

# BUFFER & FLOOR BOND ETFs

## Innovator Defined Outcome ETFs Series

Tickers	TFJL, TBJL
Inception date	August 18, 2020
Exposure	iShares 20+ Year U.S. Treasury ETF
Expense ratio	0.79%
Exchange	Cboe BZX

### MAXIMIZE DIVERSIFICATION

With bonds increasingly being held for diversification instead of income, the ETFs are a potential solution to maximize diversification while minimizing risk of loss.

### BUILT-IN BUFFERS

The ETFs have built-in buffers against loss as most investors cannot afford to experience large levels of loss in their bond portfolio.

### RE-THINK YOUR BOND ALLOCATION

The ETFs can serve as a core bond position for investors or as a part of a hedging or alternatives portfolio

### Innovator 20+ Year Treasury Bond 5 Floor ETF (TFJL)

Seeks to provide the upside performance of 20+ Year Treasuries, to a cap, and a maximum loss of 5% over the outcome period.

### Innovator 20+ Year Treasury Bond 9 Buffer ETF (TBJL)

Seeks to provide the upside performance of 20+ Year Treasuries, to a cap, and a buffer against the first 9% of losses over the outcome period.

## The First Defined Outcome Bond ETFs

The Innovator 20+ Year Treasury Bond 5 Floor ETF (TFJL) and Innovator 20+ Year Treasury Bond 9 Buffer ETF (TBJL) are the world's first Defined Outcome Bond ETFs. The ETFs seek to maximize the diversification benefits of bonds with a built-in floor or buffer against loss. The ETFs offer advisors a simple solution to growing risks in bonds and the lack of risk-managed bond solutions.

Bonds continue play an important, yet evolving, role in investor portfolios. As global debt levels skyrocket and bond yields plummet to new lows, this role has increasingly shifted away from income generation to almost exclusively diversification. The Buffer & Floor Bond ETFs exhibit several key benefits:



Upside bond performance, to a cap



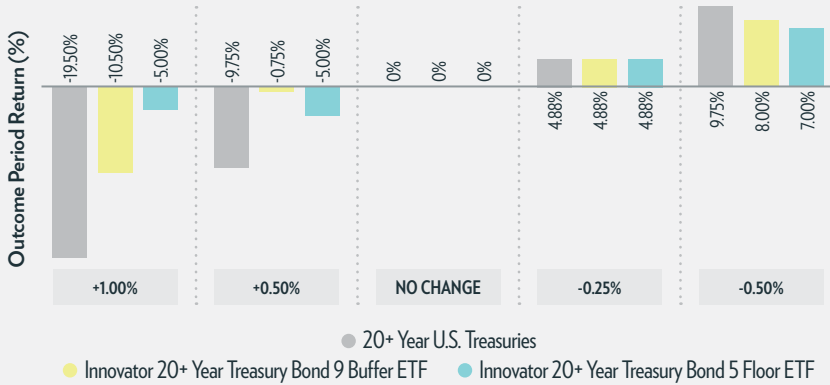
Known levels of built-in floor and buffer against losses



Typically, one-year outcome periods

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.

## HOW DO THE ETFs WORK?



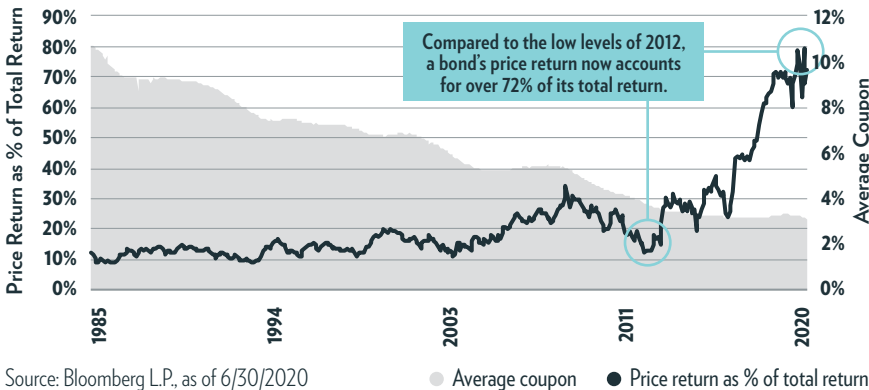
The ETFs utilize FLEX® Options on the iShares 20+ Year Treasury ETF (TLT) to construct the defined outcomes providing one-to-one upside exposure, to a cap, with a 5% Floor (-5% to -100%) or 9% Buffer over the outcome period. At the end of the outcome period, the ETFs will rebalance, providing investors a fresh buffer or floor and upside caps over a new outcome period. To the left is a hypothetical example over an outcome period of how the ETFs can maximize upside exposure to the benefits of bonds, while limiting downside losses.

There is no guarantee the funds will achieve their investment objective. The example does not account for fund fees and expenses.

## Maximize diversification

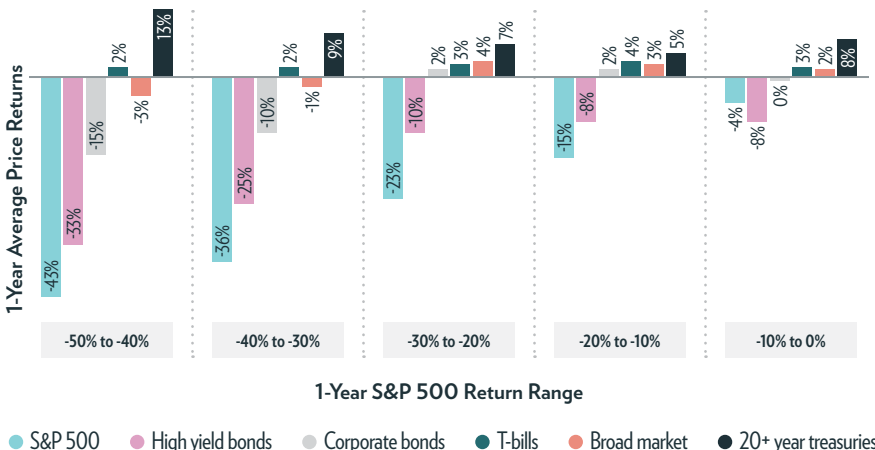
As bond yields have drifted lower, returns are increasingly driven by price return and less by coupons. Outside of high yield, bonds are being used for portfolio diversification, not income. With rates at all-time lows, this means investors should hold bonds that can provide the highest level of price appreciation in a down equity market. Historically, long-term U.S. Treasuries have served this role providing the strongest price appreciation in highly negative equity environments compared to other bond asset classes.

### ICE BofA US BROAD MARKET BOND INDEX



In a low-yield environment, the value of a bond allocation resides less in its income and more in its diversification benefit.

### LONG-TREASURIES HAVE EXHIBITED STRONG PRICE RETURNS IN NEGATIVE EQUITY MARKETS: JAN. 1997 - JUNE 2020



The strong positive returns of long-term Treasuries during the deepest stock market losses highlight the value of their diversification benefit.

Source: Bloomberg L.P., from 1/6/1997 - 6/30/2020. Past performance is not indicative of future results.

10-YEAR PERFORMANCE BASED ON MONTHLY RETURNS	Core Bonds TR	Long- Term US Treasuries PR	S&P 500	Stocks & Core Bonds TR	Stocks & Long- Term US Treasuries PR
Return	3.8%	4.4%	14.0%	10.1%	10.7%
Volatility	2.9%	12.4%	13.4%	8.0%	7.6%
Return/Risk	1.30	0.36	1.04	1.27	1.40
Max Drawdown	-3.7%	-21.4%	-19.6%	-11.2%	-9.6%
Correlation to S&P 500	-0.11	-0.49	1	0.99	0.70

Source: Bloomberg L.P. from 12/31/2009 – 5/31/2020

Last, since bond total returns will primarily be driven by price changes attributed to changes in interest rates and credit risk, the Bond and Floor ETFs may be a solution for investors seeking to maximize the diversification potential of bonds while reducing credit and minimizing interest rate risk.

Historically, long-term U.S. Treasuries' price appreciation alone has served as a far better portfolio diversifier than the total return of core bonds.

## Built-in buffers

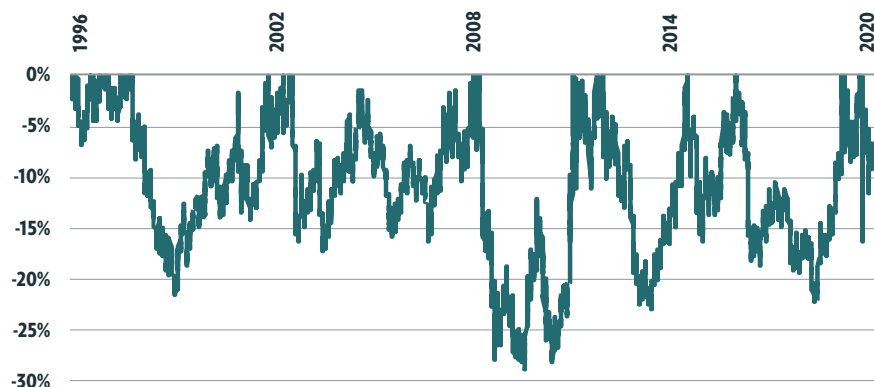
As the risk of loss in bonds grows, the ETFs' built-in buffer or floor allows advisors to better manage downside risk in their bond allocation. The COVID-induced recession has caused credit risk to rise and the number of corporate defaults to begin growing. However, yields have continued to decrease. Investors are likely unaware of the risk of loss in their bond portfolios today. As an example, core bonds would lose approximately -18.5% from rate risk alone if rates returned to December 2018 levels, and could lose more from credit-related losses.

	U.S. Stocks	Core Bonds	Short- term Corporates	Corporate Bonds	High Yield	20+ Year Treasury
2020 Total Return	1.20%	9.30%	1.50%	8.10%	-0.20%	26.60%
Index Yield	1.60%	1.00%	0.60%	1.90%	5.30%	1.10%
Return to Dec. 2018 Yields	-	-19.10%	-1.30%	-20.50%	-0.10%	-42.00%
2020 Max Drawdown	-33.90%	-7.60%	-1.70%	-15.10%	-21.70%	-16.30%

Source: Bloomberg L.P. as of July 31st, 2020. U.S. Stocks represented by S&P 500 Index, Core Bonds by the ICE BAML Corp. and Govt. Master Index, Short-term corporates by the ICE BAML 0-1 Year Corporate Bond Index, Corporate Bonds by the ICE BAML Corporate Bond Master Index, High yield by the iBOXX Liquid High Yield Index and 20+ Year Treasuries by the ICE BAML 20+ Year Treasury Index.

Although immune from corporate credit risk, the higher duration that gives long-term Treasuries so much diversification benefit during negative equity returns also leaves investors exposed to added volatility and drawdowns.

### 20+ YR TREASURY INDEX: ROLLING MAX DRAWDOWN



Source: Bloomberg L.P. from 12/31/1996 – 6/30/2020. Past performance is not indicative of future results.

### BOND INVESTORS FACE THREE KEY RISKS TODAY:

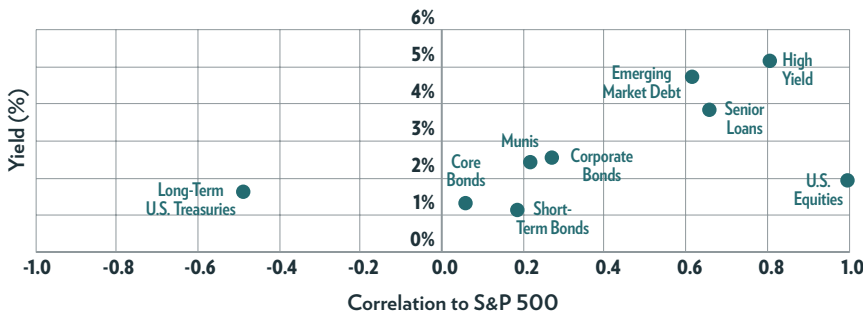
- 1 INTEREST RATE RISK
- 2 CREDIT RISK
- 3 PORTFOLIO DIVERSIFICATION

The first two risk although underappreciated in today's market, are relatively well-known. The third, however, is largely unaccounted for, the inability of bonds to provide the historical diversification they have offered in down equity markets as a result of record low rates.

The ETFs' built-in buffer or floor helps shield investors from full exposure to the bond market's credit and interest rate risk.

# Re-think your bond portfolio

## LONG-TERM U.S. TREASURIES: BEST BOND DIVERSIFIER TO U.S. EQUITIES



Today, advisors lack tools to effectively manage bond risks. Considering bonds will mathematically be challenged to provide the same level of diversification as in the past, unless rates go significantly negative, we believe the Buffer & Floor Bond ETFs are uniquely positioned to allow investors to benefit from a bond's potential upside, with a built-in buffer or floor against loss.

Since the Fed took rates to zero in 2008, investors have primarily hedged their bond allocations, to the detriment of portfolio performance, by reducing rate risk by increasing exposure to short-term, low-duration debt. Unlike traditional bond ETFs, the Buffer and Floor Bond ETFs allow an investor to know exactly what upside or downside they have over the outcome period prior to investing.

Rather than predict future interest rates or credit markets, rely on active management, allocate to zero yielding cash or simply remain fully exposed to downside risks, the ETFs can serve as a core-bond solution maximizing the diversification benefits of bonds, while limiting rate and credit risk.

## PORTFOLIO ALLOCATION IDEAS

### Bonds

The ETFs can serve as a core bond solution providing exposure to the diversification benefits of long-dated U.S. Treasuries but with a built-in buffer or floor.

### Alternatives

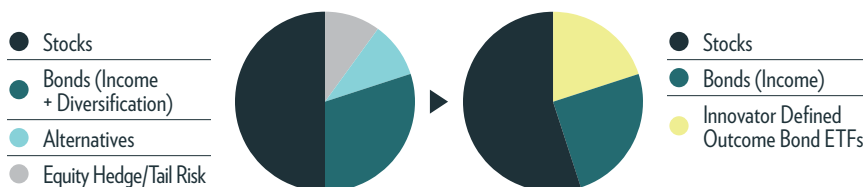
The low-correlation of long-dated U.S. Treasuries to other asset classes coupled with the certainty of a defined outcome make the ETFs a compelling alt solution.

### Equity Hedge/Tail Risk

The highly negative correlation of long-dated U.S. Treasuries to equities allow investors to use the ETFs as a way to hedge equity market exposure.

### Tactical

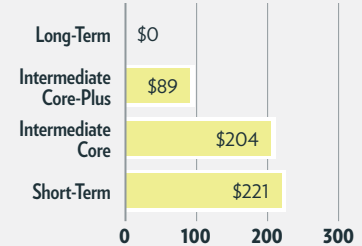
The ETFs can be used intra-outcome period as investors can take advantage of changing payoff parameters.



Fund investors will not receive yield from their holdings; the ETFs are based on the price returns of TLT over the length of the outcome period.

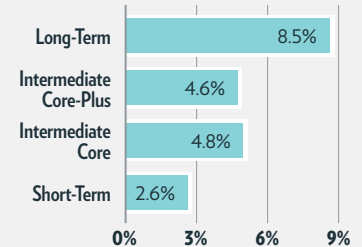
Over the last three years, bond fund investors have stayed away from and missed out on one of the best-performing bond fund categories:

## 3-YEAR BOND FUND CATEGORY FLOWS (\$BILLION)



As of 6/30/2020

## 3-YEAR BOND FUND CATEGORY RETURNS



As of 6/30/2020

Specifically, within a bond portfolio the ETFs can be used as follows:

- » **Bond Defense:** Built-in buffer or floor against bond losses
- » **Long-Term U.S. Treasury Alternative:** A tool for advisors to allocate to long-term U.S. treasuries or allow existing users to take profits and add built-in buffers or floors.
- » **Core-Bond Diversifier:** Pair with existing core-bond strategies to maximize diversification or replace more defensive seeking bond sectors or active-management.
- » **Short-Term Debt Replacement:** With yields on short-term debt near zero, the ETFs can improve potential bond upside and overall portfolio diversification
- » **Interest Rate Hedge:** Known amount of hedge against rising rates

As the first Defined Outcome Bond ETFs, investors can benefit from accessing these payoffs through the ETF structure.

- » Low & known cost
- » Intra-day liquidity
- » Transparent
- » Tax-efficient
- » No credit risk
- » No commissions
- » No surrender charges



**Volatility** is a statistical measure of the dispersion of returns for a given security or market index.

**Return/Risk** is the relationship between the amount of return gained on an investment and the amount of risk undertaken in that investment.

**Max drawdown** is the maximum observed loss from a peak to a trough of a portfolio, before a new peak is attained. Maximum drawdown is an indicator of downside risk over a specified time period.

**Correlation** is a statistic that measures the degree to which two securities move in relation to each other.

**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.**

**Market Disruptions Resulting from COVID-19.** The outbreak of COVID-19 has negatively affected the worldwide economy, individual countries, individual companies and the market in general. The future impact of COVID-19 is currently unknown, and it may exacerbate other risks that apply to the Fund.

**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.

**The underlying ETF is subject to Debt Securities Risk.** Investments in debt securities subject the holder to the credit risk of the issuer. Credit risk refers to the possibility that the issuer or other obligor of a security will not be able or willing to make payments of interest and principal when due. Generally, the value of debt securities will change inversely with changes in interest rates. To the extent that interest rates rise, certain underlying obligations may be paid off substantially slower than originally anticipated and the value of those securities may fall sharply. During periods of falling interest rates, the income received by the Underlying ETF may decline.

**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 up to the floor and 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.**

***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.***

Innovator ETFs are distributed by Foreside Fund Services, LLC.

Copyright © 2020 Innovator Capital Management, LLC | 800.208.5212