

IPPP Quarterly Market Update

Q3 Review and Outlook | September 30, 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) outperformed the ICE BofA Core Plus Fixed Rate Preferred Securities Index (POP4) during the quarter. IPPP on a NAV basis was up 1.03% for the quarter, bringing the year-to-date return to 8.51%. In comparison, the benchmark (POP4) was down 1.98% for the quarter, bringing its year-to-date return to 3.01%.

The Federal Reserve (Fed) raised interest rates once during the third quarter and stated they will continue to assess additional information and allow past tightening to work their way through the economy. It looks like the market is starting to believe what the Fed has been saying for months: that they will leave rates higher for longer. The economy's resilience in the face of higher rates means that rates will need to stay elevated or to move higher to bring inflation back down to the Fed's stated goal of 2%. One year ago, the market implied Fed fund rate for one year out (today) was 4.53% vs. the current Fed fund rate of 5.25%. One year out remains one year out for those waiting for the Fed to cut rates. 10 year-U.S. Treasuries increased 75bps basis points during the quarter, putting pressure on fixed income returns.

Contributors to performance

Security selection and allocation were major contributors to the relative performance during the quarter. Relative overweight to several regional banks that were hit hard during the recent banking crisis continued to perform well in the third quarter despite Moody's and S&P's negative rating actions in the regional bank sector. An overweight to the life insurance and energy sectors and an underweight to the communication sectors also added to the relative outperformance. The fund's lower duration versus the benchmark also contributed to performance. However, we have been slowly increasing the duration of the fund in anticipation of lower interest rates. As of 9/29, the fund's duration is at 3.77 vs. the benchmark duration of 7.83.

Detractors to performance

The fund's allocation to Ford baby bonds was a detractor from performance. Despite an upgrade from Ba2 to Ba1 by Moody's and good second quarter earnings, headline risk from the UAW strike resulted in spreads widening for Ford positions.

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PERFORMANCE (as of September 30, 2023)

	QTD	YTD	1-Year Annualized	3-Year Annualized	Since Inception Annualized (12/24/18)
Preferred-Plus – Market Price	1.78%	7.92%	5.27%	-0.57%	3.62%
Preferred-Plus – NAV	1.03%	8.51%	5.24%	-0.56%	3.63%
ICE BofA Core Plus Fixed Rate Preferred Securities Index	-1.98%	3.01%	-1.77%	-3.98%	1.74%
S&P U.S. Preferred Securities Index	-0.28%	5.70%	3.50%	-0.77%	3.70%

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.

Outlook

Supply is expected to shrink going forward as most preferred issuers took advantage of the recent low rates to issue needed preferred capital, while demand should remain strong given investors' continuing search for yield.

Most of the Fed interest rate hikes are behind us and investors are now factoring in that rates may stay higher for longer. Market participants have pushed out the possibility of a rate cut to mid-2024. To take advantage of higher yields and slowing interest rate increases, we have been slowly increasing the duration of the portfolio. This will allow the fund to take advantage of lower future interest rates. The question is, "When will these lower rates arrive?"

The continuing fight against inflation, economic slowing, 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 also helps to minimize the impact that rising rates would have on the portfolio. In addition to higher yields, most preferred securities pay qualified dividend income, which can provide preferential tax treatment.

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ISSUER CREDIT BREAKDOWN*

Credit Quality (%)	Fund Market Value
AAA	0.0%
AA	14.16%
A	22.87%
BBB	41.86%
BB	5.36%
B	0.0%
NR	15.05%
Cash & Equivalents	0.71%

* 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.



Morningstar Rating™

Overall ratings based on risk-adjusted returns among 64 funds in the U.S. Preferred Stock category for the 3-year period ending 9/30/23.

Disclosure

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

EXPENSE RATIOS¹:

Expense Ratio 1.06%

Management Fee 0.85% | Interest Expense 0.20% | Acquired Fund Fees and Expenses² 0.01%

⁽¹⁾ As disclosed in the January 31, 2023, 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

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The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact

because it is included in all three rating periods. Preferred-Plus fund received two stars among 64 funds in the Preferred Stock category for the overall and three-year periods ending September 30, 2023. The inception for the Preferred-Plus fund is December 24, 2018 and, as such there is no performance for the 5- and 10-year periods. 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.