

# CDX | Simplify High Yield ETF

## Why CDX?



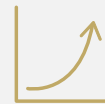
### Swap-based exposure enhances liquidity and return

Cost-efficient, high-yield bond exposure achieved via total return swaps which offer greater return potential than cash bonds



### Proprietary credit hedge via capital efficient overlay

Proprietary hedge — Quality minus Junk (Q-J) — has historically cushioned returns in risk-off or spread widening environment



### Positive carry reduces 'cost' of hedging

CDX hedge overlay constructed to deliver positive carry throughout cycle, addressing key performance headwind of traditional hedges

## How a Differentiated Process Can Drive Better Outcomes

### Incremental return from accessing high yield bond exposure via Total Return Swap

CDX earns a return of high yield market exposure plus incremental interest income (security lending fees) in exchange for taking high yield exposure off dealer's books.

### Credit hedge provides cushion against widening spreads and equity tail risk

Credit spreads are correlated with equity volatility which often results in high yield underperforming in equity market stress, regardless of the direction of interest rates.

CDX seeks to cushion some of the performance drag via a **Q-J** hedge overlay which is a **long** equal-weighted basket of ~100 U.S. **'Quality'** stocks, as measured by margins, profit stability, and balance sheet strength, paired with a **short** equal-weighted basket of ~100 U.S. **'Junk'** stocks, as determined by their sensitivity to an increase in debt refinancing costs.

This exposure is constructed to neutralize equity beta and sector bets, resulting in a factor-based approach that is aligned to the business cycle to deliver strong outperformance in risk-off periods.

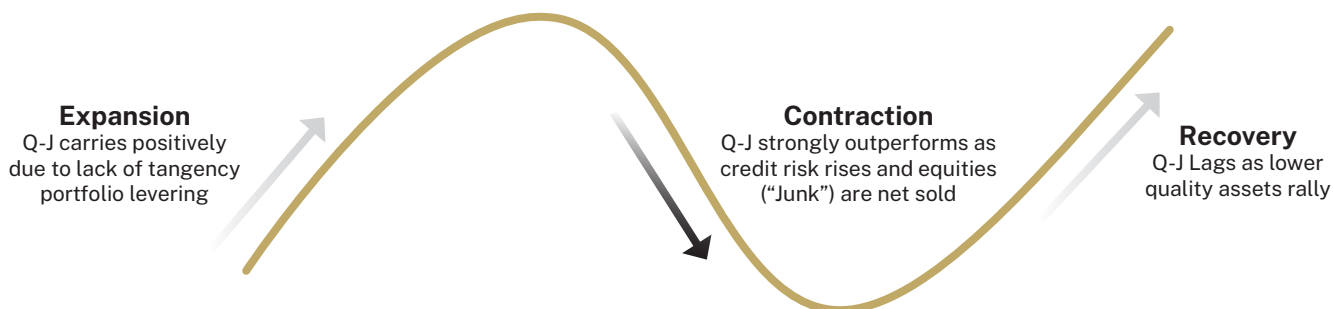
Balances income with disciplined risk control

Positive carry credit hedge overlay Q-J

Extended toolkit for dynamic credit hedging

High yield exposure achieved via liquid total return swaps

## Q-J Overlay Behavior Across the Business Cycle



For illustrative purposes only.

## Consistent Performance Across Distinct Regimes

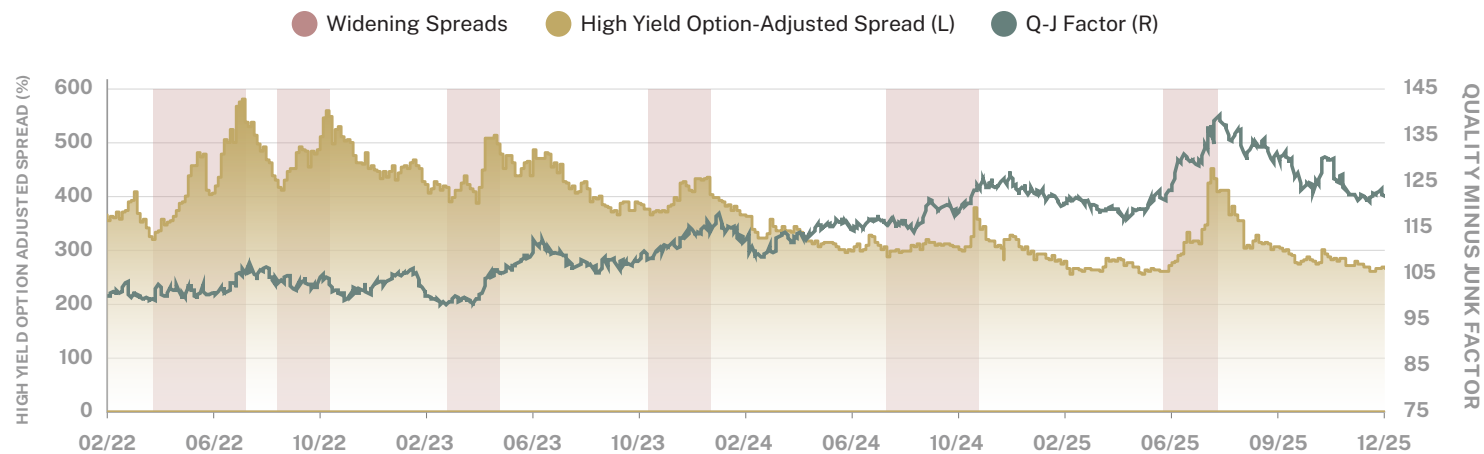
Average relative performance during **widening (+2.83%)** and **tightening (-2.75%)** scenarios since inception versus the ICE BofA US High Yield Index.

Start Date	End Date	Credit Spread Start (Basis Points)	Credit Spread End (Basis Points)	Credit Spread Widening or Tightening	CDX vs HY Index Return (%)
04/05/22	07/05/22	309	583	Widen	+1.73%
07/05/22	08/11/22	583	408	Tighten	-2.46%
08/11/22	09/29/22	408	561	Widen	+2.51%
09/29/22	02/03/23	561	385	Tighten	-5.42%
02/03/23	03/24/23	385	516	Widen	+2.79%
03/24/23	09/01/23	516	366	Tighten	-0.41%
09/01/23	11/01/23	366	438	Widen	+2.88%
11/01/23	05/06/24	438	289	Tighten	-1.92%
05/06/24	08/05/24	289	381	Widen	+2.94%
08/05/24	11/12/24	381	253	Tighten	-2.81%
02/18/25	04/08/25	256	453	Widen	+4.12%
04/08/25	09/22/25	453	259	Tighten	-3.49%

Source: Bloomberg. Data reflects period since CDX inception 02/15/22 through 12/31/25.

## Q-J Overlay Has Delivered the Added Benefit of Positive Carry

Periods when high yield spreads are widening correspond to positive performance for the Q-J hedge. Beyond the efficacy of the hedge, the positive slope of the Q-J factor highlights the positive carry over time. Most credit hedges are expected to deliver a negative return over time, but Q-J benefits from serial refinancing needs from “Junk” equity issuers and strong cash flow return from “Quality.”



Source: Bloomberg. Data reflects period since CDX inception 02/15/22 through 12/31/25.

## Dynamic Toolkit of Additional Portfolio Hedges to Be Deployed When Cost-to-Payout Ratio Is Attractive

### Equity Put Options

A positive correlation between equities and high yield bonds makes this hedge viable, although it is often expensive.

Opportunistically, deep out of the money put options can be deployed for further hedging when deemed reasonably priced.

### Credit Default Swaps

The strategy has the capacity to include investment grade and high yield credit default swap (CDS) contracts as an additional hedge component when relative value suggests undervalued.

## Glossary

**Beta:** Measure of the volatility, or systematic risk, of a security or portfolio compared to the market as a whole (usually the S&P 500).

**Bloomberg US Corporate High Yield Option-Adjusted Spread (OAS):** Is a key metric that quantifies the additional yield investors receive for holding high-yield (non-investment grade) corporate bonds, minus the impact of embedded options like call features.

**Carry:** The return obtained from holding an asset assuming the underlying price of the asset remains stable.

**CDS (Credit Default Swap):** A financial derivative that allows an investor to swap or offset their [credit risk](#) with that of another investor.

**Credit Spread:** The difference in yield between two debt securities of the same maturity but different credit quality.

**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.

**Quality Minus Junk:** The return of a basket of 100 stocks whose bond rating is investment grade (quality) minus the return of 100 stocks whose bond rating is below investment grade (junk).

**Swap:** An agreement between two parties to exchange sequences of cash flows for a set period of time. Usually, at the time the contract is initiated, at least one of these series of cash flows is determined by a random or uncertain variable, such as an interest rate, foreign exchange rate, equity price, or commodity price.

**Total Return:** Is the actual rate of return of an investment or a pool of investments over a given evaluation period. Total return includes interest, capital gains, dividends, and distributions realized over a period. Total return accounts for two categories of return: income including interest paid by fixed-income investments, distributions, or dividends and capital appreciation, representing the change in the market price of an asset.

**Volatility:** A measure of how much and how quickly prices move over a given span of time.

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

The fund is actively-managed and is subject to the risk that the strategy may not produce the intended results.

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.

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