Understanding Performance Relative to the Cap

Since introducing Defined Outcome ETFs to the financial services industry in 2018, Innovator has completed over 99 different outcome periods, spanning 59 different ETFs. How have the ETFs performed relative to the stated net cap? Overall outcome period performance tracked very close, within 0.02% on average and 0.06% at the median , for funds where the reference asset finished above the cap. But why isn't the tracking exact? In this article, we explore the common fund dynamics responsible, and outline Innovator's method of selecting a cap that we believe provides transparency and the best possible potential outcome.

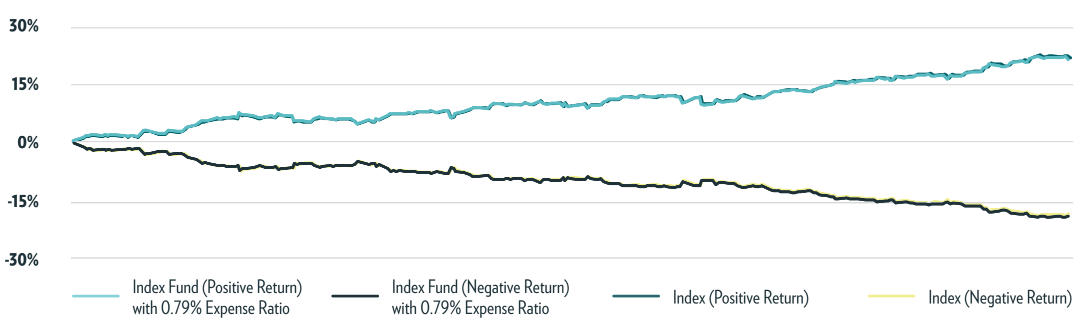
ETF GROSS VS. NET RETURNS: WHY IT'S NOT A MATTER OF SIMPLE SUBTRACTION

All ETFs experience management fee drag. The difference between any fund's gross return and net return at the end of a one-year period is almost never equal to the stated annual expense ratio. This is because ETFs and mutual funds all have daily accruals of fees. In rising markets, as assets increase, the expense ratio is applied to a higher dollar amount. In falling markets, as assets decrease, the expense ratio is applied to a lower dollar amount.

The hypothetical examples below compare the cumulative returns of an index with no expenses to the returns of an index-tracking fund with a 0.79% expense ratio, withdrawn daily.

In the positive return scenario, the fund lags the index by 0.96% at the end of the year, or 0.17% more than the stated expense ratio. In the negative return scenario, the fund lags the index by 0.64%, or 0.15% less than the stated expense ratio.

Index vs. Index Fund: Hypothetical Cumulative 1-Year Return



For illustrative purposes only. Does not reflect the performance of an actual fund. *Once cannot invest in an index.*

POSITIVE RETURN	
Index Return	21.83%
Fund Return	20.87%
Expense Ratio	0.79%
Fund Excess Return	-0.96%

NEGATIVE RETURN	
Index Return	-18.29%
Fund Return	-18.94%
Expense Ratio	0.79%
Fund Excess Return	-0.64%

For Defined Outcome ETFs in a rising market, the higher relative expenses will result in a greater drag compared to the original stated cap. While this dynamic is no different relative to a traditional fund or ETF, Defined Outcome investors naturally evaluate the outcome period return with greater scrutiny, given the funds' objectives.

MANAGING FEE DRAG OPTICS VS. MAXIMIZING POTENTIAL RETURNS: CAP SETTING FOR DEFINED OUTCOME ETFS:

During the process of setting the cap for a Defined Outcome ETF, an ETF issuer has the ability to manage the optics of the fee drag described above. To offset the cost of adding a buffer, Defined Outcome ETFs will sell an out of the money call[1]. The level at which the call is sold determines the performance cap over the specified outcome period (to learn more visit the **Innovator Education Center**). During this process, Innovator implements a "full spend", meaning the call is sold at the strike price that generates precisely enough cash to offset the cost of the buffer. This method provides shareholders with the highest cap possible, while remaining inside the options budget. This is where the fee optics could be managed. By "underspending", or selling a lower strike call than necessary to fully offset the cost of the buffer, an ETF issuer can generate a small gain upfront, raising additional cash. This extra cash can then be used to address the expense ratio throughout the year. In rising markets, this may help the ETF track closer to the starting cap. While this method may be beneficial to manage fee optics, Innovator intentionally chooses not to, as it comes with a cost. The additional cash withheld results in a meaningfully lower upside cap than otherwise could have been achieved.

CAP SETTING METHOD:	UNDERSPEND	INNOVATOR METHOD
What is it?	Sell a call at a lower strike that raises more cash than is necessary to offset the cost of the buffer. A lower strike yields more cash and a lower cap.	Sell a call at a strike that generates precisely enough cash to offset the cost of the buffer.
Extra cash on hand	Yes	No
Cap level, relative to Full Spend	Lower	-
Cap level, gross of spend	Understated	Precisely Stated

FULL SPEND VS. UNDERSPEND: QUANTIFYING THE IMPACT ON CAPS

To quantify the impact of each method, the table below compares the historical caps of Innovator's 9% U.S. Equity Buffer Series over the last year, relative to what the caps would have been with an underspend[2] of 0.15%.

While the underspend was small, the impact to the net cap was magnified anywhere from 4X to 5X, creating an average cap 0.67% lower than full spend method that was actually implemented.

CONCLUSION

For Defined Outcome ETFs, occasional underperformance or outperformance relative to a stated cap may occur, but historically, it has been marginal and can be explained by the compounding effect of the fund's management fee.

Innovator's method for setting a Defined Outcome ETF's cap spends the entire options budget with no cash holdback, providing investors with transparency and the highest potential return. While the optics of fee drag may be better managed with an "underspend", we believe our "full spend" approach is more advantageous to investors.

TICKER	ACTUAL CAP	CAP WITH 15BPS HOLDBACK	DIFFERENCE
BJAN	13.54%	12.93%	0.61%
BFEB	18.00%	17.24%	0.76%
BMAR	17.42%	16.63%	0.79%
BAPR	14.00%	13.22%	0.78%
BMAY	13.60%	12.88%	0.72%
BJUN	12.09%	11.43%	0.66%
BJUL	12.00%	11.35%	0.65%
BAUG	13.00%	12.36%	0.64%
BSEP	12.90%	12.26%	0.64%
BOCT	13.69%	13.13%	0.56%
BNOV	12.65%	12.03%	0.62%
BDEC	14.97%	14.40%	0.57%
Average			0.67%
Median[3]			0.65%

Bloomberg options pricing tool utilized. Full options budget less a 0.15% cash hold-back for the official date the options were struck.

[1]**Out of the Money Call:** A call option where the strike price is higher than the spot price

[2]**Underspend:** When an ETF issuer of a Defined Outcome ETF sells a call at a lower strike price than necessary to fully offset the cost of the put spread.

[3]**Median:** The value lying at the midpoint of a distribution

[4]**Standard Deviation:** A measure of dispersion of returns around the mean

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 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 reference asset 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 incepted. 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, 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.

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. Read it carefully before investing.

Innovator ETFs are distributed by Foreside Fund Services, LLC.