

Presenting:



Validus Dynamic EURUSD Trend Strategy



Validus **Dynamic EURUSD Trend Strategy**

What is it?

The Validus Dynamic EURUSD Trend Strategy (“the Strategy”) is an absolute value, active, rules-based investment strategy that provides an exposure to the EURUSD currency pair with the goal of generating uncorrelated superior risk-adjusted performance in the long-term.

The Validus Dynamic EURUSD Trend Strategy aims to offer diversification in a multi-asset portfolio as a source of performance.

Key features include:

- **Stable historical performance across different time horizons and various market regimes.**
- **Low correlation to other asset classes.**
- **The ability to generate performance in periods of market turmoil.**

As we come out of an extended period of low interest rates with increased and persistent uncertainties ahead, the Strategy can even be particularly beneficial in the portfolio construction and diversification.

The Strategy, like all trend strategies, must be viewed as a long-term holding in an investment portfolio. Moreover, it is particularly well-suited to macro environments similar to today, where Central Banks in the Eurozone (ECB) and US (Federal Reserve) are conducting active monetary policy. The changing differentials in short-term interest rates can be a catalyst for shifts in market expectations, resulting in additional performance.

How does it work?

The strategy aims to capture and monetize potential trending price behaviors – a well-studied source of alpha. The Strategy does this by establishing both short or long positions in the EURUSD cross, varying between -100% to 100% of the notional investment, based on price behavior and market volatility.

The strategy is designed to allow investors to generate alpha in a wide range of market regimes and in particular in stressed markets. **To achieve this, it:**

- Is entirely rule-based and relies on an ensemble of both trend and strength indicators and criteria.
- Calculates the required level of exposure on a daily basis and if the change in exposure exceeds a threshold of +/-1% of total notional, a rebalancing is then initiated.
- Ensures that the rebalancing of the notional exposure is limited to between -5% and 5% of the total notional to improve scalability and operational effectiveness. While the trend indicators identify the potential trend, strength criteria act as a threshold to modify an exposure. Strength indicators are a function of prevailing recent market volatility as well as the identified trend.

The methodology consists of 3 pillars



Identify a potential trend

A potential trend is identified using various cross indicators and parameter ranges.

The Strategy is in fact a combination of 6 trend sub-strategies, based on various combination of parameters.



Initiate a position when a trigger is activated

Once a trend potential is identified, a new position or a rebalancing is initiated if a trigger criterion is met.

The trigger threshold is a function of the trend signal and recent market volatility.



Determine size of the exposure and rebalance when needed

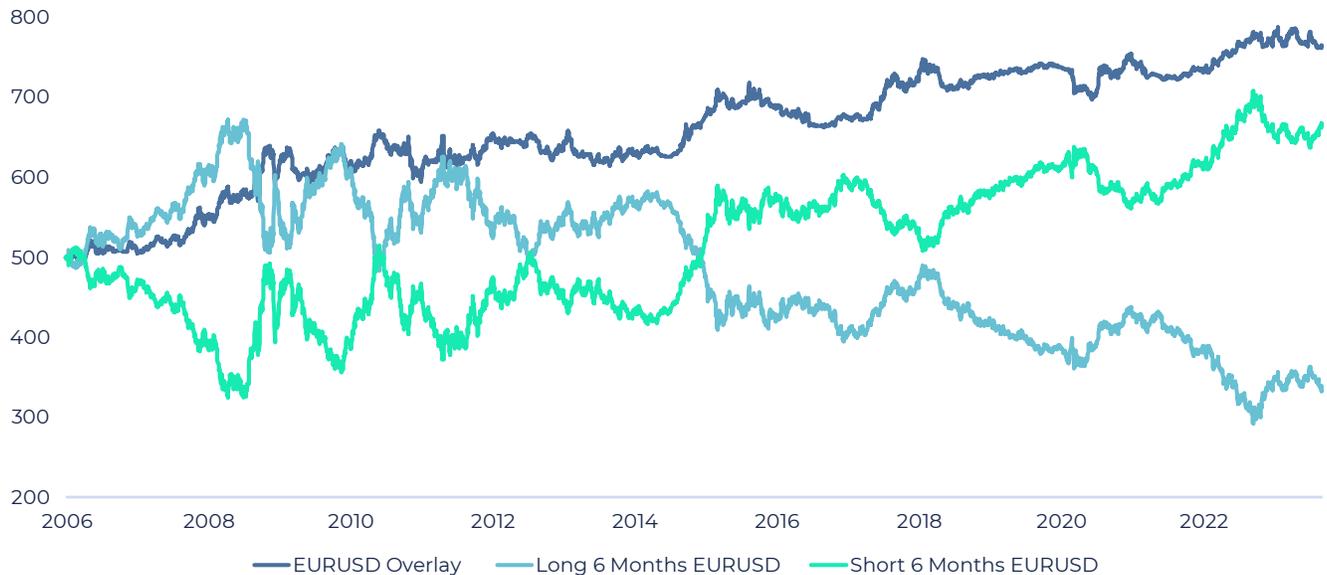
Size of exposure is a function of strength and can vary between -100% to +100% of notional.

Change in exposure capped at +/-5% a day. Minimum change to initiate rebalance is 1%.

How has the Strategy performed?

The historical performance profile of the Validus Dynamic EURUSD Trend Strategy is shown in figure 1 below, illustrating the improved annualized return, annualized volatility and drawdown characteristics, when compared to either a passive long or short EURUSD 6-months forward exposure.

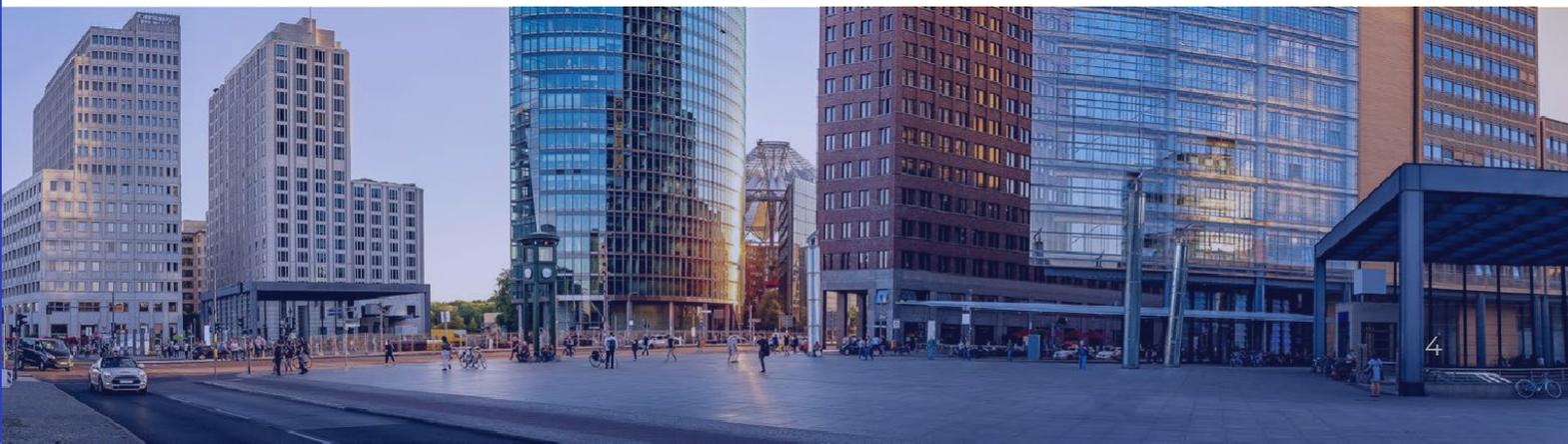
Figure 1. **Validus Dynamic EURUSD Trend Strategy (2006 – 2023)**



Source: Bloomberg & Validus Macro Strategies. From Jan 3rd, 2006 to Sept 15th, 2023.

Overall Statistics	Annualized Returns	Annualized Volatility	Information Ratio	Max Drawdown
Long 6 Months EURUSD	-2.26%	11.89%	-0.190	-56.66%
Short 6 Months EURUSD	1.65%	12.65%	0.130	-36.71%
EURUSD Overlay	2.44%	5.66%	0.431	-9.86%

Source: Bloomberg & Validus Macro Strategies. From Jan 3rd, 2006 to Sep 15th, 2023.



Why invest in the Validus **Dynamic EURUSD Trend Strategy?**

I. A robust strategy through varying market regimes

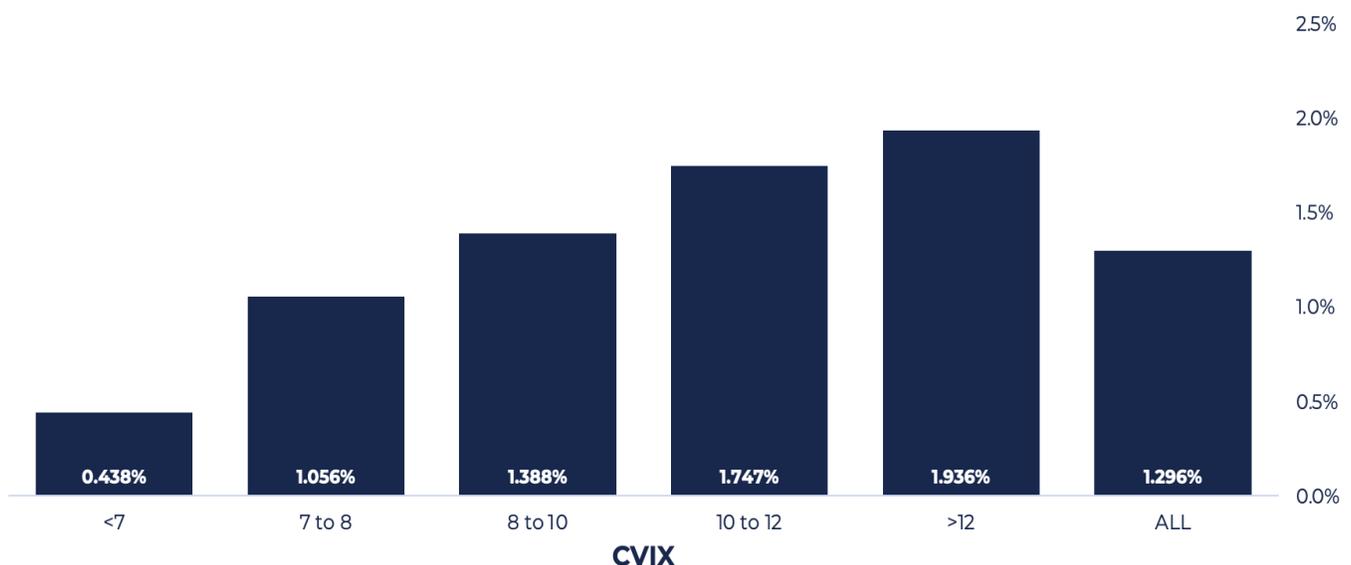
The attractive risk-adjusted characteristics of the strategy stand out particularly during periods of market stress and crisis, such as the Global Financial Crisis of 2008 or the 2020 pandemic.

This is not surprising, as there is evidence confirming positive performance of CTAs (Commodity Trading Advisors) during periods of market stress.

As shown in figure 2, since 2006 the average 6-month return of the Strategy is positive across different regimes of market volatility (as measured by the Deutsche Bank FX Volatility Indicator) and shows strong performance during periods of market turmoil.

Figure 2. **Dynamic EURUSD Average 6M Return vs. the Deutsche Bank Volatility Indicator (2006 – 2023)**

Average 6M return per Currency Volatility Regime



Source: Bloomberg & Validus Macro Strategies. From Jan 3rd, 2006, to Sep 15th, 2023

II. Strong diversifier: low correlation to other assets

Not only does the Strategy exhibit desirable characteristics during periods of markets turmoil but it also has generally low correlation to other assets, making it a very salient and purposeful addition to any portfolio.

Table 1 shows the maximum, minimum and average rolling 6-month correlation of daily returns, versus selected assets. Over the long-term, the strategy exhibits near zero correlation to main asset classes, confirming a strong diversification benefit in a portfolio context.

Table 1. **Dynamic EURUSD correlation (daily return) vs. main indices (2006 – 2023)**

Correlation (6M rolling)	S&P500	MSCI World	BBG Gbl Agg Ttl Return	BBG Commodity	Gold
Average	-0.21%	2.95%	8.88%	7.95%	9.04%
Max	60.45%	69.55%	67.14%	66.06%	69.09%
Min	-74.77%	-75.47%	-67.17%	-53.10%	-62.67%

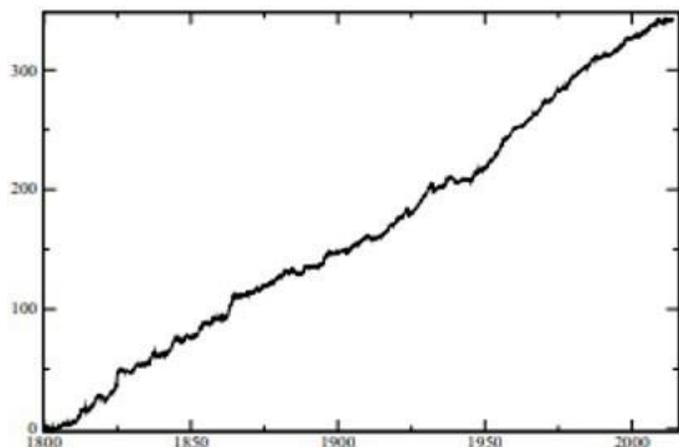
Source: Bloomberg & Validus Macro Strategies. From Jan 3rd, 2006, to Sep 15th, 2023

III. Trend strategies have been historically a consistent source of alpha

Momentum and trend following strategies are as old as financial markets. An extensive body of academic and practitioners work exists on these strategies. There seems to be an inherent herd-type behavior in humans which is the underlying driver of momentum type strategies.

The relevancy and consistency of trend strategies over the last two centuries has been particularly well highlighted in figure 3.

Figure 3. **Aggregate performance of the trend on all sectors. T-stat=10.5, de-biased t-stat=9.8, Sharpe ratio =0.72**



Source: *Two centuries of trend following*, Y. Lampérière, C. Deremble, P. Seager, M. Potters, J. P. Bouchaud, April 15th, 2014

While trend following strategies can exhibit some periods of stagnation (near flat performance) such as 1940s or a period from 2011 to 2018, they remain very salient as a long-term source of performance.

Similarly, the performance of the Validus Dynamic EURUSD Trend Strategy has also been very consistent over various time horizons (table 2), making a viable long-term addition to any portfolio.

Table 2. **A constant strategy across time horizons**

Annualized Period Returns

Annualized Returns	YTD	1M	3M	6M	1Y	3Y	5Y	10Y	Inception
Long 6 Months EURUSD	-2.837%	-3.869%	-4.791%	-0.393%	6.727%	-7.056%	-5.299%	-4.934%	-2.260%
Short 6 Months EURUSD	1.516%	2.049%	2.601%	0.205%	-2.956%	4.567%	3.552%	4.108%	1.647%
EURUSD Overlay	-1.318%	-0.180%	-0.528%	-0.137%	-0.931%	1.316%	1.357%	2.096%	2.438%

Source: Bloomberg & Validus Macro Strategies. From Jan 3rd, 2006, to Sept 15th, 2023

The Validus **Dynamic EURUSD Trend Strategy** has many key risk/return characteristics, in particular:

- **Stable historical performance across different time horizons and various market regimes.**
- **Low correlation to other asset classes.**
- **The ability to generate performance in periods of market turmoil.**

As we come out of an extended period of low interest rates, with the emergence of inflation and monetary policy activity by Central Banks, and considering increased uncertainties ahead, this long-term hold strategy can be particularly relevant and beneficial in the construction of a portfolio.

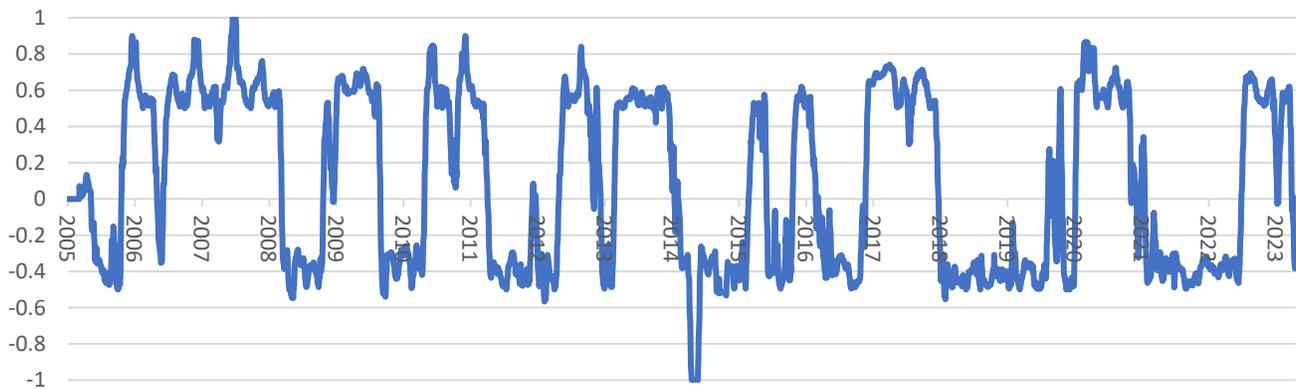
Appendix

Total Returns

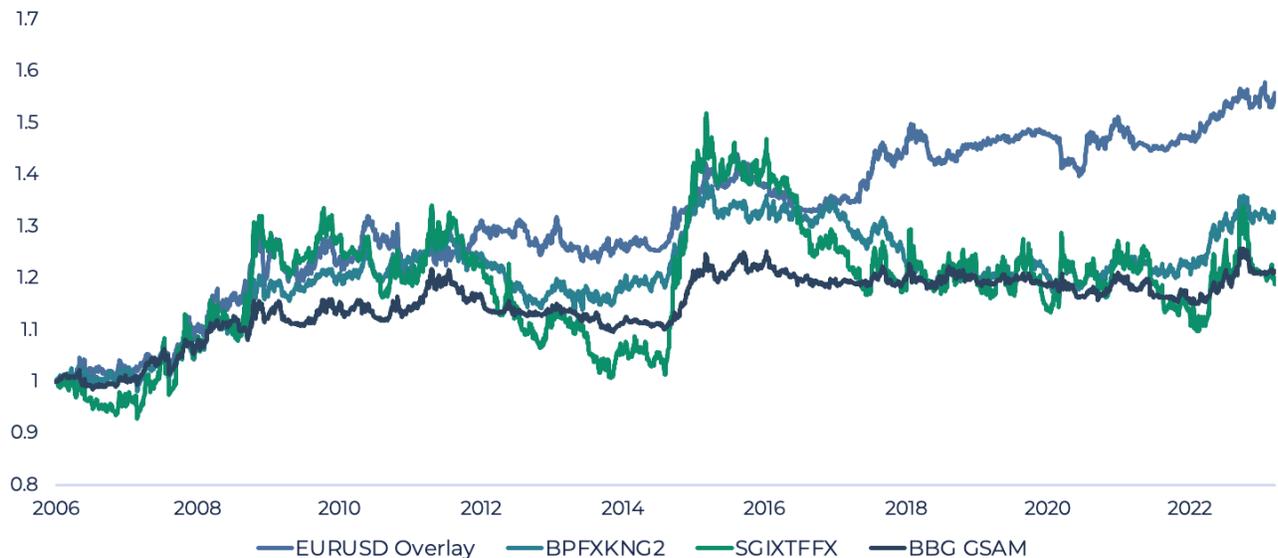
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Long 6 Months EURUSD	8.58%	11.25%	-3.70%	3.63%	-8.57%	-2.10%	2.01%	4.25%	-14.49%	-13.20%
Short 6 Months EURUSD	-8.56%	-13.24%	4.96%	-4.99%	13.23%	2.81%	-2.41%	-5.21%	19.51%	12.72%
EURUSD Overlay	3.06%	6.36%	9.75%	2.18%	-0.88%	6.62%	-1.35%	-0.96%	6.03%	2.55%
	2016	2017	2018	2019	2020	2021	2022	2023	ALL	
Long 6 Months EURUSD	-5.65%	15.97%	-9.50%	-7.25%	10.62%	-11.46%	-10.34%	-2.84%	-33.25%	
Short 6 Months EURUSD	4.19%	-10.80%	8.23%	5.35%	-6.76%	8.76%	6.64%	1.52%	33.50%	
EURUSD Overlay	-1.82%	6.92%	0.23%	1.75%	1.54%	-1.93%	5.46%	-1.32%	53.10%	

* Source: Bloomberg & Validus Macro Strategies. From Jan 3rd, 2006 to Sept 15th, 2023

Average Notional



Performance Against Trend Strategies



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