First Trust
Investment Solutions

Exchange Fund Replication

STRATEGY

Exchange Fund Replication allows holders of a concentrated stock position to substitute their single-name security risk with the risk of a diversified index. The investor will continue to own their stock and will not have to realize the tax consequences of selling their security at initiation of the strategy to gain diversified exposure. Additionally, since the investor will continue to hold their underlying stock, they will receive any future dividends. The strategy uses an equity collar to hedge the risk of a concentrated position and a reverse collar to create diversified market exposure. Investors may choose their desired collar and index.

Diversification Potential

Provides liquidity, flexibility and the potential for tax efficiency.

Potential to hedge single-stock risk

INVESTMENT PROCESS

Concentrated Stock

Collar Strategy

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

+

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.

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

Diversified Index

Reverse Collar Strategy

Protective Put
Sell at-the-money put option on diversified index.
Premium is used to finance the call purchase.
Sets the downside participation.

+

Covered Call
Purchase out-of-the-money call options on diversified index.
Sets the upside participation.

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

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POTENTIAL RETURN SCENARIOS

Collar Strategy

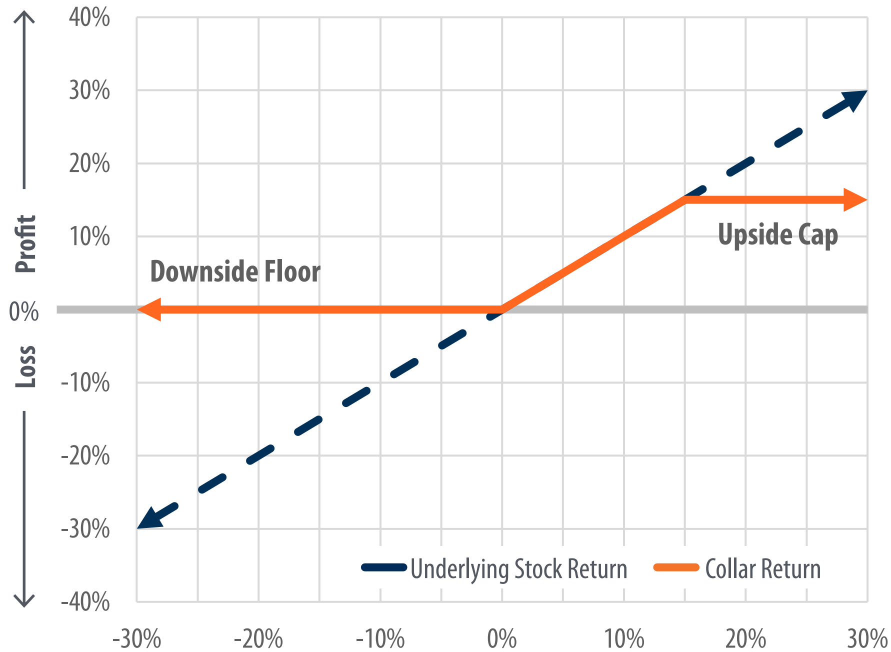
Stock Price Moves Higher Within the Collar
The investor will participate in gains up to the upside cap.

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 and will be protected against losses below the downside floor.

Protective Put + Covered Call = Collar Strategy



Reverse Collar Strategy

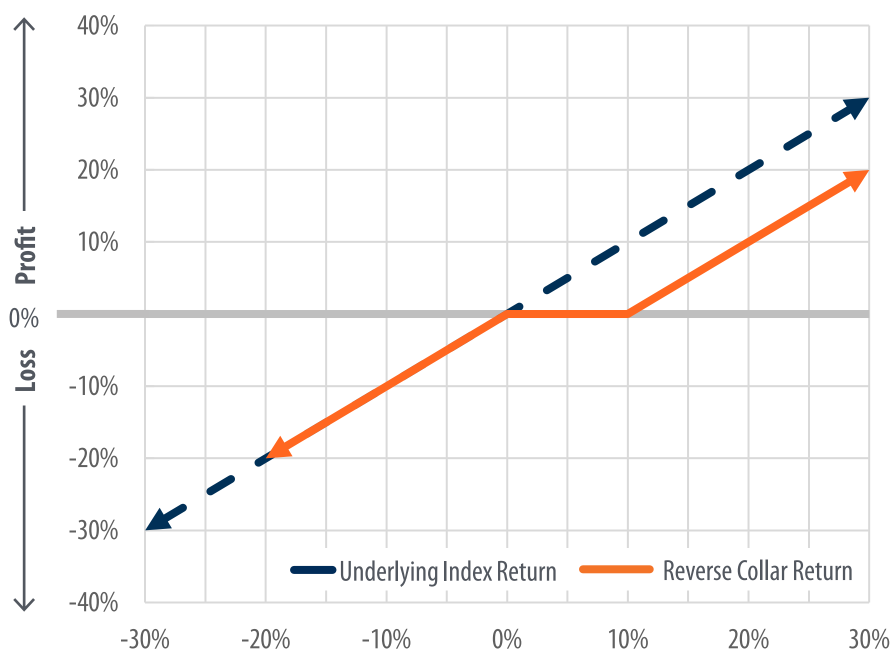
Stock Price Moves Higher Within the Reverse Collar
The investor does not participate in any index price appreciation.

Stock Price Moves Higher Above the Reverse Collar
The investor participates in all index price appreciation above the collar.

Stock Price Moves Lower Within the Reverse Collar
The investor does not participate in any index price declines.

Stock Price Moves Lower Below the Reverse Collar
The investor participates in all index price declines below the collar.

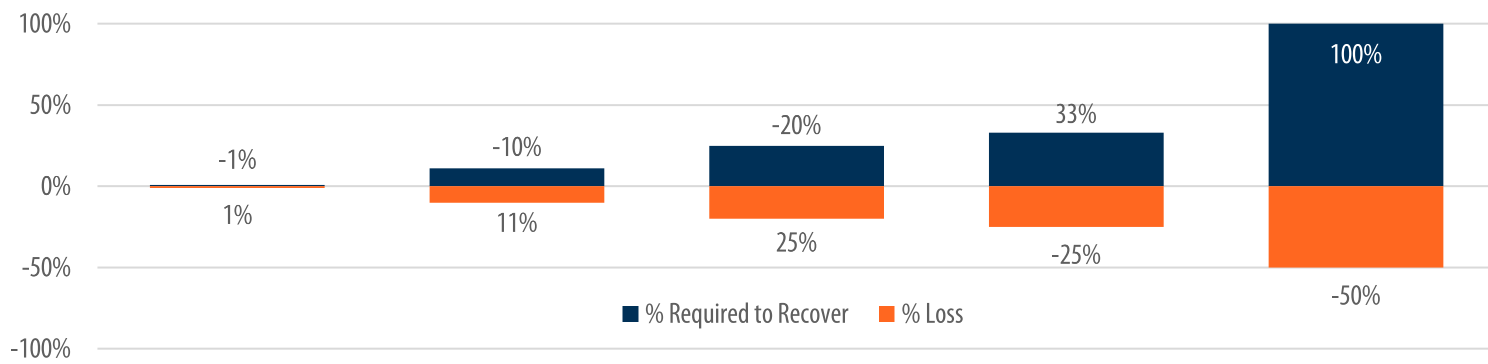
Sold Put + Purchased Call = Reverse Collar Strategy



The examples are for illustrative purposes only and are 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.

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.



The chart is for illustrative purposes only and not indicative of any actual investment. In an exchange fund replication, an investor's upside return potential is limited by a defined cap which is based on the terms of the combined collar strategies and will vary with market conditions.

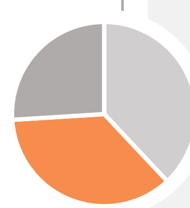
WHY HEDGE A CONCENTRATED POSITION?

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.

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

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.

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



26% Underperformed and lost money

38% Underperformed the Index

36% Outperformed the Index

[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.

EXCHANGE FUND REPLICATION COMPARISON

	Exchange Fund Replication	Exchange Fund
Universe	Potential for any stock with options	Limited to an authorized list
Eligible Participants	No accreditation requirements	Qualified Purchaser; $5 mm+ liquid investments
Tax Reporting	1099	K-1
Dividend	Retained	Not eligible; fund retains
Liquidity	Daily	7-year lock-up; penalty for early withdrawal
Customization	Tailored approached	None
Tracking Error	Chosen index	Subject to securities in fund
Tax Benefits	Potential for tax alpha	Returned basket may have a low basis

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.
- We customize strategies to each client blending options analysis and client expectations.
- 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.

An option is **at-the-money** when the current price of the underlying asset is equal to the strike price.

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

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.

A **reverse collar** is a risk management strategy whereby an investor buys a put to protect against a significant drop in price or sells a call option to help offset the cost of buying a put option, providing the investor with some upside potential.