

Presenting:



Validus Real Yield Protection Strategy



A fixed Income exposure for all market regimes

What is it?

The Validus Real Yield Protection strategy, is a liquid and scalable strategy that combines Canada Government Bonds with a basket of selected commodities designed to *deliver a competitive yield for both normal and high inflation regimes* with a lower volatility relative to nominal bonds.

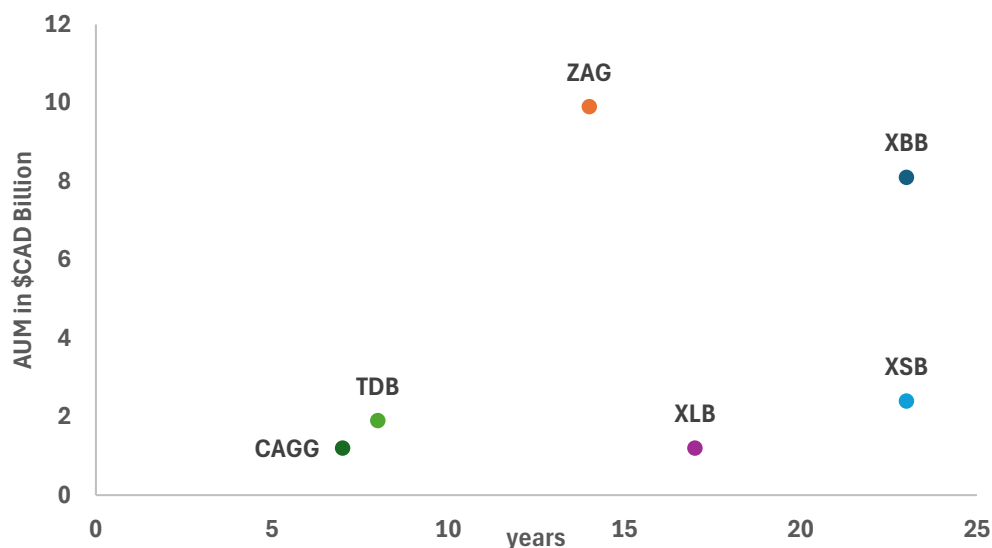
A market with a proven appetite:

ETFs on Real Return Bonds (RRBs) *raised nearly \$1 billion*. But the product quality was low, and they failed to deliver on their promise.

In 2022, when the Government of Canada stopped issuing RRB bonds, an important inflation protection vehicle was withdrawn from the market. In response, Validus was mandated by a leading pension fund to create an *innovative strategy* that provides both a yield and inflation protection. Today, \$550 million is invested in this innovative strategy.

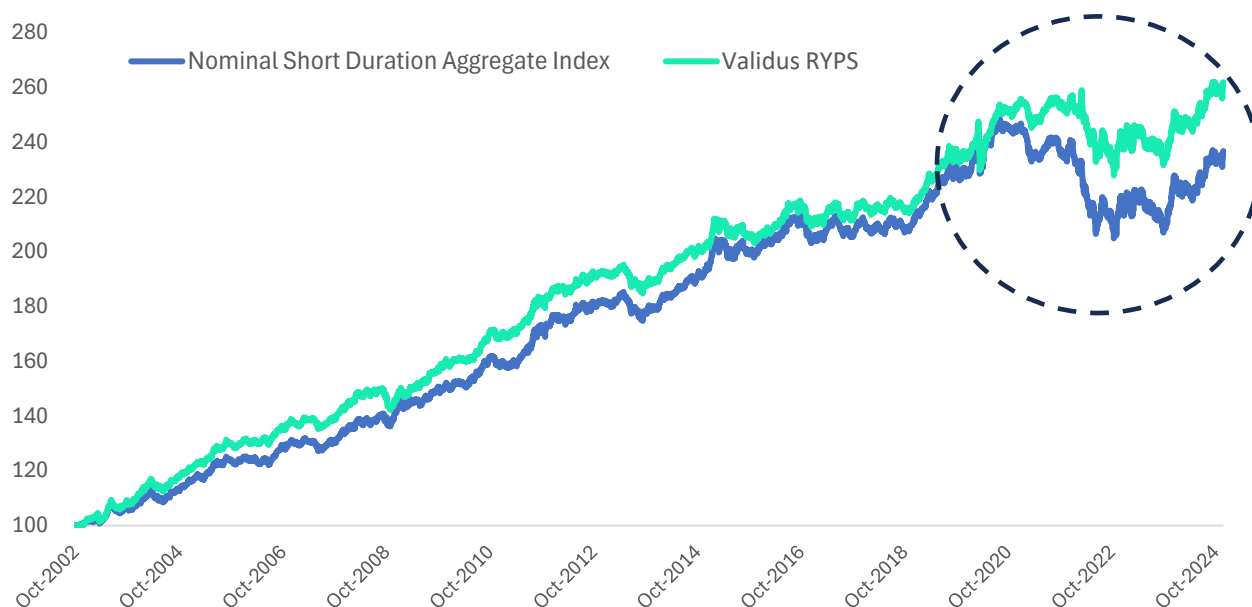
Many institutions and studies recommend a 10% to 12% allocation target for this type of yield enhancement and protection.

Figure 1. **Outstanding AUM for selected nominal Bond ETFs as a function of vintage (in years)**



Stability and sustained performance when inflation hits

Figure 2. Performance of \$100 invested in Nominal Bonds versus Real Return Bonds

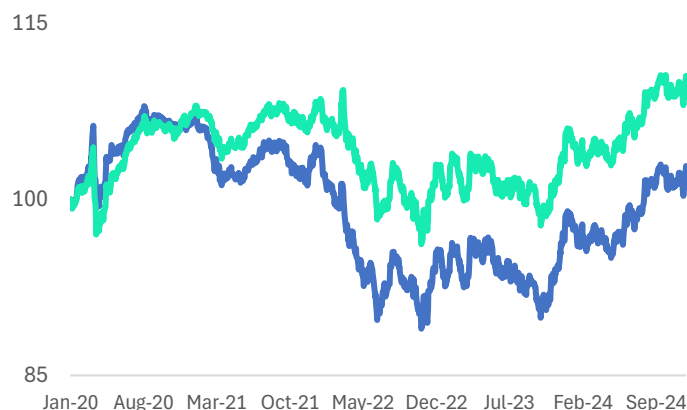


Source: Bloomberg, Validus

Figure three shows the effectiveness of the Real Protection Yield Fund in a high inflation regime which has lasted since 2021.

Outperformance over a plain vanilla nominal bond index readily demonstrates the value proposition of an allocation to this strategy.

Figure 3. Performance of \$100 invested in Nominal Bonds versus Real Yield Protection Strategy (2020/24)



Statistics	Annualized Return	Annualized Volatility	Information Ratio	Max Drawdown
Real Yield Protection	3.92%*	8.88%	0.442	-22.50%
XBB (and ZAG)	3.46%	5.90%	0.587	-18.16%

Source: Validus, Bloomberg (Oct 2002 – Nov 2024)

* No fees included

How Does It Work?

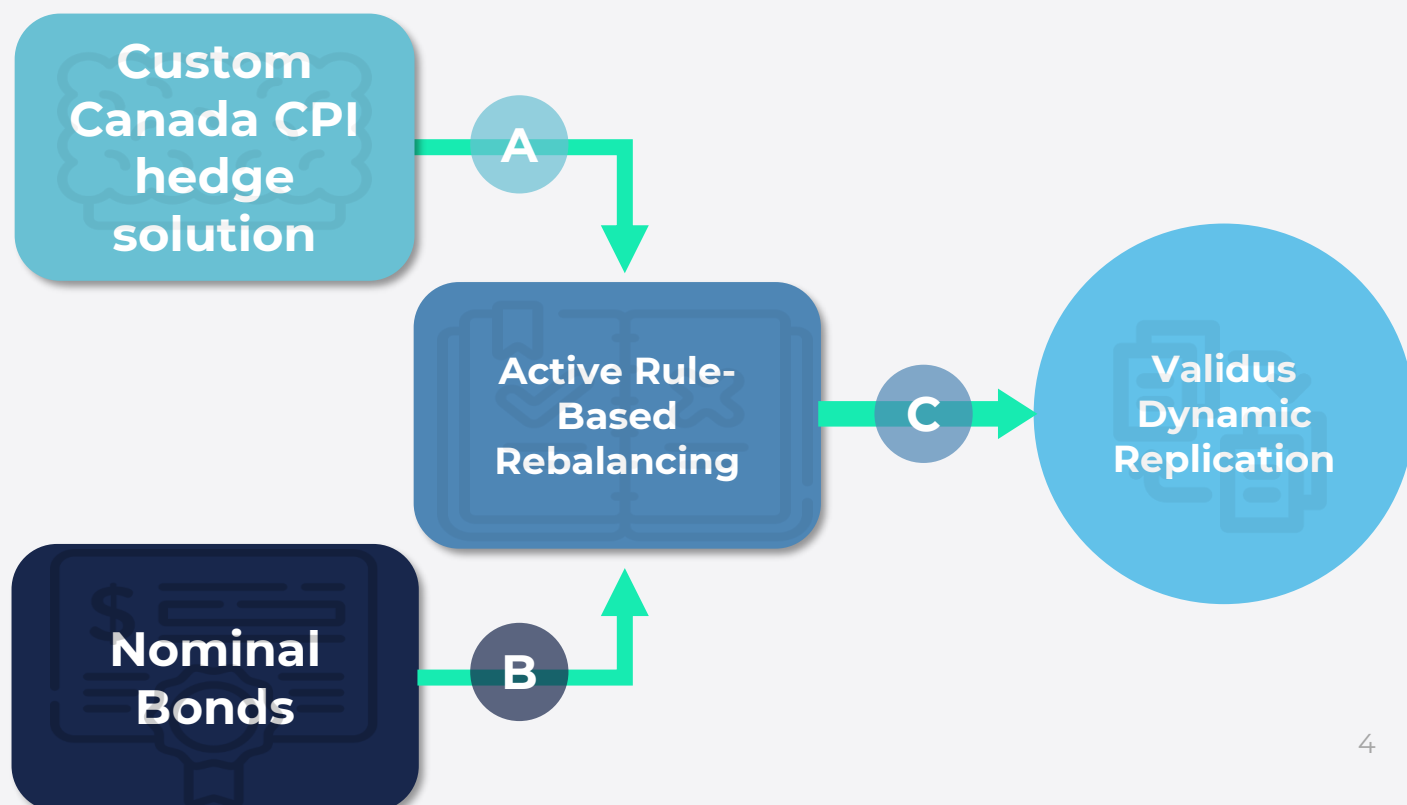
Validus has conducted analytical work that shows an ILB can be presented as an investment in a nominal bond with a call on future realized CPI. In order to provide a proxy exposure to RRBs, we build a portfolio composed of a position in nominal bonds and a proxy hedge for CPI.

Intuitively, an index linked bond has a close relationship to a nominal bond of the same maturity. To create a closely matching Canada CPI Hedge Basket to deliver inflation protection, we mapped the major prices that drive CPI with a basket of liquid commodity-sensitive securities.

The Validus Custom **Canada-centric** solution portfolio is built by **rebalancing** the two components – nominal bonds and the inflation hedge basket -- based on a **proprietary methodology** that is sensitive to the **inflation environment**. Thus, achieving two main goals:

- Avoiding mark-to-market losses and the drawdowns suffered by nominal bonds in a rising interest rates regime.
- Capturing the increase in CPI via the Custom Canada CPI Hedge Basket.

$$\text{Solution Portfolio} = \text{Bond}_{\text{nominal}} + \text{CPI}_{\text{Hedge Solution}}$$



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