SIMPLIFY ETFs

**QUARTERLY FUND REVIEW** | As of June 30, 2023 **2Q23**

# AGGH | Simplify Aggregate Bond PLUS Credit Hedge ETF

## FUND OVERVIEW

**The Simplify Aggregate Bond PLUS Credit Hedge ETF (AGGH)** seeks to maximize total return by investing primarily in investment grade (IG) bonds while mitigating credit risk.

The fund is actively managed to enhance yield and offset hedging costs by enhancing duration exposure via structurally efficient curve positioning and to generate additional income by selling interest rate and credit volatility.

Credit hedging can be very inefficient, so it is paramount to be flexible in your approach to hedging within the space. AGGH will opportunistically invest, based on cost-to-payout ratios, in CDX calls, Quality-Junk factor-based hedges, and equity puts.

## PERFORMANCE REVIEW

AGGH delivered 1.43% in 2Q 2023 as compared to -0.84% by the US Aggregate Bond Index. Versus the benchmark our structural volatility selling strategy added 1.24%, while our security selection added 0.78%. Credit hedges also had a positive contribution of 0.24%. An overweight in short-term bonds was the largest contributor to security selection, which also resulted in lower duration and hence lower volatility in the portfolio as compared to the benchmark.

The outlook for rates remains mixed, as continued tightening could risk recession and ultimately a decline in treasury yields. In the short-to-medium term, however, rates could potentially remain range-bound, albeit with a relatively high level of volatility. In such an environment, selling volatility through out-of-the-money options on fixed income instruments can potentially enhance the yield of AGGH significantly. 10-year US Treasury rate increasing by 0.37% in this last quarter was a headwind to AGGH and US bond market in general; however, it also results in a good entry level for investors who believe rates will be range-bound.

**Performance as of 06/30/23 |** Inception Date: 02/14/22

| | CUMULATIVE TOTAL RETURN | | | | ANNUALIZED TOTAL RETURN | |
|---|---|---|---|---|---|---|
| | **3 Mo** | **6 Mo** | **YTD** | **Since Inception** | **1 Year** | **Since Inception** |
| **NAV** | 1.43% | 4.75% | 4.75% | -4.42% | 0.49% | -3.24% |
| **Market Price** | 1.32% | 4.64% | 4.64% | -4.21% | 0.55% | -3.09% |
| **Bloomberg US Aggregate Bond Index** | -0.84% | 2.09% | 2.09% | -7.52% | -0.94% | -5.54% |

**The performance data quoted represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted. In addition, investment returns and the principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. For performance data current to the most recent month-end, please call (855) 772-8488 or go to [https://www.simplify.us/etfs](https://www.simplify.us/etfs).**

## FUND DETAILS as of 06/30/23

### TOP TEN HOLDINGS*

| POSITION | ALLOCATION |
|---|---|
| **TYU3 Commodity** | 29.46% |
| **TII** | 29.21% |
| **LQD** | 9.09% |
| **BSV** | 9.04% |
| **HYG** | 9.03% |
| **SCHP** | 9.02% |
| **MBB** | 9.02% |
| **VMBS** | 8.97% |
| **AGG** | 7.99% |
| **MSSIQUA1A** | 4.92% |
| **Cash** | 3.87% |

*Holdings are subject to change without notice.

| | |
|---|---|
| **Gross Expense Ratio** | 0.55% |
| **Net Expense Ratio**** | 0.30% |
| **SEC 30-Day Yield** | 3.53% |
| **SEC 30-Day Yield Unsubsidized** | 3.27% |

**The Fund's adviser has contractually agreed, until at least October 31, 2023, to waive its management fees and/or pay certain expenses, in order to limit the amount of specified expenses borne by the Fund to 0.25% of the Fund's average daily net assets.

## DEFINITIONS

**Beta:** A measure of a stock's volatility in relation to the overall market.

**CDX:** A benchmark index that tracks a basket of U.S. and emerging market single-issuer credit default swaps.

**Duration:** A measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

**Expiry:** The time until an option expires. In the context here expiry is used to describe the length of time from when an option position is initiated to when it will expire.

**Investment Grade:** Refers to the quality of a company's credit and must be rated at 'BBB' or higher by Standard and Poor's or Moody's. Credit quality does not refer to the fund itself.

**Market Price:** The current price at which shares are bought and sold. Market returns are based upon the last trade price.

**NAV:** The dollar value of a single share, based on the value of the underlying assets of the fund minus its liabilities, divided by the number of shares outstanding. Calculated at the end of each business day.

**Notional Exposure:** The full market exposure a derivatives contract provides after accounting for the leverage embedded in the derivative, expressed as a percentage of the fund's total assets. We assume each option's delta (sensitivity to changes in underlying security) is 1 in this calculation, implying that we are measuring the exposure afforded by the options in the instance where extreme markets are being realized. This metric provides a measure of the protection afforded to the underlying security by a given option position.

## DEFINITIONS (cont'd)

**Option:** An option is a contract that gives the buyer the right to either buy (in the case of a call option) or sell (in the case of a put option) an underlying asset at a pre-determined price ("strike") by a specific date ("expiry"). An "outright" is another name for a single option leg. A "spread" is when options are bought at one strike and an equal amount of options are sold at a different strike, all at the same expiry.

**Out-of-the-Money:** An option has no intrinsic value, only extrinsic or time value.

**Quality-Junk**: A long/short equity factor created by being long quality equity names while being short junk equity names. Quality equities generally have high margins, profit stability, and strong balance sheets. Junk names are generally those stocks with high sensitivity to an increase in debt refinancing costs.

**SEC 30-Day Yield:** The yield is calculated with a standardized formula and represents net investment income earned by a fund over a 30-day period, expressed as an annual percentage rate based on the fund's share price. The yield includes the effect of any fee waivers and/or reimbursements. Without waivers, yields would be reduced. This is also referred to as the "standardized yield", "30-Day Yield" and "Current Yield". The unsubsidized SEC 30-Day Yield does not reflect the effect of any fee waivers and/or expense reimbursements.

## IMPORTANT INFORMATION:

**Investors should carefully consider the investment objectives, risks, charges and expenses of Exchange Traded Funds (ETFs) before investing. To obtain an ETF's prospectus containing this and other important information, please call (855) 772-8488 or view or download a prospectus online. Please read the prospectus carefully before you invest.**

**An investment in the fund involves risk, including possible loss of principal.**

The fund is actively-managed is subject to the risk that the strategy may not produce the intended results. The fund is new and has a limited operating history to evaluate.

The use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. These risks include (i) the risk that the counterparty to a derivative transaction may not fulfill its contractual obligations; (ii) risk of mispricing or improper valuation; and (iii) the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate, or index. Derivative prices are highly volatile and may fluctuate substantially during a short period of time. The use of leverage by the Fund, such as borrowing money to purchase securities or the use of options, will cause the Fund to incur additional expenses and magnify the Fund's gains or losses. The Fund's investment in fixed income securities is subject to credit risk (the debtor may default) and prepayment risk (an obligation paid early) which could cause its share price and total return to be reduced. Typically, as interest rates rise the value of bond prices will decline and the fund could lose value.

The Fund invests in ETFs (Exchange-Traded Funds) and is therefore subject to the same risks as the underlying securities in which the ETF invests as well as entails higher expenses than if invested into the underlying ETF directly.

While the option overlay is intended to improve the Fund's performance, there is no guarantee that it will do so. Utilizing an option overlay strategy involves the risk that as the buyer of a put or call option, the Fund risks losing the entire premium invested in the option if the Fund does not exercise the option. Also, securities and options traded in over-the-counter markets may trade less frequently and in limited volumes and thus exhibit more volatility and liquidity risk.

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