BulletShares Q&A

What is the Maturity Process for a BulletShares ETF?

There are two maturity processes – one for high-yield and emerging markets and one for investment grade.

High-yield and emerging markets fund maturity process
In January of a BulletShares ETF's final year, maturing bonds are rolled into 3-month T-bills and the fund slowly transitions to cash throughout the year. The fund terminates on or about December 15th and the full NAV is then returned to investors with no further action on their part.[1] For tax purposes, the termination of the fund is treated as a sale and any long- or short-term capital gain or loss are realized.

Investment-grade fund maturity process
The bonds in an investment grade portfolio are more easily traded, even as maturity approaches. This allows us to reinvest the proceeds from bonds that mature in the first six months of the year into the remainder of the portfolio (i.e., those bonds that mature in the second half of the year). This allows us to maintain corporate credit exposure, with more yield than would be offered in the T-bill market. After July 1, maturing bonds are rolled into T-bills as we transition to cash in anticipation of the year-end maturity of the ETF. The termination of the fund is treated as a sale of the shares for tax purposes and any long- or short-term capital gain or loss are realized.

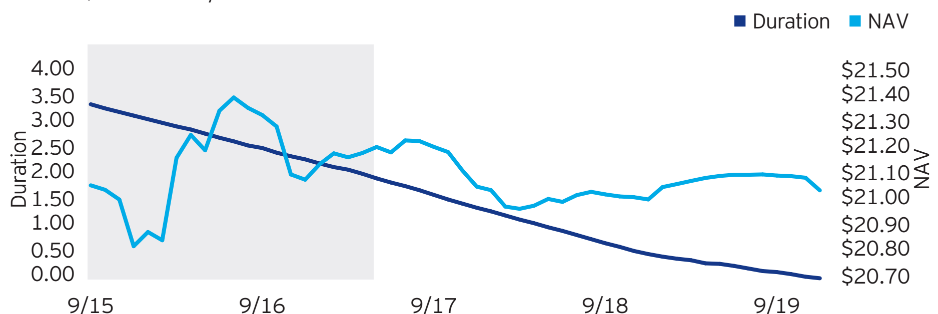
What Will Happen to the NAV of Bulletshares ETFs as Interest Rates Rise?

One of the distinguishing benefits of owning bonds to maturity, is that the investor has a good deal of visibility into what their total rate of return is likely to be. This is especially helpful in a rising rate environment. The design of BulletShares preserves this benefit.

But while holding bonds to maturity may insulate investors from interest rate movements, it doesn't mean that they will not experience the volatility in NAV that you might expect in an individual bond price in the years prior to its maturity.

Much like an individual bond, the fund's NAV moves up and down with interest rates and credit spread movements in the market:

Invesco BulletShares 2019 Corporate Bond ETF (BSCJ)
Duration/NAV Stability

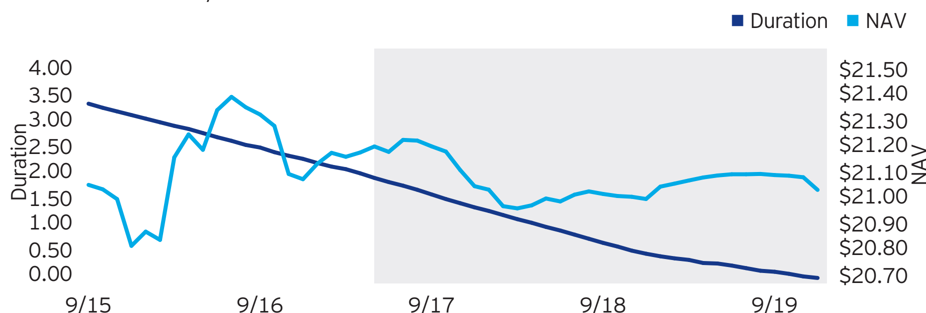


Source: Bloomberg, LP as of 12/31/2019. Invesco BulletShares 2019 Corporate Bond Fund matured on December 19, 2019 and is no longer offered for sale. Past performance is no guarantee of future results.

1 The funds do not seek a predetermined amount at maturity, and the amount an investor receives may be worth more or less than the original investment. In contrast, when an individual bond matures, an investor typically receives the bonds par (or face value).

As bonds reach their final year, and their duration shortens, their price volatility gradually declines. In this way, a BulletShares ETF becomes a low-volatility portfolio as it approaches maturity:

Invesco BulletShares 2019 Corporate Bond ETF (BSCJ)
Duration/NAV Stability



Source: Bloomberg, LP as of 12/31/2019. Invesco BulletShares 2019 Corporate Bond Fund matured on December 19, 2019 and is no longer offered for sale. Past performance is no guarantee of future results.

It's very similar to owning an individual bond, in that while you hold that bond, it's value may rise or fall, due to changes in interest rates or credit spreads. As you approach maturity, that volatility subsides.

What if a Bulletshares ETF Gets Hit with a Lot of Simultaneous Redemptions?

Regardless of the size of a redemption or the shortness of the period within which that redemption occurs, there is no impact to existing shareholders who hold to maturity.

This is due to a significant structural benefit of ETFs: We primarily execute redemptions in-kind.[1] That means we are never forced to sell bonds internally to raise cash for redeeming shareholders. We simply slice off a pro rata portion of each bond in the portfolio and deliver them in-kind to an AP (authorized participant) market maker who will redeem the shares of the investors who are selling on the exchange.

What Happens if a Bond Holding in a BulletShares ETF is Downgraded or is in Default?

Each BulletShares ETF currently holds anywhere from 70 to 400 bonds, depending on the size of the fund. This diversification[2] should help reduce the impact of such a credit event. In addition to this diversification, the underlying index also has screens for credit quality that reduce the exposure to defaulting bonds.

Investment-grade credit quality screen
A bond must have an average credit rating of BBB- or higher to be included in a BulletShares Corporate Bond portfolio. A bond must lose its investment grade rating by all the rating agencies that cover it for it to be removed from the underlying index and the fund portfolio. If this happens, it is removed from the underlying index at month's end and the portfolio manager will, in turn, remove it from the fund.

There hasn't been an investment-grade default in S&P's Global Survey since 2011.[3] The S&P Global Corporate Default Study is an annual review of defaults and ratings changes in all of the corporate securities that S&P rates worldwide.

1 ETFs work directly with authorized participants (APs) which are typically large institutions to create and redeem existing fund shares typically through an "in-kind" process. APs have a legal agreement in place with an ETF trust and their custodial bank allowing them to create or redeem shares of the ETF in large blocks of shares known as creation units. When redemptions are processed "in-kind", the Fund delivers a specific basket of portfolio securities in return for the AP surrendering shares of the ETF.

2 Diversification does not guarantee a profit or eliminate the risk of loss.

3 S&P Global Ratings, as of April 9, 2019.

High-yield credit quality screen
There is an extra layer of attention given to holdings of the BulletShares High Yield Corporate Bond portfolios. If a bond issuer defaults or is downgraded below CCC- by all the agencies that rate it, then it is removed from the underlying index during the month-end rebalance.

Additionally, if the bond maintains a CCC- rating by one of the agencies that cover it, but is one of the 1% highest yielding bonds in the portfolio and is trading below $0.80 on the dollar, then we deem that to be a distressed security. It is then removed from the underlying index and the portfolio. The bond may not be reconsidered for that portfolio for at least four months.

What Happens When a Bond is Called?

When a bond is called, the proceeds are invested into 13-week T-bills until the next monthly rebalance. At that time, the bond is replaced with another corporate issue. Bonds are typically called at a premium when rates fall and therefore should not be a major concern for shareholder.

Important information

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

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.

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.

BulletShares High Yield ETFs

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

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.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

NOT FDIC INSURED MAY LOSE VALUE NO BANK GUARANTEE

Before investing, investors should carefully read the prospectus/summary prospectus and carefully consider the investment objectives, risks, charges and expenses. For this and more complete information about the fund call 800 983 0903 or visit invesco.com for the prospectus/ summary prospectus.