SIMPLIFY ETFs

SIMPLIFY MBS ETF (MTBA)

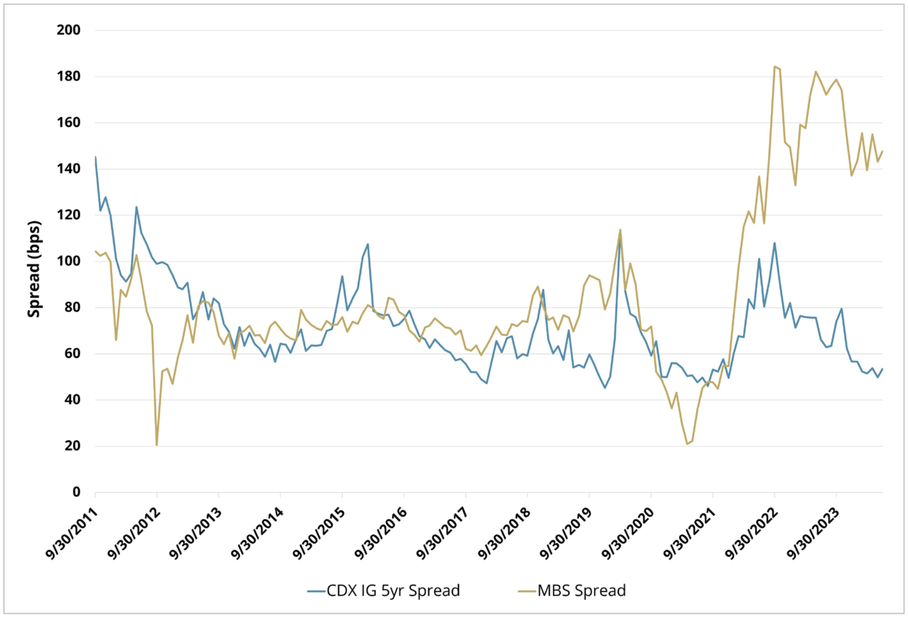
A Great Time to Consider MTBA

By: Jason England, Managing Director, Portfolio Manager

WHY NEWLY ISSUED MBS NOW?

The Federal Reserve Bank (FED) hiked rates by 525bps over a nearly two-year period, providing attractive yields across all fixed income asset classes. But mortgage-backed securities (MBS) spreads are trading substantially wider (higher yield) than their historical averages (see Figure 1). Within the MBS space, newly issued MBS look the most attractive right now, which have coupons ranging from 5.0% to 6.0%, providing higher yields and shorter duration than the MBS Index which holds legacy MBS that were issued over the last 30 years.

Figure 1: MBS Spreads



Source: Bloomberg

Also consider that IG corporates are trading at historically tight levels, with 5-year IG CDX currently trading below 50bps, after trading over 90bps in March 2023 during the banking crisis, so not much upside at this point in the cycle. Additionally, even if the FED's next move is a cut, they are in no rush to start cutting as their most recent Dot Plot shows only one cut for 2024. The cutting cycle will likely be gradual (every other meeting) once it starts and will mostly impact front-end rates with back-end rates more influenced by fiscal policy and the economic outlook, likely insulating mortgages that are based on U.S. 10-year rates.

MTBA

The Simplify MBS ETF (MTBA) is a rather simple approach to investing in Mortgage-backed Securities (MBS) issued by Government-Sponsored Enterprises (GSEs) such as Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC) which have explicit and implicit backing from the U.S. government. The strategy combines an actively managed core portfolio of predominantly MBS forward contracts (TBAs – "To-Be-Announced") and U.S. Treasury Bills as collateral. Rather than tracking a benchmark (with the aforementioned legacy holdings at low coupons/longer durations), the ETF is designed to move beyond conventional constraints and seek the best positive absolute returns.

As you can see from Figure 2, newly issued MBS as executed in MTBA is providing higher yield and less duration than the traditional MBS index, as well as Corporate and Aggregate indices.

Figure 2: Comparison of Fixed Income
(As of 07/16/2024)

	Yield	Coupon	Duration	Assets (MM)	Expense Ratio	Inception Date
Simplify MBS ETF (MTBA)	5.90	5.50	3.38	995.21	0.15%	11/7/2023
Bloomberg US MBS Index	5.03	3.22	5.68	N/A	N/A	1/1/1976
Bloomberg US Corporate Bond Index	5.26	4.21	7.20	N/A	N/A	1/1/1973
Bloomberg US Aggregate Index	4.79	3.31	6.19	N/A	N/A	1/1/1976

Source: Bloomberg, Simplify Calculations

THREE PORTFOLIO USE CASES FOR MTBA

1. For those seeking a higher yielding/lower duration substitute for mortgage index funds
2. As a complement to an existing core fixed income allocation
3. A defensive alternative to credit risk with attractive yields

IN CONCLUSION

MBS, especially newly issued MBS, are offering great value relative to many other fixed income asset classes right now. And with expectations of a gradual cutting cycle, focused on the front-end, now looks like a great time to consider the simple yet powerful exposure to MBS that is executed inside MTBA.

GLOSSARY

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%.

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. Please read the prospectus carefully before you invest.

An investment in the fund involves risk, including possible loss of principal. For MTBA standardized performance, click here.

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

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 earnings and prospects of small and medium sized companies are more volatile than larger companies and may experience higher failure rates than larger companies. Small and medium sized companies normally have a lower trading volume than larger companies, which may tend to make their market price fall more disproportionately than larger companies in response to selling pressures and may have limited markets, product lines, or financial resources and lack management experience.

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.

Mortgage-Related Risks. MBS represent interests in "pools" of mortgages and often involve risks that are different from or possibly more acute than risks associated with other types of debt instruments. TBA Securities Risk. In a TBA transaction, a seller agrees to deliver a security at a future date but does not specify the particular security to be delivered. Instead, the seller agrees to accept any security that meets specified terms. Limited History of Operations. The Funds are new ETFs and therefore do not yet have a history of operations for investors to evaluate.

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