

# Simplify Asset Management - Disruptive Investing Disrupted!

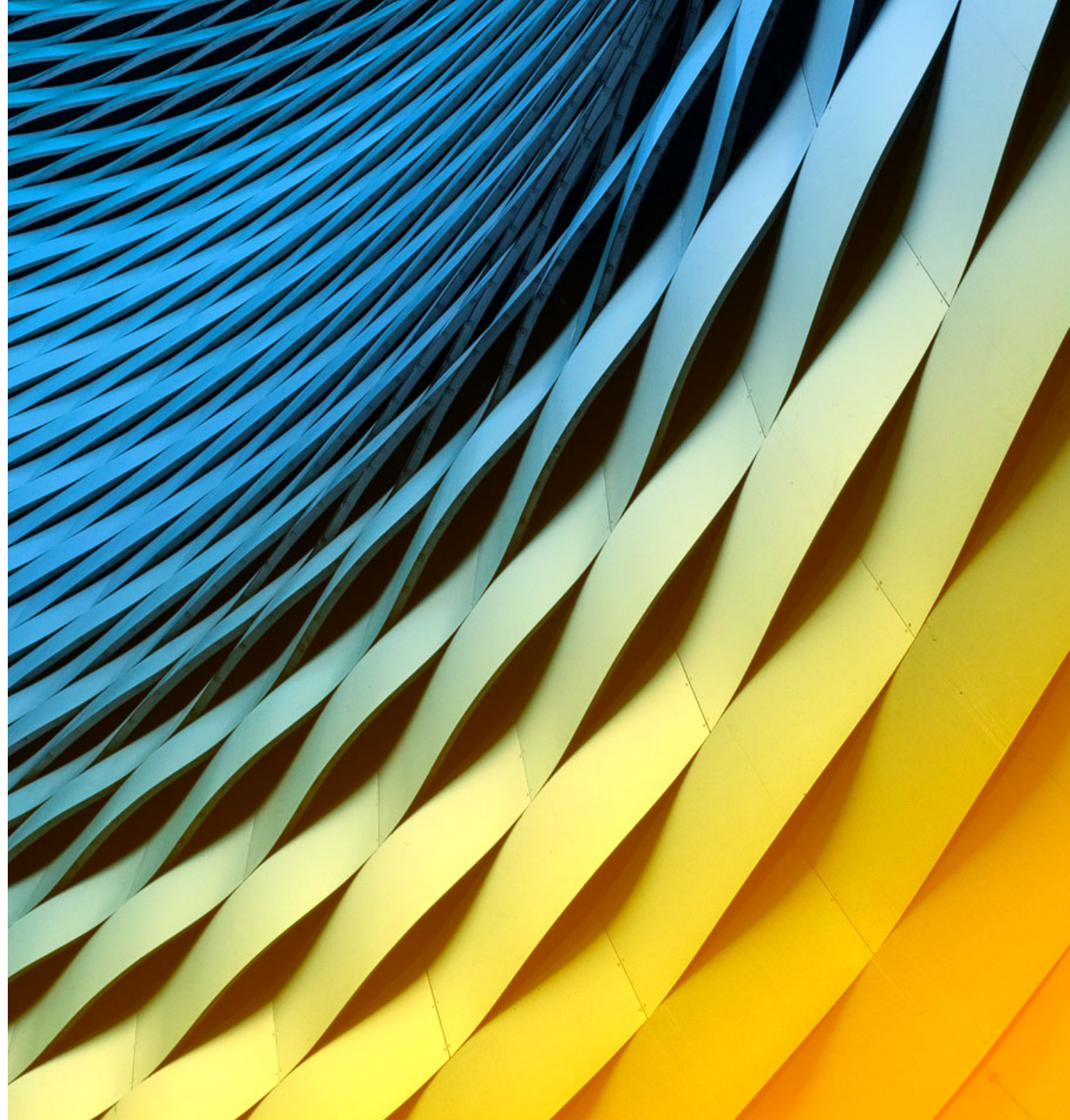
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**Eric McArdle;**  
**Larry Kim,**  
Simplify Asset Management;  
**Tad Park,**  
Volt Equity

**April 16, 2021**



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# Disruptive Investing Disrupted!



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VP, INVESTMENT CONSULTANT  
SIMPLIFY

A NEW SET OF ASYMMETRIC PORTFOLIO BUILDING BLOCKS:

# Simplify ETF Platform

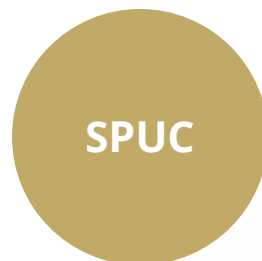
## Beta + Convexity



Simplify US Equity  
PLUS Convexity ETF



Simplify US Equity  
PLUS Downside  
Convexity ETF



Simplify US Equity  
PLUS Upside  
Convexity ETF



Simplify Nasdaq 100 Equity  
PLUS Convexity ETF



Simplify Nasdaq 100 Equity  
PLUS Downside  
Convexity ETF

## Disruption + Convexity



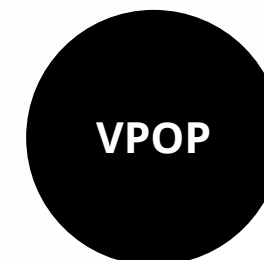
Simplify Volt RoboCar  
Disruption & Tech ETF



Simplify Volt Fintech  
Disruption ETF



Simplify Volt Cloud &  
Cybersecurity Disruption ETF

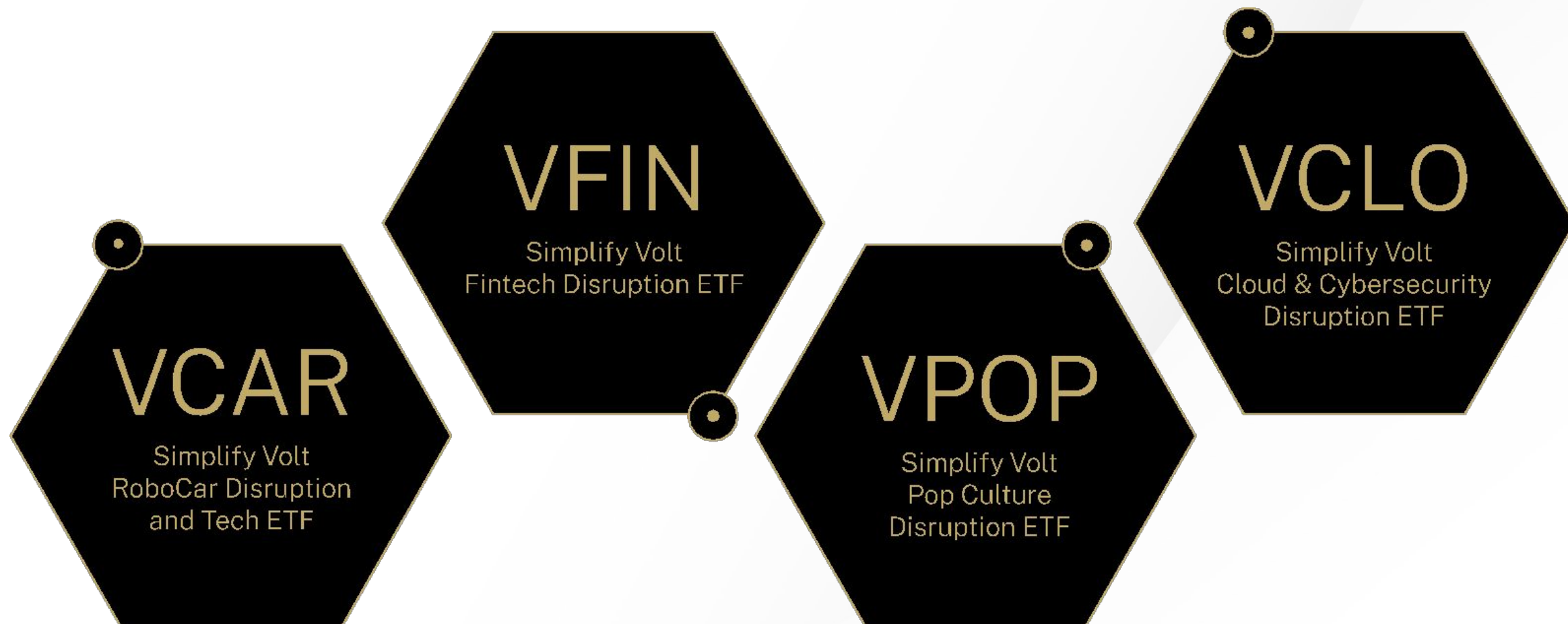


Simplify Volt Pop Culture  
Disruption ETF





## DISRUPTION WITH CONVEXITY:



## AGENDA:

- ✓ Why **concentration**?
- ✓ How do you **identify disruptors**?
- ✓ Autonomous driving example
- ✓ How much do you love your insurance company?
- ✓ Why **convexity**?
- ✓ Getting **exposure**



## THE ORACLE OF OMAHA'S VIEW ON CONCENTRATION:

**"It's crazy to put money in your twentieth choice rather than your first choice...and I operated mostly with five positions. If I were running \$50, \$100, \$200 million, I would have 80 percent in five positions, with 25 percent for the largest."**

— Warren Buffett, Berkshire Hathaway

Source: Warren Buffett's Ground Rules: Words of Wisdom from the Partnership Letters of the World's Greatest Investor:



INDEX RETURNS ARE SUPPORTED BY FEW SELECTIVE WINNERS:  
RUSSELL 3000 INDEX 1980-2014



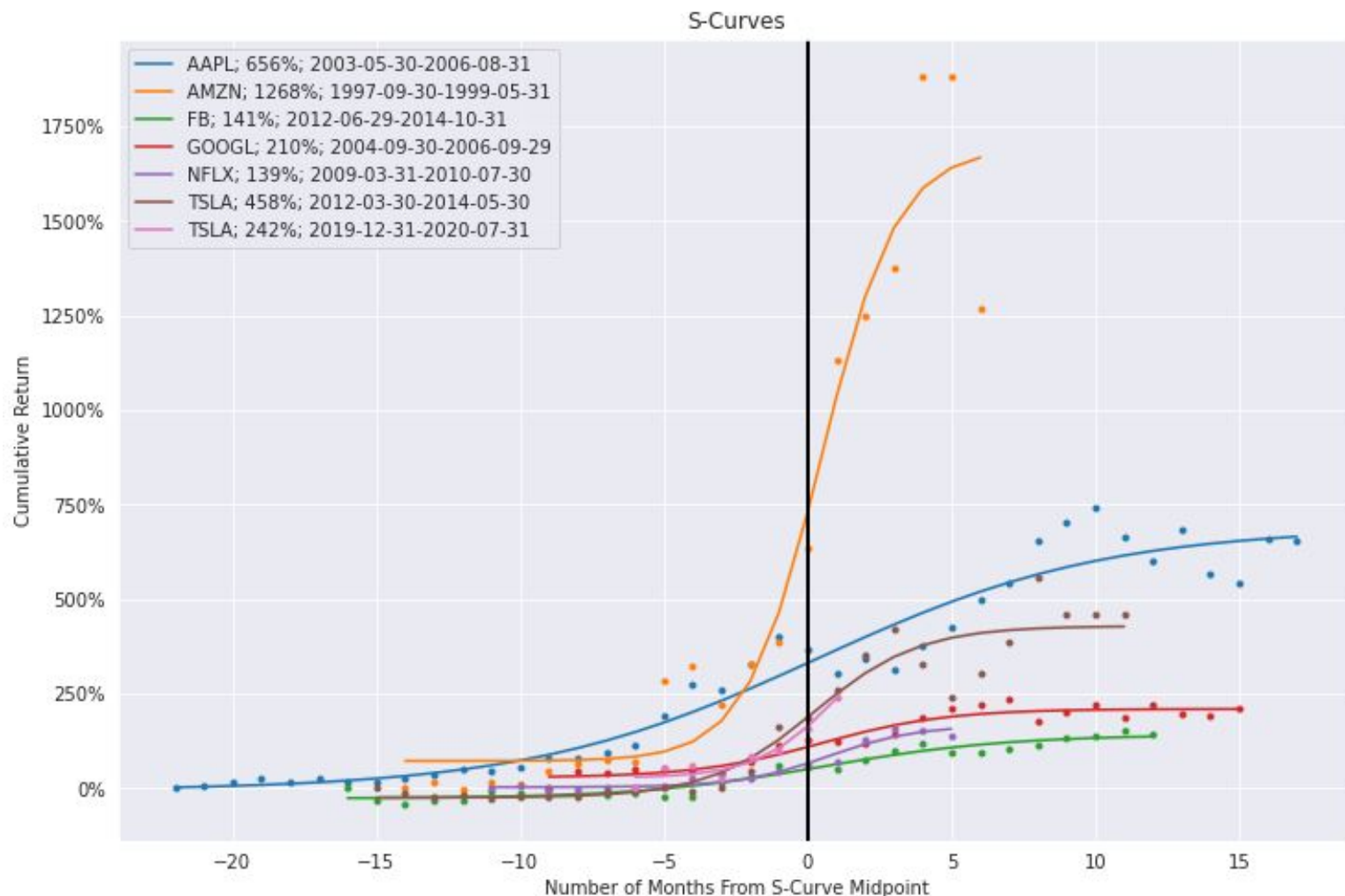
Source: JP Morgan: The Agony and the Ecstasy; The Risks and Rewards of a Concentrated Stock Position





## S CURVES TODAY:

# 2<sup>nd</sup> to 98<sup>th</sup> Percentile of Curve



Source: Bloomberg. Calculations by Simplify Asset Management. Past Performance is no guarantee of future results.

## CONCLUSIONS:

- ✓ 2 Years Covers Full S
- ✓ Large Fraction occurs over 6M
- ✓ Heights Minimally ~150-250%



THE HIGHER THE GINI SCORE, THE MORE DOMINANT A FEW PLAYERS ARE IN THAT INDUSTRY:

# Some Industries Are Winner-Take-All

## HIGHEST

Rank	Sub-industry	2016 Gini
1	Technology Hardware, Storage & Peripherals	0.89
2	Consumer Electronics	0.89
3	Integrated Telecommunication Services	0.86
4	Soft Drinks	0.84
5	Systems Software	0.83
6	Internet Software and Services	0.81
7	Internet and Direct Marketing Retail	0.81
8	Tobacco	0.81
9	Heavy Electrical Equipment	0.79
10	Air Freight and Logistics	0.79

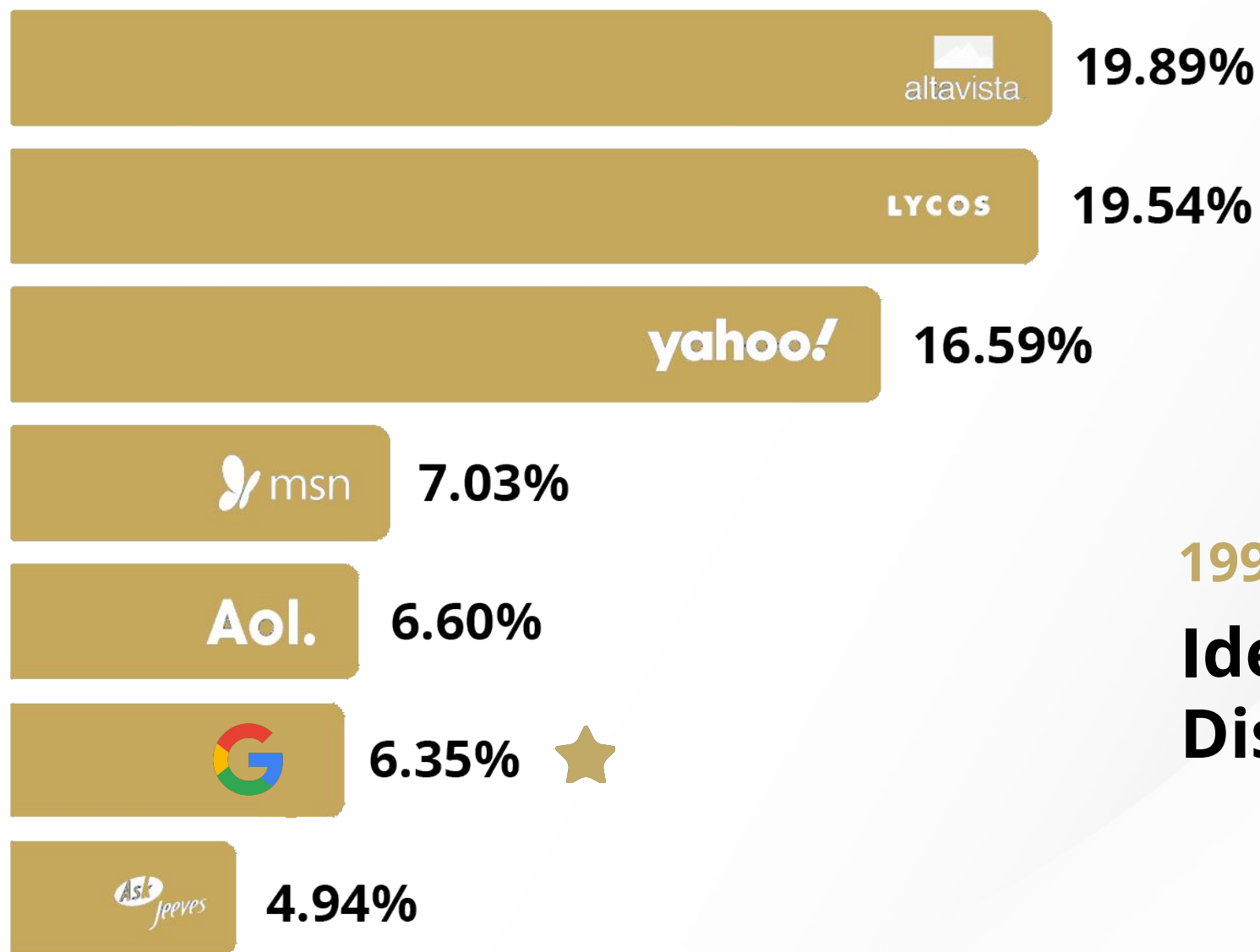
Note: *Technology sectors in red*

## LOWEST

Rank	Sub-industry	2016 Gini
85	Multi-Utilities	0.30
86	Specialty Stores	0.29
87	Electronic Equipment and Instruments	0.28
88	Construction and Engineering	0.28
89	Trading Companies and Distributors	0.26
90	Oil and Gas Storage and Transportation	0.25
91	Healthcare Equipment	0.24
92	Electric Utilities	0.24
93	Gas Utilities	0.24
94	Diversified REITs	0.17

Source: PwC analysis of Capital IQ data, 2018





1999 Q1

## Identifying Disruptors

Source: Most Popular Search Engines 1994 - 2019 - Data is Beautiful  
Percentage of search usage by company based on 'first-choice search destination'





77.57% ★



13.22% Baidu

3.61% Bing

2.32% Yahoo!

1.46% Yandex Search

0.58% DuckDuckGo

0.29% AOL Search

2019 Q3

## Identifying Disruptors

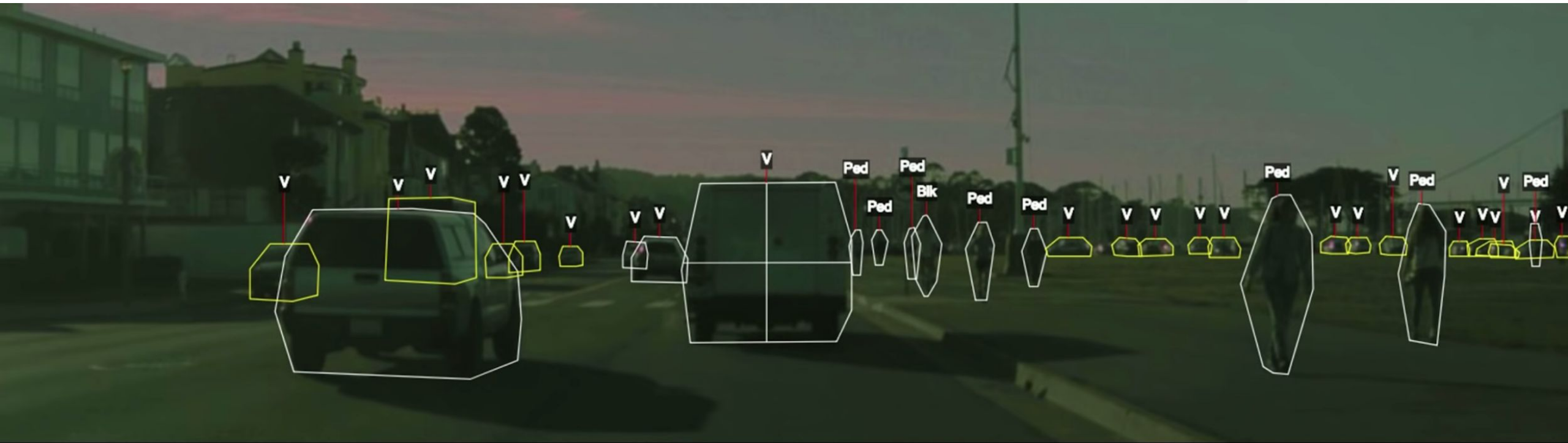
Source: *Most Popular Search Engines 1994 - 2019* - Data is Beautiful  
Percentage of search usage by company based on 'first-choice search destination'





AN EXTREME EXAMPLE OF CONCENTRATION:

# Autonomous Driving



*Source: Tesla*



FIRST PRINCIPLES APPROACH:

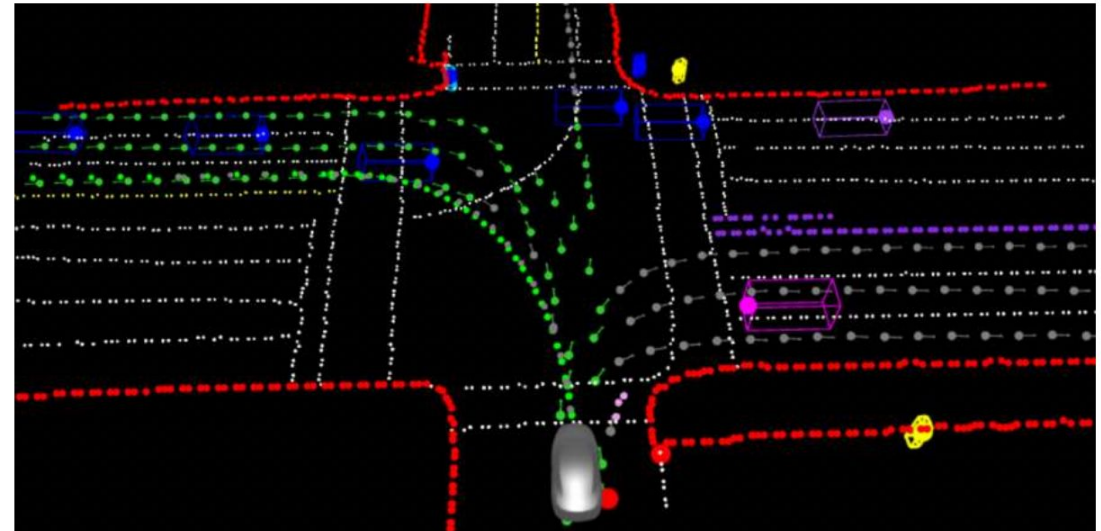
# Theme: Autonomous Driving

## AUTONOMOUS DRIVING

- ✓ Redundant Camera Data
- ✓ Low Maintenance Electric Fleet
- ✓ Custom Neural Network Chip
- ✓ Relentless Improvement Culture



How Tesla sees an intersection



How Tesla's neural network understands intersection

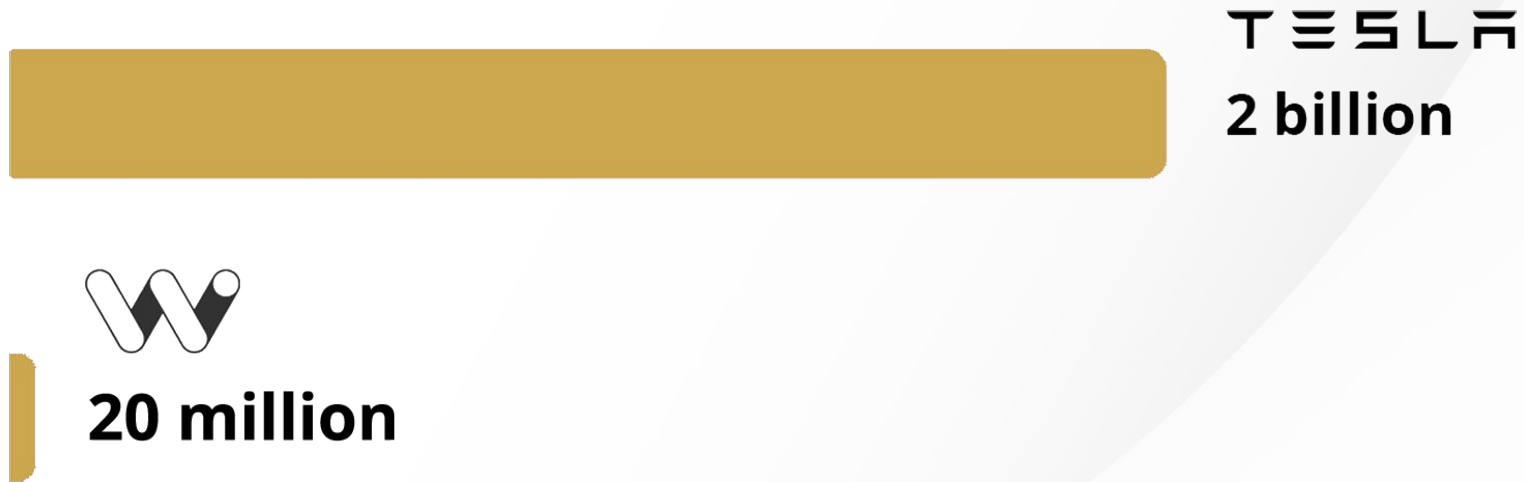
Source: Tesla



DATA IS THE KEY TO WINNING AUTONOMOUS DRIVING:

# Tesla's Multi-Billion Mile Advantage

APPROXIMATE MILES DRIVEN\*



Source: *Autopilot miles and vehicles*, [lexfridman.com](http://lexfridman.com)

Source: Waymo

Tesla Autopilot miles from 2015-2020 5 years

Waymo miles since 2009 until 2/2/2021 11 years



FIRST PRINCIPLES APPROACH:

# Fintech Disruption

## DIGITAL PAYMENTS:

- ✓ Divide and conquer
- ✓ Frictionless payments

## INSURANCE:

- ✓ Customer delight
- ✓ Digital acquisition
- ✓ Digital claims

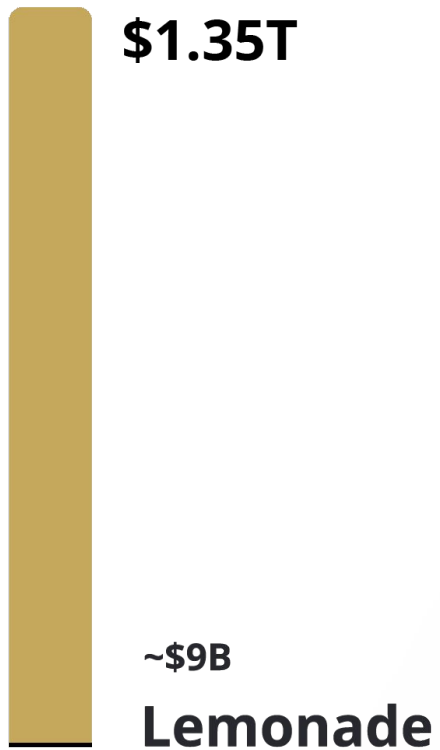




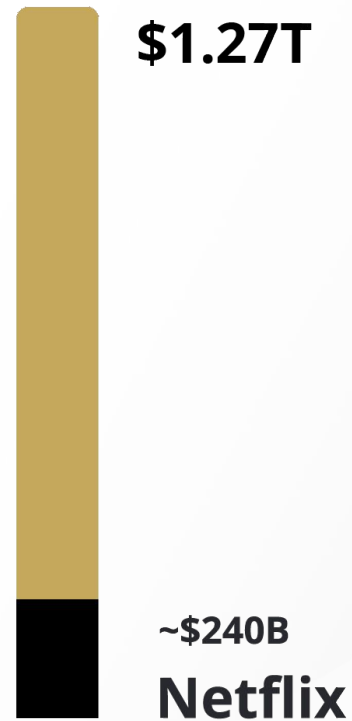
INDUSTRY RIPE FOR DISRUPTION:

# Insurance

## Insurance



## Entertainment



## Hotels, Restaurants and Leisure



Source: Fidelity Sectors & Industries. GICS Industries  
Values as of 1/28/21



AND ONCE AGAIN DATA IS THE KEY:

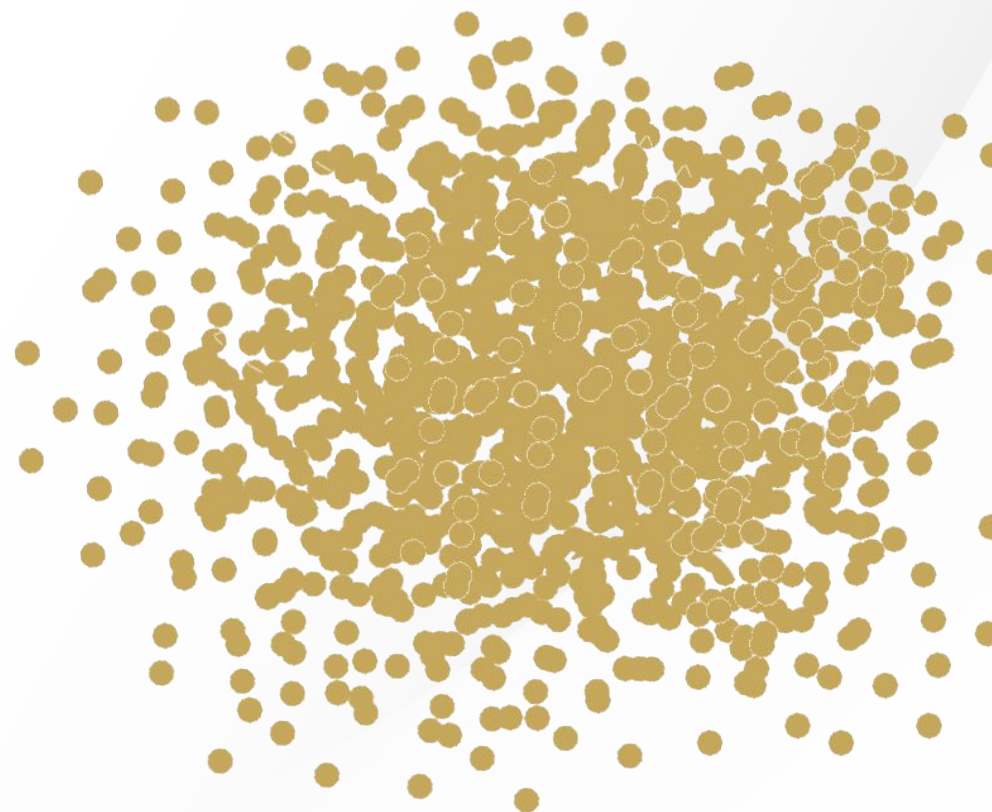
# AI Continues To Disrupt

Data points collected by Insurance forms

20-50



Traditional Insurance



1600+

Lemonade

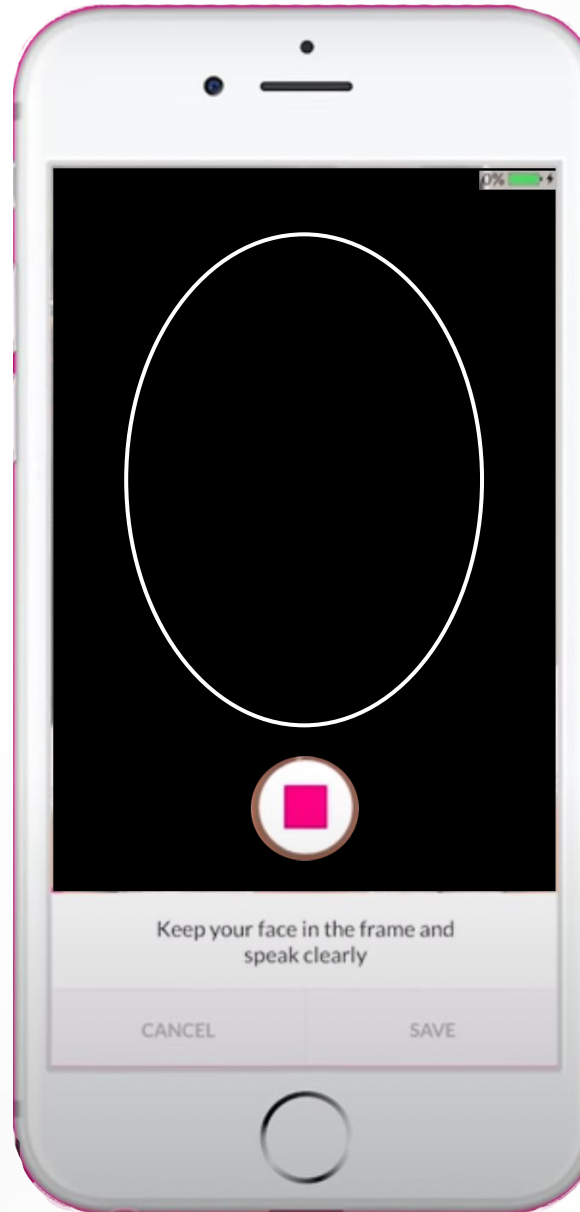
Source: Lemonade



PURE DIGITAL PLATFORM ENABLES DATA COLLECTION:

# Lemonade's AI Approach

- ✓ Machine learning optimized data points
- ✓ Reduce racial bias
- ✓ Detect fraud
- ✓ Reduce gross loss ratio
- ✓ Quick payouts of claims



# Theme: Cloud and Cybersecurity

## CLOUD

- ✓ Zero Trust
- ✓ Infinitely scalable

## SECURITY

- ✓ Divide and Conquer
- ✓ AI-Powered  
endpoint protection





# Theme: Pop Culture

## SOCIAL MEDIA

- ✓ Cultural bias for action
- ✓ Modular software infrastructure
- ✓ Average age platform

## STREAMING AUDIO

- ✓ Blitzscaling strategy
- ✓ AI-Powered Recommendation

## DISRUPTION WITH CONVEXITY:

# Process

### IDENTIFY DISRUPTION AND SELECT LEADER(S):

- ✓ **First principle:  
technological edge  
and culture  
innovation**

### CONCENTRATE IN “ANCHOR” DISRUPTORS (~25% TARGET ALLOCATION):

- ✓ **VCAR: TSLA**
- ✓ **VPOP: SPOT, SNAP**
- ✓ **VCLO: NET, CRWD**
- ✓ **VFIN: SQ, LMND**

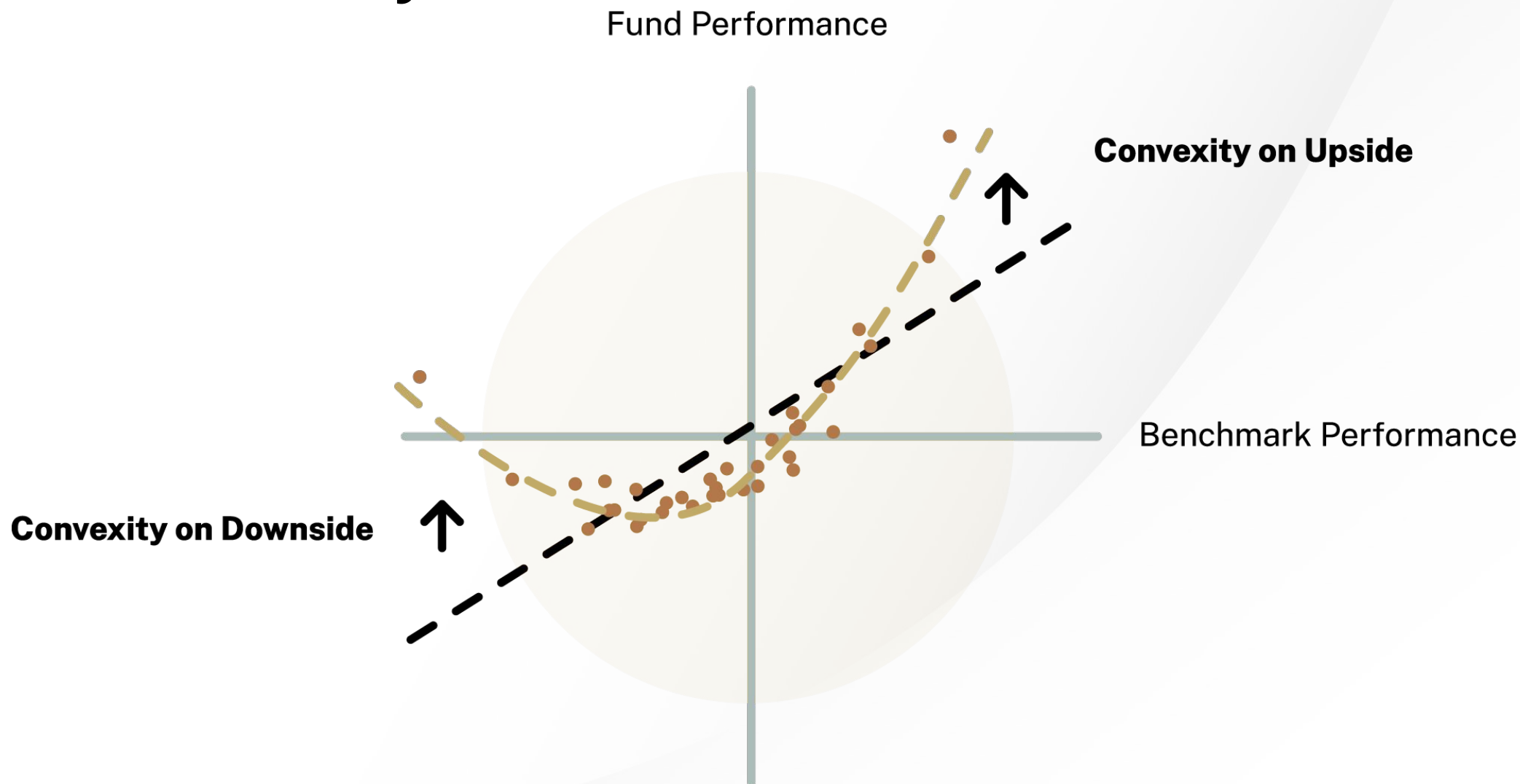
### ADD CONVEXITY TO UPSIDE AND DOWNSIDE:

- ✓ **Upside calls on  
anchors based on  
S-curve history  
and projection**
- ✓ **Downside puts on  
the Nasdaq 100  
index to protect  
against broad  
market sell-offs**



THE POWER OF OPTIONS VISUALIZED:

# What is Convexity?



# PORTFOLIO: VFIN

Ticker	Name	Quantity	Weight
SQ	Square Inc	2094	21.75%
SQ US 01/20/23 C350	Square, Inc. Jan 2023 350 Call	20	2.64%
SQ US 01/21/22 C350	Square, Inc. Jan 2022 350 Call	18	1.05%
SQ US 09/17/21 C390	Square, Inc. Sep 2021 390 Call	27	0.43%
SQ US 06/18/21 C350	Square, Inc. Jun 2021 350 Call	42	0.33%
LMND	LEMONADE INC	3574	13.88%
LMND US 01/20/23 C190	Lemonade, Inc. Jan 2023 190 Call	11	0.77%
LMND US 01/21/22 C190	Lemonade, Inc. Jan 2022 190 Call	7	0.17%
LMND US 06/18/21 C190	Lemonade, Inc. Jun 2021 190 Call	79	0.14%
LMND US 09/17/21 C260	Lemonade, Inc. Sep 2021 260 Call	29	0.11%
PYPL	PayPal Holdings Inc	468	5.07%
SHOP	SHOPIFY INC	92	4.52%
MELI	MERCADOLIBRE INC USD 0.001	63	4.12%
PDD	Pinduoduo Inc	450	2.63%
QQQ	Invesco QQQ Trust Series 1	2604	36.59%
QQQ US 06/17/22 P100	QQQ Jun 2022 100 Put	201	0.34%
NDX US 03/18/22 P7000	NASDAQ 100 Mar 2022 7000 Put	2	0.58%
NDX US 12/17/21 P4000	NASDAQ 100 Dec 2021 4000 Put	7	0.29%
NDX US 09/17/21 P7000	NASDAQ 100 Sep 2021 7000 Put	2	0.19%
NDX US 06/18/21 P5500	NASDAQ 100 Jun 2021 5500 Put	7	0.08%
NDX US 06/18/21 P5000	NASDAQ 100 Jun 2021 5000 Put	8	0.05%
	Estimated Cash	100606.95	4.26%

As of 4/7/2021  
Holdings are subject to change without notice.














## A NEW SET OF ASYMMETRIC PORTFOLIO BUILDING BLOCKS:

# Simplify ETF Platform

As of 4/7/2021


Ticker	Title	Asset Class	Net Assets	Inception Date	Gross Expense Ratio	Net Expense Ratio	NAV
 SPYC	Simplify US Equity PLUS Convexity ETF *	Equity	\$110,451,959.15	09/03/2020	0.53%	0.28%	\$29.23
 SPD	Simplify US Equity PLUS Downside Convexity ETF *	Equity	\$134,443,148.74	09/03/2020	0.53%	0.28%	\$28.89
 SPUC	Simplify US Equity PLUS Upside Convexity ETF *	Equity	\$8,967,882.82	09/03/2020	0.53%	0.28%	\$29.50
 QQC	Simplify Nasdaq 100 PLUS Convexity ETF **	Equity	\$2,777,312.27	12/10/2020	0.70%	0.45%	\$27.77
 QQD	Simplify Nasdaq 100 PLUS Downside Convexity ETF **	Equity	\$1,366,742.82	12/10/2020	0.70%	0.45%	\$27.33
 VCAR	Simplify Volt RoboCar Disruption and Tech ETF	Equity	\$1,443,267.53	12/28/2020	1.09%	-	\$11.51
 VFIN	Simplify Volt Fintech Disruption ETF	Equity	\$2,359,918.09	12/28/2020	1.03%	-	\$10.47
 VPOP	Simplify Volt Pop Culture Disruption ETF	Equity	\$1,198,783.88	12/28/2020	1.03%	-	\$11.95
 VCLO	Simplify Volt Cloud and Cybersecurity Disruption ETF	Equity	\$1,587,694.18	12/28/2020	1.02%	-	\$10.56

\* The Fund's adviser has contractually agreed to reduce its management fees, until at least August 31, 2021, to 0.28% of the Fund's average daily net assets.

\*\* The Fund's adviser has contractually agreed to reduce its management fees, until at least November 31, 2021, to 0.45% of the Fund's average daily net assets.



# Research Content

SIMPLIFY

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ASSET ALLOCATION & RISK MANAGEMENT

## Harnessing the Power of Disruption with Concentrated Convexity

Jan 6, 2021 | By: David Berns, PhD, CIO & Co-founder • Tad Park, Founder of Volt Equity



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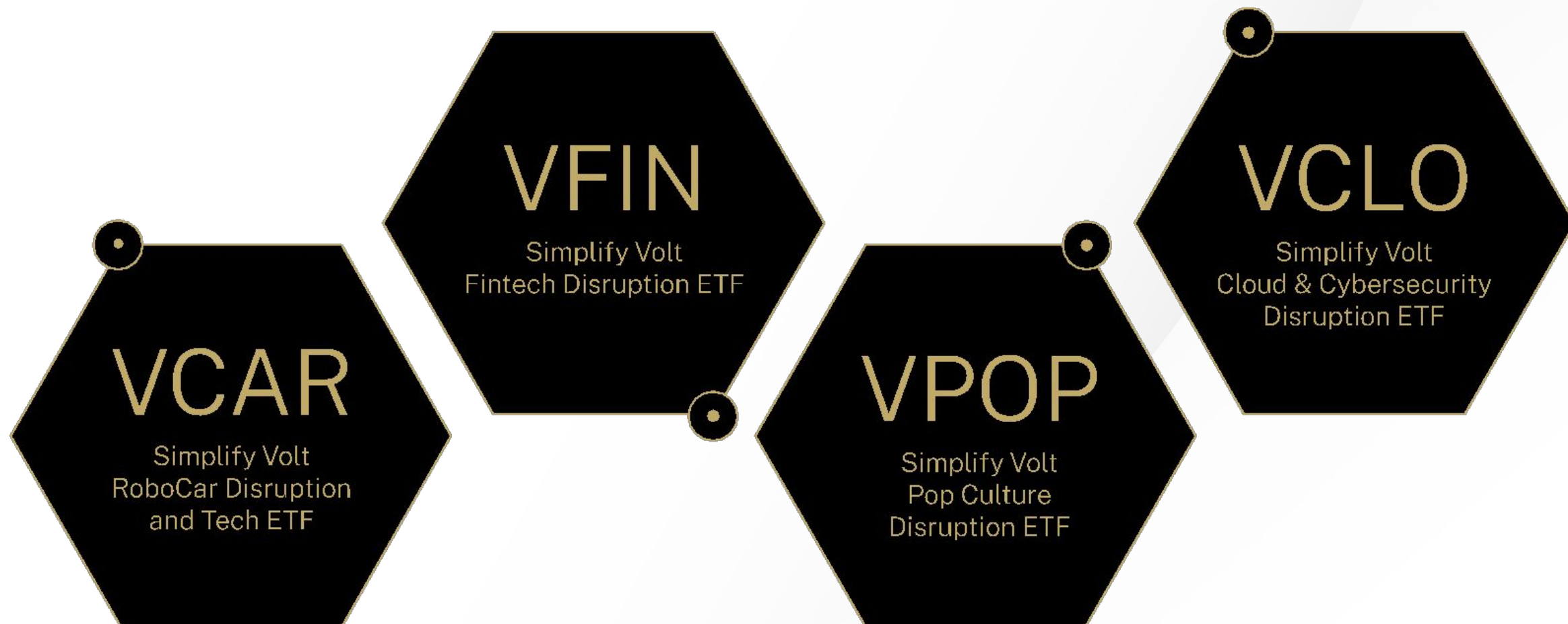
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### Introduction

Disruptive companies reimagine the landscape of an existing industry or outright give birth to an entirely new industry, allowing the most visionary of disruptors to devour market share and leave competitors in the dust. And not surprisingly, the wealthiest people on the planet tend to create their wealth by concentrating in



## DISRUPTION WITH CONVEXITY:



# Disclosures

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# Definitions

**Convexity:** An investment strategy is convex if its payoff relative to its benchmark is curved upward. Convex investment strategies are expected to be highly correlated with the benchmark in typical market environments but diverge to the positive in extreme markets. There are no free lunches though, and convex strategies are expected to lag during quiet markets.

**Expiry:** The time until an option expires. In the context here expiry is used to describe the length of time from when an option position is initiated to when it will expire.

**OTMness:** Stands for out-of-the-moneyness and represents how far the option strike is from current market price. In the context here OTMness is used to describe how far the option strike is from the market price when the option position is initiated.

**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 by a specific date. Options are a powerful tool for creating a wide array of payoff profiles and can be used on a standalone basis or integrated into a broader portfolio strategy.

**Notional Exposure:** The full market exposure a derivatives contract provides after accounting for the leverage embedded in the derivative, expressed as a percentage of the fund's total assets. We assume each option's delta (sensitivity to changes in underlying) is 1 in this calculation, implying that we are measuring the exposure afforded by the options in the instance where extreme markets are being realized. This metric provides a measure of the protection afforded to the underlying security by a given option position.

**S-Curve:** A graphical representation of new product adoption, whereby product adoption is slow to begin, then ramps very rapidly, and then slows again after market saturation, creating an "S" shape. The valuation of a company best positioned to profit from the rapid adoption of a new product or theme often mirrors this shape.

**Annualized Budget:** The average amount expected to be spent on a specific option position per year. For options rolled more frequently than annually each option position will be initiated at less than the annual budget amount. Options rolled less frequently than annually would be initiated at a size higher than the annual budget.

**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.

**SEC Unsubsidized 30-Day Yield:** The un-subsidized SEC yield is calculated with a standardized formula mandated by the SEC. The formula is based on maximum offering price per share and does not reflect waivers in effect. This is also referred to as the "unsubsidized standardized yield", "unsubsidized 30-Day Yield" and "unsubsidized Current Yield".

**SEC 30-Day Yield:** The SEC yield is calculated with a standardized formula mandated by the SEC. The formula is based on maximum offering price per share and includes the effect of any fee waivers. Without waivers, yields would be reduced. This is also referred to as the "standardized yield", "30-Day Yield" and "Current Yield".



# THANK YOU!

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