

IMPLEMENTATION GUIDE

# 100% Buffer ETFs<sup>™</sup>

Innovator, creator of the world's first Defined Outcome ETFs<sup>™</sup>, offers the industry's only suite of 100% Buffer ETFs<sup>™</sup> across 6-month, 1-year, and 2-year outcome periods. This distinctive framework allows advisors more flexibility to fine-tune risk management and tailor solutions to specific portfolio, liquidity, or client needs. These funds are designed to capture the gains of large-cap U.S. equities, up to a cap, while providing 100% downside protection, before fees and expenses, over each outcome period.

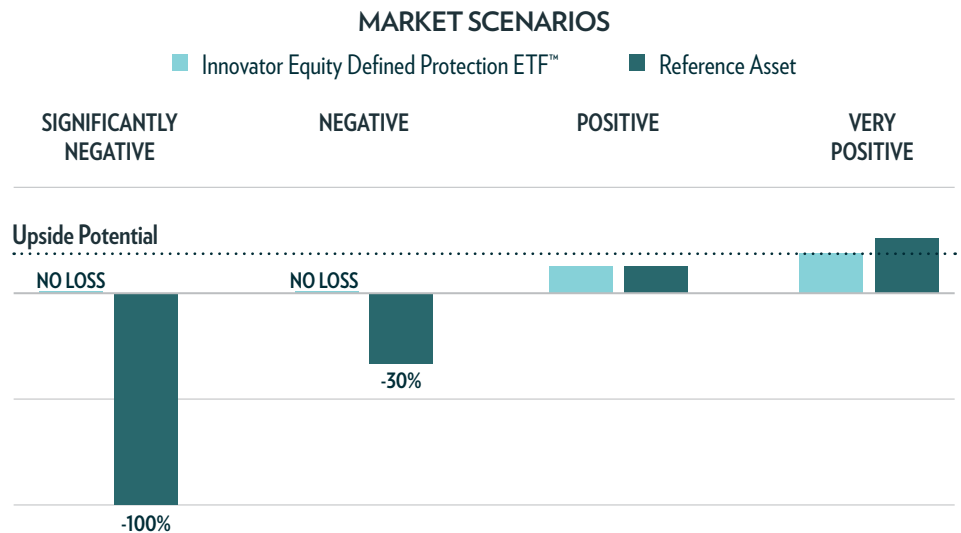


## SECTION 1

# What to Expect When Investing in 100% Buffers™

100% Buffer ETFs™ provide a combination of growth potential and capital preservation. If held over the entire outcome period, the ETFs are designed to provide full downside protection<sup>1</sup> with upside equity market participation to a predefined cap. This compelling combination has fueled interest and growth in the asset class.

## How Do 100% Buffer ETFs™ Perform?



*This graph is intended to illustrate the Outcomes that the Fund seeks to provide based upon the performance of the reference asset. There is no guarantee that these Outcomes will be achieved over the course of the Outcome Period.*

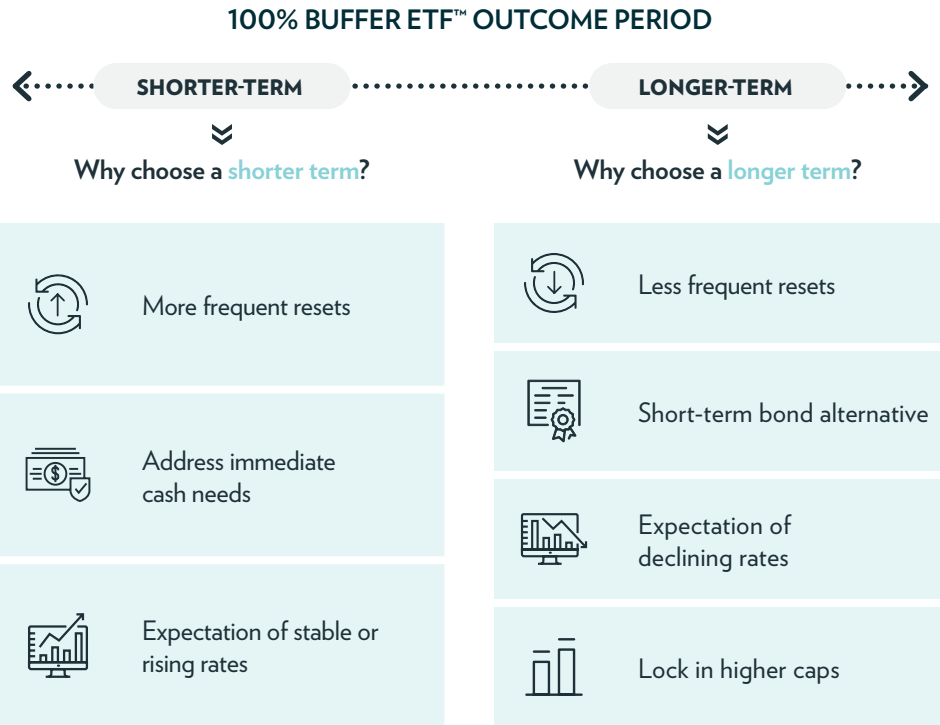
*The Outcomes may only be realized by investors who hold shares of the Fund ("Shares") at the outset of the Outcome Period and continue to hold them until the conclusion of the Outcome Period. Investors that purchase Shares after the Outcome Period has begun or sell Shares prior to the Outcome Period's conclusion may experience investment returns very different from those that the Fund seeks to provide.*

<sup>1</sup> Before fees and expenses.



# Determining the Best Buffer ETF™ Term for Your Investment Goals

When deciding between shorter-term and longer-term Buffer ETFs™, it's important to consider each outcome period in light of current market conditions and your investment goals. Each outcome period—whether 6-months, 1-year, or 2-years—offers a distinct upside cap that is directly related to the yield of the corresponding maturity on the yield curve. For instance, if interest rates are higher at the 6-month mark compared to the 1-year mark, a 6-month 100% Buffer ETF™ may offer a more attractive upside cap. On the other hand, investors who suspect caps may be lower in the future may find longer-term Buffer ETFs™ more appealing.

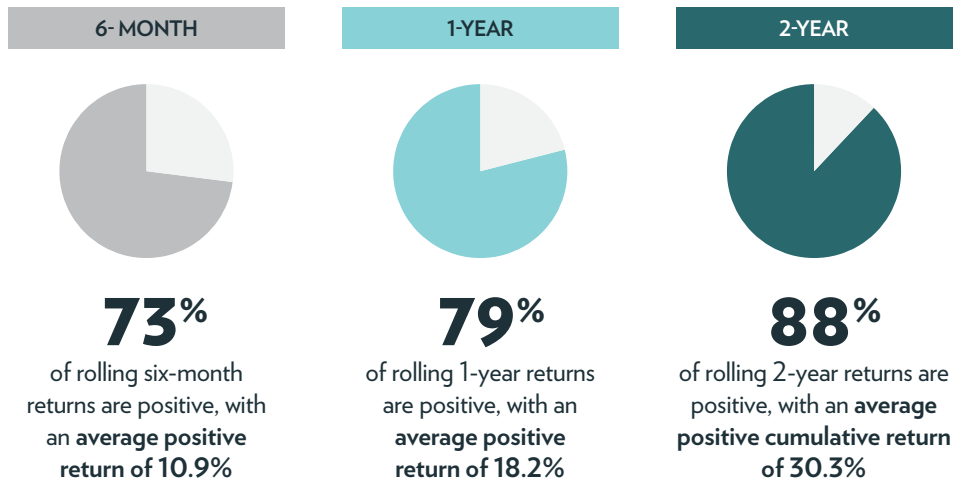


## GUIDED BY THE PAST

History suggests investors may be rewarded for tying assets to the equity markets. The infographic on the right illustrates the historical frequency of positive returns for the S&P 500 price return index across different time periods, along with the average return experienced during those intervals.

When selecting a Buffer ETF™ term, it can be helpful to match up these historical probabilities against current market conditions and your investment horizon.

## FREQUENCY OF POSITIVE EQUITY MARKET RETURNS



Source: Bloomberg L.P. Data from 1/1/1958 to 8/31/2024. S&P 500 Price Returns.



## SECTION 2

# Tax Alpha

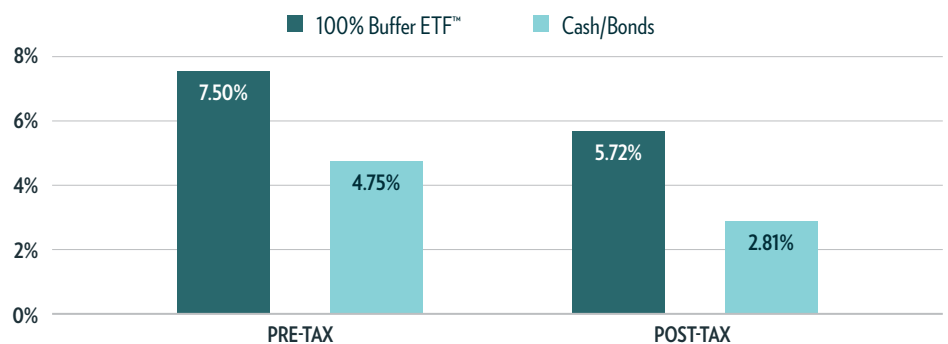
## The Structural Advantage of the ETF Wrapper

Placing a 100% Buffer inside the ETF vehicle comes with multiple advantages. One key advantage of 100% Buffer ETFs™ is the tax-efficiencies inherent to the ETF structure. Unlike traditional investments that might produce taxable distributions or be taxed at maturity, the conclusion of a 100% Buffer ETF™ outcome period does not generate a taxable event. This may allow for greater control over both the amount and timing of the tax. Conservative investments like bank or insurance products are generally taxed at ordinary income rates.

At the end of the 100% Buffer ETF's™ outcome period, there is no requirement to sell; investors can continue to hold the ETF. This allows unrealized gains to compound until the ETF is sold, offering a structural advantage to other investment options that are commonly subjected to ordinary income tax rates and/or taxable events at maturity.

As an example, consider a high-net-worth client with \$10 million in a taxable account. Assuming the 100% Buffer ETF™ reaches its cap and is taxed at a long-term capital gains tax rate of 23.8%, compared to the ordinary income tax rate of 40.8%, the client could potentially realize an additional \$290,300 annually when compared to holding a 12-month CD. This calculation assumes the client elects to sell the ETF after one year's time. However, an investor has the option to hold the 100% Buffer ETF™ for a longer period, allowing any unrealized gains to continue compounding, enhancing potential tax benefits even further.

### POTENTIAL AFTER-TAX BENEFITS OF 100% BUFFER ETFs™ VS BONDS OR CASH



*For illustrative purposes only, not representative of any investment. Assumes a 23.8% long-term capital gains tax rate on Buffer ETF™ and a 40.8% tax rate applied to cash/bonds. These returns are assumed rates that are not guaranteed.*



## SECTION 3

# Implementation

When considering the implementation of 100% Buffer ETFs™, we consider two perspectives: *portfolio integration* and *practice management*.

From a portfolio integration perspective, incorporating 100% Buffer ETFs™ involves a strategic portfolio reallocation from existing positions in cash, bonds, or equities. We'll examine each in turn.

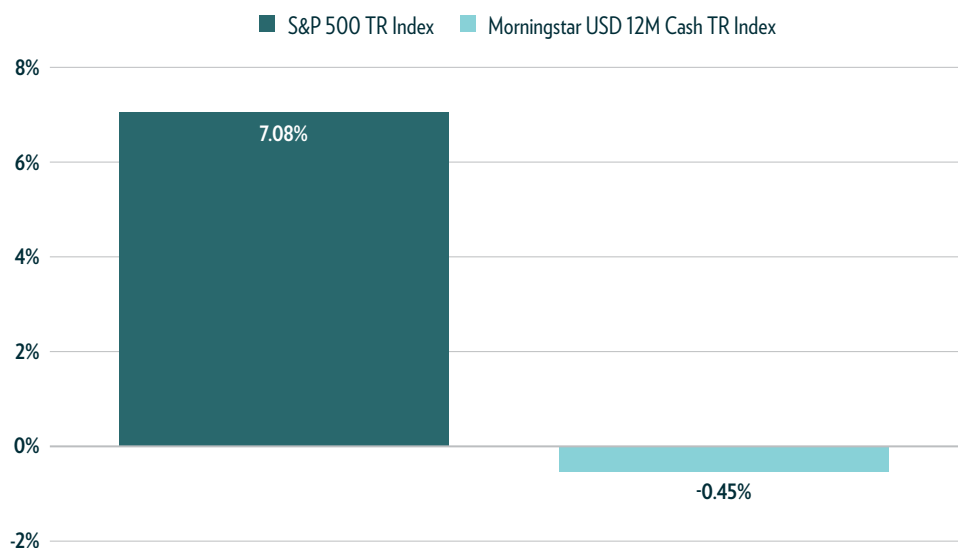
## Portfolio Integration

### Cash

An excessive allocation to cash-like instruments can actually erode purchasing power rather than protect it. As illustrated in the adjacent chart, 12-month CDs may experience long-term negative returns when adjusted for inflation. This means that over time, investors risk losing purchasing power on their initial investments.

100% Buffer ETFs™ provide a strong alternative by offering capped equity upside exposure while also seeking downside protection. These products enable investors to balance capital preservation needs with the potential for growth in the equity markets, making them a compelling choice for defensive allocations.

### ANNUALIZED INFLATION-ADJUSTED RETURN 20-Year Period Ending 12/31/23



Source: Bloomberg L.P. Data from 12/31/2003 to 12/31/2023. CPI used to adjust returns for inflation.



## Bonds

Bonds, commonly viewed as a hedge to equities, have recently reminded investors that they can be a substantial source of risk. For the 3-year period ending September 30, 2024, bonds generated an annualized loss of 1.4%. Over this 3-year period the Bureau of Labor Statistics reports the annualized inflation rate was 4.5%. Adjusting for inflation, bond investors experienced an annualized loss of 5.7%. On a cumulative basis, the loss of purchasing power experienced by investors over this period was 16.0%. By virtue of their exposure to the equity market's higher upside potential, 100% Buffer ETFs™ may be a compelling solution for generating positive real returns, with built-in protection against losses.

Additionally, 100% Buffer ETFs™ are designed to offer downside protection and carry no interest rate or credit risk. These investments may allow investors to pursue more tax efficiency if held long enough for realized gains to be classified as long-term.

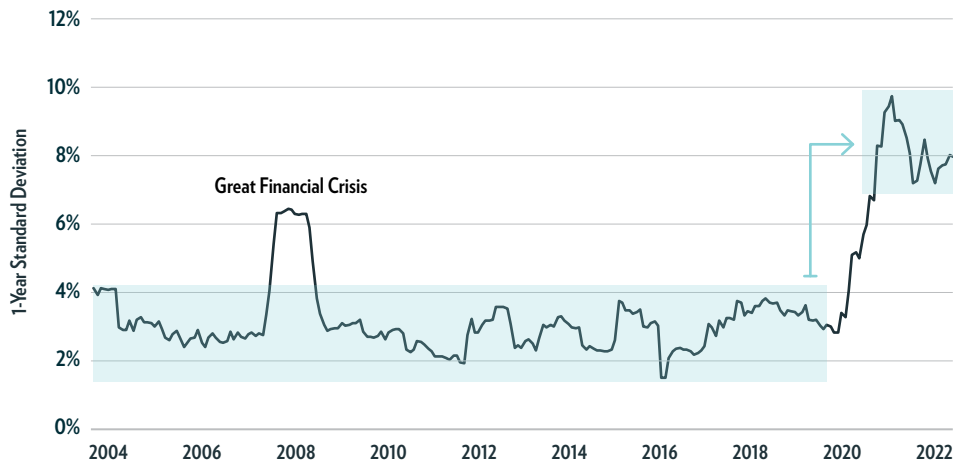
### CORE BONDS

	10-Year Period Ending SEP 2021	3-Year Period Ending SEP 2024
<b>Annualized Return</b>	3.0%	-1.4%
<b>Volatility</b>	3.0%	7.6%
<b>Sharpe Ratio</b>	0.81	-0.66
<b>Equity Down Capture</b>	-9%	43%
<b>Max Drawdown</b>	-6.3%	-17.4%

**2X**  
Core Bond Market Volatility has **doubled** post 2021

Source: Morningstar Direct. Data from 9/1/2011-9/30/2021 and 9/1/2021-9/30/2024. Core Bonds is represented by the Bloomberg U.S. Aggregate Bond Index. Equity down capture % is relative to the S&P 500 Index.

### CORE BOND VOLATILITY



Source: Morningstar Direct. Data from 10/1/04 - 9/30/24. Bloomberg U.S. Aggregate Bond Index standard deviation shown.

## Equity

Investors with existing equity allocations can utilize 100% Buffer ETFs™ to mitigate market volatility and hedge against losses over an outcome period, while retaining capped exposure to the market's upside potential. The upside cap of a 1-year 100% Buffer ETF™ remains compelling when compared to the historical average equity market return, as shown in the adjacent figure. We believe 100% Buffer ETFs™ provide an appealing combination of growth potential and capital preservation.

### UNHEDGED U.S. EQUITIES



**11.6%**

Average 1-year return post all time high



**0%**

Protection offered

### INNOVATOR 1-YEAR 100% BUFFER (ZSEP)



**7.5%**

1-year upside cap



**100%**

Protection<sup>2</sup> offered

Source: Bloomberg LP. U.S. Equities represented by the S&P 500. Data from 12/31/1949 - 12/31/2023. Past performance is not indicative of future results.

<sup>2</sup> Before fees and expenses.



## Practice Management

Using 100% Buffer ETFs™ may provide several practice management benefits by reducing certain frictions associated with other alternatives.

### Alternative to Annuities, Structured Notes, and CDs

The annuity, structured note, and CD markets are experiencing rapid growth. Fixed index annuities, in particular, achieved record sales of \$96 billion in 2023, marking a 20% increase from 2022.<sup>4</sup>

100% Buffer ETFs™ present a compelling alternative to these investment vehicles by simplifying transactions and eliminating cumbersome paperwork. Pursuing this payoff profile in an ETF instead of in the legacy structures offers improved portfolio flexibility and efficiency, while offering robust downside protection and potential for upside growth. Additionally, the ETF structure allows for simple integration into model portfolios.

<sup>4</sup> LIMRA, "U.S. Annuity Sales Jump 26% in Second Quarter 2024, Fueled by Record FIA and RILA Sales" (August 2024), available at <https://tinyurl.com/ytc9sd38>.

SOUGHT-AFTER FEATURES	100% BUFFER ETFs™	FIXED INDEXED ANNUITIES	MARKET LINKED CDS
100% Downside Protection <sup>3</sup>	✓	✓	✓
1099 Tax Treatment	✓		
No Surrender Charges	✓		
No Phantom Income	✓		
No Bank Credit Risk	✓		✓*
No Minimum Investment	✓		

<sup>3</sup> Before fees and expenses. \*Only CDs with FDIC Insurance up to \$250,000.

#### USE CASE

Applies to both pre-retiree and retiree. Historically, similar investment exposures have primarily been accessible through annuities, notes, or CDs. Now this payoff structure is available within the framework of an ETF, allowing for easy implementation into existing portfolios.

### Growth Tool in Your Practice

The flexibility and liquidity of 100% Buffer ETFs™ enable advisors to quickly put incoming cash to work. Whether for a one-off transaction or a stop-gap solution, 100% Buffer ETFs™ can help accomplish a range of portfolio objectives.

#### USE CASE

A client who sells a business and isn't ready to take on full market risk. The 100% Buffer ETFs™ offer advisors a viable solution for swiftly investing significant cash windfalls, allowing them to efficiently and conservatively deploy client funds while working through the process of crafting a comprehensive asset allocation plan.

### Laddering to Reduce Risk

In our view, their range of available outcome periods makes 100% Buffer ETFs™ prime candidates for laddering, an approach which can help mitigate interest-rate and timing risks.

#### USE CASE

An advisor who typically ladders investment maturities and wants a diversified approach to 100% Buffer ETFs™.



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.

There is no guarantee the Fund will be successful in providing the sought-after protection. If the Outcome Period has begun and the Underlying ETF has increased in value, any appreciation of the Fund by virtue of increases in the Underlying ETF since the commencement of the Outcome Period will not be protected by the Buffer, and an investor could experience losses until the Underlying ETF returns to the original price at the commencement of the Outcome Period.

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 Fund’s 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 Fund only seek to provide shareholders that hold shares for the entire Outcome Period with their respective buffer level against reference asset losses during the Outcome Period. You will bear all reference asset losses exceeding the buffer. 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.

**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.

**FLEX Options Risk.** The Funds will utilize FLEX Options issued and guaranteed for settlement by the OCC (Options Clearing Corporation) . 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.

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

Investors purchasing shares after an outcome period has begun may experience very different results than fund’s investment objective. Initial outcome periods begin on the fund’s 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.

An investment in the Funds could involve significant risks not associated with an investment in cash, CDs, annuities, or bonds. The Funds are not equivalent to cash, CDs, annuities, or bonds.

This material does not constitute tax advice. Investors should consult with tax professionals for tax advice and not rely upon information disseminated by Innovator. Past distributions are not indicative of future distributions. Transactions in ETF shares may result in brokerage commissions and will generate tax consequences. Investors should consider their current and anticipated investment horizon and income tax bracket when making an investment decision as illustrations herein do not reflect these factors.

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

The following marks: Accelerated ETFs<sup>®</sup>, Accelerated Plus ETF<sup>®</sup>, Accelerated Return ETF<sup>®</sup>, Barrier ETF<sup>™</sup>, Buffer ETF<sup>™</sup>, Defined Outcome Bond ETF<sup>®</sup>, Defined Outcome ETFs<sup>™</sup>, Define Your Future<sup>®</sup>, Enhanced ETF<sup>™</sup>, Floor ETF<sup>®</sup>, Innovator ETFs<sup>®</sup>, Leading the Defined Outcome ETF Revolution<sup>™</sup>, Managed Buffer ETF<sup>®</sup>, Managed Outcome ETF<sup>®</sup>, Stacker ETF<sup>™</sup>, Step-Up<sup>™</sup>, Step-Up ETFs<sup>™</sup>, 100% Buffer ETFs<sup>™</sup> and all related names, logos, product and service names, designs, and slogans are the trademarks of Innovator Capital Management, LLC, its affiliates or licensors. Use of these terms is strictly prohibited without proper written authorization.

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