First Trust

Direct Indexing

Personalized Investment Management with Tax Aware Features

Over its 30-year history, First Trust has worked alongside financial professionals to provide tools, resources, and trusted investment products, many of which may help manage the impact of taxes. Direct indexing delivers customized investment solutions with more opportunities for tax-efficiency and values-based personalization, providing a platform that allows advisors to align the investment objectives, values, and interests of their clients with tried-and-true methodologies offered by First Trust.

Direct indexing allows advisors to seek to improve after-tax outcomes, subject to investment objectives, risk and client circumstances. Investors own individual securities in a portfolio via a separately managed account (SMA). Holding individual securities rather than a single fund allows investors to customize their exposure to the initial benchmark according to their needs.

Personalization

Whether prioritizing traditional factors, risk management strategies, thematic positioning, or values-based investing, advisors can customize their clients' exposure to selected benchmarks based on their investment goals and personal values. For example, clients with already substantial allocations to a particular sector may wish to exclude the securities from that sector that would otherwise be included in a benchmark, just as they may wish to exclude companies that employ practices with which they disagree.

Choose a Benchmark
- U.S.
- Global
- International

Personalize
- Align personal values
- Account-specific needs
- ESG

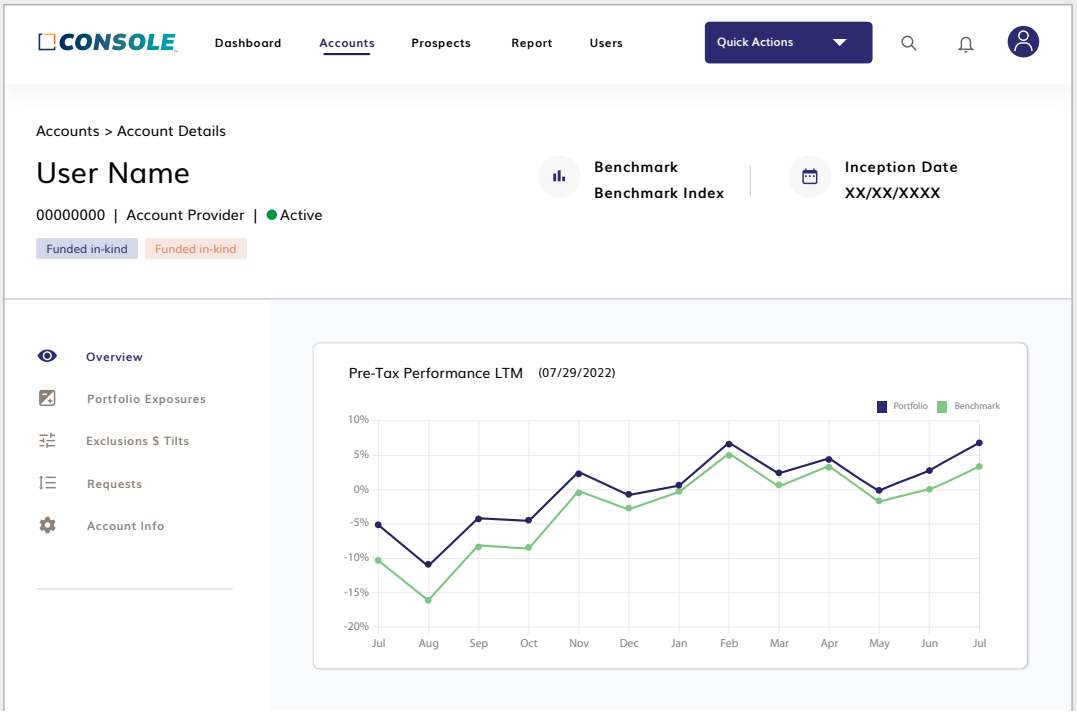
Customize
- Portfolio Tilts
- Factor/Sector

Your Portfolio

The personalization and customization screens shown above are examples. The direct indexing platform provides a menu of 80 levels of customization from which to choose.

CONSOLE™

Console™ helps advisors grow their business. They can spend more time helping their clients and less time stuck in operational bottlenecks. Console™ streamlines tasks and minimizes the time required to create fully customized equity portfolios that focus on tax efficiency. Advisors can use the interface to connect the financial plans of their clients to the portfolios they manage for them. Background, educational materials, and investment scenarios based on individual needs allow advisors and clients to have thoughtful conversations on everything from tracking errors to tax loss harvesting, and why each matters.



Example is for illustrative purposes only and not indicative of any direct indexing account.

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Tax Aware Portfolio Management

Minimizing taxes is crucial for any investment. Direct ownership of securities provides a greater ability to employ tax-loss harvesting strategies that utilize losses to offset potential capital gains realized elsewhere in a taxable portfolio. Our daily tax-loss harvesting process seeks to maximize after-tax returns.

Potential Tax Benefits

Direct indexing provides an enhanced ability to generate tax alpha, which may help improve after-tax investment outcomes. While **alpha** is a measure used to evaluate portfolio returns in excess of a benchmark index, **tax alpha** is a measure of after-tax account returns that exceed pre-tax returns in excess of a benchmark.

There is no guarantee that a tax-advantaged strategy will generate tax alpha. Actual results may be zero or negative, depending on market conditions, an investor's tax situation, and other factors.

TAX ALPHA = EXCESS AFTER-TAX RETURNS – EXCESS PRE-TAX RETURNS

Potential Tax Benefits Over Time

The simulation shown below illustrates the potential tax alpha that may be achieved by the growth of an initial investment over a 25-year period.

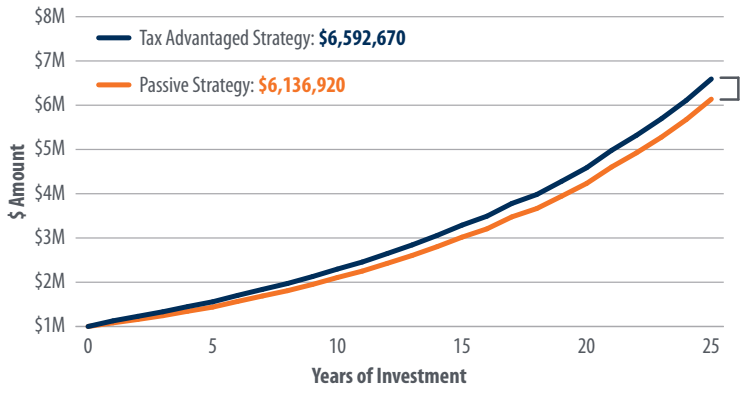
Assumptions

Initial Investment Amount: **$1 Million**

Annualized Equity Market Return: **8%**

Dividend Tax Rate: **23.80%**
Long-Term Capital Gains Tax Rate: **23.80%**

Short-Term Capital Gains Tax Rate: **40.80%**



Total Tax Benefit
$455,750

First Trust Tax-Advantaged Strategy Simulator

Use this tool to run a simulation that illustrates the potential tax benefit of a tax-advantaged strategy versus a passive strategy.

This hypothetical illustration is based on assumed market conditions and does not reflect actual account performance or trading. Results are not guaranteed, and actual outcomes may differ materially due to market volatility, changes in tax rates, investor circumstances, transaction costs, fees and other factors not reflected in the simulation.

Chart Methodology: The sample provided assumes a starting basket of 300 equally weighted hypothetical securities. Returns are randomly simulated monthly with the annualized mean chosen above and annualized standard deviation of 30%. It is assumed that the portfolio's 2% annualized dividend yield is subject to income tax and is reinvested monthly into a new tax lot. The "Passive" strategy simulates a buy-and-hold strategy over the investment horizon. The "Tax-Advantaged" strategy simulates a tax-loss harvesting strategy. In any period that a tax lot's cumulative loss exceeds 5%, the tax lot is sold, and the proceeds are immediately reinvested, plus any tax benefit, into a new tax lot. Tax benefit calculations assume that the capital gains offset by the harvested loss are 50% short-term and 50% long-term. Both the "Passive" and "Tax-Advantaged" strategies are assumed to pay an annual expense ratio of 40 basis points. The Monte Carlo simulation takes an average across 2,000 iterations for each set of return, risk, and tax assumptions. The sample presented does not represent actual trading of securities and is not indicative of actual investment strategy performance. The impact of market factors is not included in this simulation which may cause the results to be overstated or understated. This should not be construed as a representation that any account will, or is likely to, achieve profits, losses or tax savings similar to those reflected in this example.

Tax-Efficient Transitions of Appreciated Securities

Direct indexing may provide tax advantages when an investor transfers existing securities from another account into a direct indexing SMA. Rather than liquidating existing holdings, investors may be able to transfer appreciated securities in-kind, potentially deferring capital gains taxes that would otherwise result from selling those positions.

Portfolio managers can then evaluate which securities to retain or sell based on the investor's investment objectives, risk tolerance and customization preferences, while considering potential tax consequences. This process may provide opportunities for transition tax savings, sometimes referred to as transition alpha, compared to liquidating the existing portfolio.

Direct indexing also allows investors to manage gains and losses at the individual security level while seeking to maintain their desired market exposure and tracking error preferences. Tax savings are not guaranteed and will depend on individual circumstances, portfolio holdings and market conditions.

TRANSITION ALPHA = POTENTIAL TAX SAVINGS FROM AN IN-KIND TRANSITION VS. LIQUIDATION

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Mutual Funds, ETFs and Direct Indexing:
What's the Difference?

There are many similarities among mutual funds, exchange-traded funds (ETFs) and direct indexing. Typically, investors use ETFs and mutual funds to gain indirect exposure to the securities in a benchmark. Although ETFs and mutual funds can deliver broad market exposure, direct indexing does so with a key difference: a portfolio can be tailored to an investor's specific needs and tax loss harvesting strategies. This portfolio of the optimal component stocks of a benchmark, held directly in a direct indexing SMA, can be funded with either cash or an existing portfolio of securities (in-kind), including appreciated stock, which provides the potential to create tax alpha beyond what ETFs and mutual funds may offer.

Potential Benefits	Mutual Funds	ETFs	Direct Indexing
Seeks to match (or exceed) the returns of a benchmark index	✓	✓	✓
Tax efficiency	X	✓	✓
Potential to create tax alpha	X	Possible	✓
Potential to create transition alpha	X	X	✓
Portfolio customization	X	X	✓
Ability to fund in-kind	X	Possible	✓
Tax consequences	✓	✓	✓
Transaction costs	✓	✓	✓
Tracking error	Possible	Possible	Possible

Potential benefits are not guaranteed and will vary based on an investor's individual circumstances and market conditions. Tracking Error: All three can experience tracking error relative to a benchmark. Direct indexing may experience additional tracking error because of portfolio customization, security exclusions and tax-loss harvesting. Tax Consequences: All three can generate taxable events, although the types and frequency of those events may differ. ETFs are generally more tax-efficient than traditional mutual funds, but neither is automatically tax-free. Transaction Costs: Direct indexing involves trading individual securities, making transaction costs particularly relevant. Mutual funds and ETFs can also incur trading costs, although those costs may be incurred differently. All three involve expenses. Mutual funds and ETFs typically charge operating expenses, while direct indexing generally involves advisory fees and may involve custody, trading or other account-level expenses.

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Risk Considerations

This summary is not intended to be tax or legal advice. This summary cannot be used by any taxpayer for the purpose of avoiding tax penalties that may be imposed on the taxpayer. This summary is being used to support the promotion or marketing of the transactions herein. The taxpayer should consult an independent tax advisor.

Investors or financial professionals should consult with a tax professional regarding the potential application of loss deferral regimes, such as wash sales and straddles, to these securities and potential transactions along with other securities and transactions in the broader portfolio.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

The strategy was previously managed by First Trust Direct Indexing ("FTDI"). Effective October 31, 2024, FTDI merged into First Trust Advisors L.P. ("FTA"). All business activities, including portfolio management and business records are now performed under FTA.