IMPLEMENTATION IDEA FOR INNOVATOR DEFINED OUTCOME ETFS

The Future of a 60/40 Allocation

» The 60/40 balanced portfolio historically generated consistent returns while minimizing risk.

» 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% Defined Outcome ETFs, and 20% fixed income 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. Over the last 10 years a 60-40 has delivered stellar performance due in large part to bonds providing higher than normal returns due to falling interest rates as well as a booming stock market.

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 interest rates, lower 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. So we believe it is time 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, defined outcome ETFs, and fixed income 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 30% 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 lowered 20% bond allocation is again, meant to reflect the heightened risk of interest rates rising, and the direct and negative impact this will have on returns.

HISTORICAL 60/40 ALLOCATION

PROPOSED FUTURE ALLOCATION

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. Innovator has also managed to optimize its sale for tax efficiency purposes.

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.
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 buffer and cap 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.

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.

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 incepted. 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, 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. Read it carefully before investing.

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