First Trust
Investment Solutions

Costless & Credit Collars

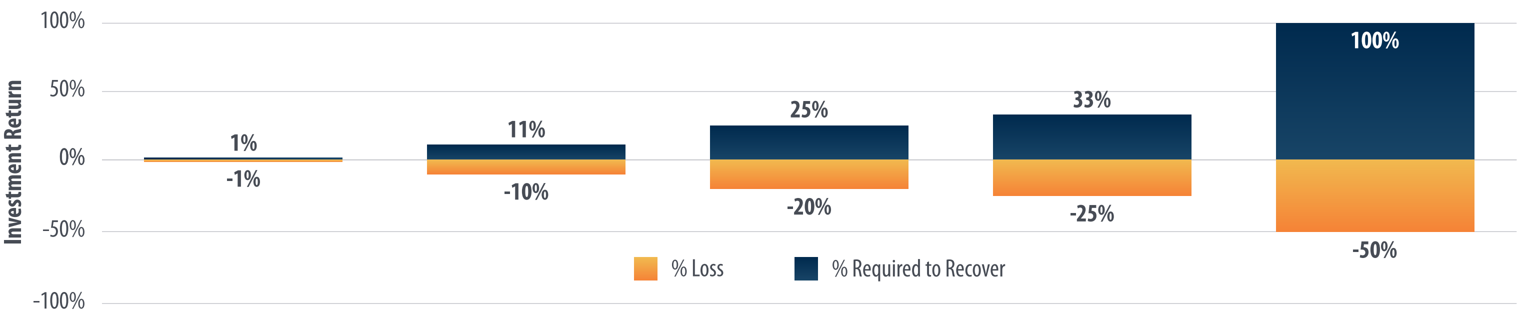
Defined Outcome | **Limited Downside Protection** | **Upside Potential to a Cap** | **Flexible, Liquid & Transparent**

STRATEGY

A collar is a risk management strategy whereby an investor sells an out-of-the-money covered call option and uses the premium received to purchase an out-of-the-money put option, providing the investor with a predetermined level of downside protection and upside potential. The maturity of a collar can range from several months to several years. By negotiating the call strike price, the investor's out-of-pocket cost may potentially be reduced to zero (costless) and, in some situations, may also generate income (credit) to offset advisory fees. Collars can be tailored to an investor's desired outcomes.

MINIMIZING LOSSES CAN SIGNIFICANTLY IMPACT THE VALUE OF A PORTFOLIO

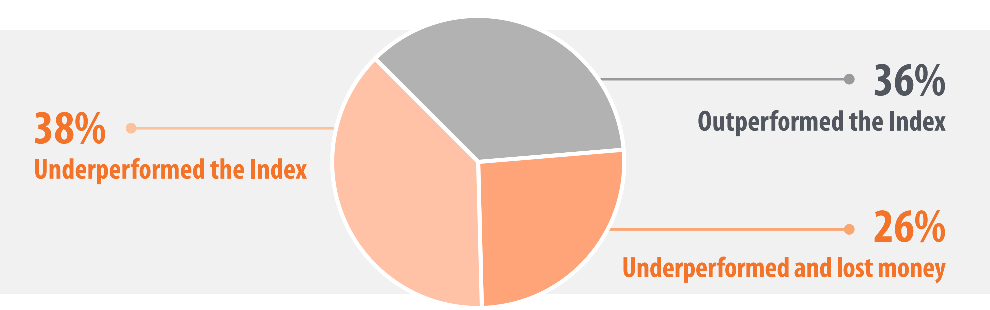
Overall, the collar strategy limits the investor's downside risk by providing a floor price for the asset through the protective puts while allowing them to generate income from selling covered calls. While this strategy may limit potential gains if the price of the asset appreciates significantly, it provides a level of protection against losses if the price declines. This is significant because losses can have a greater impact on investments than gains. The math of percentages shows that as losses get larger, the return necessary to recover to the break-even point increases at a much faster rate. A loss of 10% necessitates an 11% gain to recover. Increase that loss to 25%, and it takes a 33% gain to get back to break-even. A 50% loss requires a 100% gain to get back to where the investment value started. Collars may minimize losses and encourage investors to stay invested by providing a defined level of protection against potential losses.



TOOL FOR HEDGING A CONCENTRATED STOCK POSITION

The risk of incurring losses significantly increases when a large portion of an investment portfolio is concentrated in a single stock or small number of stocks. By owning a concentrated position, you're effectively putting all your eggs in one basket. If that particular stock performs poorly, your entire portfolio will suffer. Because individual stocks often underperform the overall market, it is important to have a proper risk management strategy in place. Our collar strategies are customized to seek to hedge a concentrated stock position while maintaining a predetermined amount of upside potential.

HISTORICAL RETURN BREAKDOWN OF THE S&P 500® INDEX CONSTITUENTS[1]



64% of the S&P 500® Index constituents underperformed the Index.

Since 1990, approximately 35% (or about a third) of the stocks in the S&P 500® Index went down by at least 50% and remain below that level.

[1]Data from 1/31/1990 to 12/29/2023. Sources: Capital IQ and Bloomberg. Returns are measured from the date added to the index (or start of the study period) to the date removed (or end of the study period) for all companies included in the index during the study period, using month-end prices. For illustrative purposes only and not indicative of any actual investment. **Past performance is no guarantee of future results.**

Charts are for illustrative purposes only and not indicative of any actual investment.

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POTENTIAL RETURN SCENARIOS OF THE COLLAR STRATEGY

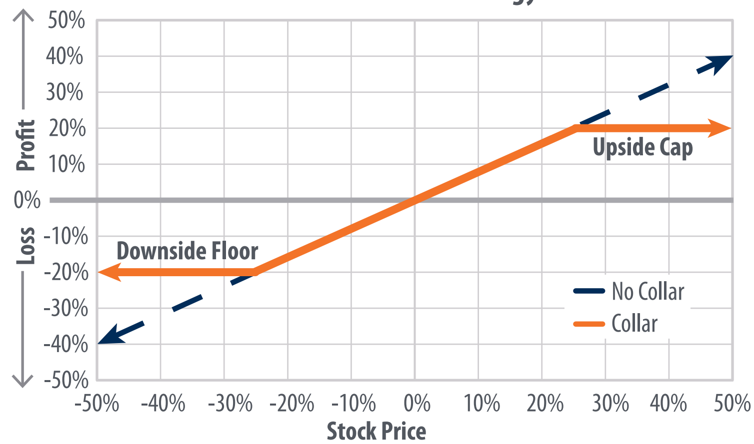
Stock Price Moves Higher Within the Collar
The investor will participate in gains up to the upside cap.

Stock Price Moves Higher Above the Collar
The investor will participate in gains up to the upside cap, but not above the upside cap.

Stock Price Moves Lower Within the Collar
The investor will participate in losses to the downside floor.

Stock Price Moves Lower Below the Collar
The investor will participate in losses to the downside floor but will be protected against losses below the downside floor.

Covered Call + Protective Put = Collar Strategy



This example is for illustrative purposes only and is not based on an actual portfolio. Outcomes from the collar strategy will vary depending on actual portfolio positions, option premium received, individual stock price volatility, and general stock market volatility. Positions covered by call options may be called away, creating realized capital gains or losses. There can be no guarantee that the owner of the call option will not exercise the call prior to FTIS's attempt to repurchase a sold option. Cash flow is not guaranteed over any period. More information may be found on FTIS's Form ADV. Commissions and fees will adversely affect the strategy.

COLLAR INVESTMENT PROCESS

Growth Potential | Long Position in Underlying Stock

Collar Strategy

Covered Call
Sell out-of-the-money call options on the underlying stock.
Premium received is used to finance the put purchase.
Sets the upside cap.

+

Protective Put
Purchase out-of-the-money put options on the underlying stock.
Sets the downside floor (limit on possible loss).

Repeat Process
Roll into a new set of options at expiration.

WHY CHOOSE FIRST TRUST INVESTMENT SOLUTIONS?

- We work with financial professionals and their clients to help manage their concentrated stock positions and potentially improve outcomes.
- Our suite of custom solutions offer the potential for yield enhancement, hedging, diversification and tax-mitigating strategies.
- We utilize best-in-class option analytics tools taking into account an option's delta, skew, and moneyness.
- Based on volatility surface, expected premiums and relative volatility, we provide an optimized strategy.
- We draft and adhere to a tailored Investment Policy Statement for each client based on their needs, goals, tax budget, risk tolerance and timeline.

DEFINITIONS

An **option** is a contractual obligation between a buyer and a seller. There are two types of options known as "calls" and "puts." The buyer of a **call option** has the right, but not the obligation, to purchase an agreed upon quantity of an underlying asset from the writer (seller) of the option at a predetermined price (the strike price) within a certain window of time (until the option's expiration), creating a long position.

A **put option** gives the holder the right to sell the underlying asset at the strike price within a specified time period.

An option is **out-of-the-money** when the current price of the underlying asset (for a call option) is below the strike price or (for a put option) is above the strike price.

A **covered call** refers to a financial transaction in which the investor selling call options owns an equivalent amount of the underlying security.

Downside floor is a limit on a possible loss during the collar implementation.

The **S&P 500® Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance.

Delta measures an option's price movement for every $1 change in the price of the underlying security or index.

An **option skew** refers to the level of implied volatility for options with different strike prices.

Moneyness refers to the relationship between the current price of the underlying asset and the strike price of the option.

Volatility surface refers to a three-dimensional plot of the implied volatilities of the various options listed on the same stock.