INNOVATOR
From Goldman Sachs Asset Management

LOUP

INSIGHT

Deepwater Frontier Investing:
Curated Disruption at a Reasonable Price

Deepwater Asset Management ("Deepwater") has developed the Deepwater Frontier Tech Index ("DFTI") referenced by Innovator's NYSE-listed LOUP ETF. Deepwater aims to power superior long-term returns in frontier technology investing. Deepwater's strategy is based in its conviction that investing in the themes pushing the frontier of technology while respecting valuation is the superior approach as the market exits many thematic bubbles over the next several years.

The LOUP ETF seeks capital appreciation.

LOUP pursues its objective by investing in companies that influence the future of technology including, but not limited to, artificial intelligence (AI), fintech, robotics, autonomous and electric vehicles, and virtual/augmented reality.

Ways to Invest in Disruption

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

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, these gunslinger funds optimize for the most disruptive companies in the most attractive disruption themes. There's nothing wrong with the gunslinger approach. Deepwater believes all equity assets need to rationalize on cash flow generation. In their view, the trick for the gunslinger is to get out when demand for the asset is highest. Few time this correctly.

Indexers: Indexing all disruption at any price.

Index approaches to disruption come in two types. First, many disruption indices take significant positions in the Magnificent 7 (Apple, Amazon, Google, Meta, Microsoft, Nvidia, Tesla) 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 the Magnificent 7 names are closet indexing the most popular funds and serve more to increase investors' exposure to mega cap tech rather 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.

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

Deepwater's mantra is to invest in disruption at a reasonable price so investors can participate in the persistent growth potential of frontier technologies.

As experienced investors in technology, Deepwater believes 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.

They believe paying any price for a company simply because it's disruptive doesn't work. If an investor pays for all the disruptive power of a company upfront, they are likely to be disappointed by the long-term result.

Investing in disruption can help investors prepare for a rapidly changing world, but paying any price for disruption leads to poor sleep for Deepwater. They believe 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. 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

According to Deepwater, 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 Deepwater constructs LOUP's portfolio so that they create exposure to disruption at a price that gives them a chance to generate strong returns.

Variant Perception

There's a persistent interest in disruptive companies because disruption is exciting. Deepwater views disruption as having the potential to create the next Magnificent 7-40x returning stock, the next Tesla, the next Bitcoin.

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 many see EVs as the future. Tesla could still generate attractive returns as autonomy increases the company's profitability, but given its size, it's mathematically and economically harder for Tesla to do so compared to its valuation many hundreds of billions of dollars ago.

With a market full of investors seeking disruptive tech, Deepwater's strategy is founded in the belief that there are three contrarian ways to find disruption at a reasonable price:

Be earlier than everyone else.

Being early works not only because investors 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.

Understand a much bigger opportunity than everyone else.

Understanding an opportunity bigger than everyone else has been the story of AI over the past year. Companies including NVDA, TSM, and Broadcom have been instrumental at advancing the paradigm, however, like Tesla, their market caps make it difficult to see outsized returns as AI becomes bigger than the Internet. However, 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.

Look where others aren't looking.

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.

Each of these strategies can be effective when applied appropriately, and Deepwater uses each in its investment approach.

As Deepwater succinctly puts it, "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, Deepwater takes a dynamic approach in considering the themes that the reference index tracks.

Today, market participants are witnessing the early stages of how AI will change lives. Consumers continue to adopt alternative digital assets as the shift towards ambient computing continues, where devices and systems operate seamlessly in the background, making interactions intuitive and often invisible. Transportation continues to be not only electrified but more importantly autonomized. Deepwater believes an autonomous world reduces the cost of transportation, makes it safer and more sustainable.

Focusing on only one domain risks missing another, potentially much larger wave. The DFTI 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.

To learn more and view current holdings, visit **innovatoretfs.com/LOUP** to learn more.

Deepwater Asset Management

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

The Fund seeks to provide capital appreciation. The Fund seeks to achieve its investment objective by investing, under normal circumstances, at least 80% of its net assets in the equity securities of companies it considers to be on the frontier of the development of new technologies. In pursuing the Fund's strategy, its sub-adviser references the Deepwater Frontier Tech Index.

The Deepwater Frontier Tech Index is a rules-based stock index owned, developed, and maintained by Deepwater Asset Management, LLC that seeks to identify and track those companies identified as being on the frontier of the development of new technologies that have the potential to have an outsized influence on the future.d.

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.

Management Risk. The Fund is subject to management risk because it is an actively managed portfolio. The Sub-Adviser will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that the Fund will meet its investment objective.

The Fund's investment objectives, risks, charges and expenses should be considered carefully before investing. The prospectus and summary prospectus contains this and other important information, and it may be obtained at innovatoretfs.com. Read it carefully before investing.

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