FAQ

Defined Outcome Investing Without Credit Risk

QUESTION

Are investors in a Defined Outcome ETF™ exposed to credit risk?

ANSWER

No. The value of an ETF is not subject to the creditworthiness of the ETF issuer. The value of an ETF is based on the value of the assets held by the ETF. While ETFs may hold instruments subject to credit risk, such as bonds, ETFs do not carry inherent credit risk as an investment vehicle.

QUESTION

Isn't there counterparty credit risk associated with the options held by a Defined Outcome ETF™?

ANSWER

All U.S. listed options contracts are centrally cleared through the Options Clearing Corporation (OCC). In acting as the central counterparty to options trades, the OCC becomes the buyer for every seller and the seller for every buyer.

This means that the OCC guarantees the performance of both buyers and sellers for all transactions that it clears. This works to ensure that trades and expirations are settled smoothly. In the unlikely event that the OCC becomes insolvent or is otherwise unable to meet its settlement obligations, the Fund could suffer significant losses.

QUESTION

Is the OCC backed by the U.S. government?

ANSWER

The OCC has been deemed a systemically important financial market utility (SIFMU) under Title VIII of the Dodd-Frank Wall Street Reform and Protection Act of 2010 (Dodd-Frank Act). A SIFMU is an organization for which any failure or disruption could threaten the stability of the financial system of the United States.

This means that the OCC is eligible to receive discount and borrowing privileges from the Federal Reserve Board in the event of significant liquidity or stability issues, of which there have been none since the OCC's inception in 1973.

As a SIFMU, the OCC is subject to prescribed risk management standards and enhanced regulatory oversight by the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission, and the Commodity Futures Trading Commission.

Additional Context

Allocating to defined outcome investments hasn't always been as clear as it is today.

The earliest investment vehicles providing exposure to defined investment outcomes were issued in the form of obligations by banks or insurance companies.

These vehicles don't hold any underlying investments. Rather, they're issued as contracts stipulating the delivery of a specified return profile. Under the terms of the contract, the issuer takes on the obligation to deliver the stated return profile, which is usually in reference to a market index such as the S&P 500.

The contract is issued as a liability of the issuer and is subject to the issuer's credit quality. If the issuer defaults, investors could lose their money, even if the strategy or reference asset of the defined investment outcome has generated a positive return.

QUESTION

How Are Defined Outcome ETFs™ Different from Structured Products?

ANSWER

In contrast, investment companies registered under the Investment Company Act of 1940 (1940 Act Funds), including Defined Outcome ETFs™, own assets such as stocks, bonds, or options. By virtue of purchasing shares of an ETF, shareholders become owners of the assets held by the ETF. The value of the ETF is determined by the value of the assets owned by the ETF. ETFs may hold instruments that have credit risk, but as an investment vehicle, the ETF itself carries no credit risk.

QUESTION

Is an ETF an Obligation or Liability of an ETF sponsor?

ANSWER

An ETF is a separate entity from the ETF issuer. Unlike a bank obligation that creates a liability against the issuing bank's balance sheet, an ETF's return is determined by the assets it holds. Rather than being held by the fund sponsor, the assets owned by the ETF are custodied at a custodian bank.

QUESTION

How Does the OCC Manage Risk?

ANSWER

To manage risk, the OCC requires option sellers to post margin or collateral to cover potential losses. In addition to its daily mark-to-market evaluation of margin accounts, the OCC conducts rigorous stress testing to simulate extreme market conditions and assess potential risks. The OCC works with clearing members to enforce collateral requirements and ensures that they, in turn, enforce them on their clients.

Relative to bank and insurance products, Defined Outcome ETFs™ offer a number of potential benefits:

- NO CREDIT RISK
- NO SURRENDER CHARGES
- LIQUID & EASILY ACCESSED
- TRANSPARENCY
- ETF WRAPPER TAX EFFICIENCY[1]
- LOW COST

Additional Resources

GENERAL OVERVIEW OF OCC

FEDERAL RESERVE BOARD OF GOVERNORS

TITLE VIII OF THE DODD-FRANK ACT

[1] ETFs use creation units, which allow for the purchase and sale of assets in the fund collectively. Consequently, ETFs usually generate fewer capital gain distributions overall, which can make them somewhat more tax efficiency than mutual funds.

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 Funds is right for you, please see "Investor Suitability" in the applicable prospectus.

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.

There is no guarantee the Funds 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 Funds 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 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 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.

Investors purchasing shares after an Outcome Period has begun may experience very different results than the Fund's investment objective. Initial outcome periods are approximately 3-months, 6-months, 1-year, or 2-years 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.

FLEX Options Risk. The Funds 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 Funds could suffer significant losses. Additionally, FLEX Options may be less liquid than standard options. In a less liquid market for the FLEX Options, the Funds 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.

This information is not tax or investment advice. Readers should consult with their tax professionals and investment advisers for more information regarding their tax situation and an evaluation of whether an investment is appropriate prior to making an investment decision.

The Funds' investment objectives, risks, charges and expenses should be carefully considered 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.

Investing involves risk. Loss of principal is possible. Innovator ETFs® are distributed by Foreside Fund Services, LLC.