Bond Market Volatility: Identifying Risks and Opportunities

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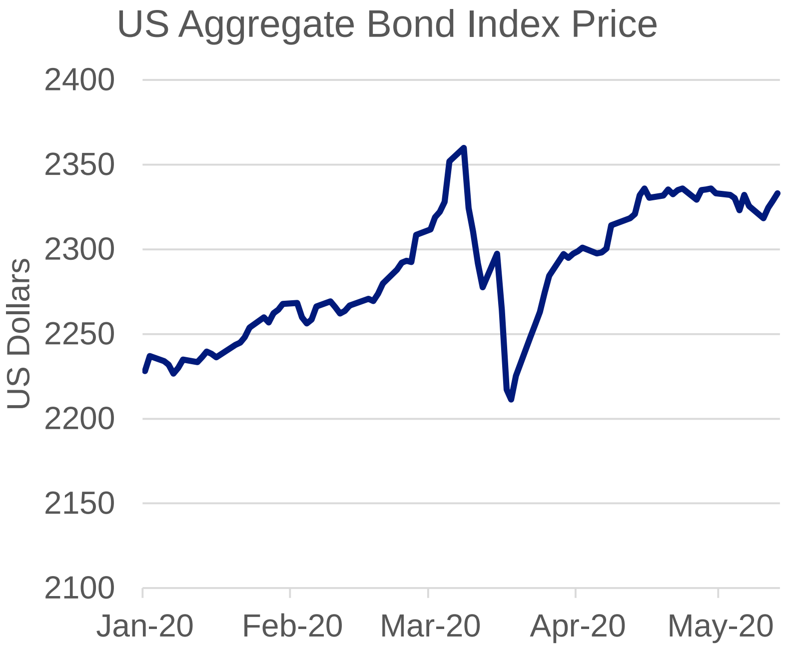
Invesco Distributors, Inc.

What has happened so far this year in Fixed Income?

Impact of the Virus

- With efforts to flatten the COVID-19 curve, we began to see large economic impacts
- March 2020 witnessed the two largest daily declines in investment grade corporate bonds ever (and 6 of the 10 largest sell-offs in U.S. history).
- On March 23rd the Federal Reserve stepped in with a number of programs targeting market liquidity



Source: Bloomberg L.P. as of May 15, 2020. US Aggregate Bond represented by the Bloomberg Barclays US Aggregate Bond Total Return Index. Index returns do not represent fund returns. An investor cannot invest directly in an index.

Federal Reserve Support So Far – Overview of Major Facilities

Invesco

The Fed has created a "backstop" in many sectors, stepping in as a lender of last resort:

1. Primary Market Corporate Credit Facility
   - $500B in purchases for newly issued bonds
   - Bonds must be within 4 years of maturity and meet issuer criteria in line with the CARES Act
2. Secondary Market Corporate Credit Facility
   - $250B in secondary market purchases
   - Bonds within 5 years of maturity as well as ETFs in the investment grade and some in the high yield space
3. Municipal Liquidity Facility
   - $500B in primary market purchases for short-term municipal issuances
   - Eligible for state and local governments that meet population thresholds
4. Main Street Lending Program
   - Up to $600B in loans to small businesses
   - Must have fewer than 15,000 employees or less than $5B in revenue and meet certain leverage restrictions
5. Term Asset-backed Loan Facility
   - $100B in 3-year loans backed by AAA-rated asset-backed securities like ABS, MBS, CLOs etc.

Source: Federal Reserve as of May 15, 2020

The Results so Far

Outcomes

- Even though most purchases have yet to take place, the Fed's signaling has sent a strong message of support to the markets
- Trading and issuance have progressed to healthier levels across many fixed income market places
- Valuations have improved significantly in credit sectors, but room for progress remains in both corporate and municipal bonds.

Opportunities

In the slides below, we discuss potential opportunities in various sectors, each represents a successive step out the risk spectrum:

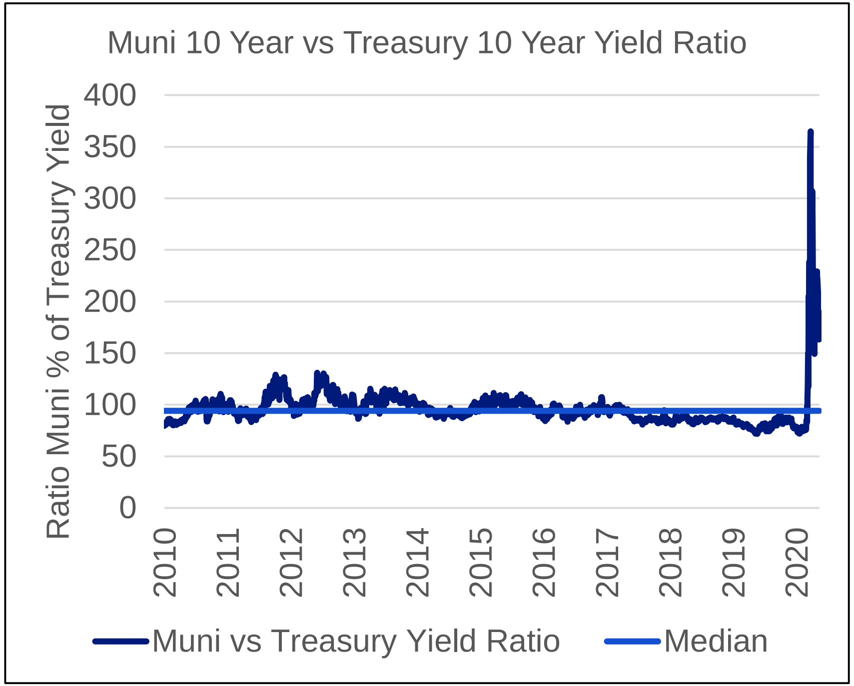
- Municipal Bonds
- Investment Grade Corporates
- Emerging Market Debt
- Preferred Stock

XXX-PPT-1 MM/YY (6pt)

Municipal Bonds

Remaining Opportunity

- Historically, municipal bonds have exhibited lower default rates than other fixed income market sectors, with a 10-year cumulative default rate for investment grade municipal bonds at 0.10% since 1970[1]
- Despite improvements, the current 10-year Muni vs Treasury ratio remains at elevated levels relative to historic medians
- Current levels north of 170 compared to a long-term median of 93
- Investment grade municipal bonds present an attractive risk/reward opportunity.



Source: Bloomberg L.P. as of May 15, 2020

[1]Moody's Investors as of December 2018. Past default rates are no assurance of future default rates. Data shown for the time period 1970 through 2018 is the most recent data available. 2019 data may increase cumulative default rates for both municipal and corporate bonds.

XXX-PPT-1 MM/YY (6pt)

Investment Grade Corporate Bonds

Opportunity Remains

- During the financial crisis, the default rate for investment grade credit was only 0.42% in 2008 and 0.33% in 2009. Likewise, in the 2001 recession, the investment grade default rate was only 0.23% in 2001 and 0.42% in 2002 respectively.[2]
- The economic impact of pandemic-related lockdowns is unprecedented, but the Federal Reserve and government have responded with a speed and scope that dwarfs previous monetary and fiscal stimulus programs.
- Current investment grade corporate bond spreads of 202 bps are on par with peaks in 2001 and 2011 at 245 and 258, respectively. Compared to long-term medians of 117 bps, spreads are still wide.

1-10 Year Investment Grade Corporate Bond Spread to Treasury

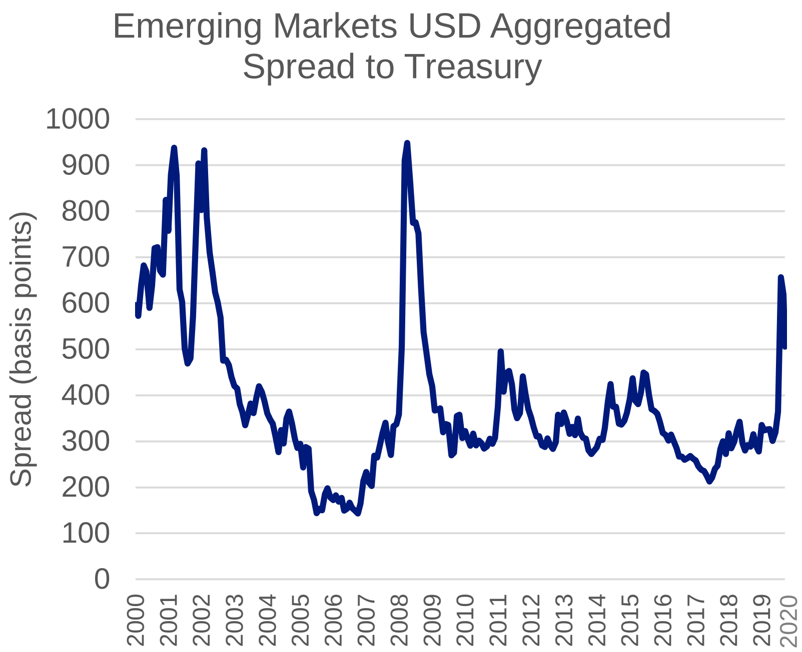
Source: Bloomberg L.P. as of May 15, 2020

[2]Moody's Investors as of December 2018. Past default rates are no assurance of future default rates. Data shown for the time period 1970 through 2018 is the most recent data available. 2019 data may increase cumulative default rates for both municipal and corporate bonds.

Emerging Market Debt

Opportunity Remains

- The risk profile of EM Sovereign Debt tends to sit between investment grade and high yield corporate debt.
- While the fixed income sectors receiving direct central bank support have rebounded sharply from their March 23rd lows, emerging market debt still exhibits attractive valuations relative to historic levels.
- While economic uncertainty and subsequent volatility will likely persist in the near-term, support from the IMF and increased EM central bank access to U.S. Federal Reserve funding channels should help maintain liquidity for developing market governments borrowing in USD.
- Lack of direct Fed intervention in EM debt markets means the opportunity to capture elevated yields in longer term EM sovereign bonds remains.



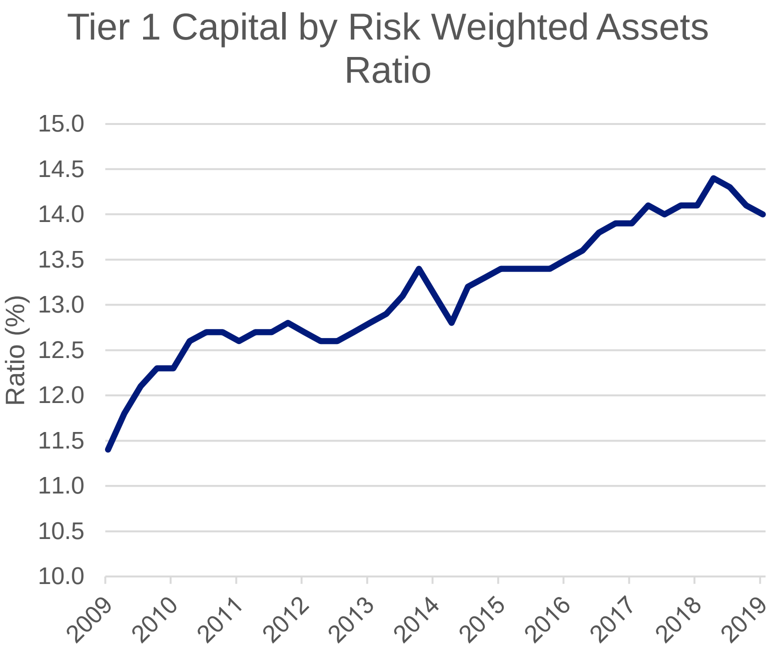
Source: Bloomberg L.P. as of May 15, 2020

XXX-PPT-1 MM/YY (6pt)

Preferred Stock

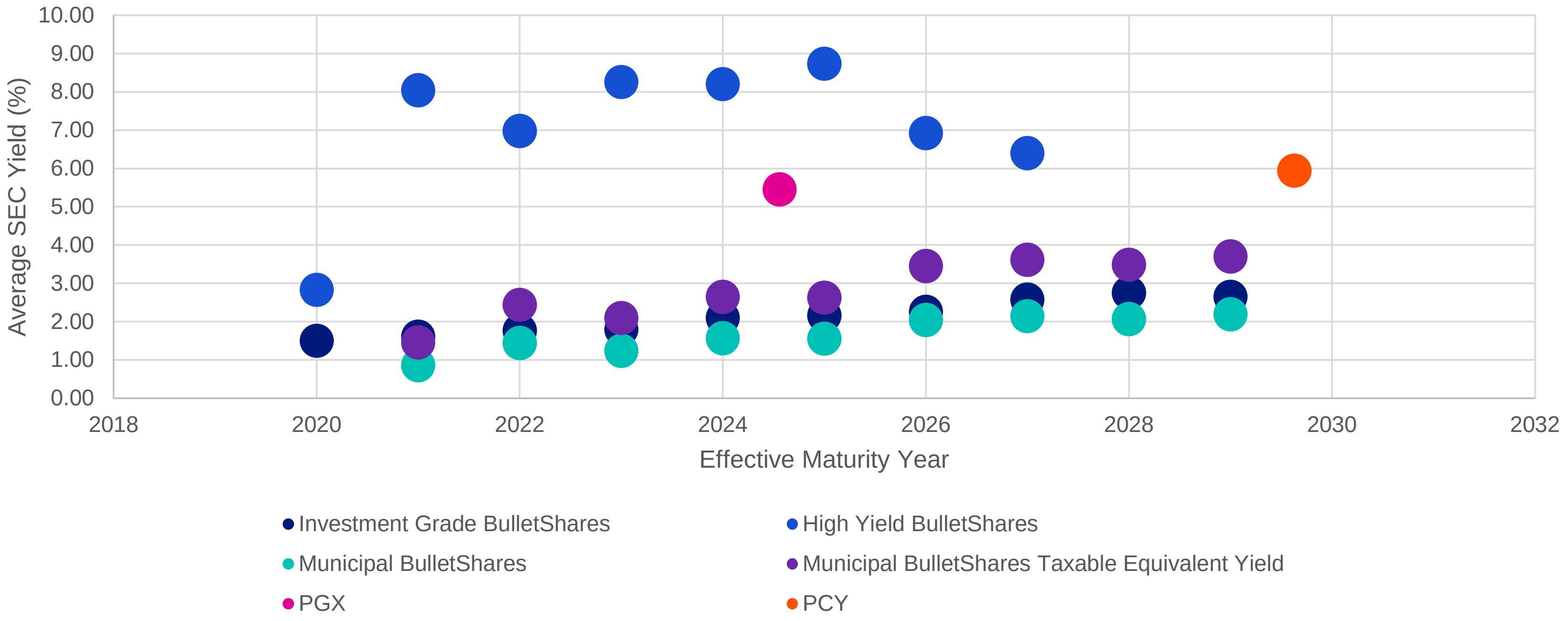
Sturdier Financials This Time Around

- Preferred securities sit above common equity in a firm's capital structure and often pay a fixed coupon, comprising a hybrid between equity and fixed-income, paying dividends that take priority over common stock dividends.
- We highlight $25 par preferred securities and their preference to hold securities issued by U.S. financial institutions—a sector we believe well-positioned to weather the current crisis.
- Tier 1 Capital Ratios have improved dramatically since the Global Financial Crisis, showing stronger financial health amongst banks.



Source: Federal Reserve as of Q4 2019. Tier 1 Capital is a measure of financial health for banks that consists of shareholder's equity and declared reserves.

Fixed Income ETF Sector Snapshot

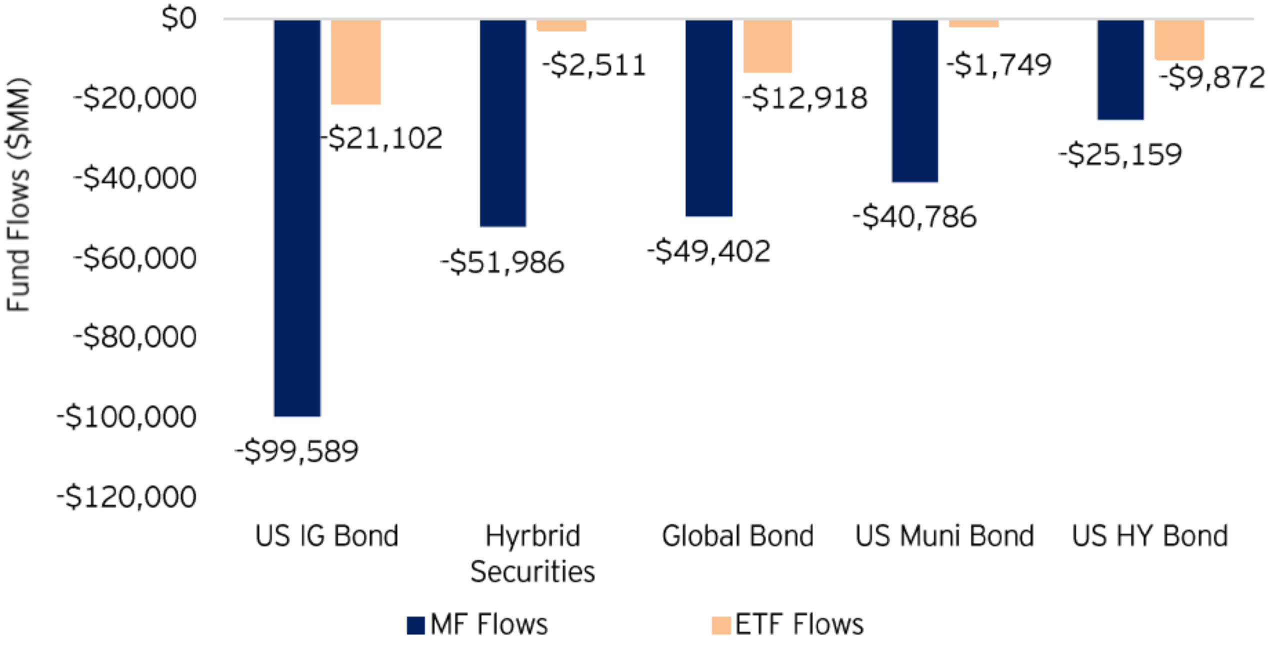


Source: Invesco Ltd. as of May 15, 2020. Taxable Equivalent Yields reflect a maximum marginal tax rate of 40.8%, including a Medicare surtax of 3.8%.

Please see standardized performance and BulletShares Suites of Funds in the appendix. Performance data quoted represents past performance. Past performance is not a guarantee of future results; current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. See invesco.com to find the most recent month-end performance numbers. Market returns are based on the midpoint of the bid/ask spread at 4 p.m. ET and do not represent the returns an investor would receive if shares were traded at other times. Fund performance reflects fee waivers, absent which, performance data quoted would have been lower.

ETF's Structural Efficiency During March 2020 Sell-Off

Fixed Income Fund Flows by Category: Market Peak (2/24) through 4/1



Source: Bloomberg L.P. as of 4/6/2020

BulletShares Standardized Performance as of March 31, 2020

INVESTMENT GRADE BULLETSHARES

Ticker	Fund	Price Type	1 Year	3 Years	5 Years	Since Inception	Inception Date	30-day SEC yield
BSCK	2020 ETF	Market Price	1.70%	1.82%	1.93%	3.14%	3/28/2012	3.28%
		NAV	2.18%	1.99%	2.05%	3.17%		
BSCL	2021 ETF	Market Price	2.34%	2.34%	2.31%	3.42%	7/17/2013	3.04%
		NAV	2.39%	2.35%	2.33%	3.38%		
BSCM	2022 ETF	Market Price	2.88%	2.92%	2.66%	3.67%	7/17/2013	2.89%
		NAV	2.39%	2.70%	2.57%	3.56%		
BSCN	2023 ETF	Market Price	2.48%	3.05%	2.86%	3.61%	9/17/2014	2.90%
		NAV	2.63%	3.08%	2.92%	3.60%		
BSCO	2024 ETF	Market Price	2.50%	3.27%	2.99%	3.68%	9/17/2014	3.06%
		NAV	2.55%	3.35%	3.00%	3.76%		
BSCP	2025 ETF	Market Price	3.52%	3.76%		3.70%	10/7/2015	3.08%
		NAV	3.42%	3.70%		3.74%		
BSCQ	2026 ETF	Market Price	4.48%	4.24%		2.92%	9/14/2016	3.01%
		NAV	4.76%	4.14%		2.90%		
BSCR	2027 ETF	Market Price	3.67%			3.05%	9/27/2017	3.25%
		NAV	3.58%			2.87%		
BSCS	2028 ETF	Market Price	3.20%			5.48%	8/9/2018	3.40%
		NAV	3.17%			5.34%		
BSCT	2029 ETF	Market Price				-2.73%	9/12/2019	3.18%
		NAV				-2.39%		

HIGH YIELD BULLETSHARES

Ticker	Fund	Price Type	1 Year	3 Years	5 Years	Since Inception	Inception Date	30-day SEC yield
BSJK	2020 ETF	Market Price	-0.70%	2.35%	2.80%	3.42%	9/24/2013	9.20%
		NAV	-0.41%	2.42%	2.87%	3.43%		
BSJL	2021 ETF	Market Price	-6.39%	0.88%	2.58%	2.61%	9/17/2014	11.95%
		NAV	-5.83%	1.09%	2.75%	2.77%		
BSJM	2022 ETF	Market Price	-7.18%	0.10%	2.33%	2.45%	9/17/2014	14.30%
		NAV	-6.25%	0.38%	2.54%	2.62%		
BSJN	2023 ETF	Market Price	-8.66%	-0.12%		3.01%	10/7/2015	13.03%
		NAV	-7.98%	0.05%		3.10%		
BSJO	2024 ETF	Market Price	-6.14%	0.85%		1.85%	9/14/2016	12.61%
		NAV	-5.17%	1.16%		2.03%		
BSJP	2025 ETF	Market Price	-7.29%			-1.20%	9/27/2017	13.63%
		NAV	-6.46%			-0.99%		
BSJQ	2026 ETF	Market Price	-7.08%			-1.69%	8/9/2018	9.86%
		NAV	-6.31%			-1.41%		
BSJR	2027 ETF	Market Price				-10.37%	9/12/2019	7.98%
		NAV				-9.06%		

Source: Invesco as of 3/31/2020. *Performance data quoted represents past performance.*

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BulletShares Standardized Performance as of March 31, 2020

MUNICIPAL BULLETSHARES								
Ticker	Fund	Price Type	1 Year	3 Years	5 Years	Since Inception	Inception Date	30-day SEC yield
BSML	2021 ETF	Market Price				-0.08%	9/25/2019	1.29%
		NAV				0.64%		
BSMM	2022 ETF	Market Price				-0.01%	9/25/2019	1.53%
		NAV				0.23%		
BSMN	2023 ETF	Market Price				0.11%	9/25/2019	1.37%
		NAV				0.27%		
BSMO	2024 ETF	Market Price				-0.09%	9/25/2019	1.55%
		NAV				-0.13%		
BSMP	2025 ETF	Market Price				0.36%	9/25/2019	1.61%
		NAV				0.24%		
BSMQ	2026 ETF	Market Price				0.33%	9/25/2019	1.95%
		NAV				-0.56%		
BSMR	2027 ETF	Market Price				-0.92%	9/25/2019	1.98%
		NAV				-1.12%		
BSMS	2028 ETF	Market Price				-0.15%	9/25/2019	2.03%
		NAV				-0.31%		
BSMT	2029 ETF	Market Price				-0.59%	9/25/2019	2.13%
		NAV				-0.39%		

Source: Invesco as of 3/31/2020. *Performance data quoted represents past performance.*
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Standardized Performance as of March 31, 2020

Invesco Emerging Markets Sovereign Debt ETF (PCY) & Invesco Preferred ETF (PGX)						
Ticker	Price Type	1 Year	3 Years	5 Years	Since Inception	Inception Date
PCY	Market Price	-9.84%	-1.47%	1.65%	4.88%	10/11/2007
	NAV	-8.15%	-0.86%	2.03%	5.10%	
PGX	Market Price	-4.37%	1.56%	3.19%	2.92%	1/31/2008
	NAV	-4.59%	1.46%	3.16%	3.03%	

Source: Invesco as of 3/31/2020. *Performance data quoted represents past performance.*

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Important information

About Risk

There are risks involved with investing in ETFs, including possible loss of money. Shares are not actively managed and are subject to risks similar to those of stocks, including those regarding short selling and margin maintenance requirements. Ordinary brokerage commissions apply. The Fund's return may not match the return of the Underlying Index. The Fund is subject to certain other risks. Please see the current prospectus for more information regarding the risk associated with an investment in the Fund.

Credit ratings are assigned by Nationally Recognized Statistical Rating Organizations based on assessment of the credit worthiness of the underlying bond issuers. The ratings range from AAA (highest) to D (lowest) and are subject to change. Not rated indicates the debtor was not rated, and should not be interpreted as indicating low quality. Futures and other derivatives are not eligible for assigned credit ratings by any NRSRO and are excluded from quality allocations. For more information on rating methodologies, please visit the following NRSRO websites: standardandpoors.com and select "Understanding Ratings" under Rating Resources and moodys.com and select "Rating Methodologies" under Research and Ratings.

BulletShares ETFs

Investment Grade BulletShares seeks to measure the performance of a portfolio of US dollar-denominated investment grade corporate bonds with maturities or effective maturities in their target maturity years.

There are risks involved with investing in ETFs, including possible loss of money. Shares are not actively managed and are subject to risks similar to those of stocks, including those regarding short selling and margin maintenance requirements. Ordinary brokerage commissions apply. The funds' return may not match the return of the underlying index. The funds are subject to certain other risks. Please see the current prospectus for more information regarding the risk associated with an investment in the funds.

Investments focused in a particular sector are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.

The funds are non-diversified and may experience greater volatility than a more diversified investment.

Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa.

During the final year of the funds' operations, as the bonds mature and the portfolio transitions to cash and cash equivalents, the funds' yield will generally tend to move toward the yield of cash and cash equivalents and thus may be lower than the yields of the bonds previously held by the funds and/or bonds in the market.

If interest rates fall, it is possible that issuers of callable securities will call or prepay their securities before maturity, causing the Fund to reinvest proceeds in securities bearing lower interest rates and reducing the Fund's income and distributions.

An issuer may be unable or unwilling to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

The risks of investing in securities of foreign issuers can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

Income generated from the funds is based primarily on prevailing interest rates, which can vary widely over the short- and long-term. If interest rates drop, the funds' income may drop as well. During periods of rising interest rates, an issuer may exercise its right to pay principal on an obligation later than expected, resulting in a decrease in the value of the obligation and in a decline in the funds' income.

An issuer's ability to prepay principal prior to maturity can limit the funds' potential gains. Prepayments may require the funds to replace the loan or debt security with a lower yielding security, adversely affecting the funds' yield.

The funds currently intend to effect creations and redemptions principally for cash, rather than principally in-kind because of the nature of the funds' investments. As such, investments in the funds may be less tax efficient than investments in ETFs that create and redeem in-kind.

Unlike a direct investment in bonds, the funds' income distributions will vary over time and the breakdown of returns between fund distributions and liquidation proceeds are not predictable at the time of investment. For example, at times the funds may make distributions at a greater (or lesser) rate than the coupon payments received, which will result in the funds returning a lesser (or greater) amount on liquidation than would otherwise be the case. The rate of fund distribution payments may affect the tax characterization of returns, and the amount received as liquidation proceeds upon fund termination may result in a gain or loss for tax purposes.

During periods of reduced market liquidity or in the absence of readily available market quotations for the holdings of the fund, the ability of the fund to value its holdings becomes more difficult and the judgment of the sub-adviser may play a greater role in the valuation of the fund's holdings due to reduced availability of reliable objective pricing data.

The funds' use of a representative sampling approach will result in its holding a smaller number of securities than are in the underlying Index, and may be subject to greater volatility.

Important information (continued)

BulletShares High Yield ETFs

High Yield BulletShares seek to measure the performance of a portfolio of US dollar-denominated below investment grade corporate bonds with maturities or effective maturities in their target maturity years.

The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods.

The Fund may invest in privately issued securities, including 144A securities which are restricted (i.e. not publicly traded). The liquidity market for Rule 144A securities may vary, as a result, delay or difficulty in selling such securities may result in a loss to the Fund..

BulletShares Municipal ETFs

Municipal BulletShares seek to measure the performance of a portfolio of US municipal bonds with maturities or effective maturities in their target maturity years.

Municipal securities are subject to the risk that legislative or economic conditions could affect an issuer's ability to make payments of principal and/ or interest.

Invesco Emerging Markets Sovereign Debt ETF

PCY seeks to measure the performance of a portfolio of emerging markets US dollar-denominated government bonds issued by more than 20 emerging-market countries.

There are risks involved with investing in ETFs, including possible loss of money. Shares are not actively managed and are subject to risks similar to those of stocks, including those regarding short selling and margin maintenance requirements. Ordinary brokerage commissions apply. The Fund's return may not match the return of the Underlying Index. The Fund is subject to certain other risks. Please see the current prospectus for more information regarding the risk associated with an investment in the Fund.

An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa.

Non-investment grade securities may be subject to greater price volatility due to specific corporate developments, interest-rate sensitivity, negative perceptions of the market, adverse economic and competitive industry conditions and decreased market liquidity.

The risks of investing in securities of foreign issuers, including emerging market issuers, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

Issuers of sovereign debt or the governmental authorities that control repayment may be unable or unwilling to repay principal or interest when due, and the Fund may have limited recourse in the event of default. Without debt holder approval, some governmental debtors may be able to reschedule or restructure their debt payments or declare moratoria on payments. The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the underlying Index, and may be subject to greater volatility.

Investments focused in a particular industry or sector are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.

The performance of an investment concentrated in issuers of a certain region or country is expected to be closely tied to conditions within that region and to be more volatile than more geographically diversified investments.

Restricted securities generally cannot be sold to the public and may involve a high degree of business, financial and liquidity risk, which may result in substantial losses to the Fund.

The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the underlying Index, and may be subject to greater volatility.

Invesco Preferred Stock ETF

PGX tracks the performance of fixed rate US dollar-denominated preferred securities issued in the US domestic market.

An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa.

Important information (continued)

The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods.

Preferred securities may be less liquid than many other securities, and in certain circumstances, an issuer of preferred securities may redeem the securities prior to a specified date.

Investments focused in a particular sector, such as financial institutions, are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.

The risks of investing in securities of foreign issuers can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

Stocks of small and mid-sized companies tend to be more vulnerable to adverse developments, may be more volatile, and may be illiquid or restricted as to resale.

The Fund's use of a representative sampling approach will result in its holding a smaller number of securities than are in the underlying Index, and may be subject to greater volatility.

The Fund is non-diversified and may experience greater volatility than a more diversified investments.

The Bloomberg Barclays Aggregate Bond Index is an unmanaged index considered representative of the US investment-grade, fixed-rate bond market

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Note: Not all products are available through all firms.

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