

THIRD QUARTER 2020 UPDATE

Quarterly Index Provider Commentary

In this quarter's piece, we'll address some of the common questions that have been coming in regarding performance. Specifically, we'll clarify: different weighting structures and their effect on performance and why some of our favorite stocks didn't make the list in the rebound following the coronavirus stock market crash.

WEIGHTING

Many loyal subscribers to Investor's Business Daily products have noted that the IBD 50 index tracked on our charts (OIBD5) seems to have stronger numbers than what is shown by the Innovator IBD 50 Fund (FFTY). It's important to understand that many of the index performances shown on our products are price-weighted indexes.

When considering the launch of an ETF, we purposely looked for an alternative to price weighting. The IBD 50 list has been active in real time since April of 2003 (it was originally the IBD 100 back then). At times, price-weighted performance can be dominated by a few stocks or even just one. Take 2009. Stocks like Priceline.com, Baidu, Chipotle Mexican Grill were trading around \$100 or more that year. As a result, these few high-priced stocks could overwhelm the index.

More recently, astute followers may have wondered why the IBD 50 index traded a lot like Amazon.com (AMZN) in August. A price weighting methodology would have put Amazon between 25% to 30% weight as

the stock traded above \$3,000. That's untenable for an ETF and could introduce single-stock risk beyond our comfort levels.

Make no mistake, it's great when it works favorably (as it has this year), but should a highly weighted stock falter, the results could be devastating to the index. Market-cap weighting carries the same risk. With Amazon.com approaching a \$2 trillion market capitalization, it could easily overwhelm the index, depending on the component makeup at any given time.

Our original solution when launching over five years ago was to use equal-weighting. The differences of price weighting and equal weighting can be dramatic over the short term. However, over time, they tend to have similar performance.

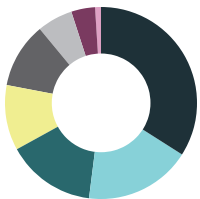
We did add a slight shift. Since the ranking of stocks is based on strength, shifting some weight from the lower-rank stocks to the higher-rank stocks had a positive effect. We took a conservative approach with weights varying from 3.5% to 0.5% to make that adjustment slight and thereby mitigate risk.

COMPONENT SELECTION

The IBD 50 component selection puts a heavy weight on fundamental characteristics, especially earnings growth. While this is generally a positive way to get the best leading stocks into the index, it does miss some big winners in certain cycles. Stocks like Nvidia, Adobe, and Zoom Video all spent considerable time as a part of the index but other names like Sea Limited, Tesla, Shopify and even Apple didn't have the earnings growth either near-term or over time to make the list.

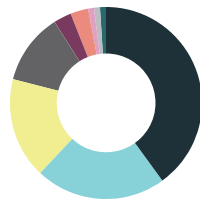
SECTOR TRANSITION

SECTOR WEIGHTS: SEPTEMBER 2019



Information Technology	34.21%
Consumer Discretionary	17.72%
Industrials	15.20%
Health Care	11.00%
Financials	10.99%
Real Estate	6.62%
Materials	3.36%
Communication Services	0.91%

SECTOR WEIGHTS: SEPTEMBER 2020



Information Technology	40.84%
Consumer Discretionary	22.89%
Health Care	17.29%
Financials	11.79%
Materials	2.95%
Consumer Staples	2.74%
Communication Services	0.51%
Real Estate	0.50%
Industrials	0.49%

Sector weights are subject to change

STANDARDIZED PERFORMANCE

	YTD	1YR	3YR	5YR	10YR	INCEPTION
Innovator IBD 50 ETF (NAV)	7.08%	15.39%	5.73%	11.29%	-	7.57%
Innovator IBD 50 ETF (Closing Price)	7.41%	15.59%	5.71%	11.35%	-	7.61%
IBD 50 Index	7.01%	15.63%	6.64%	11.96%	-	8.89%
S&P 500 Index	5.57%	15.15%	12.28%	14.15%	-	11.38%

As of 9/30/2020. Expense ratio: 0.80%. Performance quoted represents past performance, which is no guarantee of future results. Investment returns and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. Visit innovatoretfs.com/FFTY for current month-end performance. One cannot invest directly in an index. FFTY's model-driven weekly rebalances will result in a significant turnover ratio. The fund began tracking the IBD® 50 Index on Nov 20, 2017. The index inception on 10/27/2017.

TOP 10 FFTY HOLDINGS

as of 9/30/2020

1	NVIDIA Corp	3.74%
2	Advanced Micro Devices Inc	3.68%
3	DR Horton	3.56%
4	Palomar Holdings Inc	3.52%
5	Lowe's Cos Inc	3.51%
6	Adobe Systems Inc	3.49%
7	Veeva Systems Inc	3.48%
8	PennyMac Financials Services Inc	3.46%
9	West Pharmaceuticals Inc	3.43%
10	Big Lots Inc	3.38%

Holdings are subject to change



You may recall, 2017 was one of the strongest years for the IBD 50. This environment rewarded earnings growth across varied sectors. In 2020, it's been a different story. There are certainly still your strong earnings growers being rewarded, but there is a host of names where the revenue growth seems to be the focus.

There are some groups with strong leadership that tend to be missed frequently either due to their cyclical nature or consistent lack of profitability. Semiconductors and biotechs are two leading groups of this year that come to mind. Their lack of representation has been an issue going back to a year ago.

This is a different era than 2013 where big-cap biotechs with a robust pipeline were the dominant performers. Whether it's speculation on a

coronavirus vaccine or other innovative medical solutions some of the moves have become geared toward news over numbers.

Going forward, there is also the potential headwind of the election. In the 2016 election, the very different political views rewarded very different sectors based on the front-runner at the time. This led to some violent shifts as the winner emerged. There could be a repeat of that behavior in this presidential election.

Depending on the timing of the results in relation to the rebalance, some ground could be lost in the short term with sector rotation. Beyond that, it will be a question of how earnings growth fares in the coming months as the fallout from the shutdown continues to ripple across the economy with very different effects across companies.

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. Principal loss is possible. 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 Innovator IBD® 50 ETF 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.

The CAN SLIM® Investing Methodology is a system for selecting stocks created by Investor's Business Daily founder William J. O'Neil.

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