

WHITE PAPER

# From Bonds to Buffers:

## Why Investors Should Rethink the 60/40



**Tim Urbanowicz, CFA**  
Head of Research



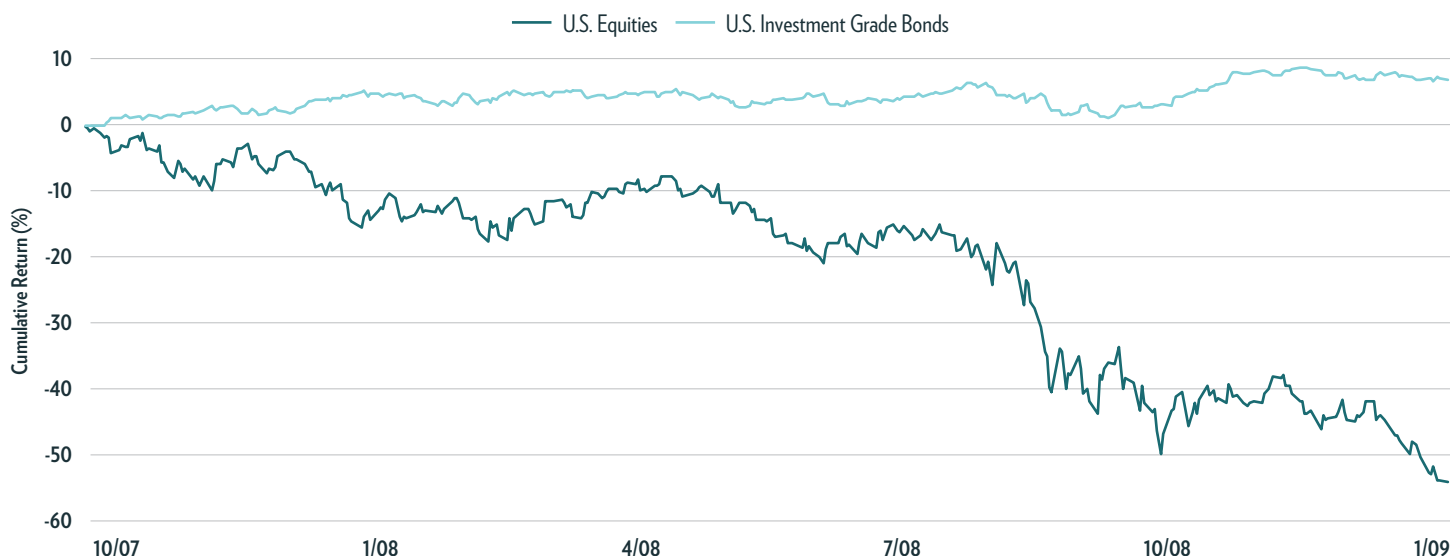
**Tom O'Shea, CFA**  
Director of Investment Strategy



# From Bonds to Buffers: Why Investors Should Rethink the 60/40

Following the 2008 global financial crisis, the 60/40 portfolio emerged as the gold standard of investing, serving as a cornerstone for both institutional and retail asset allocation. Its appeal lies in its straightforward premise: when equity markets decline, bonds provide stability. This strategy proved highly effective during the crisis. While the S&P 500 plummeted by 55%, the US Aggregate Bond Index rose by 7%, offering investors not only a critical buffer but also significant diversification during a time of intense market volatility.

BONDS PROVIDED STABILITY DURING THE GLOBAL FINANCIAL CRISIS



Source: Bloomberg, Innovator Research & Investment Strategy. U.S. Equities = S&P 500. U.S. Investment Grade Bonds = Bloomberg U.S. Aggregate Bond index. Data from 10/9/2007 - 3/9/2009. Past performance does not guarantee future results.

But is the 60/40 portfolio truly the optimal strategy, or are investors overestimating its benefits based on its success during the global financial crisis? Our research suggests the latter. In this article, we will explain why adhering to a traditional 60/40 approach may limit an investment portfolio's long-term potential and leave investors vulnerable to significant drawdowns. We'll also explore why incorporating buffer strategies through a 60/20/20 allocation can enhance return potential, offer superior diversification, and provide more effective and consistent risk management.

## Section 1: Why Investors Should Rethink the 40%

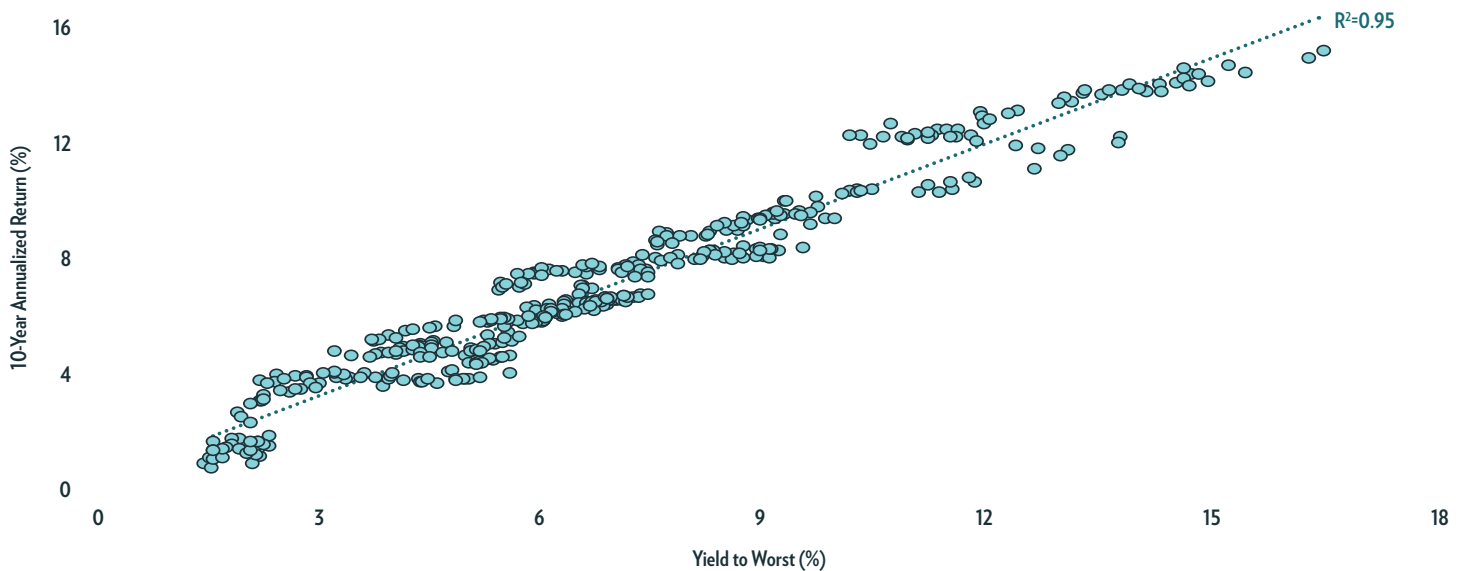
Our view that the 60/40 portfolio is suboptimal stems from the shortcomings we observe in traditional investment-grade fixed income. In this section, we argue that investors should reconsider allocating such a high portion to core fixed income, due to several factors: limited upside potential, unfavorable tax treatment, low liquidity, and diversification benefits that often fail to deliver.



## Yield-to-Worst: As Good as it Gets

Unlike equities, bonds lack significant upside potential. They provide periodic coupon payments, and assuming the issuer doesn't default, investors receive their principal back at maturity, along with the income along the way. For high-quality fixed income, like core bonds, this makes the total return fairly predictable over the long term. In fact, since 1980, starting yield-to-worst ("YTW") has explained about 95% of the variability in the 10-year annualized return of the US Aggregate Bond Index. This highlights the limited growth potential that bonds inherently offer.

### 95% OF INVESTMENT GRADE BOND RETURNS ARE EXPLAINED BY STARTING YIELD



Source: Bloomberg LP, Innovator Research & Investment Strategy. Investment Grade bonds are proxied by the Bloomberg U.S. Aggregate Bond Index. Data evaluated from 1/31/1980 - 8/31/2024.

To illustrate, our analysis of historical data suggests that when investment grade bond YTW is 4%, we can be 95% confident that the 10-year annualized return will fall within a narrow range around that figure. This means that the long-term returns investors can expect are obstructed by the YTW at the time of purchase. In other words, the initial yield sets a figurative ceiling on potential gains, offering limited room for upside growth compared to equities.

95% CONFIDENCE INTERVAL WITH 4% STARTING YTW	10-YR RETURN ANNUALIZED
Upper Confidence Interval (95%)	4.53
Model Prediction	4.17
Lower Confidence Interval (95%)	3.81

Source: Bloomberg, Innovator Research & Investment Strategy. Investment Grade bonds are proxied by Bloomberg U.S. Aggregate Bond Index. Data evaluated from 1/31/1980 - 8/31/2024.

This constrained return profile underscores a key limitation of traditional fixed income: while bonds, at times, provide stability, they lack the ability to significantly enhance portfolio performance over the long term. In an environment of persistently low interest rates, the return prospects for bonds are even more modest, leaving investors with a lower margin for error and greater reliance on equities for growth.



The table below illustrates the starting YTW of the Bloomberg U.S. Aggregate Bond Index at the beginning of each calendar year since 1980, alongside the subsequent total return over the following 10 years. Over these 40 years of data, the most an investor would have earned above their starting YTW was just 1.1%.

Year	Starting Yield-To-Worst (%)	10-Year Return (Annualized, %)	Delta (%)	Year	Starting Yield-To-Worst (%)	10-Year Return (Annualized, %)	Delta (%)
1980	13.0	13.1	0.1	1997	6.2	6.0	-0.3
1981	14.6	14.1	-0.5	1998	5.7	5.6	0.0
1982	11.0	11.7	0.8	1999	7.2	6.3	-0.8
1983	11.8	11.9	0.1	2000	6.4	5.8	-0.6
1984	11.4	10.0	-1.4	2001	5.6	5.8	0.2
1985	9.3	9.6	0.3	2002	4.1	5.2	1.1
1986	7.8	8.5	0.7	2003	4.2	4.5	0.4
1987	9.1	9.2	0.1	2004	4.4	4.7	0.3
1988	9.7	9.3	-0.4	2005	5.1	4.5	-0.6
1989	8.6	7.7	-0.9	2006	5.3	4.3	-1.0
1990	8.5	8.0	-0.6	2007	4.9	4.0	-0.9
1991	6.7	7.2	0.5	2008	4.0	3.5	-0.5
1992	6.6	7.5	0.9	2009	3.7	3.7	0.1
1993	5.8	6.9	1.1	2010	3.0	3.8	0.9
1994	8.2	7.7	-0.5	2011	2.2	2.9	0.7
1995	6.0	6.2	0.2	2012	1.7	1.1	-0.7
1996	6.7	6.2	-0.5	2013	2.5	1.8	-0.7

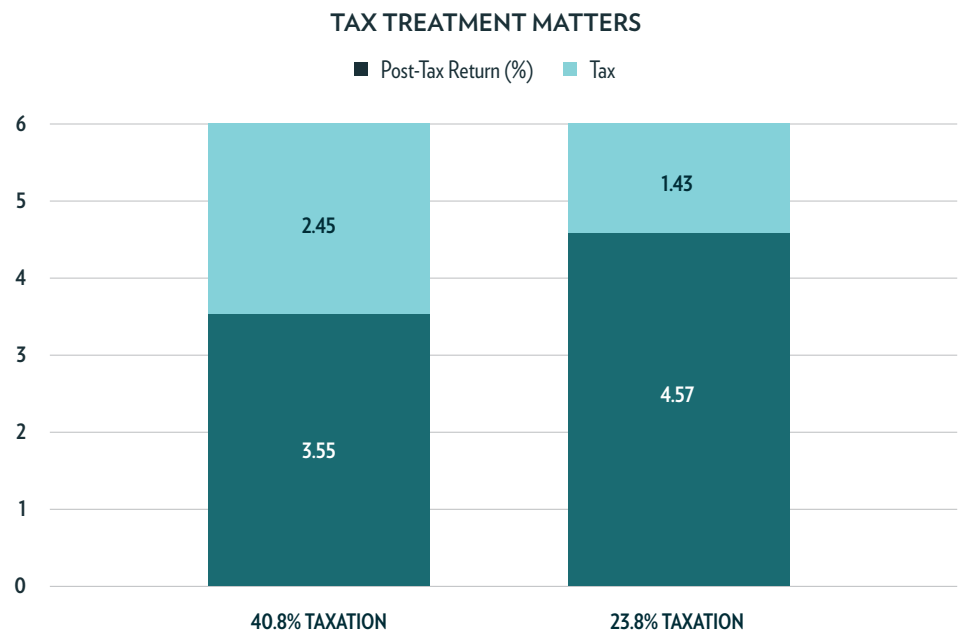
Source: Bloomberg, Innovator Research & Investment Strategy. Investment Grade bonds are proxied by Bloomberg U.S. Aggregate Bond Index. Data evaluated from 12/31/1980 - 12/31/2023. Past performance does not guarantee future results.

As a result, investors relying heavily on core fixed income, particularly within a 60/40 portfolio, are constrained by a return profile that doesn't match the historical growth potential of other asset classes, such as equities or alternative strategies, further emphasizing the importance of reconsidering asset allocation.

## Tax & Liquidity Issues

Beyond the constrained return profile, bonds face additional challenges related to taxation and liquidity. Returns on bonds are usually taxable at ordinary income rates. While some investors may value these regular income streams, those investing in non-qualified accounts can experience a significant tax drag on their overall returns.

For example, a 6% bond return taxed at the highest income tax bracket of 40.8% would leave investors with a net after-tax return of just 3.55%. In contrast, a 6% return realized as long-term capital gains—subject to a maximum tax rate of 23.8%—would provide a net return of 4.57%. This represents a 28.72% increase in returns relative to investments taxed at the ordinary income rate, underscoring the unfavorable tax treatment bonds receive in comparison to other asset classes, such as equities.

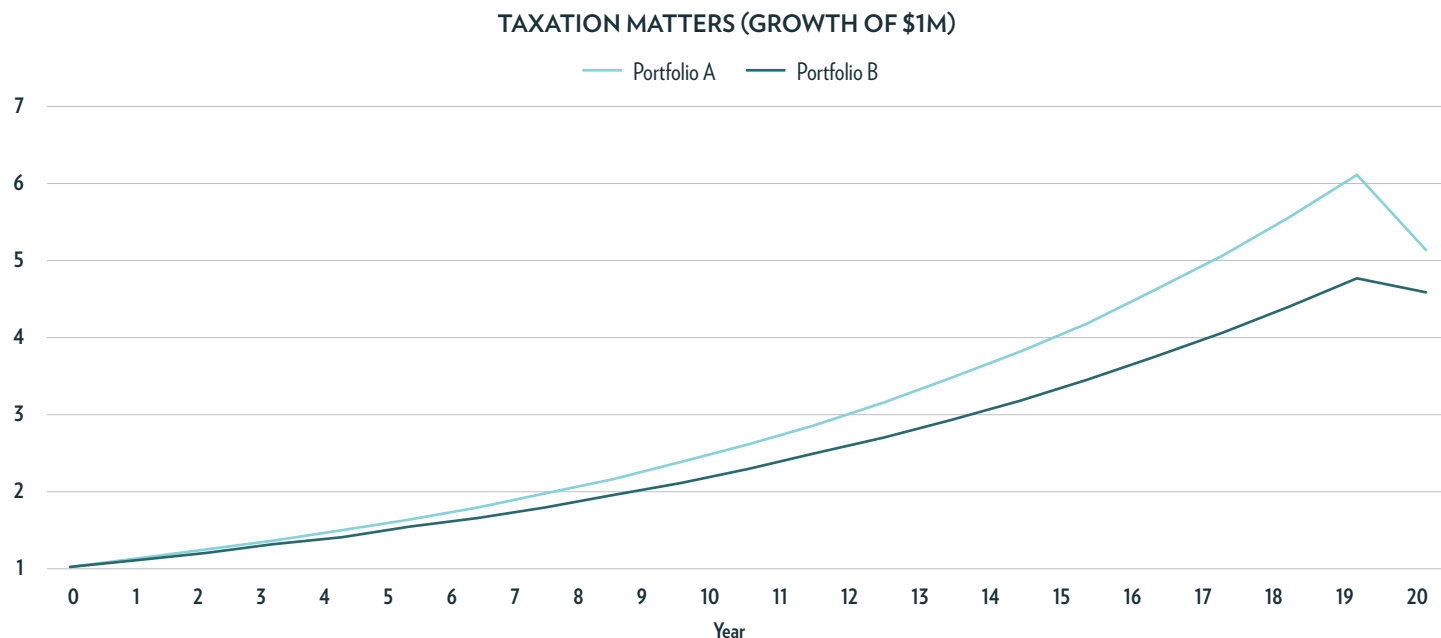


For illustrative purposes only. Not representative of any actual investment. A 40.8% tax rate has been assumed for ordinary income. A 23.8% tax rate assumed for long-term capital gains. The rate of return is an assumption.



Taking this a step further, the illustration below demonstrates the significant long-term impact of tax drag when compounded over time. Let's assume Portfolio A and Portfolio B both start with an initial investment of \$1m, earning a 10% annualized return. Portfolio A is taxed at the long-term capital gains rate of 23.8% upon sale. In contrast, Portfolio B assumes 60% of its gains are taxed at the end of the period, while 40% is taxed annually at the ordinary income tax rate of 40.8%.

Over a 20-year period, the compounding effect of these differences leads to a substantial gap in the portfolios' final values. By the end of the period, Portfolio A—benefiting from the realization of gains at the end of the period and lower capital gains rates—outpaces Portfolio B, resulting in a terminal value difference of over \$0.55M. This illustrates how ordinary income taxes, when applied annually, can erode returns considerably over time, compared to the more favorable long-term capital gains tax treatment.



*For illustrative purposes only. Not representative of any actual investment. This chart reflects the hypothetical growth of a \$1M investment at a 10% assumed rate of return. Assumptions: Portfolio A grows at 10% compound rate of growth and sells at end of period taxed at a capital gains rate of 23.8%. Portfolio B grows at compound rate of growth; however, 40% of the annual returns are taxed at 40.8%. The remaining gains are taxed at the end of year 20 when they are taxed at a capital gains rate of 23.8%. The rate of return is an assumption.*

For investors focused on long-term wealth creation, minimizing annual tax liabilities through strategies that defer gains or optimize for lower tax brackets is crucial. It also underscores why relying heavily on fixed-income investments, which are taxed at higher ordinary income rates, can significantly reduce the potential for compounding wealth over time.

## Liquidity

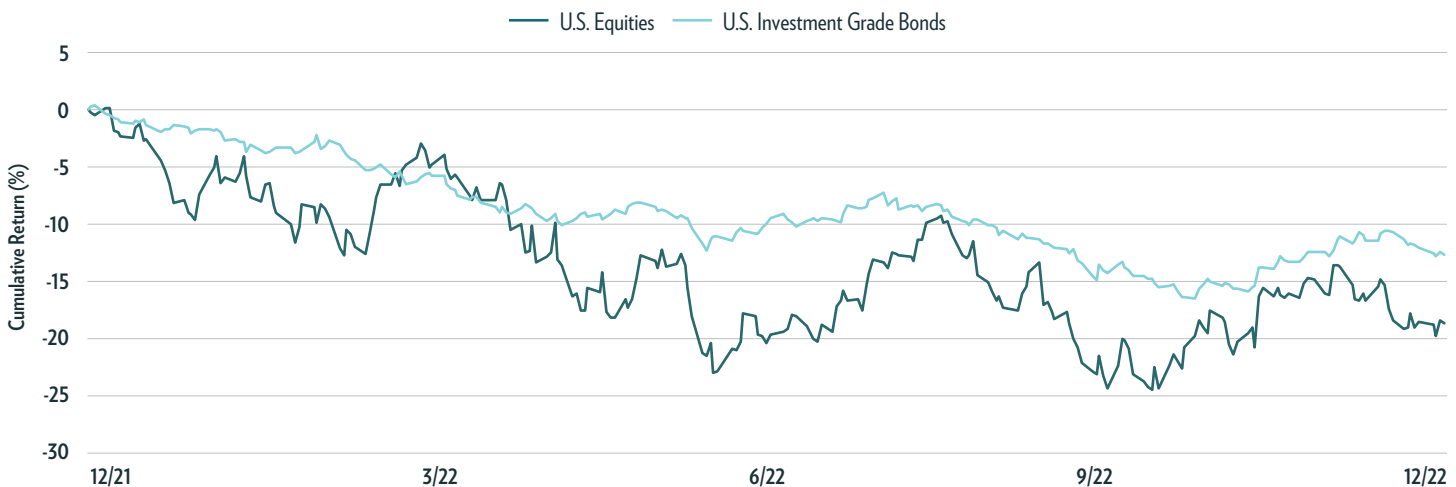
One key difference between stocks and bonds is how they are traded. Stocks trade on exchanges with transparent pricing, while most bonds trade over-the-counter (OTC), where pricing is opaque. This lack of transparency may cause greater uncertainty about bond pricing, especially during market volatility. Events like the COVID-19 crash during 2020 may result in wider spreads and discounts for investors in search of liquidity. This illiquidity discount adds risk, particularly for those relying on bonds for stability during volatile markets.



## Diversification Benefits Show Up Less Than Half of the Time

While limited returns, taxes, and liquidity are important considerations for fixed-income allocation, the most critical issue with the 40% bond component is its inconsistent protection during equity market downturns. Many investors expect bonds to provide a safety net when stocks decline, as they did during the global financial crisis of 2008 and 2009. However, the market sell-off of 2022 revealed that this strategy doesn't always hold. During that year, when the US equity market fell by 18%, US core bonds, represented by the US Aggregate Bond Index, declined by 13%.

### BONDS FAILED TO DIVERSIFY IN TIGHTENING CYCLE OF 2022



Source: Bloomberg, Innovator Research & Investment Strategy. U.S. Equities represented by the S&P 500 Price Return Index. U.S. Investment Grade Bonds represented by the Bloomberg U.S. Aggregate Bond index. Data from 12/31/2021 to 12/31/2022. Past performance does not guarantee future results.

### EVERY 10% MARKET CORRECTION SINCE 1964 ON S&P 500

But was 2022 an anomaly for bonds? Our research suggests otherwise. The table below analyzes every market correction of 10% or more since 1960, revealing that 14 of the 27 corrections were driven by rising interest rates—similar to the situation in 2022. In fact, 53% of the time when the market drops by 10% or more, bonds have failed to effectively hedge investor portfolios because higher rates were the catalyst for the sell off.

Given the combination of constrained upside, tax inefficiencies, liquidity issues, and the inconsistent protective nature of bonds, we believe it is prudent for investors to seek ways to optimize the 40% allocation in the traditional 60/40 portfolio.

Start	End	Drawdown	Length (weeks)	Higher Rates	Rising Unemployment	Global
2/9/1966	10/7/1966	-22.2	34	x		
11/29/1986	5/26/1970	-36.1	78	x	x	
4/28/1971	11/23/1971	-13.9	30	x		
1/11/1973	10/3/1971	-48.2	90	x	x	
7/15/1975	9/16/1975	-14.1	9	x		
12/31/1976	3/6/1978	-19.1	61	x		
9/12/1978	11/14/1978	-13.6	9	x		
10/5/1979	11/7/1979	-10.2	5	x		
2/13/1980	3/27/1980	-17.1	6	x	x	
11/28/1980	8/12/1982	-27.1	89	x	x	
10/10/1983	7/24/1984	-14.4	41	x		
8/25/1987	12/4/1987	-33.5	14	x		
1/2/1990	1/30/1990	-10.2	4	x		
7/16/1990	10/11/1990	-19.9	12		x	x
10/7/1997	10/27/1997	-10.8	3			x
7/17/1998	8/31/1998	-19.3	6			x
7/16/1999	10/15/1999	-12.1	13	x		
3/24/2000	10/9/2002	-49.1	133		x	
10/9/2007	3/9/2009	-56.8	74		x	
4/23/2010	7/2/2010	-16.0	10			x
4/29/2011	10/3/2011	-19.4	22			x
7/20/2015	2/11/2016	-14.1	29			x
1/26/2018	2/8/2018	-10.2	2	x		
10/3/2018	12/24/2018	-19.6	12	x		
2/19/2020	3/23/2020	-33.9	5		x	
1/3/2022	10/12/2022	-25.4	40	x		
7/31/2023	10/27/2023	-10.3	13	x		

Source: Piper Sandler Research.

Past performance does not guarantee future results.



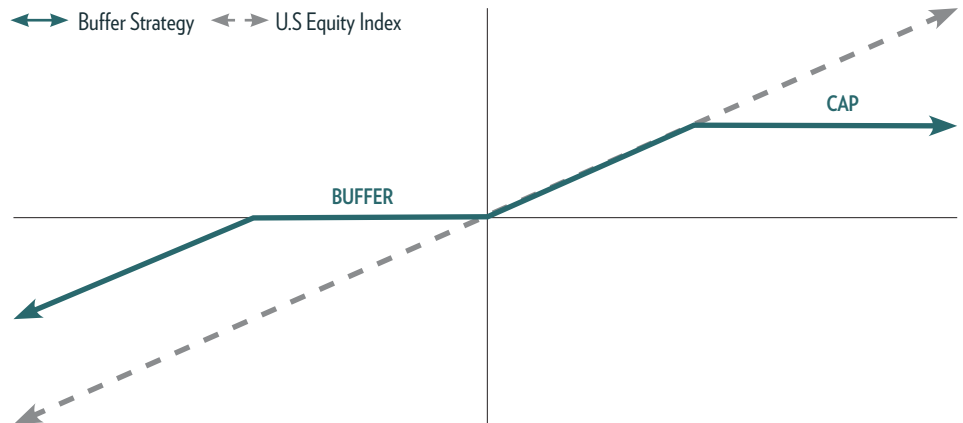
## Section 2: How Buffered Strategies Can Help

In 2018, Innovator Capital Management launched the first Buffer ETF™ in the US market, introducing a straightforward concept: offer investors exposure to various equity benchmarks with a predefined buffer against losses and capped upside potential. These strategies are commonly referred to as Defined Outcome ETFs™. We believe incorporating Defined Outcome strategies into a traditional asset allocation can enhance portfolio returns while providing consistent risk management over time.

### An Introduction to Buffered Strategies

For example, a 12-month 15% buffered ETF like PJAN, the Innovator US Equity Power Buffer ETF™, aims to provide a buffer against losses of 15% in US equities while allowing for upside exposure up to a certain cap. The illustration below demonstrates how this payoff structure works.

*For illustrative purposes only.*

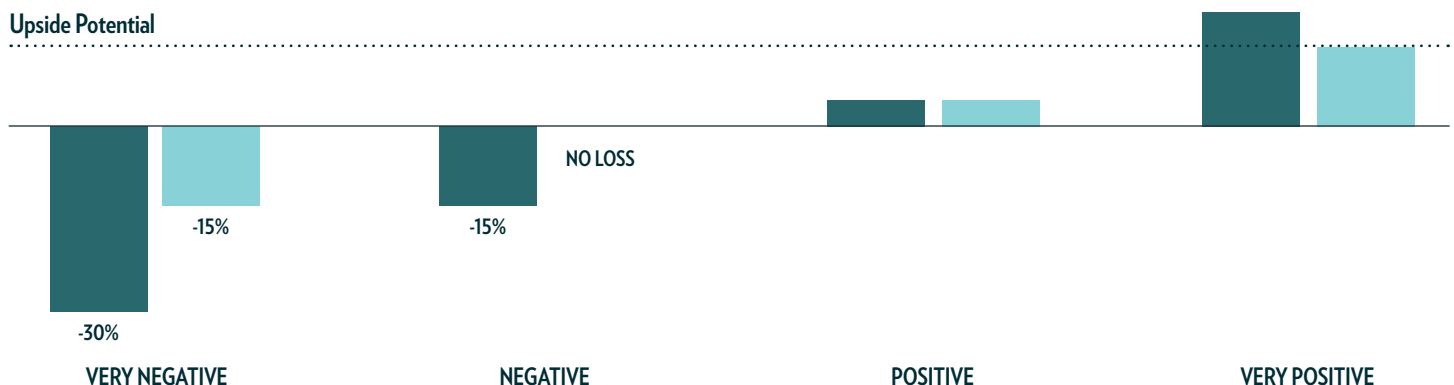


If the reference asset were to decline by 30% over 12 months, as illustrated below, an investor holding a 15% Buffer ETF™ would expect to experience a loss of 15% before fees and expenses. Conversely, if the reference asset were to drop by 15%, the investor should anticipate a flat return before fees and expenses. On the other hand, if the reference asset appreciates, the investor can expect to capture gains up to the stated cap, while any gains beyond that cap would be foregone.

#### THE BASICS OF BUFFER ETFs™ 15% BUFFER EXAMPLE

■ S&P 500 ■ Innovator U.S. Equity Power Buffer™

#### Upside Potential



*For illustrative purposes only. This graph is provided to illustrate the Outcomes that the Fund seeks to provide based upon the performance of the SPDR S&P 500 ETF Trust. There is no guarantee that these Outcomes will be achieved over the course of the Outcome Period. The Outcomes may only be realized by investors who hold shares of the Fund ("Shares") at the outset of the Outcome Period and continue to hold them until the conclusion of the Outcome Period. Investors that purchase Shares after the Outcome Period has begun or sell Shares prior to the Outcome Period's conclusion may experience investment returns very different from those that the Fund seeks to provide. There is no guarantee that the Outcomes for an Outcome Period will be realized.*

For more information on how Buffer ETFs™ function, investors can refer to this [link](#).



## Equity Market Upside and Known Levels of Protection

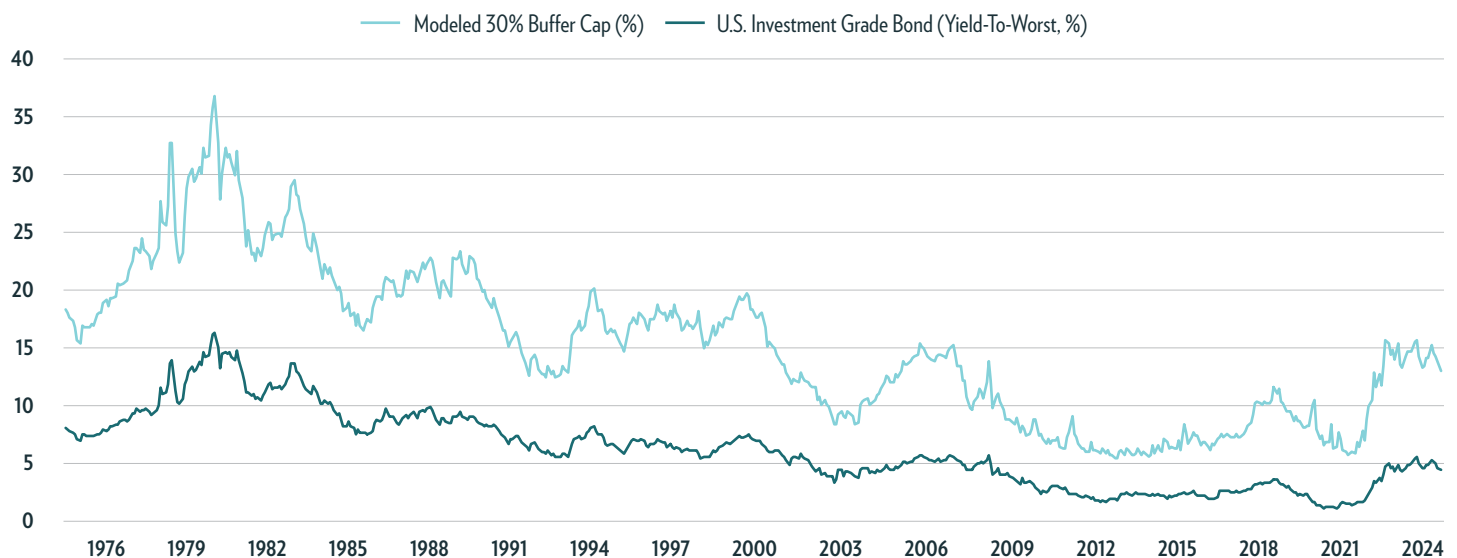
Incorporating buffered strategies into a traditional 60/40 portfolio can be highly beneficial. By using these strategies to complement the “40%” side of the portfolio, we believe investors can enhance upside returns while achieving more consistent risk management over time.

## Low-Risk Dollars Tied to the Equity Market

Buffered strategies can help boost a portfolio’s upside by linking a portion of the conservative allocation to the potential growth of the equity market. Like bonds, buffered strategies come with a constrained upside, represented by a cap. However, historically, these caps have been significantly higher than the starting yield of traditional core bonds.

The chart below illustrates the hypothetical modeled caps of a 30% buffered strategy compared to the yield of the US Aggregate Bond Index. At the median, the modeled caps are 8.9% higher than the bond yield, emphasizing the greater return potential of buffered strategies.

### WE EXPECT 30% U.S. EQUITY BUFFERS TO CONSISTENTLY PROVIDE MORE UPSIDE POTENTIAL



Source: Bloomberg LP. Data compiled by Innovator Research & Investment Strategy. The hypothetical modeled Caps presented are for illustrative purposes only, do not reflect the performance of specific investment strategy returns in the past, and are no guarantee of future returns. Hypothetical modeled caps are not projections of investment returns. There is no guarantee that buffer strategies will perform as designed, and an investor could lose money by investing, including the principal investment. Hypothetical modeled caps do not account for fees and expenses. Hypothetical modeled caps are based on a regression analysis of the VIX, the 2-year treasury yield, and the volatility of the S&P 500 Index the week prior to a cap reset. These coefficients are modeled from 6/30/1976 to 08/30/2024.

The equity market is one of the most significant generators of wealth on the planet, and buffered strategies enable investors to harness this potential while maintaining control over risk. Although these strategies are constrained by a cap, they allow for increased exposure to equities without sacrificing risk management, providing a balanced approach to portfolio construction. This combination empowers investors to benefit from equity market gains while having a predefined level of protection against losses.

TICKER	ETF NAME	UPSIDE CAP
PSEP	Innovator U.S. Equity Power Buffer ETF™ - September	11.79%
USEP	Innovator U.S. Equity Ultra Buffer ETF™ - September	11.87%
BSEP	Innovator U.S. Equity Buffer ETF™ - September	15.01%

“Upside Cap” represents each Fund’s maximum return potential if held to the end of their Outcome Period, before fees and expenses.



## Built-in Risk Management

One key advantage of buffered strategies is that their protective features are not contingent on the specific circumstances or catalysts of a market downturn. Whether the market is declining due to rising interest rates, geopolitical tensions, rising unemployment, or other external shocks, the buffer against losses remains applicable, instead of relying on the persistence of inverse correlations across the portfolio. A 15% buffer is designed to provide protection against the first 15% of losses on the reference asset, regardless of the underlying cause of the sell-off.

## Tax Efficiency & Liquidity

Buffered strategies also offer potential tax efficiency and greater liquidity compared to bonds. If an investor holds the position for a year or more, they can benefit from long-term capital gains when selling, which is often taxed at a lower rate than ordinary income.

Liquidity is another potential advantage of buffered strategies. By referencing major benchmarks across the globe, investors can benefit from the on-exchange liquidity provided by the underlying equity options market. This transparency in pricing allows investors to access liquidity based on actionable bid/ask spreads via the ETF. As a result, investors can make transactions efficiently and effectively, providing the flexibility to react to market conditions without the constraints often associated with traditional bond investments.

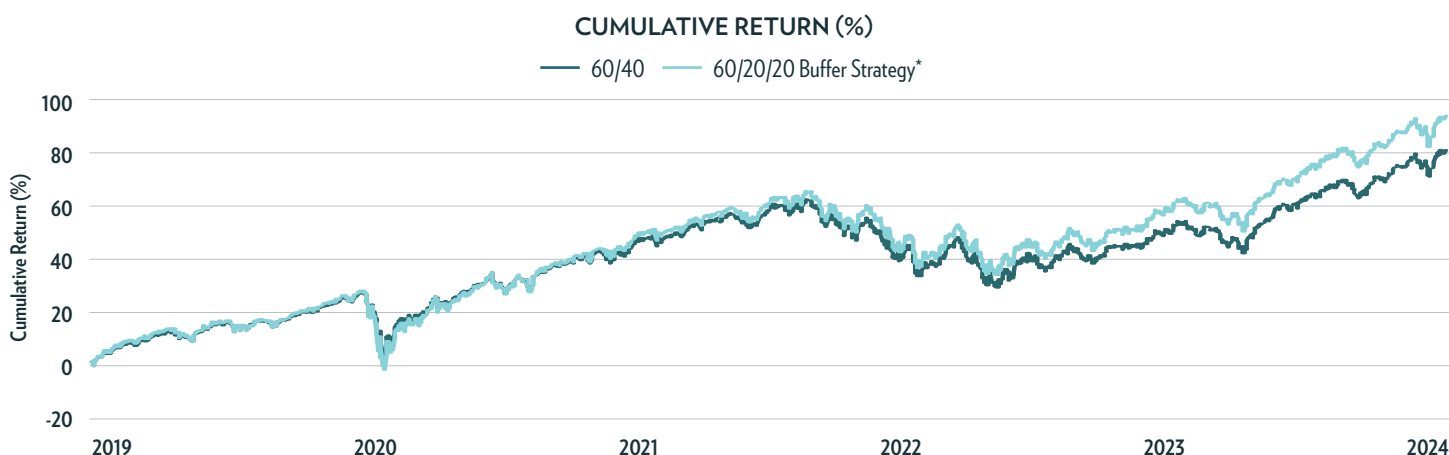
## Section 3: The Optimal Allocation

So far, we've highlighted the drawbacks of a traditional 60/40 portfolio and the potential benefits of buffered strategies. The next question is how can investors effectively incorporate buffered strategies into their asset allocation?

While individual needs vary, we believe starting with a 60% equity, 20% core bond, and 20% buffered equity allocation offers advantages. This mix allows investors to enhance upside, mitigate some negative characteristics associated with traditional fixed income, and seek more consistent risk management over time.

Maintaining some exposure to traditional investment-grade fixed income can still provide protection during market sell-offs triggered by factors like rising unemployment—similar to the global financial crisis—or external shocks such as the COVID pandemic. However, diversifying the “40%” allocation to include buffered strategies may help stabilize the portfolio when rising interest rates become the catalyst for declines.

The chart below illustrates how this 60/20/20 strategy has performed compared to a traditional 60/40 allocation, using an equal-weighted blend of 15% and 30% Buffer ETFs™ since their common inception in 2019. As shown, the 60/20/20 allocation enhances the hypothetical ending portfolio value by \$134,000 or a cumulative 13.4% over the investment period.\*

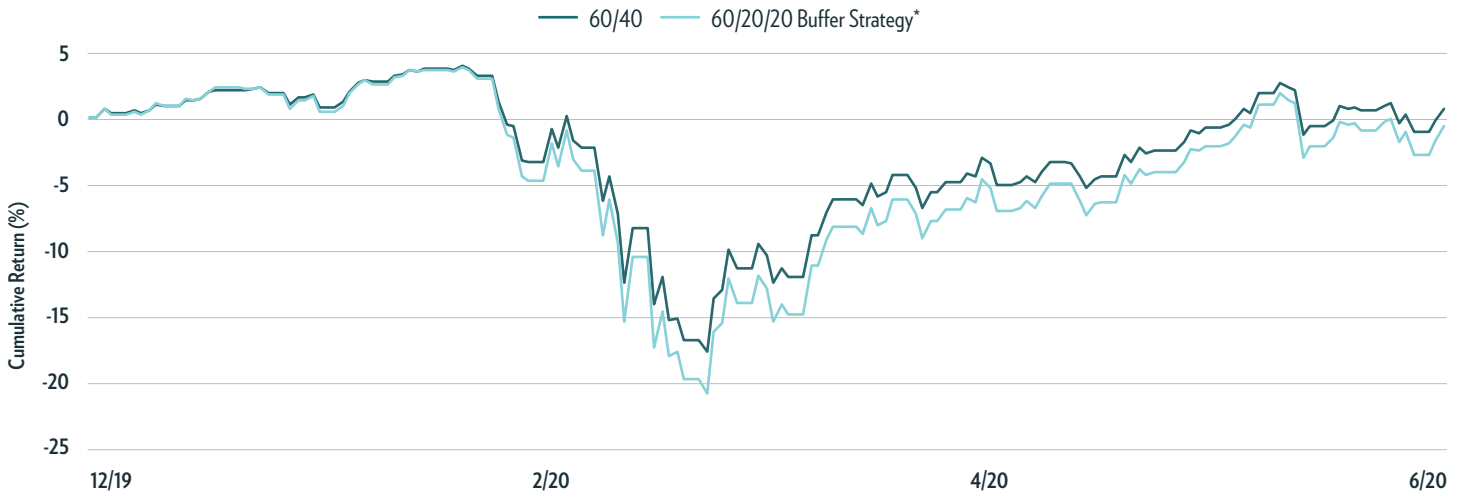


Source: Bloomberg, Innovator Research & Investment Strategy. Data from 1/1/2019 - 8/31/2024. 60/40 Portfolio = 60% S&P 500 / 40% Bloomberg U.S. Aggregate Bond Index (“AGG”). 60/20/20 = 60% S&P 500 / 20% AGG / 20% Equal weight blend of 15% Buffers (PJAN & PJUL) and 30% Buffers (UJAN & UJUL). The allocations to indices do not account for fees and expenses. This information is hypothetical and provided for illustrative purposes only. Not representative of any actual investment. Past performance does not guarantee future results.



Additionally, the charts below illustrate how diversifying the 40% allocation with both bonds and buffered strategies can benefit investors under varying market conditions. During the COVID-19 sell-off, bonds performed robustly, providing investors with a return of 3.2% from January to March, while the buffered blend experienced a decline.

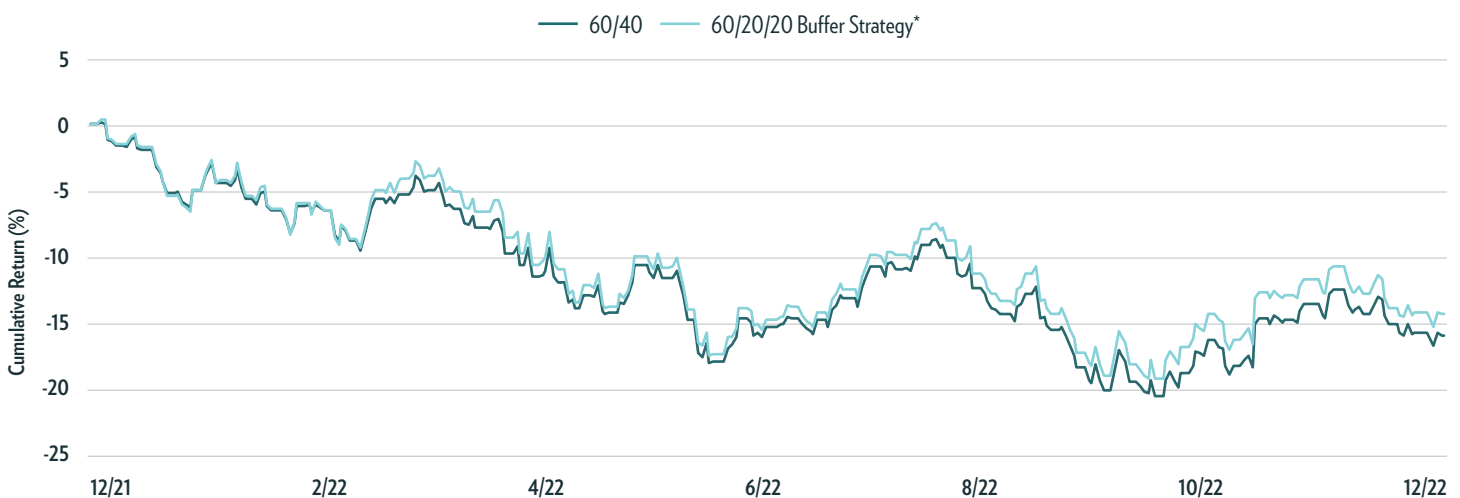
### BOND ALLOCATION HELPED MANAGE RISK DURING COVID-19 DRAWDOWN



Source: Bloomberg, Innovator Research & Investment Strategy. Data from 12/31/2019 - 6/30/2020. 60/40 Portfolio = 60% S&P 500 / 40% Bloomberg U.S. Aggregate Bond Index ("AGG"). 60/20/20 = 60% S&P 500 / 20% AGG / 20% Equal weight blend of 15% Buffers (PJAN & PJUL) and 30% Buffers (UJAN & UJUL). The allocations to indices do not account for fees and expenses. This information is hypothetical and provided for illustrative purposes only. Not representative of any actual investment. Past performance does not guarantee future results.

In contrast, during the interest rate-induced sell-off in 2022, the buffered blend effectively hedged against significant losses, while traditional bonds faced a sharp decline. This highlights the importance of diversification within the fixed-income portion of a portfolio, allowing investors the potential to navigate different market scenarios more effectively.

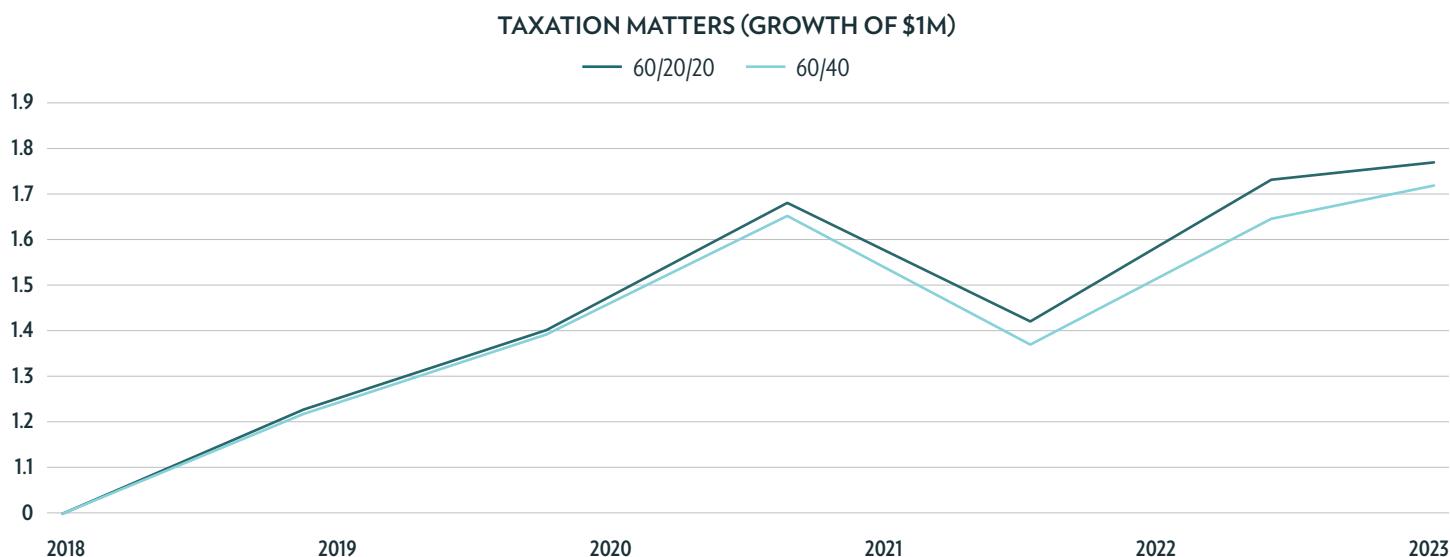
### BOND ALLOCATION FAILED TO MANAGE RISK DURING TIGHTENING CYCLE OF 2022



Source: Bloomberg, Innovator Research & Investment Strategy. Data from 12/31/2021 - 12/31/2022. 60/40 Portfolio = 60% S&P 500 / 40% Bloomberg U.S. Aggregate Bond Index ("AGG"). 60/20/20 = 60% S&P 500 / 20% AGG / 20% Equal weight blend of 15% Buffers (PJAN & PJUL) and 30% Buffers (UJAN & UJUL). The allocations to indices do not account for fees and expenses. This information is hypothetical and provided for illustrative purposes only. Not representative of any actual investment. Past performance does not guarantee future results.



Finally, investors using non-qualified dollars should consider the tax advantages of incorporating a 20% allocation to buffered strategies. While the 60/20/20 allocation may outperform the 60/40 on an absolute basis, the chart below demonstrates how the differing tax treatments of these portfolios can also significantly impact overall returns.



Source: Bloomberg, L.P. Data compiled by Innovator from 12/31/2018 - 8/31/2024. This chart reflects the hypothetical growth of a \$1M investment in the allocations shown. 60/40 = 60% S&P 500 Index / 40% Bloomberg U.S. Aggregate Bond Index ("AGG"). 60/20/20 = 60% S&P 500 / 20% AGG / 20% Equal weight blend of 15% Buffers (PJAN & PJUL) and 30% Buffers (UJAN & UJUL). Tax analysis assumes gains on the S&P 500 Index and Buffer ETFs are taxed at the end of the period at a long-term capital gains rate of 23.8%. Gains from the AGG are taxed at an ordinary income rate of 40.8% annually based on the proportion of returns from coupons with remaining AGG gains taxed at 23.8% at the end of the period. The allocations to indices do not account for fees and expenses. This information is hypothetical and provided for illustrative purposes only. Not representative of any actual investment. Past performance does not guarantee future results.

## Conclusion

Although the 60/40 portfolio serves as a baseline for many investors' asset allocation decisions, the numerous shortcomings of traditional investment-grade fixed income suggest that a 60/20/20 allocation, which incorporates buffered strategies, may be an advantageous approach. For the periods observed above, this strategy enhanced returns and included further risk management and tax efficiency, making it a compelling option for investors seeking to optimize their portfolios.

STANDARDIZED PERFORMANCE	YTD	1 YEAR	3 YEAR	5 YEAR	INCEPTION
PJAN NAV	8.17%	14.52%	7.47%	7.88%	8.99%
PJAN Closing Price	8.03%	14.58%	7.44%	7.88%	8.98%
PJUL NAV	7.43%	13.50%	9.51%	8.74%	7.79%
PJUL Closing Price	7.35%	13.53%	9.48%	8.72%	7.79%
UJAN NAV	7.95%	13.53%	6.27%	6.46%	7.40%
UJAN Closing Price	7.78%	13.38%	6.21%	6.45%	7.39%
UJUL NAV	7.39%	13.13%	6.58%	6.11%	5.58%
UJUL Closing Price	7.39%	12.99%	6.50%	6.07%	5.57%

As of 6/30/2024. PJAN expense ratio: 0.79%, inception: 1/2/2019. PJUL expense ratio: 0.79%, inception: 8/8/2018. UJAN expense ratio: 0.79%, inception: 1/2/2019. UJUL expense ratio: 0.79%, inception: 8/8/2018.

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/performance](https://innovatoretfs.com/performance) for current month-end and standardized performance. Current performance may be higher or lower than that quoted. Performance for periods of less than a year are cumulative.



**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/performance](http://innovatoretfs.com/performance) for current month-end and standardized performance. Current performance may be higher or lower than that quoted. Performance for periods of less than a year are cumulative.

Shares are bought and sold at market price, not net asset value (NAV), and are not individually redeemable from the fund. NAV represents the value of each share's portion of the fund's underlying assets and cash at the end of the trading day. Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where fund shares are listed.

The hypothetical model portfolios included in this presentation are for illustrative purposes only and do not represent the result of any actual account or trading. The Funds used within the hypothetical model portfolios involve risks including the possible loss of principal. There is no guarantee that the allocations in stated percentages will result in desired outcomes. Actual investment outcomes will vary and hypothetical performance cannot account for the impact of financial risk in actual trading. Hypothetical performance benefits from a retroactive construction with the benefit of hindsight, all of which can adversely affect actual trading results and performance. This material is intended for financial professionals with the resources to independently analyze hypothetical performance and the financial expertise to understand the risks and limitations of hypothetical performance.

Neither Innovator Capital Management, LLC nor its affiliates are providing this information as investment or tax advice. This presentation is not intended to provide investment advice. Innovator is providing this hypothetical model portfolio information as ideas for possible construction of portfolios centered around, and as a means to support the distribution of, Innovator ETFs®, not as investment advice.

An investment in the Funds could involve significant risks not associated with an investment in bonds. The Funds are not equivalent to bonds.

This material does not constitute tax advice. Investors should consult with tax professionals for tax advice and not rely upon information disseminated by Innovator. Past distributions are not indicative of future distributions. Transactions in ETF shares may result in brokerage commissions and will generate tax consequences. Investors should consider their current and anticipated investment horizon and income tax bracket when making an investment decision as illustrations herein do not reflect these factors.

**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.**

**There is no guarantee the Fund 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 Fund 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 Fund's 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 Fund 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.**

**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 Funds will utilize FLEX Options issued and guaranteed for settlement by the OCC (Options Clearing Corporation). 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.

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 Reference Asset during the interim period.

Investors purchasing shares after an outcome period has begun may experience very different results than fund's investment objective. Initial outcome periods are approximately 1-year beginning on the fund's 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.

Innovator ETFs are distributed by Foreside Fund Services, LLC.

*The Fund's investment objectives, risks, charges and expenses should be considered carefully before investing. The prospectus and summary prospectus contain this and other important information, and it may be obtained at [innovatoretfs.com](http://innovatoretfs.com). Read it carefully before investing.*

The following marks: Accelerated ETFs®, Accelerated Plus ETF®, Accelerated Return ETF®, Barrier ETF™, Buffer ETF™, Defined Outcome Bond ETF®, Defined Outcome ETFs™, Define Your Future®, Enhanced ETF®, Floor ETF®, Innovator ETFs®, Leading the Defined Outcome ETF Revolution™, Managed Buffer ETF®, Managed Outcome ETF®, Stackers ETF™, Step-Up™, Step-Up ETFs™, 100% Buffer ETFs™ and all related names, logos, product and service names, designs, and slogans are the trademarks of Innovator Capital Management, LLC, its affiliates or licensors. Use of these terms is strictly prohibited without proper written authorization.

Copyright © 2024 Innovator Capital Management, LLC