SIMPLIFY MBS ETF (MTBA)

Now is STILL a Great Time to Consider MTBA

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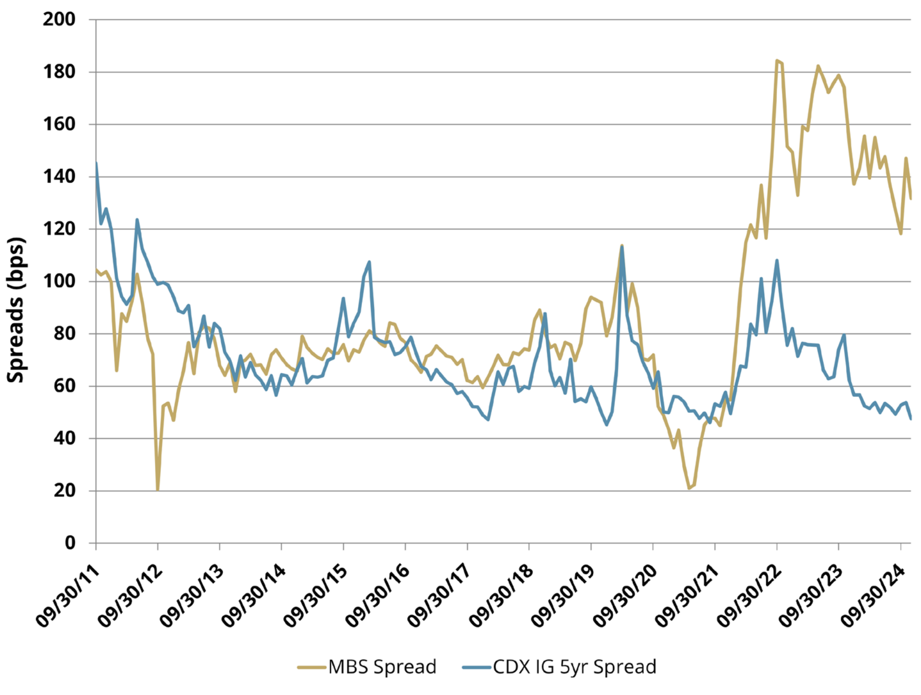
WHY NEWLY ISSUED MBS NOW?

The Federal Reserve Bank (FED) hiked rates by 525 basis points (bps) over a nearly two-year period, providing attractive yields across all fixed income asset classes. However, 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. MBS securities issued in the last few years when mortgage rates were over 6% have significant prepayment risk, so the embedded option has more value, which increases the yield to maturity of newer MBS securities.

Figure 1: MBS Spreads vs. Investment Grade (IG) Credit Spreads



Source: Bloomberg

Also, consider that IG corporates are trading at historically tight levels, with 5-year IG CDX Index currently trading below 50 bps, after trading over 90 bps in March 2023 during the banking crisis, so not much upside at this point in the cycle. Additionally, even though the FED started with an outsized cut at the September meeting and has now cut the Federal Funds Rate by 75 bps this year, the economy is not sending any signals that they need to be in a hurry to lower interest rates. Thus, the cutting cycle will likely be gradual next year (every other meeting) 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 off U.S. 10-year rates.

MTBA

The Simplify MBS ETF (MTBA) is a rather simple approach to investing in the 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 are 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 11/29/24)

	Distribution Rate	Coupon	Duration	Assets (MM)	Expense Ratio	Inception Date
Simplify MBS ETF (MTBA)	5.95	5.35	4.08	$1,614	0.17%	11/06/23
Bloomberg US MBS Index	4.95	3.30	5.61	N/A	N/A	01/01/76
Bloomberg US Corporate Bond Index	5.05	4.27	7.20	N/A	N/A	01/01/73
Bloomberg US Aggregate Index	4.64	3.40	6.17	N/A	N/A	01/01/76

Source: Bloomberg, Simplify Calculations

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. View the prospectus and standardized performance.

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. The distribution rate may contain return of capital but an estimate cannot be provided at this time. Please refer to the 19a-1 notices for additional details regarding the distributions' composition once they become available.

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 (bps): 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%.

Coupon: The annual interest rate paid on a bond, expressed as a percentage of the face value and paid from the issue date until maturity.

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

IG CDX Index: The Markit CDX North America Investment Grade Index is composed of 125 equally weighted credit default swaps on investment grade entities, distributed among 6 sub-indices: High Volatility, Consumer, Energy, Financial, Industrial, and Technology, Media & Tele-communications. Markit CDX indices roll every 6 months in March & September.

Bloomberg US Mortgage-Backed Securities (MBS) Index: Tracks fixed-rate agency mortgage-backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Investment Grade (IG) Rating: A credit rating that signifies the risk of default for a municipal or corporate bond issuer and is assigned by credit rating firms such as Standard & Poor's (S&P), Moody's, and Fitch. IG ratings range from "AAA" to "BBB". An investment grade rating signals that a corporate or municipal bond has a relatively low risk of default.

Mortgage-Backed Securities (MBS): Investment products similar to bonds. Each MBS consists of a bundle of home loans and other real estate debt bought from the banks that issued them. Investors in mortgage-backed securities receive periodic payments similar to bond coupon payments.

To-Be-Announced (TBA): A term that describes the forward-settling of mortgage-backed securities (MBS) trades.

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. View standardized performance. View prospectus.

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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