SIMPLIFY

SIMPLIFY CURRENCY STRATEGY ETF (FOXY)

# Getting FOXY with FOREX: Currency Investing 101

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## INTRODUCTION

The Simplify Currency Strategy ETF (FOXY) launched on February 3, 2025, delivering a first-year NAV total return of over 20% (from 02/03/25 through 02/03/26). In addition, we believe its pattern of returns has provided valuable diversification to the traditional 60/40 portfolio. Despite those strong results, there may be an adoption hurdle for investors who are unfamiliar with currency investing. In this write-up, we review the basics of currency investing and show how FOXY has produced its diversifying returns.

## CURRENCY INVESTING 101

When one goes to the American Express counter at the airport and exchanges U.S. dollars for, say Mexican pesos and then puts them in a wallet, the peso cash does not earn any interest. But in institutional foreign exchange (FOREX) investing, buying (going long) a currency potentially results in an investor earning a yield in that currency, whether by holding foreign currency bills, bonds, or via an FX forward contract. Conversely, selling (going short) a currency can be equivalent to borrowing at an interest rate specific to the sold currency. For example, a pairing of short euro yielding 2% and long Brazilian real yielding 13.6% may earn the difference of 11.6%.

FOXY expands on this construct, building a portfolio of long high-interest rate currency/short low-interest rate currency positions with its return owing primarily to the rate differentials between them. The portfolio historically has held about 14 different exchange rate positions in an effort to ensure appropriate diversification. Figure 1 shows an illustrated example portfolio.

**Figure 1: Illustrated Example Portfolio**

| Longs | |
|---|---|
| Long Currency | "Lending" Rate |
| Brazilian Real | 13.6% |
| Colombian Peso | 11.4% |
| Indian Rupee | 8.1% |
| Mexican Peso | 7.0% |

**Average Difference 8.5%**

| Shorts | |
|---|---|
| Short Currency | "Borrowing" Rate |
| Euro | 2.0% |
| Canadian Dollar | 2.2% |
| Singapore Dollar | 1.2% |
| Japanese Yen | 0.6% |

*Source: Simplify Asset Management. Data as of 02/03/26.*

The example above highlights another important point: FOXY avoids expressing a view on the U.S. dollar. The long and short positions in foreign currencies are roughly matched to avoid reliance on the appreciation or depreciation of the U.S. dollar to help generate returns.

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Some clients have inquired as to whether this type of investing is the oft-mentioned "carry trade," which can unwind (sometimes violently), as happened in August of 2024 when the Japanese yen was the go-to funding currency. In fact, it is. So, in addition to diversifying over many currency positions as mentioned above — both long and short — FOXY's process incorporates two additional considerations to guard against the impactful drawdowns that static long high-rate/short low-rate strategies are subject to.

First, FOXY aims to isolate what individual currencies offer from a portfolio construction point-of-view. For example, Emerging Market currencies tend to generate higher yields and exhibit more trend-like behavior, while G10 currencies can provide a valuable cushion amid volatility. Secondarily, FOXY uses volatility to size individual currency positions, the balance between EM and G10 currencies, and the overall level of longs and shorts in the portfolio. This further enhances diversification and helps to calibrate the expected return and volatility profiles of the fund.

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It is critical for an investor in any alternative strategy to understand the risks they are taking. Figure 2 shows a table of selected risks that alternative investments typically expose an investor to beyond the traditional equity, credit, and duration risk. For a full review of these risks, please see our prior discussion defining them.

We believe FOXY's highest risk factor sensitivity is to Tail Risk, as macro-related market shocks are likely to weigh on specific currency returns until markets stabilize. FOXY is also moderately sensitive to Model Risk: as a systematic strategy, it does rely on historical relationships, which can weaken over time.

**Figure 2: Risk Factors Associated with Common Liquid Alternative Strategies***

| Risk Factor | FOXY | Quantitative Investment Strategies | Managed Futures | Global Macro | Quant Equity Long/Short |
|---|---|---|---|---|---|
| Liquidity | Low | Moderate | Moderate | Moderate | Low |
| Leverage | Low | Moderate | Moderate | High | Moderate |
| Concentration | Low | Moderate | Moderate | High | Moderate |
| Crowding | Low | Moderate | Moderate | Moderate | Moderate |
| Model | Moderate | High | High | Low | High |
| Tail | High | Moderate | Low | Moderate | Low |
| Momentum Crash | Low | Low | High | Low | Low |

*Source: Simplify Asset Management. Data as of 02/03/26.*

## CONCLUSION

FOXY aims to provide attractive returns with limited correlation to stocks and bonds. Thus far, it has delivered on that mandate with a 20.7% NAV return (from 02/03/25 through 02/03/26) and a distribution rate in the 8 to 10% range. We believe it can play a valuable role as part of an alternatives allocation for investors who understand how the strategy works and are comfortable with the risks FOXY underwrites.

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## GLOSSARY

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

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

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

## Important Information

**Liquidity risk is the risk that there may be low trading volume with wide bid-ask spreads when attempting to trade a security. Leverage risk is the risk that returns (positive or negative) get magnified with the use of leverage. Concentration risk is the risk associated with holding large position sizes with relatively little diversification. Crowding is the risk of too many investors placing the same trade, which can cause sharp declines if many of them attempt to trade at one time. Model risk is the risk that historical relationships used to build a model may have weakened over time. Tail risk is the risk of a rare, extreme market event resulting in large losses or gains. Momentum Crash risk is the risk of a sharp reversal in asset price movements, causing losses for momentum strategies. QIS are quantitative investment strategies that utilize a rules-based approach. Managed Futures strategies seek capital appreciation by taking long and/or short positions in futures contracts. Global Macro strategies seek to profit from large-scale economic and political trends across asset classes. Quant equity long/short investors utilize systematic strategies to go long equities with favorable expected returns and short equities with unfavorable expected returns.*

*Data as of 01/31/26. Distribution Rate: 8.63%, 30-Day SEC Yield: 3.26%. The performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. 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. For standardized performance, go to: https://www.simplify.us/etfs/foxy-simplify-currency-strategy-etf*

*The Distribution Rate is the annual rate an investor would receive if the most recently declared distribution, which includes option income, remained the same going forward. The Distribution Rate is calculated by multiplying an ETF's Distribution per Share by twelve (12), and dividing the resulting amount by the ETF's most recent NAV. The Distribution Rate represents a single distribution from the ETF and does not represent its total return. Distribution includes an estimated 91% Return of Capital ("ROC"). The ROC percentage indicates the percentage of the distribution that reflects an investor's initial investment.*

**Investors should carefully consider the investment objectives, risks, charges and expenses of Exchange Traded Funds (ETFs) before investing. Must be preceded or accompanied by a prospectus. For FOXY's prospectus, click here.**

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

The fund is actively-managed and subject to the risk that the strategy may not produce the intended results. The fund will also rely on the Futures Adviser's judgments about the value and potential appreciation of particular securities which if assessed incorrectly could negatively affect the Fund. 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's use of futures may involve different or greater risks than investing directly in securities and the contract may not correlate perfectly with the underlying asset. These risks include leverage risk which means a small percentage of assets invested in futures can have a disproportionately large impact on the Fund. This risk could cause the Fund to lose more than the principal amount invested. Futures contracts may become mispriced or improperly valued when compared to the adviser's expectation and may not produce the desired investment results. The Fund's exposure to futures contracts is subject to risks related to rolling. Extended periods of contango or backwardation can cause significant losses for the Fund. Any short sales of the futures contracts by the fund theoretically involves unlimited loss potential since the market price of securities sold short may continuously increase.

Investments linked to commodity or currency futures contracts including exposure to non-U.S. currencies can be highly volatile affected by market movements, changes in interest rates or factors affecting a particular industry or commodity. Changes in currency exchange rates can be unpredictable or change quickly which will affect the value of the Fund.

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