IPPP Quarterly Market Update

Q3 Review and Outlook | September 30, 2024

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Fund Description

The ETF's primary investment objective is to seek current income. IPPP invests in preferred equities paired with an S&P500 index-based option overlay for additional income.

PORTFOLIO MANAGERS

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The Innovative Preferred-Plus ETF (IPPP) underperformed the ICE BofA Core Plus Fixed Rate Preferred Securities Index (P0P4) during the quarter. IPPP on a NAV basis was up 7.16%, bringing the one-year return to 20.36%. In comparison, the benchmark (P0P4) was up 8.31% for the quarter, bringing its one-year return to 19.75%.

Preferred markets rallied this quarter given the confidence surrounding a soft landing, reassuring inflation results, and the much-anticipated federal funds rate cuts. The Federal Reserve (Fed) cut the policy rate by 50bps, and the treasury market is projecting another 150bps cuts by mid-2025. During this rally, preferred equity ETFs saw a net inflow of $1,276 million.

One perspective that does not get much attention (and that we mentioned in last quarter's review), is the continuing misalignment of fiscal policy with that of the Fed's monetary policy. Growing fiscal excesses due to the reluctance of Congress to control spending makes it more difficult to bring rates down. The US federal budget deficit - $1.9 trillion deficit for the 11 months through August - was up 24% from same time last year. The interest burden on outstanding debt, a major drag on the budget, exceeded $1 trillion- up 30% from the previous year. This deficit spending works against the Fed mandate of fighting inflation but does assist in helping the economy grow and contributes to the case of a soft landing.

Contributors to performance

The Fund had a positive total return for the third quarter but underperformed its benchmark.

Security selection in the REIT sector and the option overlay were contributors to the relative performance during the quarter. The SPX Index was up 5.8% during the quarter, leading to robust performance from the option overlay.

Detractors to performance

During the third quarter interest rates fell on the Fed's 50bps rate cut. 10-year Treasury yields fell 52bps. The Fund's shorter duration than that of the benchmark was the main detractor from performance.

PERFORMANCE (as of September 30, 2024)

	ANNUALIZED				CALENDAR YEAR RETURNS					
	1-Year	3-Year	5-Year	Since Inception (12/24/18)	2019	2020	2021	2022	2023	2024 YTD
Preferred-Plus – Market Price	20.77%	1.03%	4.29%	6.41%	19.77%	9.05%	7.74%	-22.12%	14.51%	13.81%
Preferred-Plus – NAV	20.36%	0.93%	4.23%	6.36%	19.77%	9.05%	7.74%	-22.52%	15.04%	13.52%
ICE BofA Core Plus Fixed Rate Preferred Securities Index	19.75%	-0.54%	1.92%	4.65%	17.42%	7.38%	3.27%	-20.71%	9.62%	12.53%

The performance data quoted represents past performance; past performance does not guarantee future results. Current performance may be higher or lower than the performance shown. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data current to the most recent month end may be obtained by visiting innovativeportfolios.com. Returns for periods shorter than one year are not annualized. ETFs shares trade at market price (not NAV) and are not individually redeemable with the issuing fund. Brokerage commissions and expenses will reduce the returns.

Prior to listing date, the ETF operated as a mutual fund. The Fund's objectives, policies, guidelines, and restrictions are in all material respects equivalent to those of the predecessor mutual fund, Preferred-Plus, which was created for reasons entirely unrelated to the establishment of a performance record.

The NAVs of the predecessor mutual fund are used for both NAV and market price performance from inception to listing. For ETFs, the market price return is calculated from closing prices as determined by the fund's listing exchange. If you trade your shares at another time, your return may differ. For the period from inception date to listing date, the NAV of the fund is used as a proxy for the market price to calculate returns.

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Outlook

The Fed finally delivered the much-anticipated rate cuts late in the third quarter. The market is expecting another 150bps during the next six months. This, however, is not our view. The market has a poor record of predicting rate cuts. Remember, at the start of the year, the market was looking for six or more rate cuts. Additionally, the continued deficit spending that no politician or candidate wants to address will make it more difficult to cut rates. I have never seen a time when the economy is growing (equity markets hitting new highs, and tight credit spreads in the bond market) in which the Fed cut rates - until now. Markets are watching each inflation report and employment report to judge what interest rates will do, and I suspect this will lead to volatile capital markets.

Technical factors continue to support preferred equity prices. Many companies called their outstanding preferred before the Fed hiking cycle and have not needed to come back to the market, thus limiting supply, while increasing demand for preferred equity coming from investors seeking income.

When managing fixed income, one must consider the impact of the Fed's dual mandate of price stability (controlling inflation) and maximum sustainable employment (economic growth that directly affects credit spreads).

We are continuing to increase the Fund's duration in anticipation of continuing lower rates; however, we are mindful that the market has been pricing in, since March, rate cuts that have been continually delayed. The belief that the US Fed Fund rates will return to the sub-one percent range anytime soon, or ever, we feel is a mistake. Many of today's investors are anchored to sub-one percent rates because they started their career after the Great Financial Recession and the zero-interest rate policy (ZIRP) of 2008.

The continuing fight against inflation, slowing economy, the US election, and geopolitical issues add up to a volatile market. However, this uncertainty is providing opportunities for investors looking for income. Preferred yields are still trading above their 10-year average and are well placed versus other fixed income investments with comparable credit quality. The higher yield also helps to minimize the impact that higher interest rates would have on the portfolio. In addition to higher yields, most preferred securities pay qualified dividend income, which can provide preferential tax treatment.

ISSUER CREDIT BREAKDOWN*

Credit Quality (%)	Fund Market Value
AAA	0.00%
AA	15.18%
A	29.26%
BBB	33.45%
BB	4.61%
B	1.69%
NR	15.03%
Cash & Equivalents	0.78%

* Issuer credit ratings represent the issuer's overall credit creditworthiness and financial strength and not the issue rating which refers to specific financial obligations and considers ranking in the capital structure. Ratings shown are the highest rating given by one of the following national rating agencies: S&P, Moody's, Fitch, DBRS or AM Best. Credit ratings are subject to change. AAA, AA, A and BBB are investment grade ratings; BB, B, CCC/CC/C and D are below-investment grade ratings. Holdings designated NR are not rated by these national rating agencies. Excludes credit spread put options.

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Disclosure

Innovative Portfolios, LLC is investment advisor to Preferred-Plus ETF.

EXPENSE RATIOS[1]:

Expense Ratio 1.27%
Management Fee 0.85% | Interest Expense 0.41% | Acquired Fund Fees and Expenses[2] 0.01%

(1) As disclosed in the January 31, 2024, prospectus.

(2) Acquired Fund Fees and Expenses are the indirect costs of investing in other investment companies.

Carefully consider the Fund's investment objective, risk factors, charges and expenses before investing. This and additional information can be found in the Preferred-Plus ETF prospectus, which can be obtained by calling 800-617-0004 or by visiting Innovativeportfolios.com. Please read the prospectus carefully before investing. Investing involves risk, including possible loss of principal.

IPPP Specific Risks Preferred Security Risk: Preferred securities generally are subordinated to bonds and other debt instruments in a company's capital structure and therefore will be subject to greater credit risk than those debt instruments. In addition, but not limited to, preferred securities are subject to other risks, such as being called by the issuer before its stated maturity, subject to special redemption rights, having distributions deferred or skipped, rising interest rates causing the value to decline, having floating interest rates or dividends, and having limited liquidity. Preferred securities that do not have a maturity date are perpetual investments. Prior to listing date, the ETF operated as a mutual fund. The NAVs of the predecessor mutual fund are used for performance and Morningstar Rating from inception to listing.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professional.

The inception for the Preferred-Plus fund is December 24, 2018 and, as such there is no performance for the 10-year period. Past performance is no guarantee of future results.

Indexes

ICE BofA Core Plus Fixed Rate Preferred Securities Index is an index designed to track the performance of fixed rate U.S. dollar-denominated preferred securities issued in the U.S. domestic market with a rating of at least B3 (based on an average of Moody's, S&P and Fitch) and an investment-grade country risk profile, is used subsequently.

The Bloomberg Barclays US Aggregate Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market in the United States, including Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and CMBS (agency and non-agency).

Indices are shown for comparative purposes only and may not necessarily be representative of the fund's portfolio. An investor cannot invest directly in an index, and index performance does not reflect the deduction of any fees, expenses or taxes.

Terms

Basis points (bps) is a standard measure for interest rates and other percentages in finance. One basis point equals 1/100th of 1% or 0.01%.

Duration is a measurement of a bond's interest rate risk that considers a bond's maturity, yield, coupon and call features.

Preferred-Plus ETF is distributed by Foreside Fund Services, LLC.