

IPPP Quarterly Market Update

Q4 Review and Outlook | December 31, 2023



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.

The Innovative Preferred-Plus ETF (IPPP) underperformed the ICE BofA Core Plus Fixed Rate Preferred Securities Index (POP4) during the quarter. On a NAV basis, IPPP was up 6.02%, bringing the year-to-date return to 15.04%. In comparison, the benchmark (POP4) was up 6.42% for the quarter, bringing its year-to-date return to 9.62%.

October saw Treasury yields rise to levels not seen in a decade on the back of stronger-than-expected economic data and "Fed Speak," only to collapse the next month. The 10-year yield hit a high of 4.99% in mid-October, then fell 111bps to 3.88% by the year end. Strong September retail sales, along with a jump in housing starts and a reported 336k jobs added during the month pointed to a robust economy, despite the Fed's aggressive rate hiking. This led Fed Chairman Powell to signal a "higher for longer" stance, "longer" being a relative term. One month later, the US Treasury bond market went on a record tear as investors started to foresee a Fed "pivot"; this "pivot" was then confirmed in the December release of the FOMC's Dot Plot.

PORTFOLIO MANAGERS

JR HUMPHREYS, CFA, CAIA
Senior Portfolio Manager
Industry since 1990

DAVE GILREATH, CFP®
Managing Director
Chief Investment Officer
Industry since 1981

Contributors to performance

An underweight allocation, complemented by security selection in the communication sector and the option overlay, was a major contributor to the relative performance during the quarter. The SPX Index was up 11.69% during the quarter, leading to robust performance from the option overlay.

Detractors to performance

The fund's heavy weighting to fixed-to-floating rate coupon structure detracted from performance. The allocation to fixed-to-floating coupon structure, which lowered the fund's duration versus the index, was suitable for a "higher for longer" interest rate environment, but not for a "Fed Pivot."

PERFORMANCE (as of December 31, 2023)

	ANNUALIZED				CALENDAR YEAR RETURNS				
	1-Year	3-Year	5-Year	Since Inception (12/24/18)	2019	2020	2021	2022	2023
Preferred-Plus – Market Price	14.51%	-1.32%	4.65%	4.67%	19.77%	9.05%	7.74%	-22.12%	14.51%
Preferred-Plus – NAV	15.04%	-1.34%	4.64%	4.66%	19.77%	9.05%	7.74%	-22.52%	15.04%
ICE BofA Core Plus Fixed Rate Preferred Securities Index	9.62%	-3.54%	2.51%	2.92%	17.42%	7.38%	3.27%	-20.71%	9.62%
S&P U.S. Preferred Securities Index	12.02%	-1.06%	4.23%	4.72%	17.64%	7.97%	6.64%	-18.93%	12.02%

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](https://www.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.

Outlook

The most recent Fed dot plot showed three possible rate cuts in 2024 to bring the federal fund rate down to 4.625%, despite saying that inflation is still too high. The Fed feels the current rate policy is too restrictive and needs to cut rates to facilitate a soft landing. However, market participants heard lower rates and, in our opinion, overreacted by pricing in six rate cuts for 2024, with the first rate cut predicted to be in the first quarter. Six rate cuts during a time when inflation is still above the Fed's 2% goal, employment is still strong, and there are ongoing increases in fiscal spending is not logical. This would indicate that the economy is entering a recession, a scenario where an increase in credit spreads would offset some of the benefits of lower rates.

While we are continuing to increase the fund's duration, we are cognizant that the market has been pricing in rate cuts that have been continually delayed.

The continuing fight against inflation, the slowing economy, and geopolitical issues adds up to a volatile market. However, this uncertainty is providing opportunities for investors looking for income: Preferred yields are at a level not seen in years and are well-placed versus other fixed income investments with comparable credit quality. The higher yield can also help to minimize the impact that higher interest rates would have on the portfolio. And, in addition to higher yields, most preferred securities pay qualified dividend income, which can provide preferential tax treatment.

innovativeportfolios.com | 317-689-6450

ISSUER CREDIT BREAKDOWN*	
Credit Quality (%)	Fund Market Value
AAA	0.0%
AA	14.3%
A	22.7%
BBB	39.0%
BB	6.9%
B	0.0%
NR	16.2%
Cash & Equivalents	0.8%

* 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.

Disclosure

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

EXPENSE RATIOS¹:

Expense Ratio 1.27%

Management Fee 0.85% | Interest Expense 0.41% | Acquired Fund Fees and Expenses² 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).

S&P US Preferred Securities Index is an index designed to measure the performance of the U.S. preferred stock market and consists of U.S. preferred stocks with a market cap greater than \$100 million and a maturity of at least one year or longer.

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.