White Paper: Understanding and Utilizing Invesco BulletShares ETFs

Executive Summary

This white paper provides a comprehensive overview of Invesco BulletShares ETFs, a defined-maturity exchange-traded funds designed to help investors and financial professionals build customized bond portfolios. We will delve into the benefits, mechanics, and strategic uses of BulletShares ETFs, highlighting how they combine individual bonds' advantages with ETFs' efficiencies.

Introduction

Invesco BulletShares ETFs are a unique class of fixed-income ETFs that offer investors a way to manage bond portfolios with precision and efficiency. These ETFs are designed to mature at a specific date, similar to individual bonds, but with the added benefits of diversification, liquidity, and transparency inherent in ETFs.

Key Features of BulletShares ETFs

Defined Maturity

BulletShares ETFs have designated years of maturity, which are reflected in their names. Each ETF is designed to terminate in December of the specified year, at which point the net asset value (NAV) of the ETF's assets is distributed to investors without any action required on their part.

Monthly Distributions

BulletShares ETFs typically pay monthly distributions like individual bonds, providing a regular income stream to investors.

Diversification and Transparency

BulletShares ETFs offer improved diversification by pooling a variety of bonds, reducing the risk associated with individual bond holdings. They also provide transparency in their holdings and operations, making it easier for investors to understand their investments.

Control Over Portfolio

Investors have control over the maturity, yield, and credit quality of their bond portfolios through the selection of different BulletShares ETFs. This allows for tailored strategies to meet specific investment goals and risk preferences.

Types of BulletShares ETFs

Investment-Grade Corporate Bonds

These ETFs track indices of U.S. investment-grade corporate bonds maturing in specific years. For example, the Invesco BulletShares 2030 Corporate Bond ETF (BSCU) focuses on investment-grade corporate bonds maturing in 2030.

High-Yield Corporate Bonds

These ETFs target junk-rated U.S. corporate bonds with specified maturity dates. The Invesco BulletShares 2025 High Yield Corporate Bond ETF (BSJP) is an example, focusing on high-yield corporate bonds maturing in 2025.

Municipal Bonds

BulletShares ETFs also cover municipal bonds, providing exposure to the municipal bond market with defined maturity dates.

Building Bond Ladders with BulletShares ETFs

Traditional Bond Ladders

A bond ladder is a strategy for purchasing individual bonds with varying maturities to create a predictable income stream and manage interest rate risk. As bonds mature, the proceeds can be reinvested in new bonds with longer maturities.

Using BulletShares ETFs

BulletShares ETFs simplify the bond ladder strategy by offering a single investment vehicle that matures at a specific date. This eliminates the need to manage multiple individual bonds, reducing time and expense. As the ETFs approach maturity, their durations decrease, and the proceeds can be reinvested in new BulletShares ETFs with subsequent maturity dates, allowing investors to take advantage of rising interest rates.

Managing Interest Rate Risk

Duration Management

Unlike traditional fixed-income mutual funds and ETFs that maintain a perpetual duration target, BulletShares ETFs have durations that decrease as they approach maturity. This makes them less sensitive to rising interest rates. Investors can reinvest the proceeds from maturing ETFs into new ones with higher interest rates, potentially benefiting from a rising rate environment.

Impact of Shareholder Sales on Remaining Investors

Market Value and Returns - When a shareholder sells their investment in a BulletShares ETF, especially during periods of rising interest rates, they may incur a loss. However, this sale does not affect the market value or returns of the remaining shareholders who hold until maturity. The final distribution at maturity is based on the NAV of the ETF's assets at that time, which is not influenced by interim sales.

RISKS

Investments involve risks. The investment return and principal value of an investment may fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original value. Past performance is not a guarantee of future results. There is no guarantee strategies will be successful.