

# 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

1Q saw risk assets bid and credit spreads tighten to the lowest decile in the 30-year history of the high yield market. Soft landing, or no landing, is the accepted narrative. And yet, few high yield borrowers have been able to refinance in the past year, despite tight spreads, as the rapid increase in risk-free rates has pushed borrowing costs out of reach for many of the index constituents, leaving the index at the shortest weighted average maturity in history. Eventually, the bonds must be repaid, and borrowers are not eager to retire their low coupon debt.

Despite taking on additional hedging protection over the course of the quarter, which cost us approximately 0.49% of net performance, we managed to outperform our benchmark as both our Quality-Junk overlay and our high yield beta implementation through a total return swap contributed positively to performance. While credit spreads have tightened nearly 1.00% to start the year, the realized bankruptcy rates for smaller companies have begun to rise alongside delinquencies in mortgages and consumer debt. Historically, the corporate sector has not been far behind.

**Performance as of 03/31/24** | Inception Date: 02/14/22

	CUMULATIVE TOTAL RETURN				ANNUALIZED TOTAL RETURN	
	3 Mo	6 Mo	YTD	Since Inception	1 Year	Since Inception
<b>NAV</b>	2.28%	9.01%	2.28%	5.83%	10.80%	2.71%
<b>Market Price</b>	2.02%	9.19%	2.02%	5.70%	10.55%	2.65%
<b>ICE BofA U.S. High Yield Index</b>	1.51%	8.68%	1.51%	7.07%	11.04%	3.27%

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 03/31/24

### TOP TEN HOLDINGS\*

POSITION	ALLOCATION
ISHARES	99.55%
T Bills	52.26%
T Bills	43.78%
TRS MSSIQUA1	31.03%
T Bills	2.32%
SPXW US 05/17/24 P4280	0.02%
SPXW US 04/19/24 P4075	0.00%
SPXW US 04/19/24 P3840	0.00%
SPXW US 05/17/24 P4025	-0.01%
05Y5BRAB2	-1.12%
Cash	-96.81%

\*Holdings are subject to change without notice.

<b>Gross Expense Ratio</b>	0.51%
<b>Net Expense Ratio**</b>	0.26%
<b>SEC 30-Day Yield</b>	5.04%
<b>SEC 30-Day Yield Unsubsidized</b>	4.78%

\*\*The Fund's adviser has contractually agreed, through at least October 31, 2024, to waive its management fees to 0.25% of the Fund's average daily net assets.

### DEFINITIONS

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

**Convexity:** A measure of how the duration of a bond changes as interest rates change. The greater the convexity of a bond, the greater that change will be for a specific interest rate shift.

**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.

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

**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.

## DEFINITIONS (cont'd)

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**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:

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**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 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.

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