First Trust — Cashless & Credit Collars

Strategy

A collar is a risk management strategy whereby an investor sells a covered call option and uses the premium received to purchase a 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 (cashless) and, in some situations, may also generate income (credit) to offset advisory fees. Collars can be tailored to an investor's desired outcomes.

Defined Outcome — **Upside Potential to a Cap** — **Flexible, Liquid & Transparent**

Collar Investment Process

Concentrated Stock

Collar Strategy

Protective Put		Covered Call
Purchase out-of-the-money put options on the underlying stock. Sets the downside floor (limit on possible loss).	+	Sell out-of-the-money call options on the underlying stock. Premium received is used to partially offset the cost of the put purchase. Sets the upside cap.

Potential Return Scenarios of the Collar Strategy

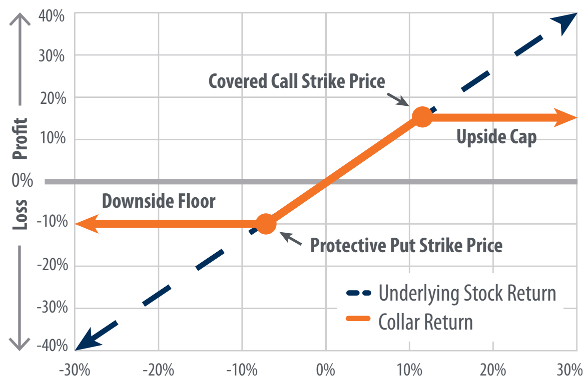
Stock Price Moves Higher But Below Call Strike
The investor will participate in gains to the upside cap.

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

Stock Price Moves Lower But Above Put Strike
The investor will participate in losses to the downside floor.

Stock Price Moves Lower Below Put Strike
The investor will participate in losses to the downside floor and will be protected against further losses.

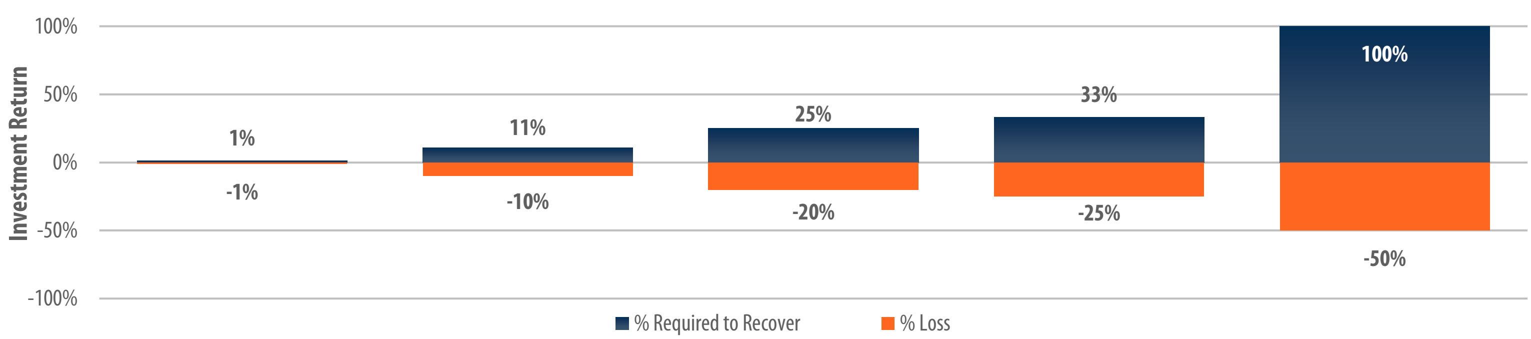
Protective Put + Covered Call = Collar Strategy



This example is for illustrative purposes only and is not based on an actual portfolio. The above scenarios assume the options are exercised or assigned if the underlying securities price exceeds the options strike price. 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 FTA's attempt to repurchase a sold option. Cash flow is not guaranteed over any period. More information may be found on FTA'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 and offsetting the cost of the put purchase by 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.



Options trading is not appropriate for all investors.

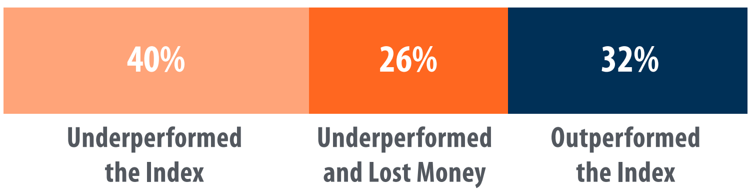
First Trust

Cashless & Credit Collars

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. If that particular stock performs poorly, your entire portfolio may 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]



66% of the S&P 500® Index constituents underperformed the Index.

Since 1990, approximately **25% of the stocks** in the S&P 500® Index went down by at least 50% and remain below that level.

Since 2015, individual stocks in the S&P 500® Index have averaged **28.24%** volatility, compared to **18.11%** for the Index itself.

Why Choose First Trust?

- 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 state-of-the-art 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.

[1]Data from 1/31/1990 to 12/31/2025. 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. Index data shown is for illustrative purposes only and not indicative of any actual investment. Indexes do not charge management fees or brokerage expenses and no such fees or expenses were deducted from the performance shown. Indexes are unmanaged and investor cannot invest directly in an index. **Past performance is no guarantee of future results.**

For additional information, please refer to First Trust Advisor L.P.'s Form ADV Part 2A.

This is not an offer to buy or sell any security and does not include a complete list of all securities purchased or sold in the period or for all clients. Actual holdings will vary and there is no guarantee that any client will hold any mentioned positions. No security or discipline is profitable all the time and there is always the possibility of loss.

While SMAs can be customized, accounts with smaller balances may struggle to achieve optimal diversification across multiple asset classes due to the higher cost of individual securities.

Fees associated with SMAs can be higher than mutual funds and ETFs that include manager, service, and advisory fees. Being able to withdraw cash from an SMA may be delayed due to the amount and type of positions to be sold. Withdrawals may negatively impact the SMA's performance.

There is no assurance that a separately managed account ("SMA") will achieve its investment objective. Accordingly, you can lose money investing in an SMA. SMAs are subject to market risk, which is the possibility that the market values of the securities in an account will decline and that the value of the securities may therefore be less than what you paid for them. The value of investments held by the strategy may increase or decrease in response to economic, financial, and political events (whether real, expected, or perceived) in the U.S. and global markets. It is difficult to predict the timing, duration, and potential adverse effects (e.g., portfolio liquidity) of events.

Writing and buying options are speculative activities and entail investment exposures that are greater than their cost would suggest, meaning that a small investment in an option could have a substantial impact on performance. The use of call and put options can lead to losses because of adverse movements in the price or value of the underlying stock, index, or other asset, which may be magnified by certain features of the options. These risks are heightened when options are used to enhance a client's return or as a substitute for a position or security. When selling a call or put option, a client will receive a premium; however, this premium may not be enough to offset a loss incurred by the client if the price of the underlying asset is above or below, the strike price, respectively, by an amount equal to or greater than the premium. The value of an option may be adversely affected if the market for the option becomes less liquid or smaller and will be affected by changes in the value or yield of the option's underlying asset, an increase in interest rates, a change in the actual or perceived volatility of the stock market or the underlying asset and the remaining time to expiration.

Writing a call or put option can lead to an assignment upon an exercise of a call or put option. In the case of a short call, an assignment can lead to a forced sale of the underlying security being held as collateral. Being short a put can lead to a forced purchase of the underlying security for which additional capital may have to be contributed by the account holder (i.e., "margin call"). Such involuntary sale and purchase transaction may occur at inopportune market times, which could result in losses to an account.

In the case of an option purchase (long call or long put), a client's entire initial investment of premium can be lost. In the case of a covered option short sale (short call or short put), upside gains can be limited by the sale of a short call against an underlying stock position and a forced purchase of stock can occur in the case of a short cash covered put sale. In the case of a naked call or put sale (a call with no underlying stock position and a put with no cash to cover the possibility of a forced stock purchase) there is the risk of unlimited loss in the call position and substantial loss in the put position.

Options trading is not appropriate for all investors. Please refer to Characteristics and Risks of Standardized Options, also known as the options disclosure document (ODD), which discusses potential risks of options issued by the Options Clearing Corporation (OCC), which are typically listed on an exchange. Visit https://www.theocc.com/Company-Information/Documents-and-Archives/Options-Disclosure-Document.

High portfolio turnover may result in higher levels of transaction costs and may generate greater tax liabilities for shareholders.

An SMA strategy with significant exposure to a single asset class, country, region, industry, or sector may be more affected by an adverse economic or political development than a broadly diversified strategy.

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 the securities and potential transactions in this strategy, along with all the other securities and transactions in the investor's 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 Investment Solutions (FTIS). Effective October 31, 2024, FTIS merged into First Trust Advisors L.P. ("FTA"). All business activities, including portfolio management and business records are now performed under FTA.

Kevin Erndl is the portfolio manager for the First Trust Advisors L.P. ("FTA") custom options investment strategies which are offered in the form of a First Trust private fund ("Private Fund") for which Mr. Erndl also sits on the Advisory Board and separately-managed accounts ("SMAs"). Mr. Erndl receives compensation from CWA Asset Management Group, LLC ("CWA") for providing guidance and support to CWA clients who were previously clients of Mr. Erndl before he transitioned to FTA. He does not make any investment decisions on behalf of CWA clients and does not receive an advisory fee or other payment from his former CWA clients. If one of Mr. Erndl's former CWA clients invests in the Private Fund or an SMA investing in a custom options strategy, those client assets are excluded from the FTA assets under management used to calculate Mr. Erndl's compensation.

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.

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