Amplify BlackSwan Growth & Treasury Core ETF (ticker: SWAN)

Frequently Asked Questions (FAQs)

Amplify ETFs

What is the BlackSwan Growth & Treasury Core ETF?

The BlackSwan ETF ('BlackSwan' or ticker: SWAN) is an index-based ETF that seeks to offer investors exposure to the returns of the S&P 500, while seeking to provide a downside buffer against significant S&P 500 declines, often described as Black Swan events. The goal is to provide attractive risk adjusted returns relative to the S&P 500 over an entire market cycle.

How does the BlackSwan ETF work?

The ETF tracks a rules-based index, the S-Network BlackSwan Core Index (SWANXT). The Index is comprised of approximately 90% U.S. Treasury securities and approximately 10% S&P 500 LEAP in-the-money call options. These values can fluctuate throughout the year based on market movement, but the Index rebalances twice a year.

BlackSwan's 90% U.S. Treasury allocation offers the stability, consistency and income benefits of owning bonds backed by the full faith and credit of the U.S. government. This is the "buffer" allocation.

BlackSwan's 10% S&P 500 LEAP option allocation offers exposure to the returns of the S&P 500. This is the "S&P 500" return allocation.

How does the downside buffer work?

BlackSwan's portfolio allocation is based on the historically low-to-inverse correlation of U.S. Treasuries to the S&P 500.

During significant equity market declines, there is often "a flight to safety" into U.S. Treasuries due to the historic low-to- inverse correlation between the S&P 500 and U.S. Treasuries. BlackSwan's downside buffer is its targeted portfolio weighting of approximately 90% U.S. Treasuries.

It's important to note that BlackSwan is not a "tail risk" strategy that takes losses in positive equity markets and only does well in downward equity markets. BlackSwan has the potential to outperform the S&P 500 on a risk adjusted basis in both positive and negative equity environments.

What are LEAPS options?

Long-term equity anticipation securities (LEAPS) are publicly-traded options contracts with expiration dates that are longer than typical short-term options (longer than one year). S&P 500 LEAPS call options allow investors to benefit from potential rises in the S&P 500 Index while using less capital.

What is the expense ratio of the BlackSwan ETF?

0.49%

How are the S&P 500 LEAP options constructed within the portfolio?

The 10% portfolio allocation to S&P 500 LEAP allocation is divided into two 5% allocations, December and June call options. At each semi-annual reconstitution date, the fund will rebalance the LEAP allocation that is expiring and purchase an allocation equal to 5% of the portfolio in the following year (for instance, June 2019 calls move to June 2020 calls). The off-month calls are left as-is and not traded (for instance, June is left alone in a December rebalance). This is done to maintain LEAP exposure and reduce the time-decay of the option value over time.

How are the laddered U.S. Treasuries constructed within the portfolio?

The laddered Treasuries have an equal-weighted exposure to the 3-, 5-, 7- and 10-year Treasuries with a "barbell" Treasury exposure to the 2- and 30-year; this approach seeks to keep the target duration in line with the 10-year Treasury duration. These exposures are held deliberately to provide access to the entire yield curve, and to help mitigate the Fund's particular interest rate risk on any one duration point.

What happens within BlackSwan when the S&P 500 has positive returns?

When the S&P 500 has positive returns, the LEAP options will increase in value. Specifically, the LEAP options owned within the ETF are 70 delta and are expected to participate in approximately 70% of the S&P 500's return. Thus, the more the S&P 500 goes up, the more BlackSwan seeks to benefit. In fact, unlike many investment products that offer a buffer, there is no upside cap or limit on the returns BlackSwan could deliver.

What happens within BlackSwan when the S&P 500 has negative returns?

As the S&P 500 declines, the 10% S&P 500 LEAP allocation loses value. In periods of 10% or larger S&P 500 drawdown, the LEAP options could lose all of their value.

However, BlackSwan's portfolio allocation of 90% U.S. Treasuries, may act as a downside buffer against significant equity market downturns. U.S. Treasuries may even increase in value due to the "flight to safety" that often occurs in a significant S&P 500 drawdown.

How would a rising interest rate environment impact this portfolio?

The U.S. Treasury allocation in BlackSwan is subject to interest rate risk, roughly equivalent to the duration of the 10-year U.S. Treasury. It is important to note that BlackSwan offsets its U.S. Treasury exposure with the upside potential of S&P 500 LEAP options. Historically, rates rise when the economy and stocks are in a positive environment, and thus we believe the LEAP option exposure may mitigate some of the negative impact from interest rate risk.

How often does the Index rebalance?

Semi-annually.

What is the downside risk of the LEAP options?

The value of the S&P 500 LEAP call options can go to zero; however, it would take an extended significant decline in the S&P 500 for this to happen. Typically, the S&P 500 LEAP options will retain some time value even if they are out of the money. And the LEAPS within BlackSwan only comprise approximately 10% of the portfolio.

Is this strategy always "hedged"?

Yes, the "hedged" or buffer component of BlackSwan's portfolio is the approximate 90% U.S. Treasury exposure the ETF seeks to maintain.

Will BlackSwan be more sensitive to equity markets or bond markets depending on market conditions?

As the S&P 500 moves up over the course of the year, the call option weighting grows within the portfolio, and BlackSwan acts more like direct, long S&P 500 exposure. As markets move downward over the course of a year, the call option weighting shrinks as part of the portfolio, and BlackSwan acts more like a U.S. Treasury bond ladder with a 10-year duration. It's important to note BlackSwan does rebalance its portfolio twice a year.

In other words, the worse the S&P 500 does over the course of a year, the more the strategy becomes hedged. The better the S&P 500 does during the year; the more BlackSwan becomes sensitive to the S&P 500's returns.

What environment could cause BlackSwan to perform poorly?

BlackSwan could perform poorly when the S&P 500 is flat to down less than 10%, while at the same time interest rates are rising, causing fixed income prices to decline as well. Since 1929, there have been just three calendar years where both the 10-year U.S. Treasury and the S&P 500 were down from a price standpoint in the same year.

With 90% in Treasuries, what's the benefit of owning BlackSwan versus simply owning U.S. Treasuries and the S&P 500 separately?

As an index-based ETF, BlackSwan provides investors with a disciplined, convenient, diversified and tax-efficient way to own a rules-based investment strategy. BlackSwan's U.S. Treasury ladder and its interest rate risk mitigation benefit may be difficult to replicate without significant capital and trading costs. In addition, the ownership and management of the LEAP options exposure in BlackSwan may be challenging for some investors to achieve. We believe BlackSwan's total expense ratio of 0.49% represents an attractive value given its strategy and portfolio makeup.

Where could this fit in an overall portfolio?

We believe BlackSwan may be utilized in a variety of ways within a portfolio. Here are several potential applications:

1. **Core Allocation** – This could be used as a potential low-volatility complement to the S&P 500 or U.S. Large Cap equity allocation.

2. **Alternative** – BlackSwan could be used as a low-correlated alternative (to direct equity or fixed-income allocations), that potentially adds to rebalancing returns on a globally diversified portfolio.

3. **Tactical Approach** – BlackSwan could be used as a tactical play attempting to mitigate against large downturns in the market, as well as seek to provide upside in the event the S&P 500 continues to run upward.

The Fund is not a money market fund.

Carefully consider the Fund's investment objectives, risk factors, charges, and expenses before investing. This and additional information can be found in Amplify Funds statutory and summary prospectus, which may be obtained by calling 855-267-3837, or by visiting AmplifyETFs.com. Read the prospectus carefully before investing.

The Fund's return may not match or achieve a high degree of correlation with the return of the underlying Index. To the extent the Fund utilizes a sampling approach, it may experience tracking error to a greater extent than if the Fund had sought to replicate the Index. The use of derivative instruments, such as options contracts, can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, which may be magnified by certain features of the derivatives. Investing in options, including LEAP Options, and other instruments with option-type elements may increase the volatility and/or transaction expenses of the Fund. An option may expire without value, resulting in a loss of the Fund's initial investment and may be less liquid and more volatile than an investment in the underlying securities. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund.

Investing involves risk, including the possible loss of principal. Shares of any ETF are bought and sold at market price (not NAV), may trade at a discount or premium to NAV and are not individually redeemed from the Fund.

The S-Network BlackSwan Core Total Return Index (Ticker: SWANXT) holds U.S. Treasury securities and SPY LEAP Options. On each rebalancing date, the Index targets 90% of its index market capitalization in U.S. Treasury securities and 10% targets of its index market capitalization in SPY LEAP Options. The weighting of U.S. Treasury securities is determined by the option reconstitution schedule. The S-Network BlackSwan Core Total Return Index is a trademark of the Index Provider and has been licensed for use for certain purposes by the Adviser. The Index Provider is not affiliated with the Trust, the Adviser, either Sub-Adviser or the Distributor. The Fund is entitled to use the Index pursuant to a sub-licensing agreement with the Adviser. It is not possible to directly invest in an index.

An "in-the-money" call option contract is an option contract with a strike price that is below the current price of the underlying reference asset.

The Standard & Poor's 500 Index - S&P 500 is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value.

Amplify Investments LLC is the Investment Adviser to the Fund, and ARGI Investment Services, LLC and Toroso Investments, LLC serve as the Investment Sub-Advisers.

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