SIMPLIFY ETFs

SIMPLIFY VOLATILITY PREMIUM ETF (SVOL)

Navigating a Dynamic Volatility Environment

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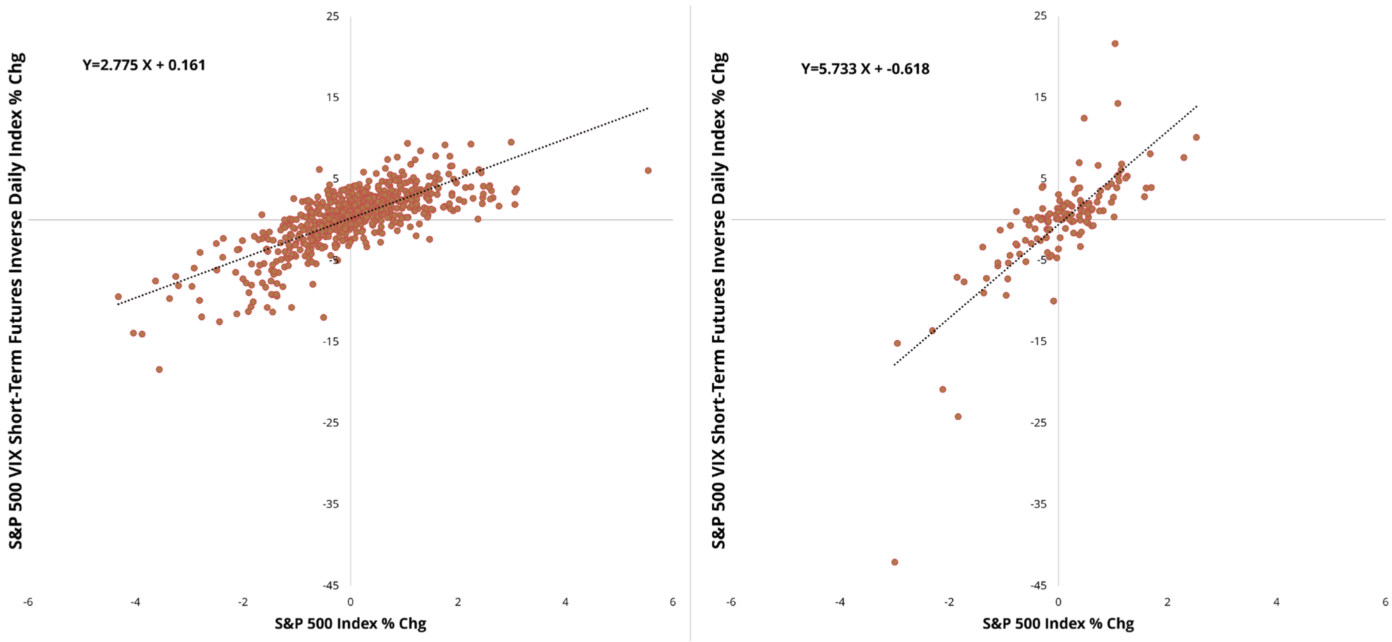
INTRODUCTION

The **Simplify Volatility Premium ETF (SVOL)** exemplifies an innovative approach to volatility harvesting, aiming to generate sustainable income while maintaining Net Asset Value (NAV) stability. In response to heightened market risks and a doubling of beta in its short VIX strategy relative to U.S. Large Cap equities, the fund has implemented a strategic adjustment in January 2025. These adjustments included increasing the S&P 500 ETF (SPY) exposure, selling lower-beta VIX futures, and hedging against tail risk to optimize returns and reduce volatility sensitivity. In this write-up, we will review the strategy updates and the logic behind them.

REGIME SHIFT IN VIX MARKET

In January 2025, a key strategic enhancement was implemented in SVOL to recalibrate the fund's positioning in response to significant shifts in market volatility dynamics. Figure 1 below illustrates a notable trend over the past six months, wherein short VIX positions — a cornerstone strategy within SVOL — have experienced a sharp increase in beta relative to U.S. Large Cap equities. From SVOL's inception on May 11, 2021, through June 30, 2024, the beta of the S&P 500 VIX Short-Term Futures Inverse Daily Index relative to the S&P 500 Index averaged 2.774. However, in the six months ending December 31, 2024, this beta more than doubled to 5.728. This pronounced shift in beta prompted the portfolio management team to carefully evaluate alternative positioning strategies to sustain the income and returns that Simplify's clients have come to expect.

Figure 1: Short VIX Futures Beta vs. S&P 500 Index (05/11/21 to 06/30/24 & 07/01/24 to 01/09/25)



Source: Bloomberg

STRATEGY UPDATE IN RESPONSE

To mitigate this increased risk, SVOL implemented a range of proactive measures to enhance diversification and stability. These include selling lower-beta VIX futures further out on the curve, hedging against tail risk, and maintaining equity beta for NAV participation. These adjustments reflect the fund's commitment to adaptability in navigating market volatility and delivering sustainable distributions. By addressing the elevated beta of short VIX positions, Simplify ensures that SVOL remains aligned with its core objectives of generating a distribution rate targeting Fed funds plus 10% while maintaining NAV stability. These strategic enhancements underscore the fund's focus on optimizing returns relative to risk, even in challenging market conditions.

Figure 2 below provides a detailed visualization of SVOL exposure, categorized by group and aligned with their respective intended purposes. SVOL is structured into four primary groups: **VIX Roll Yield, Income Generation, Risk Budgeting, and NAV Stability/ Beta Targeting**. For each group, the chart outlines the objectives, target weight allocations, and the specific instruments utilized to achieve the intended exposure.

Figure 2: Simplify's Classification Matrix of SVOL Positions

Grouping	VIX Roll Yield	Income Generation	Risk Budgeting	NAV Stability Beta Targeting
Objective	"Active VIX Futures curve positioning"	"Instruments to generate income"	"Protection from VIX spikes"	"Capital appreciation and beta management"
Target Weights	<30%	<50%	<5%	>30%
Instruments	Short VIX Futures	Simplify ETFs	Long VIX Call Options	S&P 500 ETFs / E-Minis
		US Treasuries	Long SPX Put Options	Long SPX Call Options
		Sell SPX Options		

Source: Simplify Asset Management. For illustrative purposes only.

The SVOL portfolio management team employs a dynamic and disciplined approach to navigating evolving market conditions, consistently working to achieve targeted outcomes. The team closely monitors key indicators such as implied volatility levels (e.g., the VIX), the steepness of the VIX futures curve, and the beta of VIX to equities (a la Figure 1) to identify opportunities for optimizing the VIX roll yield.

Early indicators highlight the success of the SVOL enhancement. As shown in Figure 4, SVOL capitalized on January's strong market rally, outperforming both the S&P 500 VIX Short-Term Futures Inverse Daily Index and the S&P 500 Index.

Figure 3: January 2025 Total Returns

ETF / Index	January 2025
Simplify Volatility Premium ETF (SVOL)	3.41%
S&P 500 Idex	2.78%
S&P 500 VIX Short-Term Futures Inverse Daily Index (25%)	-1.01%

Source: Bloomberg, 12/31/24 – 01/31/25.
S&P 500 VIX Short-Term Futures Inverse Daily Index is 25% of the index return.

IN CONCLUSION

Simplify's SVOL fund exemplifies an innovative approach to volatility harvesting, aiming to generate sustainable income while maintaining NAV stability. In response to heightened market risks and a doubling of beta in its short VIX strategy relative to U.S. Large Cap equities, the fund implemented a strategic adjustment in January 2025. These adjustments included increasing SPY exposure, selling lower-beta VIX futures, and hedging against tail risk to optimize returns and reduce volatility sensitivity. By realigning its portfolio, SVOL has upheld its commitment to delivering a distribution rate targeting Fed funds plus 10% while preserving a balanced risk profile. The enhancements demonstrate the fund's adaptability and dedication to optimizing performance in evolving market conditions. The portfolio management team remains confident in the strategy.

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).

Futures: Derivative financial contracts that obligate parties to buy or sell an asset at a predetermined future date and price. The buyer must purchase or the seller must sell the underlying asset at the set price, regardless of the current market price at the expiration date.

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. Market Price: The current price at which shares are bought and sold. Market returns are based upon the last trade price.

Roll Yield: The return from adjusting a futures position from one futures contract to a longer-dated contract.

VIX Index: A real-time market index representing the market's expectations for volatility over the coming 30 days.

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

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. Download SVOL prospectus.

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 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. VIX futures contracts can be highly volatile and the Fund may experience sudden and large losses when buying selling or holding such instruments. VIX futures are unlike traditional futures contracts not based on a tradeable asset and it is possible to lose a portion or all of an investment.

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.

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