadian or U.S. federal governments, this risk is extremely low.

Features of T-Bills:

There are a number of immediate advantages to investing in T-bills including safety, as explained above, as well as income, and liquidity. These short-dated savings instruments are highly liquid and can be bought and sold easily on the market. However, an investor looking to use T-Bills as an ongoing source of income would need to continuously re-invest at the point of maturity, which could become time-consuming, especially with T-Bills that have shorter maturities.

Benefits and Drawbacks of T-Bills

Benefits	Drawbacks
Credit is backed by the full faith and credit of the issuing government	Yields are generally lower than longer-duration treasuries or corporate-backed credit, or even some other savings instruments.
Relatively low minimum investment	Require consistent re-investment upon maturity for ongoing income
Easily bought and sold due to high liquidity	Returns are taxed as interest income
Ultra short-dated maturity which eliminates most interest rate risk	

How do Treasury Bill ETFs work?

T-Bill ETFs are exchange-traded funds (ETFs) that invest in treasury bills with short-term maturities.

Unlike other savings vehicles, like Guaranteed Investment Certificates (GICs) or High-Interest Savings Accounts (HISAs), which typically have minimum holding periods or investment amounts, T-Bill ETFs can be purchased or sold anytime throughout the trading day. As well, through the ETF structure, the short-term maturities of the T-Bills are automatically managed for investors, putting your T-Bill exposure on autopilot.'

There are some risks associated with investing in single T-Bills compared to T-Bill ETFs. Investing in a single T-Bill means that all your money is tied up in one security with a specific maturity date, which can although unlikely, increases the risk of losing money if the security defaults. Additionally, if you invest in and hold a single T-Bill to maturity, you may miss out on attractive re-investment opportunities if interest rates increase. In some instances, the value of a T-Bill may decline due to factors beyond the investor's control, like changes in market conditions or geopolitical events.

T-Bill ETFs can be a good option for investors looking to take advantage of the low-risk, short-term benefits of T-Bill investments, with the added diversification and ease of trading that the ETF structure brings.

Gain exposure to government-backed T-Bills with Horizons CBIL and UBIL.U Treasury Bill ETFs

Horizons 0-3 Month T-Bill ETF (CBIL)

CBIL provides liquid and easy access to short-term Government of Canada T-bills. It can be used in a diversified investment portfolio to help reduce portfolio risk, meet short-term liquidity needs, and generate income.

CBIL seeks to provide interest income through exposure to Government of Canada Treasury Bills with remaining maturities generally less than 3 months.

CBIL seeks to distribute the net income it generates from the T-Bills to unitholders on a monthly basis.

Horizons 0-3 Month U.S. T-Bill ETF (UBIL.U)

UBIL.U provides liquid and easy access to short-term U.S. Government T-bills. UBIL.U can be used in a diversified investment portfolio to help reduce portfolio risk, meet short-term liquidity needs, and generate U.S. dollar income.

UBIL.U seeks to provide interest income through exposure to the U.S. Treasury Bills with remaining maturities generally less than 3 months.

UBIL.U seeks to distribute the net income it generates from the T-Bills to unitholders on a monthly basis.

T-Bill ETF Advantages

Safety: T-Bills held by the T-Bill ETFs, generally represent the lowest risk available to investors as they are short-term securities that are backed by the full faith and credit of the issuing government.

Income: T-Bill ETFs serve as a reliable source of interest income.

Liquidity: T-Bill ETFs are highly liquid, meaning they can be easily bought and sold in the market throughout the trading day, providing investors with flexibility and the ability to react to changing market conditions.

Convenience: T-Bill ETFs offer investors a diversified portfolio of T-Bills by employing a rules-based approach to security selection and weighting. This helps reduce the reinvestment risk, the hassle associated with investing in a single T-Bill, and ensures a low and stable duration.