

Time to Buy Investment Grade Credit & Sell Junk?

The **Innovator S&P Investment Grade Preferred ETF (EPRF)** is the only 100% investment grade preferred ETF. EPRF is based on the S&P U.S. High Quality Preferred Stock Index, which selects investment grade preferred issues (BBB- or higher) from U.S. listed preferred stocks.

We Believe

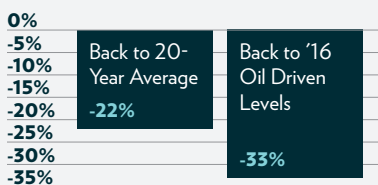
1. Investors are heavily overweight junk-rated credit.
2. Investors have traded interest rate risk for credit risk.
3. Investors should improve the credit quality of their portfolios.
4. Investment grade preferreds offer higher yields, moderate duration and high credit quality.

Credit risk is a measure of investor fear in the market.¹ As fear enters the market credit spreads widen, as it subsides they narrow.

An Increase in Credit Spreads Doesn't Bode Well for Junk

An increase in credit risk back to 20-year averages or to the March 2016 credit spike caused by falling oil prices, could cause a significant sell-off in high yield relative to investment grade.

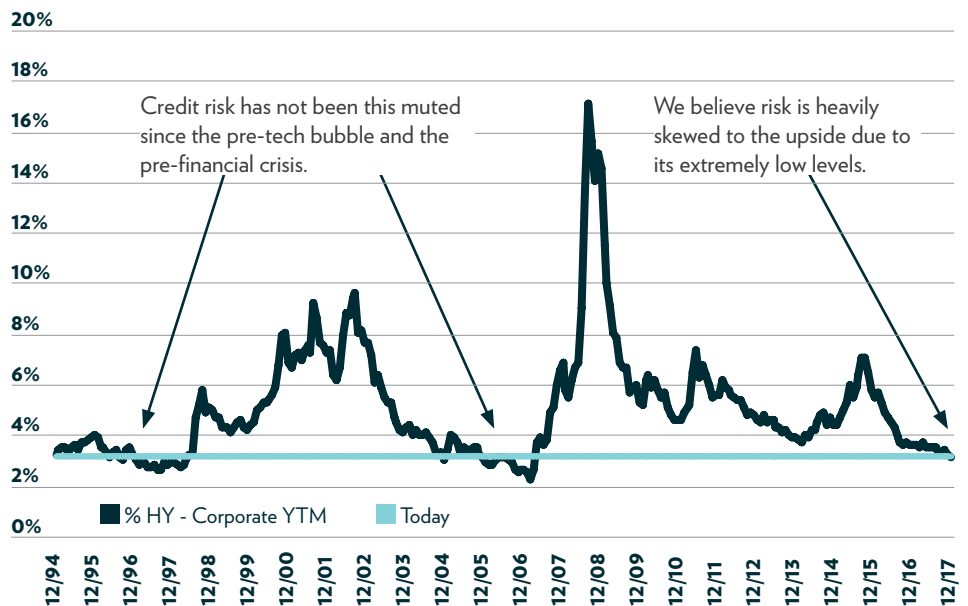
Scenario Analysis: Junk vs. IG Relative Performance



Source: Bloomberg L.P. and Innovator as of April 30, 2018.

Following the Great Recession of 2008, unprecedented central bank action brought interest rates to near zero levels, as indicated below. As a result, fixed income investors have primarily bought higher yielding, lower credit quality in search for higher income and moved towards floating or variable rate instruments in fear of rising interest rates. Today, although interest rate risk remains, we believe the looming risk to income investors is credit risk. In their reach for yield and hedging against rising rates, **investors have traded interest rate risk for credit risk.**

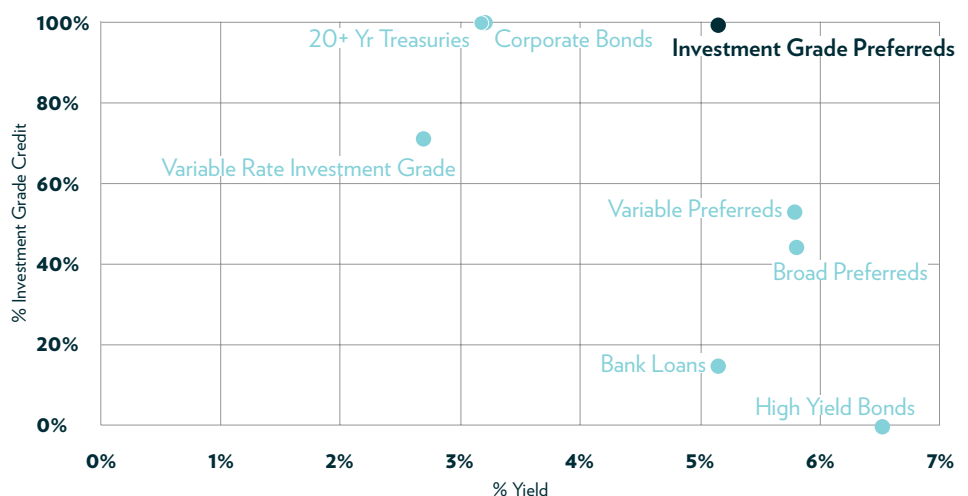
HISTORICAL ANALYSIS: CREDIT RISK SHOWING WARNING SIGNS



Source: Bloomberg L.P. as of May 22, 2018

The stretch for yield has caused investors to move further down the credit spectrum for higher income and floating rate notes, variable rate preferreds and bank loans tend to concentrate in junk rated credit issues, adding additional credit risk to their portfolios. It appears that investors are not prepared for a jump in credit risk, which would have significant ramifications for investors overweight junk credit. We believe there are investments that combine high credit quality and higher income.

COMBINE CREDIT QUALITY WITH HIGHER INCOME²



Total Return Performance ²	Performance During Rising Credit Spreads	Performance During Rising Interest Rates	
20+ Yr Treasuries	20.5%	-12.6%	Rising interest rates may create pressure on junk issuers' ability to service their debt. During a minor spike in credit risk from July 2014 to February 2016, junk credit significantly underperformed investment grade by 17% ³ . With credit risk at levels last seen before the Tech Bubble and Great Recession, we believe investors should begin improving credit quality.
Investment Grade Preferreds	9.9%	1.4%	
Broad Preferreds	1.5%	4.3%	
Corporate Bonds	5.1%	-2.6%	
Variable Rate Investment Grade	0.3%	4.3%	
Variable Rate Preferreds	-2.1%	9.9%	Variable rate investments may not be well suited for a rise in credit risk.
Bank Loans	-5.4%	10.2%	
High Yield Bonds	-11.6%	13.6%	

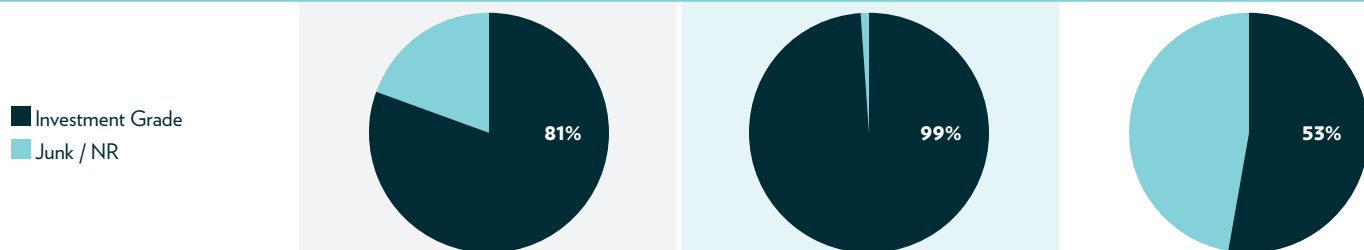
Source: Bloomberg L.P. as of April 30, 2018. Rising credit spreads, from July 2014 to February 2016, the 10-year fell -0.81% and credit spreads rose 4.2%. Rising interest rates, from July 2016 to April 2018, the 10-year rose +1.63% and credit spreads fell -2.2%.

IMPLEMENTATION IDEA:

Investment grade and variable rate preferreds have offered investors yields above corporate bonds and combine the potential benefits of higher credit quality and lower duration. Investment grade preferreds have carried a little more duration risk than variable rate preferreds but less than corporates or long-dated treasuries. Combining investment grade and variable preferreds produces the potential for a robust portfolio with a significant tilt towards investment grade issues, above average yields, lower duration and strong performance in both rising credit risk and rising interest rate environments. The Innovator S&P Investment Grade Preferred ETF (EPRF) is the only 100% investment grade preferred ETF in the market.

A 60% investment grade preferred and 40% variable rate preferred portfolio helps improve credit quality as well as diversify for various rates or credit spread environments.

	60% IG Preferreds / 40% Variable Preferreds	Investment Grade Preferreds	Variable Preferreds
Current Yield	5.40%	5.15%	5.78%
% Investment Grade	81%	99%	53%
Effective Duration (Yrs)	4.6	5.2	3.7
Performance During Rising Credit Spreads	+5.10%	+9.90%	-2.10%
Performance During Rising Interest Rates	+4.80%	+1.40%	+9.90%



Source: Bloomberg L.P. as of April 30, 2018. US Investment Grade Preferreds represented by the S&P U.S. High Quality Preferred Stock Index and Variable Preferreds by the Wells Fargo Floating & Variable Rate Index.

- Credit risk is a measure of an issuer's credit worthiness.
- High Yield Bonds represented by ICE BofAML US High Yield Index, Corporate Bonds by the ICE BofAML US Corp Master Index, 20+ Year Treasuries by the ICE US Treasury 20+ Year Index, Investment Grade Preferreds by the S&P U.S. High Quality Preferred Stock Index, Variable Rate IG by the Bberg Barclays US Floating Rate Notes Index, Bank Loans by the S&P/LSTA US Leveraged Loan 100 Index, Broad Preferreds by the S&P U.S. Preferred Stock Index, and Variable Rate Preferreds by the Wells Fargo Hybrid & Preferred Floating & Variable Rate Index.
- Source: Bloomberg L.P. from 7/21/2014 to 2/11/2016.

Investing involves risks. Principal loss is possible. The Fund's return may not match the return of the Index. The fund invests in preferred securities which may be subject to many of the risks associated with debt securities, including interest rate risk. The fund invests in equity securities which may be subject to volatile price fluctuations. Because the fund is non-diversified and can invest a greater portion of its assets in securities of individual issuers than a diversified fund, changes in the market value of a single investment could cause greater fluctuations in share price.

The Fund's investment objectives, risks, charges and expenses should be considered carefully before investing. The prospectus contains this and other important information, and it may be obtained at innovatoretfs.com. Read it carefully before investing.

Innovator ETFs are distributed by Foreside Fund Services, LLC.

LEARN MORE AT INNOVATORETFS.COM/EPRF