INNOVATOR
exchange-traded funds

Innovator S&P Investment Grade Preferred ETF

It's time to rethink your Preferreds

Ticker	EPRF
Expense ratio	0.47%
Listing date	5/24/2016
Dividend yield[1]	4.99% distributed monthly
SEC 30 day yield	5.01%
Index	S&P U.S. High Quality Preferred Stock Index
AUM	$54.1 M
iNAV ticker	EPRFIV

As of 7/31/2020

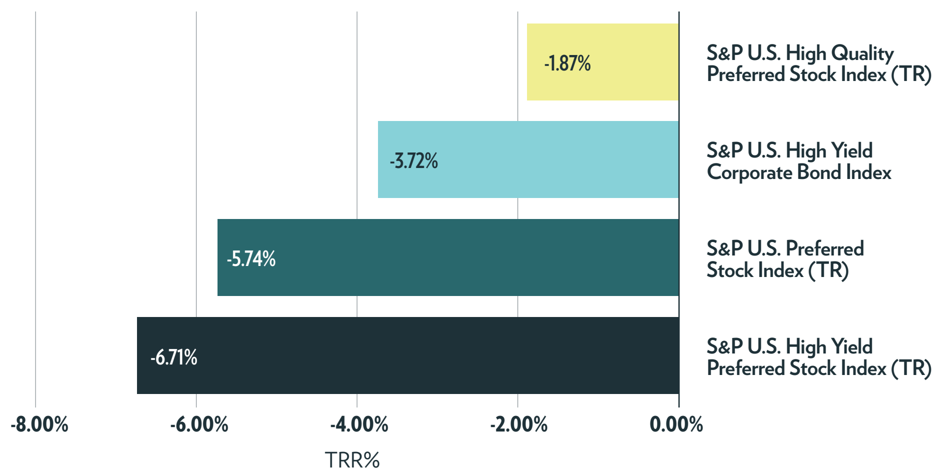
- » **How Investment Grade Preferreds have fared so far in 2020**
- » **Credit quality matters in Preferreds**
- » **Why EPRF belongs in your preferred allocation**

It is becoming ever more challenging for investors to find investment income without taking on additional risks. In fact, the current low interest rate environment has investors taking on more risk in high yield preferred securities by accessing non-investment grade or unrated securities. This can significantly harm a portfolio when the equity and bond markets are challenged. For instance, earlier this year, the coronavirus led to a lockdown on the U.S. economy, which could potentially result in a greater number of downgrades and distressed securities, and eventually affect low quality investments.

The Innovator S&P Investment Grade Preferred ETF (EPRF) is the only 100% investment grade preferred ETF and the only one to fully replicate the S&P U.S. High Quality Preferred Index. The ETF only holds issues rated BBB- or higher and offers a relatively high dividend yield above 5% (for the past five years, using the index as a proxy).[2]

If we look at the YTD period through 6/30/2020, the S&P U.S. High Quality Preferred Index outperformed the broader preferred index by almost 400 basis points and the high yield preferred index by nearly 500 basis points. One basis point is equivalent to 0.01% or 1/100th of a percent. Extending this further, over the 3 and 5-year periods, stretching for yield has not paid off; not only have returns been lower for the broad preferred and high yield preferred indices, but the risk/return is also significantly less attractive. The max drawdown for the high yield corporate bond index, however, appears relatively more attractive. The reason is influenced by equity returns during the first quarter of 2020. The max drawdown highlights that stock returns sold off more during the most recent correction.

YTD TOTAL RETURN COMPARISON



	DIVIDEND YIELD/YIELD TO MATURITY	3- YEAR VOLATILITY	3-YEAR MAX DRAWDOWN	3-YEAR RISK-ADJUSTED RETURN	5-YEAR VOLATILITY	5-YEAR MAX DRAWDOWN	5-YEAR RISK-ADJUSTED RETURN
S&P U.S. High Quality Preferred Stock Index (TR)	5.64%	8.43%	-27.92%	0.49	7.28%	-27.92%	0.74
S&P U.S. High Yield Corporate Bond Index[3]	6.89%	9.25%	-21.00%	0.37	8.19%	-21.00%	0.57
S&P U.S. High Yield Preferred Stock Index (TR)	6.68%	11.81%	-35.28%	0.20	9.50%	-35.28%	0.47
S&P U.S. Preferred Stock Index (TR)	6.42%	10.96%	-33.22%	0.21	8.95%	-33.22%	0.45

Source: S&P Dow Jones Indices llc. Data as of 6/30/2020

1 Dividend yield is calculated by annualizing the most recent distribution and dividing by the fund NAV from the as of date. Duration is an approximate measure of a bond's sensitivity to changes in interest rates.

2 EPRF tracks the S&P U.S. High Quality Preferred Index. S&P Dow Jones Indices llc. Data as of 6/30/2020.

3 Yield to Maturity is only provided for the S&P U.S. High Yield Corporate Bond Index because there is no dividend yield for bonds.

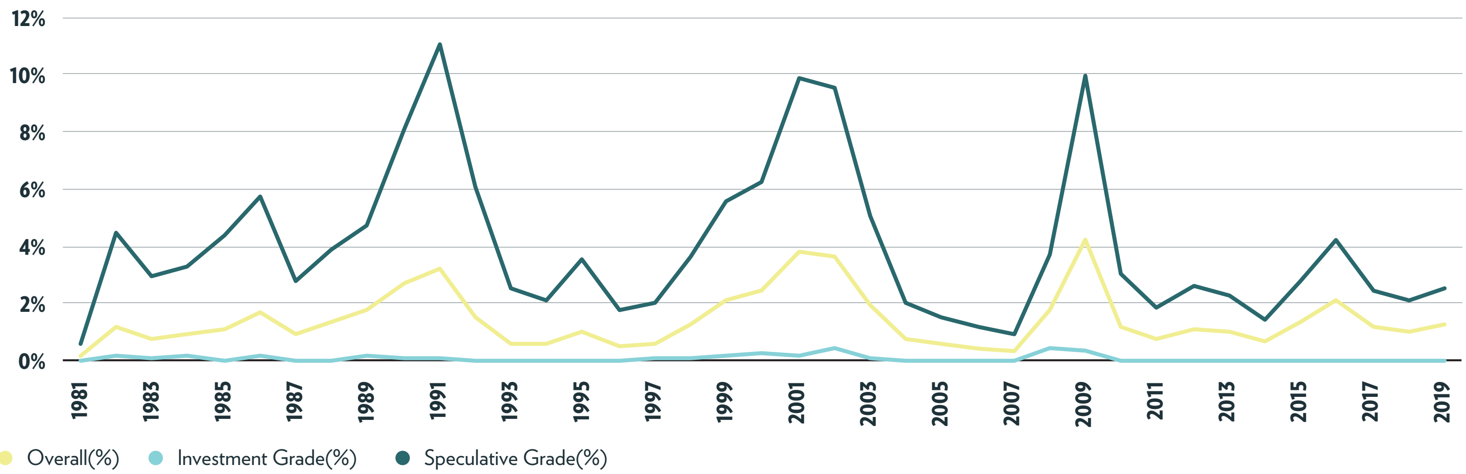
	S&P U.S. HIGH QUALITY PREFERRED STOCK INDEX	S&P U.S. PREFERRED STOCK INDEX
A+	2.40%	-
BBB+	9.60%	3.80%
BBB	34.20%	10.30%
BBB-	51.50%	28.40%
BB+	2.30%	25.50%
BB	-	13.10%
BB-	-	4.10%
B+	-	1.70%
B	-	1.20%
B-	-	0.70%
NR	-	11.10%

Source: S&P Dow Jones Indices IIC. Data as of 6/30/2020

We anticipate the search for yield to intensify, as short-term yields are near their lowest point in the past twenty years and bonds are offering meager returns for the risk they carry. Investors have taken different approaches to get yield, often extending duration or lowering their credit tolerance. Preferred securities have historically been a reliable solution to higher income needs. However, not all preferred securities are created alike and it is important to understand underlying credit quality exposure. The chart to the left compares the S&P U.S. High Quality Preferred Stock Index to that of the broad S&P U.S Preferred Stock Index, and shows that the majority of holdings for the former index are in the BBB and BBB- categories, while the latter index has nearly 21% in categories rated BB and below, and approximately 11% is non-rated.

In risk-off environments when investors are particularly concerned about defaults, credit quality is critical to maintaining yield and fund value. Looking at the chart below which shows all corporate debt, investment grade has historically had a near zero default rate. On the other hand, speculative grade, while nowhere near the highs of 10% achieved in 2008-2009, are still above 2%, which poses a risk to investors relying on this income stream.

GLOBAL DEFAULT RATES: INVESTMENT GRADE VERSUS SPECULATIVE GRADE



Source: S&P Global Ratings Research and S&P Global Market Intelligence's CreditPro®

The industry exposure of the S&P U.S. High Quality Preferred Stock Index is also different compared to the broader Preferred Index. The S&P U.S. High Quality Preferred Stock Index has fewer industries that it is exposed to because of the nature of the Investment Grade rating that the index must adhere to. This leads to more concentration within the Insurance industry and no exposure to industries such as Semiconductors and Telecomm. The ability for the broader Preferred Index to access other industries may allow for the potential of higher yields, but investors have to mindful of the credit quality risk they are undertaking for this yield.

	S&P U.S. HIGH QUALITY PREFERRED STOCK INDEX	S&P U.S. PREFERRED STOCK INDEX
Banks	21.60%	36.70%
Capital Goods	-	0.50%
Commercial & Professional Services	-	0.20%
Diversified Financials	24.40%	22.80%
Energy	-	2.80%
Food, Beverage & Tobacco	-	1.70%
Household & Personal Products	-	0.20%
Insurance	29.80%	11.10%
Pharmaceuticals, Biotechnology & Life Sciences	-	0.90%
Real Estate	12.10%	10.00%
Semiconductors & Semiconductor Equipment	-	3.10%
Telecommunication Services	-	2.90%
Transportation	-	0.60%
Utilities	12.20%	6.60%

APPLICATIONS

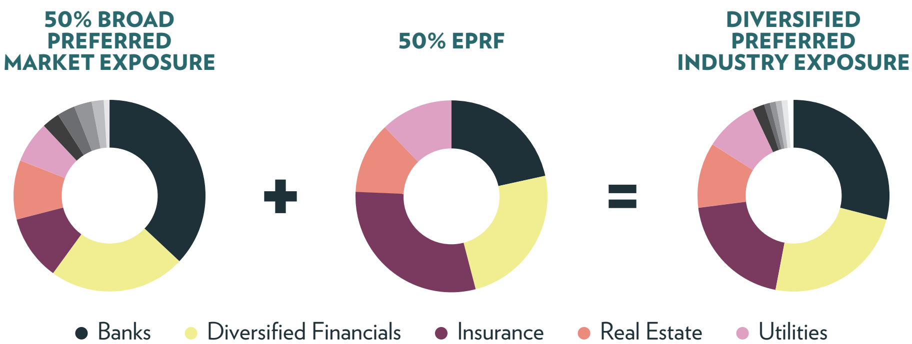
1 Diversify Preferred Exposure

CREDIT QUALITY

We are not suggesting abandoning the broad preferred market altogether. Instead, we believe that an even split between exposure to the broad preferred market and EPRF can reduce the allocation to speculative grade and non-rated securities, and can still offer the investment income clients are seeking, but in a more thoughtful, risk-managed manner.

INDUSTRY EXPOSURE

Again, this complementary nature of exposure to both the broad preferred market and EPRF can be shown looking at industry exposure. A client only invested in EPRF will have relatively more limited industry exposure compared to a client who has a combination of both, which increases diversification.



2 Alternative to Bonds

The combination of EPRF and the broad preferred market exposure is one that we believe maximizes the benefits to each. In the case of corporate bonds, however, higher duration and lower yields, makes EPRF a compelling alternative to corporate bond investors. Also, due to heightened credit risk, EPRF can serve as an alternative to high yield bonds and can offer favorable tax considerations, with 61% QDI.

	CREDIT QUALITY	DURATION[4]	INCOME	YIELD	AFTER-TAX YIELD
EPRF – IG Preferreds	Investment Grade	4.3 to 7.3yrs (if adjusted for optionality)	61% - Dividends (20%) 39% - Ordinary Income (37%)	5.07%	3.72%
HYG – High Yield Bonds	Junk	3.2yrs	100% - Ordinary Income	5.1%	3.21%
LQD – IG Bonds	Investment Grade	10.2yrs	100% - Ordinary Income	2.0%	1.39%

Investors do not need to take unnecessary risk in search of yield; EPRF offers a 100% investment grade ETF with a relatively high dividend yield (5%+ annually over its history) and monthly distributions. EPRF is an attractive alternative to an existing preferred security allocation or as a substitute to corporate bonds.

ETF PERFORMANCE & INDEX HISTORY (%)	ACTUAL REALIZED DIVIDEND YIELD	QTR	YTD	1 YEAR	3 YEARS	5 YEARS	INCEPTION
ETF NAV	-	7.63%	-2.00%	3.62%	3.64%	-	3.40%
ETF Closing Price	-	8.67%	-1.40%	3.82%	3.83%	-	3.52%
S&P U.S. High Quality Preferred Index	5.64%	7.78%	-1.87%	4.00%	4.15%	-	3.96%[5]
S&P U.S. Preferred Stock Index	6.42%	10.78%	-5.74%	-0.03%	2.33%	-	3.33%[5]

Data as of 6/30/2020. Performance quoted represents past performance, which is no guarantee of future results. Investment returns and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. Visit innovatoretfs.com/EPRF for current month-end performance. One cannot invest directly in an index.

4 Duration is an approximate measure of a bond's sensitivity to changes in interest rates.

5 Inception numbers for each index reflect the ETF's inception date (5/24/2016).

Distribution yield is the rate is calculated by annualizing the most recent distribution and dividing by the fund NAV from the as of date.

SEC 30 Day yield is standard yield calculation developed by the Securities and Exchange Commission that allows for a common ground comparison of yield performance. It is based on the most recent 30-day period. It is calculated by dividing the net investment income (less expenses) per share over a 30-day period by the current maximum offering price.

Volatility is a statistical measure of the dispersion of returns for a given security or market index.

Max drawdown is the maximum observed loss from a peak to a trough of a portfolio, before a new peak is attained. Maximum drawdown is an indicator of downside risk over a specified time period.

Return/risk is the relationship between the amount of return gained on an investment and the amount of risk undertaken in that investment

Market Disruptions Resulting from COVID-19. The outbreak of COVID-19 has negatively affected the worldwide economy, individual countries, individual companies and the market in general. The future impact of COVID-19 is currently unknown, and it may exacerbate other risks that apply to the Fund.

Investing involves Risks. Principal loss is possible. Along with general market risks, an ETF that Investing involves risks. Principal loss is possible. The Fund's return may not match the return of the Index. Along with general market risks, an ETF that concentrates its investments in the securities of a particular industry, market, sector, or geographic area may be more volatile than a fund that invests in a broader range of industries. Additionally, the Fund may invest in securities that have additional risks. Foreign companies can be more volatile, less liquid, and subject to the risk of currency fluctuations. This risk is greater for emerging markets. Small- and mid-cap companies can have limited liquidity and greater volatility than large-cap companies. Also, ETFs face numerous market trading risks, including the potential lack of an active market for Fund shares, losses from trading in secondary markets, periods of high volatility and disruption in the creation/ redemption process of the Fund. Unlike mutual funds, ETFs may trade at a premium or discount to their net asset value. ETFs are bought and sold at market price and not individually redeemed from the fund. Brokerage commissions will reduce returns.

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.

Credit ratings apply the Index, not the fund itself. S&P and Moody's study the financial condition of an entity to ascertain its creditworthiness. The credit ratings reflect the rating agency's opinion of the holdings financial condition and histories. For information on the rating agencies methodology, visit http://www.standardandpoors.com or https://www.moodys.com.

This material must be preceeded or accompanied by a prospectus. The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information, and may be obtained by calling 800.208.5212 or visiting innovatoretfs.com. Read it carefully before investing.

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