

# Simplify Asset Management Launches Bitcoin ETF with Income on Top

With the demand for access to crypto markets through ETFs increasing, issuers are continuing to develop strategies to meet investors' needs. The first bitcoin futures ETFs were launched in October 2021, providing investors the opportunity to gain exposure to bitcoin through the efficient and transparent ETF structure. The most recent launch in this sector is the Simplify Bitcoin Strategy PLUS Income ETF ([MAXI](#)) from Simplify Asset Management.

Co-founded by CEO Paul Kim and CIO David Burns in February 2020, Simplify Asset Management specializes in options-based investment strategies for advisers. Two key regulatory changes in 2020 were used as a launching pad for the firm. First, the SEC passed a rule that streamlined the process of starting an ETF company and bringing an ETF to market. Second, it enhanced the regulatory framework for the usage of derivatives in 40 Act funds, including ETFs.

"We saw an opportunity to provide exposures in a transparent ETF that had only been available to institutional and high-end retail investors via expensive alternative vehicles and structured products," says Brian Kelleher, the firm's Chief Revenue Officer.

Simplify Asset Management's first strategies were launched in September of 2020. Less than three years later, the firm has about US\$1.7B under management and is in the top 15% of flows for all ETF issuers. It has launched 23 ETFs, including MAXI. Four more are slated to launch by the end of 2022.

Many of these strategies are designed to protect against tail risk and extreme market meltdowns. For example, the Simplify US Equity PLUS Downside Convexity ETF ([SPD](#)) provides exposure to core U.S. equities with protective put options that seek to mitigate in extreme market drawdowns. Another strategy, Simplify Interest Rate Hedge ETF ([PFI](#)), aims to protect investors in a rising interest rate environment, and is up over 80% year to date.

"Simplify Asset Management is focused on providing exposure to different types of non-traditional exposures and asset classes," says Kelleher. "Our goal is to provide superior building blocks for allocators and investors to build better modernized portfolios."

MAXI is not Simplify Asset Management's first foray into cryptocurrency.

Despite the demand for cryptocurrencies, especially for bitcoin, traditional allocators are challenged to fit these assets into investment portfolios. In May 2021 Simplify launched the US Equity PLUS GBTC ETF ([SPBC](#)), which primarily invests in U.S. equities while also offering investors a 10% exposure to bitcoin through the Grayscale Bitcoin Trust ([GBTC](#)).

An allocator can take a traditional allocation model, pull out a slice of core equity and insert SPBC. That provides an exposure to crypto that is more manageable than setting up a coin wallet on a platform that in most cases cannot be integrated into traditional custodial platforms. The strategy is fully transparent and tradeable on-exchange. SPBC reallocates quarterly back to the 10% exposure to bitcoin via the GBTC. If the exposure goes above 15% or below 5%, the fund allocates back to the 10% target.

With an expense ratio of 0.97%, MAXI is an active strategy that seeks to provide 100% exposure to bitcoin in a tax-efficient way, via bitcoin futures. It will also invest excess cash in U.S. Treasuries and sell put or call option spreads to generate income in the range of about 10% to 15%.

Essentially, the fund plans to invest in front month CME bitcoin futures contracts. Then it will sell close-to-the-money, near-dated options on a highly liquid equity index that its model has identified as being overpriced. At the same time, it will buy a similar dated but further out-of-the-money option on an equity index that the model has determined is priced more fairly.

The strategy provides the fund a defined expected rate of return for that spread position. The best-case scenario is the fund harvests the premium. The worst-case scenario is the options are executed, but that allows the fund to have a defined loss for that position. It is a risk-adjusted way to generate income where there are defined outcomes for each option spread.

Many investors are frustrated by the selloff in cryptocurrencies, but they maintain a long-term view of these investments. According to Kelleher, MAXI potentially gives them meaningful income that is independent of the return of the core exposure to bitcoin. Instead of owning bitcoin and holding it in a coin wallet, which may have high expenses and operational issues, ETFs are fully transparent and tradeable on-exchange via traditional brokerage platforms. Moreover, investors receive monthly distributions and no K-1s or 1099-Ks.

“Some of the major direct coin platforms are charging north of 4% on all transactions,” he points out. “We believe it’s attractive for investors to have this exposure through MAXI at less than 1% annually and derive additional income.”

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