

IMPLEMENTATION IDEA FOR INNOVATOR DEFINED OUTCOME ETFS

# The Future of a 60/40 Allocation

- » Over the last 30 years, the 60/40 portfolio has returned approximately 9.1%.<sup>1</sup>
- » In our opinion, due to lower expected returns in both equities and fixed income over the next decade, the 60/40 portfolio is unlikely to maintain the performance it once enjoyed.
- » Anticipating market trends, Innovator believes a 50% equities/30% fixed income, and 20% Defined Outcome ETFs allocation in a client's portfolio could be an attractive alternative.

A 60% equity/40% fixed income allocation to an investment portfolio, historically called a balanced portfolio, is a very common allocation amongst investors. It is a simple way to harmonize characteristics between stocks and bonds, and potentially capitalize on uncorrelated returns amongst asset classes. The equity exposure allowed clients to participate in higher expected stock returns, while the bond allocation was meant to offer diversification and lower risk. It made sense for investors who wanted to participate in the market, but were a bit risk averse. The portfolio was designed to generate a more consistent return while minimizing risk. The last 30 years has seen US equities, as measured by the S&P 500 index, and bonds, as measured by the ICE BofA US Broad Market Index, return 10.6% and 6.1% respectively.

Recently, however, at least two major wirehouses, namely Bank of America and Morgan Stanley, have commented that the typical 60/40 allocation is unlikely to repeat this performance.

The thought is that the typical 60/40 client allocation is “dead.” Why? On the equity side, Morgan Stanley has noted that, “US equities expected returns are dragged down by a combination of lower income return, low inflation expectations and penalties on both higher-than-average valuations and above-trend growth that cannot be sustained for the next decade.” On the fixed income side, Bank of America writes, “The challenge for investors today is that both of those benefits from bonds, diversification and risk reduction, seem to be weakening, and this is happening at a time when positioning in many fixed-income sectors is

incredibly crowded, making bonds more vulnerable to sharp, sudden selloffs when active managers rebalance.”

Innovator's view is that the historically low rate environment that we have been in is unlikely to continue. Mathematically, bonds cannot match their returns of the previous decade. In the US, interest rates are already close to zero/negative, and while the Fed has made no outward declarations of an immediate plan to raise rates, they have strongly pushed back the concept of negative rates. In fact, most institutional investors and strategists have been predicting/investing for rising interest rates since the end of 2018.

From the table below, aggregate bonds have returned 7.05% over the past year. This is due primarily from yields dropping from 2.31% to 1.23%, a 50% drop.

While it is difficult to model the effect of yield changes on index returns because an index has thousands of holdings and are regularly rebalanced and reconstituted, we can model the effect of a yield change on a single bond that has the same average coupon, maturity and yield to maturity as the ICE BofA US Broad Market Index.

Our single bond model shows that if yields were to drop another 50%, this bond will not yield the same level of return, and instead would produce about 55% of the return. It would take this bond yield going from 1.23% to close to zero (0.23%) to beat the previous 1-year returns. We are not arguing unequivocally that this cannot happen, though we do believe this is a less likely scenario.

**ICE BOFA US BROAD MARKET INDEX**

Aggregate Bonds <sup>2</sup>	9/30/2019	9/30/2020
YIELD TO MATURITY (YTM)	2.31%	1.23%
DURATION	6.3	6.7
1 YR TOTAL RETURN	-	7.05%
1 YR PRICE RETURN	-	4.48%

**INSTANTANEOUS RATE SHOCK**

	YTM Down 50 bps	YTM Down 100 bps
NEW YIELD TO MATURITY (YTM)	0.73%	0.23%
TOTAL RETURN	3.90%	8.00%

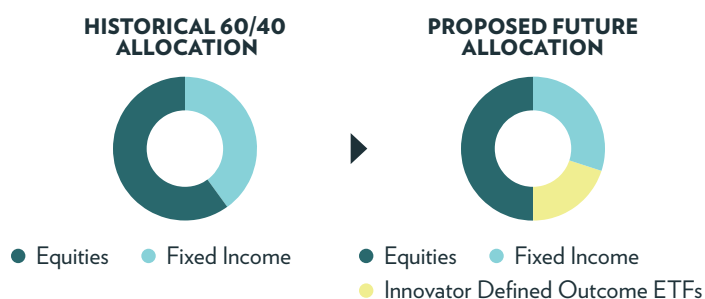
The value of a fixed income investments change when rates rise or fall. Duration measures a debt security's expected life on a present value basis, taking into account the debt security's yield, interest payments and final maturity. In general, duration represents the expected percentage change in the value of a security for an immediate 1% change in interest rates. For example, the price of a debt security with a three-year duration would be expected to drop by approximately 3% in response to a 1% increase in interest rates. Therefore, prices of debt securities with shorter durations tend to be less sensitive to interest rate changes than debt securities with longer durations. As the value of a debt security changes over time, so will its duration.

What does all of this mean? In short, the time is now for clients to rethink the traditional 60/40 allocation and consider adding an alternative that offers the potential upside of the equity market, with a buffer against losses on the downside.

## WHAT CAN I DO ABOUT IT?

Innovator believes tactically repositioning a client's portfolio to a proposed 50/30/20 mix of equities, fixed income, and defined outcome ETFs could be a potential solution. The 60 to 50% allocation to equities reflects our concern that the equity market is moving, albeit at times a bit erratically, towards a market correction. Innovator does not have a view on when this correction will occur, but we do think that at this point in the market cycle, it makes sense to de-risk the equity portion of a client's portfolio and lower the allocation to this asset class.

The lowered 30% bond allocation is meant to reflect the heightened risk of interest rates rising, and the direct and negative impact this will have on returns. The 20% allocation to Innovator Defined Outcome ETFs can be thought of as a hybrid position, offering equity-like upside with a downside buffer meant to mitigate losses, much like a traditional bond.



The performance below highlights what has happened in the past. The Innovator Defined Outcome ETFs seek to deliver a known range of potential outcomes and act as a compelling bond alternative now.

See below for QTD performance:

	60/40 <sup>3</sup>	50/30/20 BUFFER <sup>4</sup>	50/30/20 POWER BUFFER <sup>5</sup>	50/30/20 ULTRA BUFFER <sup>6</sup>
QTD	5.59%	5.88%	6.04%	6.31%
Volatility	10.49%	10.65%	10.10%	10.20%
Return/Risk	0.53	0.55	0.60	0.62
Max Drawdown	-6.1%	-6.0%	-5.6%	-5.6%
% 60/40 Volatility	100%	110%	104%	99%

Innovator Defined Outcome ETFs seek to provide a defined exposure to a broad market index (such as the S&P 500, Nasdaq 100, Russell 2000, MSCI EAFE, and MSCI EM) where the downside buffer level, an upside with the market to a Cap, and Outcome Period are all known, prior to investing. For the S&P 500 only, Innovator offers varying levels for the downside buffer (9%, 15%, and 30%). Innovator issues these ETFs monthly, reset annually, and can be held indefinitely. Due to the efficiency of the ETF wrapper, Innovator Defined Outcome ETFs are also tax efficient.

While it is typical to invest at the beginning of an outcome period, it is also common for clients to invest intra-outcome period as well. The price clients pay for the ETF shares determines their defined outcome for the remainder of the outcome period. Innovator provides real-time remaining caps and buffers, so clients know their remaining upside potential and buffer levels at the time they invest.

Innovator is committed to helping investors better control their financial outcomes by providing investment opportunities they never considered or thought possible.

**For additional information, visit [www.innovatoretfs.com](http://www.innovatoretfs.com).**

SINCE JAN 2019	60/40 <sup>3</sup>	50/30/20 BUFFER <sup>4</sup>	50/30/20 POWER BUFFER <sup>5</sup>	50/30/20 ULTRA BUFFER <sup>6</sup>	S&P 500	BARCLAYS AGG	BJAN	PJAN	UJAN
Return	16.54%	16.25%	16.01%	15.82%	20.49%	8.78%	13.97%	9.00%	7.62%
Volatility <sup>7</sup>	15.15%	16.62%	15.69%	14.97%	26.97%	4.25%	20.20%	14.94%	10.71%
Return/Risk <sup>8</sup>	1.09	0.98	1.02	1.06	0.76	2.07	0.69	0.60	0.71
Max Drawdown <sup>9</sup>	-20.9%	-22.6%	-21.4%	-20.1%	-33.7%	-6.3%	-26.3%	-20.0%	-14.3%
% 60/40 Volatility <sup>10</sup>	100%	110%	104%	99%	178%	28%	133%	99%	71%

The Funds have characteristics unlike many other traditional investment products and may not be suitable for all investors. For more information regarding whether an investment in the Fund is right for you, please see "Investor Suitability" in the prospectus.

Performance quoted represents past performance, which is no guarantee of future results. Investment returns and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. Returns less than one year are cumulative. For the most recent month-end returns go to [innovatoretfs.com](http://innovatoretfs.com).



STANDARDIZED PERFORMANCE	TICKER	NAV			MARKET PRICE			INCEPTION DATE
		YTD	1 YEAR	INCEPTION	YTD	1 YEAR	INCEPTION	
Innovator S&P 500 Buffer ETF	BJAN	3.72%	8.09%	14.08%	3.64%	8.39%	14.10%	12/31/2018
Innovator S&P 500 Power Buffer ETF	PJAN	3.04%	4.97%	9.12%	3.24%	5.52%	9.35%	12/31/2018
Innovator S&P 500 Ultra Buffer ETF	UJAN	2.26%	3.95%	7.59%	2.74%	4.28%	7.74%	12/31/2018
S&P 500 Price Return Index	-	4.09%	12.98%	18.30%	-	-	-	12/31/2018
S&P 500 TR Index	-	5.57%	15.15%	20.64%	-	-	-	12/31/2018
ICE BofA US Broad Market Index	-	6.93%	7.05%	9.08%	-	-	-	12/31/2018

Data as of 9/30/2020. Each ETF expense ratio is 0.79%. Performance quoted represents past performance, which is no guarantee of future results. Investment returns and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. Visit [innovatoretfs.com/define](http://innovatoretfs.com/define) for current month-end performance. One cannot invest directly in an index.

	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Annual AGG NAV Return	6.89%	5.17%	4.11%	3.55%
Annual AGG Market Price Return	4.38%	2.51%	1.52%	0.86%
Annual SPY NAV Return	15.15%	12.18%	14.03%	13.58%
Annual SPY Market Price Return	12.93%	10.06%	11.80%	11.33%

Data as of 9/30/2020. AGG's inception is Sept. 22, 2003. SPX's inception is Mar. 3, 1957. The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. AGG's gross and net expense ratio is 0.06% and 0.05% respectively, representing a contractual fee waiver. You cannot invest in an index. AGG's most recent month end performance can be found at [ishares.com/agg](http://ishares.com/agg) and SPY's most recent month end performance can be found at [ssga.com/us/en/individual/etfs/funds/spdr-sp-500-etf-trust-spy](http://ssga.com/us/en/individual/etfs/funds/spdr-sp-500-etf-trust-spy).

- 1 Based on historical 30-year returns for the S&P 500 and ICE BofA US Broad Market Index.
- 2 Aggregate Bonds are defined by the ICE BofA US Broad Market Index.
- 3 60% Equities are represented by SPY and 40% Fixed Income is represented by AGG.
- 4 50% Equities are represented by SPY, 30% Fixed Income is represented by AGG, and 20% Defined Outcome ETFs are represented by the January Buffer ETF.
- 5 50% Equities are represented by SPY, 30% Fixed Income is represented by AGG, and 20% Defined Outcome ETFs are represented by the January Power Buffer ETF.
- 6 50% Equities are represented by SPY, 30% Fixed Income is represented by AGG, and 20% Defined Outcome ETFs are represented by the January Ultra Buffer ETF.
- 7 Volatility is a statistical measure of the dispersion of returns for a given security or market index.
- 8 The return/risk is a ratio used to compare the expected returns of an investment with the amount of risk undertaken to capture these returns.
- 9 Max drawdown is the maximum observed loss from a peak to a trough of a portfolio, before a new peak is attained.
- 10 % 60/40 volatility is the volatility of each Buffer blend divided by the volatility of the 60/40 blend.

The buffer and cap levels stated in the prospectus that a DOS Fund seeks to provide may only be realized if you are holding shares on the first day of the Outcome Period and continue to hold them on the last day of the Outcome Period. Investors purchasing after the outcome period start date should consider the remaining period values before investing. Unlike the starting buffer and cap a fund's remaining cap and buffer does not seek to provide defined outcomes on a 1:1 basis. There is no guarantee that the Outcomes for an Outcome Period will be realized or that the Fund will achieve its investment objective.

Technology Sector Risk Companies in the technology sector are often smaller and can be characterized by relatively higher volatility in price performance when compared to other economic sectors. They can face intense competition which may have an adverse effect on profit margins.

Small Cap Risk Small cap companies may be more volatile and susceptible to adverse developments than their mid and large cap counterpart. In addition, the small cap companies may be less liquid than larger companies.

**Investing involves risks. Loss of principal is possible.** The Funds face numerous market trading risks, including active markets risk, authorized participation concentration risk, buffered loss risk, cap change risk, capped upside return risk, correlation risk, liquidity risk, management risk, market maker risk, market risk, non-diversification risk, operation risk, options risk, trading issues risk, upside participation risk and valuation risk. For a detail list of fund risks see the prospectus.

Non-U.S. securities and Emerging Markets are subject to higher volatility than securities of domestic issuers due to possible adverse political, social or economic developments, restrictions on foreign investment or exchange of securities, lack of liquidity, currency exchange rates, excessive taxation, government seizure of assets, different legal or accounting standards, and less government supervision and regulation of securities exchanges in foreign countries.

**FLEX Options Risk.** The Fund will utilize FLEX Options issued and guaranteed for settlement by the Options Clearing Corporation (OCC). In the unlikely event that the OCC becomes insolvent or is otherwise unable to meet its settlement obligations, the Fund could suffer significant losses. Additionally, FLEX Options may be less liquid than standard options. In a less liquid market for the FLEX Options, the Fund may have difficulty closing out certain FLEX Options positions at desired times and prices. The values of FLEX Options do not increase or decrease at the same rate as the reference asset and may vary due to factors other than the price of reference asset.

These Funds are designed to provide point-to-point exposure to the price return of the Index via a basket of Flex Options. As a result, the ETFs are not expected to move directly in line with the Index during the interim period.

Investors purchasing shares after an outcome period has begun may experience very different results than funds' investment objective. Initial outcome periods are approximately 1-year beginning on the funds' inception date. Following the initial outcome period, each subsequent outcome period will begin on the first day of the month the fund was inceptioned. After the conclusion of an outcome period, another will begin.

**Fund shareholders are subject to an upside return cap (the "Cap") that represents the maximum percentage return an investor can achieve from an investment in the funds' for the Outcome Period, before fees and expenses. If the Outcome Period has begun and the Fund has increased in value to a level near to the Cap, an investor purchasing at that price has little or no ability to achieve gains but remains vulnerable to downside risks. Additionally, the Cap may rise or fall from one Outcome Period to the next. The Cap, and the Fund's position relative to it, should be considered before investing in the Fund. The Funds' website, [www.innovatoretfs.com](http://www.innovatoretfs.com), provides important Fund information as well information relating to the potential outcomes of an investment in a Fund on a daily basis.**

**The Funds only seek to provide shareholders that hold shares for the entire Outcome Period with their respective buffer level against Index losses during the Outcome Period. You will bear all Index losses exceeding 9, 15 or 30%. Depending upon market conditions at the time of purchase, a shareholder that purchases shares after the Outcome Period has begun may also lose their entire investment. For instance, if the Outcome Period has begun and the Fund has decreased in value beyond the pre-determined buffer, an investor purchasing shares at that price may not benefit from the buffer. Similarly, if the Outcome Period has begun and the Fund has increased in value, an investor purchasing shares at that price may not benefit from the buffer until the Fund's value has decreased to its value at the commencement of the Outcome Period.**

*The Funds' investment objectives, risks, charges and expenses should be considered before investing. The prospectus contains this and other important information, and it may be obtained at [innovatoretfs.com](http://innovatoretfs.com). Read it carefully before investing.*

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