ENVISION

ASSET MANAGEMENT, INC.

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Treasury Inflation-Protected Securities (TIPS)

Locking in Historically Attractice Real Yields

TIPS are one of the more attractive opportunities in today's fixed-income market. They are U.S. Treasury bonds designed to protect investors from inflation while providing a return above inflation.

HOW TIPS WORK

TIPS adjust their principal value based on changes in the Consumer Price Index (CPI). When inflation rises, the principal increases, and interest payments are calculated on that higher amount. At maturity, you receive the inflation-adjusted principal, with protection against deflation at maturity (you receive at least the original principal).

UNDERSTANDING THE REAL YIELD

The yield quoted on a TIPS bond is a real yield—a return above inflation.

For example, if you purchase a TIPS yielding 3% real, you earn 3% above the inflation adjustment.

If inflation averages 2.5%, your total return would be approximately 5.5% (3.0% real + 2.5% inflation).

WHY TODAY IS DIFFERENT

For much of the past 15 years, real yields on TIPS were very low or even negative. Today, longer-term TIPS are offering some of the highest real yields we've seen in many years—approaching 3% in certain maturities. This provides an opportunity to lock in an attractive return above inflation for the long term.

TIPS VS. TRADITIONAL TREASURIES

Traditional Treasuries provide a known nominal yield. TIPS provide a known real yield, while the final nominal return depends on future inflation.
The difference between a traditional Treasury yield and a TIPS real yield is the breakeven inflation rate—the level of inflation at which both securities would be expected to perform about the same.

EXAMPLE: 3% REAL YIELD + INFLATION

If you purchase a TIPS with a 3% real yield and hold to maturity:

Average Inflation (Per Year)	Approximate Total Annual Return
1.5%	4.5%
2.0%	5.0%
2.5%	5.5%
3.0%	6.0%
4.0%	7.0%

Your return = Real Yield + Inflation

The real yield is fixed. The inflation adjustment changes over time.

IMPORTANT CONSIDERATIONS

- TIPS are backed by the U.S. Treasury and have very low credit risk.
- Market prices fluctuate with interest rates. Selling before maturity could result in a gain or loss.
- In taxable accounts, inflation adjustments to principal are taxable each year, even though not received in cash.
- TIPS can be especially tax-efficient in IRAs and other tax-deferred accounts.

THE ROLE OF TIPS IN A PORTFOLIO

TIPS can play an important role in a diversified portfolio by helping to:

- Protect purchasing power
- Lock in a return above inflation
- Reduce inflation risk
- Provide the credit backing of the U.S. Treasury
- Match assets with future spending needs

After years of low real yields, today's market offers an opportunity to lock in attractive, inflation-protected returns. We would be happy to discuss how TIPS can fit into your investment plan.

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