

# Curated Disruption at a Reasonable Price

The Deepwater Frontier Tech Index (DFTI) informs Innovator's NYSE-listed LOUP ETF. We aim to power long-term returns in frontier technology investing. We are more convinced than ever that our strategy to invest in the themes pushing the frontier of technology while respecting valuation is the superior approach over the next several years as the market exits many thematic bubbles.

The LOUP ETF seeks to track, before fees and expenses, the performance of the DFTI.

The DFTI tracks public investment opportunities participating in major emerging technologies.

## WAYS TO INVEST IN DISRUPTION

Disruption-focused funds tend to come in three clear flavors:

- 1 Pure Optimists: Disruption at any price.** These funds represent disruptive technology well, but they ignore rational consideration of generating future cash flows to justify current prices. Instead, gunslinger funds optimize for the most disruptive companies in the most attractive disruption themes. There's nothing wrong with the gunslinger approach. Eventually, we believe all equity assets need to rationalize on cash flow generation, so the trick for the gunslinger is to get out when demand for the asset is highest. Few time this correctly.
- 2 Indexers: Indexing all disruption at any price.** Index approaches to disruption come in two types. First, many disruption indices take significant positions in the FAANG (Meta Platforms, Amazon, Apple, Netflix, Google) (plus MSFT, NVDA, and TSLA) names. While those mega cap tech favorites are driving disruption, nearly every investor already has significant exposure to those names just by owning funds that track US Large Cap stocks, like the Nasdaq 100 or S&P 500. Funds that optimize around the inclusion of FAANG names are closet indexing the most popular funds and serve more to increase investors to mega cap tech than expose them to disruptive technologies. The second index approach to disruption is to hold hundreds of companies that fit into the disruptive category without consideration for valuation. These funds offer exposure to disruption, but they don't optimize for the most attractive companies on a price/technology basis.
- 3 Concentrators: Curated disruption at a reasonable price.** Valuation-aware disruption investors combine a deep knowledge of emerging technologies with a respect for how much growth is priced into companies pursuing such technologies. This is Deepwater's approach.

## DISRUPTION AT A REASONABLE PRICE

The mantra for the Deepwater Frontier Tech Index is to invest in disruption at a reasonable price so investors can sleep well at night.

As experienced investors in technology, we believe that if investors paid prices that accurately reflect the tremendous future growth of such companies throughout history, the returns from those investments would have trailed the broader market despite the disruptive power of those companies.

We believe paying any price for a company simply because it's disruptive doesn't work. If you pay for all the disruptive power of a company upfront, you're likely to be disappointed by the long-term result.

Investing in disruption helps investors sleep well in the midst of a rapidly changing world, but paying any price for disruption makes us sleep poorly. Deepwater believes that a company eventually needs to justify its price through future cash flow generation. To be a great investment, an equity asset needs to generate far more in cash flow than is implied in its price. We believe the point of any investment strategy should be to generate attractive returns, not just to bring exposure to a category.

Legendary investor and founder of Oaktree Capital Management, Howard Marks, described the investing game better than anyone: To generate extraordinary investment results, you must do something different than everyone else. If you act according to consensus, you'll get the same result as everyone else — regardless of whether consensus is right or wrong. If you do the non-consensus thing, and you're wrong, you get terrible results. **If you do the non-consensus thing, and you're right, you achieve the extraordinary.**



	CONSENSUS	NON-CONSENSUS
RIGHT	Average	Above Average
WRONG	Average	Below Average

We believe the most contrarian viewpoint in investing in disruption is to emphasize future cash flows — not technologies, market sizes, or optionality. All the other aspects of disruptive investing only matter to the extent that they generate incremental cash flow above and beyond what's already priced into a stock.

A respect for valuation is intentionally built into how we construct the Deepwater Frontier Tech Index so that we create exposure to disruption at a price that gives us a chance to generate strong returns.

## VARIANT PERCEPTION

---

There's a persistent interest in disruptive companies because disruption is exciting. We believe disruption has the potential to create the next FAANG 10-40x returning stock, the next Tesla, the next Bitcoin. Those returns are intoxicating.

The problem is that most of what's considered disruption consists of things that are obviously disruptive. Tesla was a great investment when no one believed in electric vehicles. Now everyone sees electric vehicles are the future. Tesla could still generate attractive returns, but it's mathematically and economically harder for them to do so compared to their valuation many hundreds of billions of dollars ago.

**With a market full of investors seeking disruptive tech, we believe there are three contrarian ways to find disruption at a reasonable price:**

- 1 Be earlier than everyone else.
- 2 Understand a much bigger opportunity than everyone else.
- 3 Look where others aren't looking.

Each of these strategies can be effective when applied appropriately, and we use each in our investment approach.

Being early works not only because you benefit from the tailwind of excitement that benefits the gunslinger but also because future cash flows may not be fully priced into emerging disruptive tech.

Understanding an opportunity bigger than everyone else has been the story of global e-commerce for much of the last decade with AMZN, MELI, SHOP, BABA, etc. But the excitement around disruptive tech means that it's hard to get ahead of a trend for very long, and it's hard to find opportunities that aren't fully appreciated.

Looking where others aren't is the most difficult of the three options. It often requires consideration of companies that appear to be obvious candidates for being disrupted by the disruptors.

We won't always be right, and we won't always be different. But when we see an opportunity to be different with good odds of being right, we take it. That's the only sustainable way to invest in disruption.

## EVOLVING FRONTIER OF TECHNOLOGY

---

The frontier is ever shifting, as are technologies and the companies that drive innovation on the frontier. As such, the index is dynamic in the themes that it tracks.

Today, we're witnessing the emergence of AI to power computers and machines to do human tasks. We're seeing consumers adopt alternative digital assets as we move to a deeply connected metaverse that acts as a strong parallel to the physical world. And we're seeing a transformation in the way we think about transportation in the physical world.

Timing these waves of innovation is challenging. Even more challenging is identifying the difference between an emerging theme and a true paradigm shift. Focusing on only one domain risks missing another, potentially much larger wave. The Deepwater Frontier Tech Index tracks the most promising emerging technologies which helps mitigate risk and improve the odds of participating in the next big wave.

## HOW TO ACCESS DEEPWATER'S APPROACH TO FRONTIER TECH INVESTING

---

Investors can access Deepwater's expert approach to frontier tech investing through ETF ticker LOUP.

Visit [innovatoretf.com/loup](https://innovatoretf.com/loup) to learn more.



The views indicated above are those of Deepwater Asset Management, LLC. Innovator and Deepwater are separate entities.

Deepwater Asset Management, LLC is the index provider to the Fund. The marks "Deepwater", "Loup", and "Loup Frontier Tech Index" have been licensed to the Adviser by Deepwater for use in connection with the Fund under certain circumstances. The Adviser, in turn, has sublicensed to the Fund its rights to use the mark pursuant to a Agreement. The Fund is not sponsored, endorsed or sold by Deepwater. Deepwater makes no representation regarding the advisability of investing in the Fund.

**Investing involves risks. Principal loss is possible.** The Fund's return may not match the return of the Index. Along with general market risks, an ETF that concentrates its investments in the securities of a particular industry, market, sector, or geographic area may be more volatile than a fund that invests in a broader range of industries. Additionally, the Fund may invest in securities that have additional risks. Foreign companies can be more volatile, less liquid, and subject to the risk of currency fluctuations. This risk is greater for emerging markets. Small- and mid-cap companies can have limited liquidity and greater volatility than large-cap companies. Also, ETFs face numerous market trading risks, including the potential lack of an active market for Fund shares, losses from trading in secondary markets, periods of high volatility and disruption in the creation/redemption process of the Fund. Unlike mutual funds, ETFs may trade at a premium or discount to their net asset value. ETFs are bought and sold at market price and not individually redeemed from the fund. Brokerage commissions will reduce returns.

Shares are bought and sold at market price, not net asset value (NAV), and are not individually redeemable from the fund. NAV represents the value of each share's portion of the fund's underlying assets and cash at the end of the trading day. Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where fund shares are listed.

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

Innovator ETFs are distributed by Foreside Fund Services, LLC.