Retirement Income
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“Buffered” ETFs for sensitive stomachs

By Editorial Staff *Thu, Mar 5, 2020*

Like registered index-linked annuities (aka structured annuities), Innovator's Defined Outcome ETFs use options to generate a customized range of returns based on the movement of an equity index.

Jittery investors don’t necessarily have to use index-linked annuities or structured notes to get protected equity exposure based on the purchase of options. They can use exchange-traded funds, or ETFs.

Since August 2018, Innovator Capital Management LLC, with subadvisor Milliman, has been issuing one-year ETFs that deliver returns between an upside cap and a downside buffer, with a choice of exposure to five different indices.

So far, Innovator has issued 41 one-year buffered ETFs. The funds now have about $2 billion in assets under management, Innovator CEO Bruce Bond said in a release this week.

The latest offering, the March Series of Innovator S&P 500 Buffer ETFs, started trading on the Cboe (Chicago Board Options Exchange) on March 2, Innovator Capital announced this week.

Like structured annuities (aka registered index-linked annuities or RILAs), the Defined Outcome ETFs use options to generate a customized range of returns based on the movement of an equity index. Investors can earn up to a capped return, while downside “buffer” zones limit their exposure to loss.

The products’ buffers, like airbags in cars, are designed to give retail investors a sense of safety—enough to prevent them from bailing out of equities during rocky markets. The ETFs give investors “defined exposures on broad benchmark indexes, where the downside buffer level, upside growth potential, and outcome period are all known, prior to investing,” the release said.

Each fund in the series has an annual management fee of 0.79%. Exposures to the S&P 500, NASDAQ 100, Russell 2000, MSCI EAFE, or MSCI EM indices are available. Investors can get protection from the first 9% of losses, or the first 15% of losses, and any losses between 5% and 35% over the one-year investment period. The upside caps for each fund are fixed when it is issued.

Like all ETFs, funds in the Innovator series trade throughout the day on an exchange. They're more liquid than structured notes, Innovator said. Investors can buy into a one-year fund after its launch date, and they can roll their investment over for another year at the end of each "outcome period." The original buffers and caps are likely to have changed, however.

A **tool** at the Innovator website shows where the ETF stands at any given time and what the current crediting terms are. The ETFs reset annually and can be held indefinitely.

Crediting formulas for the March Series of Innovator S&P 500 Buffer ETFs, as of 3/2/20 were:

Ticker	Name	Buffer Level	Cap*	Outcome Period
BMAR	Innovator S&P 500 Buffer ETF™	9.00%	16.14%	12 months 3/1/20 to 2/28/21
PMAR	Innovator S&P 500 Power Buffer ETF™	15.00%	11.01%	12 months 3/1/20 to 2/28/21
UMAR	Innovator S&P 500 Ultra Buffer ETF™	30.00% (-5% to -35%)	7.96%	12 months 3/1/20 to 2/28/21

*The caps above are shown gross of the 0.79% management fee. "Cap" refers to the maximum potential return, before fees and expenses and any shareholder transaction fees and any extraordinary expenses, if held over the full Outcome Period.

According to Innovator, each ETF holds custom exchange-traded **FLEX Options** with varying strike prices (the price at which the option purchaser can buy or sell the security, at the expiration date), and the same expiration date (approximately one year).

The layering of the FLEX Options with varying strike prices provides the mechanism for producing a Fund's range of outcomes (i.e., the cap or buffer). Each fund intends to rollover options components annually, on the last business day of the month associated with each Fund.

Milliman Financial Risk Management LLC (Milliman FRM), the subadviser of the ETFs, also helped design the Cboe S&P 500 Target Outcome Indexes. The Innovator Defined Outcome S&P 500 Buffer ETFs are benchmarked against them.