

# CDX | Simplify High Yield PLUS Credit Hedge ETF

## FUND OVERVIEW

The **Simplify High Yield PLUS Credit Hedge ETF (CDX)** seeks to maximize current income by investing primarily in high-yield bonds while mitigating credit risk. CDX is designed to provide core high yield exposure, with its attractive income, while simultaneously deploying a host of compelling credit hedge techniques to alleviate the blowup risk.

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

## PERFORMANCE REVIEW

CDX modestly underperformed its benchmark this quarter, primarily due to underperformance of the underlying ETF in our high yield total return swap (~0.7% return for HYG on quarter). We received positive contributions from our use of the swap rather than a direct investment of 6 basis points (BPS). Also contributing positively to performance was our Quality-Junk factor credit hedge which added approximately 20bps to performance despite an unfavorable rebalancing near market lows in April. We are evaluating alternative rebalancing methods to reduce this impact in the future.

With credit spreads contracting over the quarter, we were pleased by the positive contribution from our credit overlay. However, widening divergences between our models highlighting empirically deteriorating credit metrics and market pricing of credit risks has intensified our pursuit of additional hedge mechanisms. The fund has recently obtained an International Swaps and Derivatives Association (ISDA) Master Agreement that will allow it to utilize credit default swaps designed to add additional hedging to the portfolio while reducing the potential basis risk between an indirect, but historically successful, Quality-Junk overlay.

**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	0.89%	4.75%	4.75%	-3.64%	6.75%	-2.66%
Market Price	0.92%	4.97%	4.97%	-3.50%	6.79%	-2.57%
ICE BofA US High Yield Index 4PM	1.63%	5.41%	5.41%	-1.98%	8.84%	-1.45%

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>.

## FUND DETAILS as of 06/30/23

### TOP TEN HOLDINGS\*

POSITION	ALLOCATION
HYGFFSTRS	100.27%
B 08/10/23 Govt	51.00%
B 10/03/23 Govt	42.88%
MSSIQUA1A	31.56%
MSSIJNK1A	-28.55%
B 08/08/23 Govt	5.94%
SPXW US 09/15/23 P3720	0.04%
SPXW US 08/18/23 P3720	0.03%
SPXW US 07/21/23 P3855	0.00%
SPXW US 07/21/23 P3650	0.00%
Cash	0.10%

\*Holdings are subject to change without notice.

### DEFINITIONS

**Basis Points:** A common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%.

**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.

**Convexity:** An investment strategy is convex if its payoff relative to its benchmark is curved upward. Convex investment strategies are expected to be highly correlated with the benchmark in typical market environments but diverge to the positive in extreme markets. There are no free lunches though, and convex strategies are expected to lag during quiet markets.

**Cost-to-Payout Ratio:** A financial metric showing the proportion of earnings a company pays its shareholders in the form of dividends, expressed as a percentage of the company's total earnings. On some occasions, the payout ratio refers to the dividends paid out as a percentage of a company's cash flow. The payout ratio is also known as the dividend payout ratio.

**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.

Gross Expense Ratio	0.50%
Net Expense Ratio**	0.25%
SEC 30-Day Yield	4.77%
SEC 30-Day Yield Unsubsidized	4.52%

\*\*The Fund's adviser has contractually agreed, until at least October 31, 2023, to waive its management fees and/or pay or absorb the Fund's expenses to 0.25% of the Fund's average daily net asset.

## DEFINITIONS (cont'd)

---

**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.

**Options:** 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.

**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 visit [SimplifyETFs.com](http://SimplifyETFs.com). 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 Fund invests in ETFs (Exchange-Traded Funds) and entails higher expenses than if invested into the underlying ETF directly. The lower the credit quality, the more volatile performance will be. When junk bonds sell off, the lowest-rated bonds are typically hit hardest known as blow up risk. Likewise, the riskiest bonds typically rise fastest in a bull market however these investments that don't have a credit rating are typically the most volatile, hard to price and the least liquid.

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.

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.

Simplify ETFs are distributed by Foreside Financial Services, LLC. Foreside and Simplify are not related.

© 2023 SimplifyETFs. All rights reserved.