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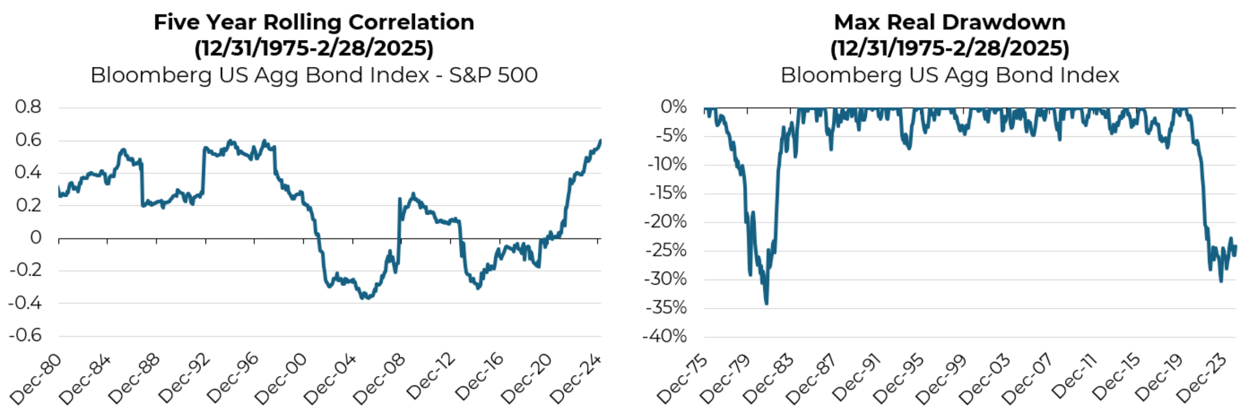
A Modern Approach to 60/40 Using Options-Based ETFs

The Problem with Traditional Bonds

For decades, the traditional 60/40 portfolio allocating 60% to equities and 40% to bonds has been a cornerstone of asset allocation, offering a balance of growth and downside protection. However, evolving market dynamics have weakened bonds' effectiveness as a hedge. Inflation has disrupted the historical equity-bond correlation, while yields have often failed to outpace inflation, even before taxes. Additionally, taxable bonds remain highly inefficient, with coupon payments subject to higher short-term rates. As a result, investors are increasingly seeking alternative strategies to improve returns and manage risk more effectively.



Source: Bloomberg, S&P, Aptus as of 02.28.2025

The 40% bond allocation in a 60/40 portfolio typically consists of core fixed income, such as the Bloomberg U.S. Aggregate Bond Index (Agg Bonds). While bonds have historically provided income and acted as a hedge against equity declines, their effectiveness has waned in recent years due to three key challenges:

1. **Tax Inefficiency:** Bond interest is taxed as ordinary income, making them less attractive for taxable accounts.

2. **Lower Expected Returns:** With fluctuating yields and inflation eroding real returns, bonds no longer offer the income or total returns they once did.

3. **Unreliable Diversification:** From the dot-com crash through COVID, bonds often moved inversely with equities. However, historically, their correlation has been less consistent, frequently turning positive during regimes and stress periods when investors needed diversification the most.

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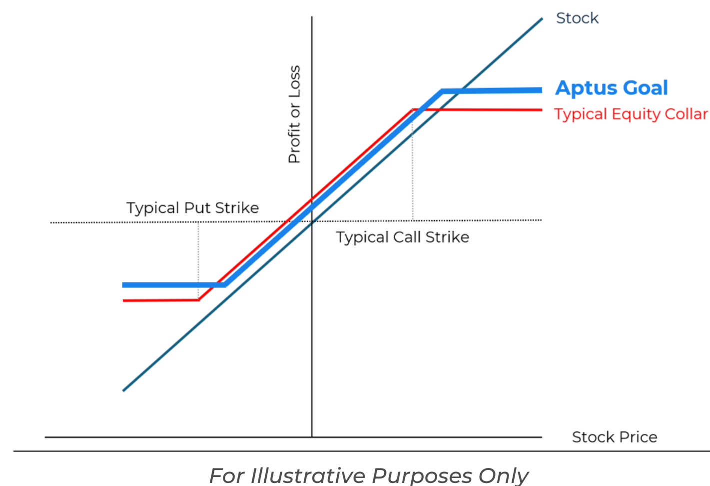
Given these challenges, alternatives that not only mitigate risk but also enhance returns can offer an enhancement to portfolios. This is where ACIO and DRSK come into play.

Why ACIO and DRSK?

In today's evolving market environment, we think traditional bond allocations are no longer sufficient. ACIO and DRSK could provide beneficial solutions for enhancing risk management, improving returns, and optimizing tax efficiency.

ACIO - Tax-Efficient Risk Management

The Aptus Collared Investment Opportunity ETF (ACIO) employs a disciplined options strategy, selling call options to generate premiums and using those premiums to buy protective puts. This structure allows ACIO to manage downside risk while maintaining equity exposure. Unlike traditional bonds, ACIO does not generate taxable interest income. Instead, it reinvests call premiums into mitigation, giving it superior after-tax potential.



For Illustrative Purposes Only

DRSK - Defensive Positioning with Growth Potential

The Aptus Defined Risk ETF (DRSK) is designed to reduce the drag of a bond allocation, while offering diversification benefits, and improving upside potential. By holding a high-quality, investment-grade corporate bond ladder, and overlaying an options strategy, DRSK provides a dynamic tool for managing risk without sacrificing growth.

Unlike traditional bonds, which often deliver negative real returns during inflationary periods, DRSK can adapt to changing market conditions. It purchases put options for downside mitigation and

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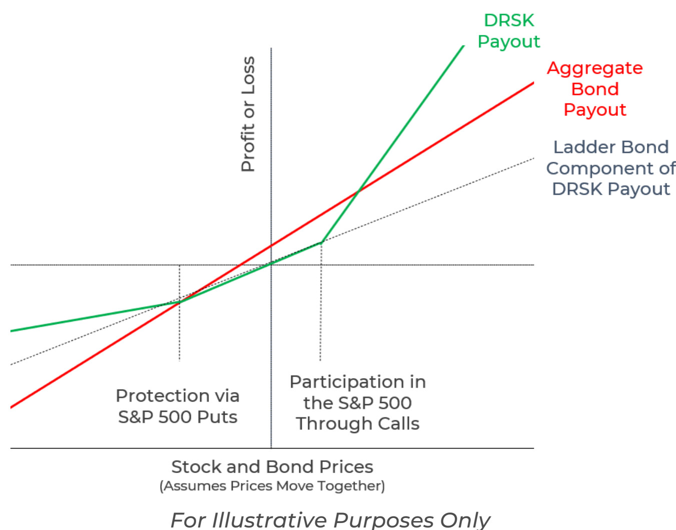
call options to capture upside participation, giving investors a chance to benefit from both risk mitigation and growth opportunities.



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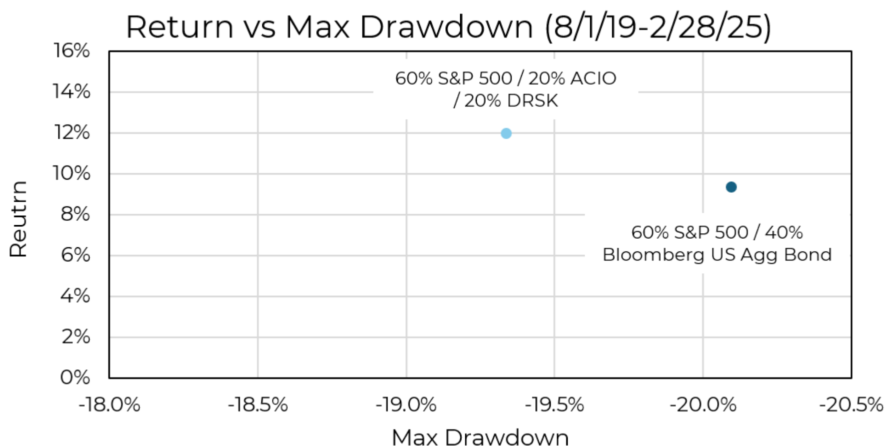
The Case for a 60/20/20 Allocation

A 60/20/20 allocation comprising 60% S&P 500, 20% ACIO, and 20% DRSK has delivered an annualized return of 11.9% since ACIO monthly inception in August 2019, outperforming the 9.3% return of a traditional 60/40 portfolio*. Additionally, this allocation has demonstrated superior risk-adjusted returns, with a shallower drawdown of -19.3% compared to -20.1% for the 60/40 model.



Source: Bloomberg, S&P, Aptus as of 02.28.2025

By incorporating ACIO and DRSK, investors can enhance portfolio resilience while maintaining growth exposure. Here's why this approach stands out.

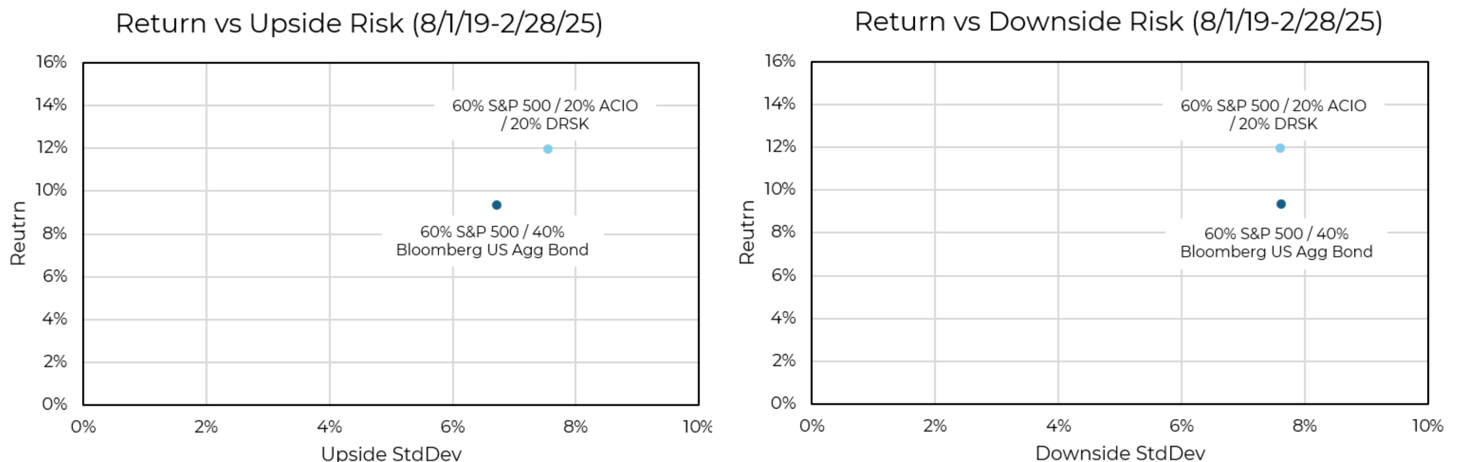
- **Enhanced Returns:** The combination of ACIO's risk-managed structure and DRSK's defensive positioning has historically outperformed the traditional 60/40 portfolio.

- **Improved Drawdown Control:** ACIO's use of premiums for mitigation and DRSK's dual strategy of downside hedging and upside participation help manage volatility more reliably than traditional fixed income.

- **Tax Efficiency:** ACIO's structure avoids generating taxable interest, making it more tax-efficient than bonds.

- **Proactive Risk Management:** Unlike bonds, which have shown positive correlations with equities in recent downturns, ACIO and DRSK provide adaptive risk management tailored to evolving market conditions.

It's worth noting that while the standard deviation of the 60/20/20 allocation (13.6%) is higher than that of the 60/40 portfolio (11.8%), this difference is entirely due to 60/40 upside standard deviation being lower at 6.7% versus 7.6% for the 60/20/20 allocation. The downside standard deviation remains unchanged at 7.6% for both portfolios. This means the higher volatility of the 60/20/20 allocation is driven by greater upside potential, not increased downside risk, which explains why it has not translated to deeper drawdowns.



Source: Bloomberg, S&P, Aptus as of 2.28.25

Looking Ahead

While the 60/40 model has long been regarded as the gold standard, it may no longer suffice in today's complex market environment. ACIO and DRSK offer a compelling alternative, blending growth, risk management, and tax efficiency into a more dynamic portfolio solution.

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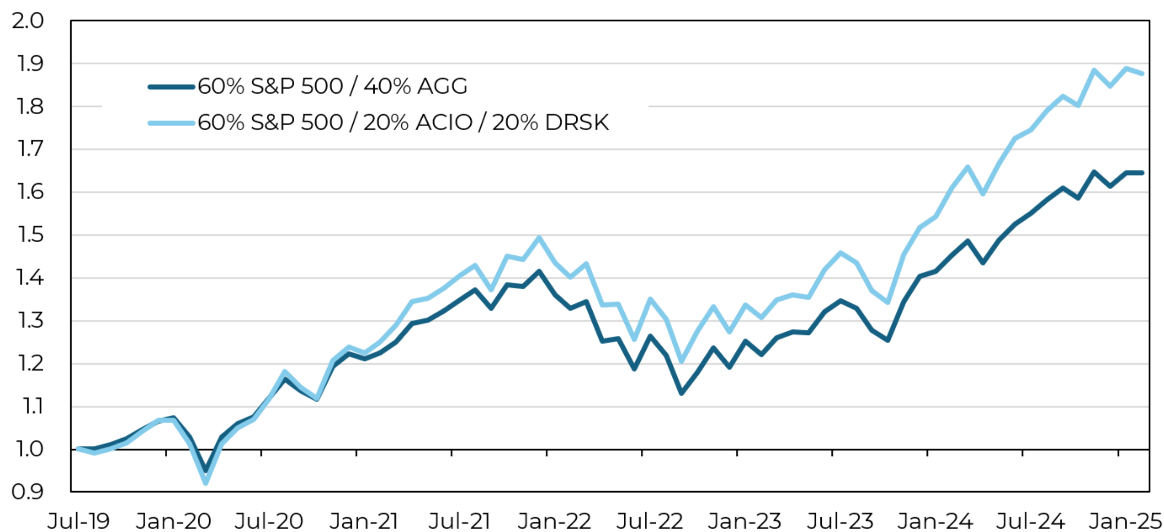

Source: Bloomberg, S&P, Aptus as of 02.28.2025

For investors seeking stability and return potential, the 60/20/20 allocation has demonstrated a track record of success. It shows how options-based strategies can play a vital role in modern portfolio construction, offering a smarter and more resilient path forward. As the investment landscape continues to evolve, moving beyond the traditional 60/40 framework with tools like ACIO and DRSK may be the key to achieving long-term financial goals in an uncertain world.

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Disclosures

**For ACIO's standardized performance, visit aptusetfs.com/acio. For DRSK's standardized performance, visit aptusetfs.com/drsk. The performance data represents past performance & does not guarantee future results. Investment return & principal value of an investment will fluctuate so that an investor's shares may be worth more or less than their original cost when sold or redeemed. Current performance may be higher or lower than the performance quoted. Returns for periods greater than one year are annualized. Short term performance in particular is not a good indication of the fund's future performance and an investment should not be made based solely on returns. For performance data current to the most recent month end, please call (251) 517-7198, or visit aptusetfs.com.*

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The fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. Important information about the fund is available at aptusetfs.com or by calling 1-800-617-0004. Read it carefully before investing. Please refer to the Fund Document section of each Fund page to download a prospectus.

The Funds may invest in options, the Funds risk losing all or part of the cash paid (premium) for purchasing put and call options. The Funds' use of call and put options can lead to losses because of adverse movements in the price or value of the underlying security, which may be magnified by certain features of the options. The Funds' use of options may reduce the ability to profit from increases in the value of the underlying securities. Derivatives, such as the options in which the Funds invest, can be volatile and involve various types and degrees of risks. Derivatives may entail investment exposures that are greater than their cost would suggest, meaning that a small investment in a derivative could have a substantial impact on the performance of the Funds. The Funds could experience a loss if its derivatives do not perform as anticipated, the derivatives are not correlated with the performance of their underlying security, or if the Funds are unable to purchase or liquidate a position because of an illiquid secondary market. Equity-Linked Notes ("ELNs") Risk. Investing in ELNs may be more costly to a Fund than if the Fund had invested in the Underlying Instruments directly. Investments in ELNs often have risks similar to the Underlying Instruments, which include market risk and, as applicable, foreign securities and currency risk. Fixed Income Securities Risk. The Fund invests in fixed income securities. Fixed income securities, such as bonds, involve certain risks, which include credit risk and interest rate risk. Futures Contracts Risk. A decision as to whether, when, and how to use futures involves the exercise of skill and judgment and even a well-conceived futures transaction may be unsuccessful because of market behavior or unexpected events. New Fund Risk. The Fund is a recently organized investment company with no operating history. As a result, prospective investors have no track record or history on which to base their investment decision.

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DEFINITIONS: Call options give the owner the right to buy the underlying security at the specified price within a specific time period. Put options give the owner the right to sell the underlying security at the specified price within a specific time period. The Bloomberg US Aggregate Bond Index is a broad-based benchmark that measures the investment-grade, U.S. dollar denominated, fixed-rate taxable bond market, encompassing Treasury, government-related, corporate, and securitized securities. The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities, comprised of 500 leading companies and covering approximately 80% of available market capitalization. A coupon payment refers to the annual interest paid on a bond. Coupons are expressed as s a percentage of the face value and are paid from the issue date until maturity. The coupon rate is determined by adding the sum of all coupons paid per year, then dividing that total by the face value of the bond. Standard deviation measures the dispersion of a security's price history relevant to its mean.

For more information about the risks of investing in the Fund, see the section in the Fund's Prospectus, titled "Additional Information About the Funds — Principal Investment Risks." ADME, ACIO, DRSK, DUBS, IDUB, JUCY, OSCV and UPSD are distributed by Quasar Distributors, LLC.

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