First Trust — Solutions for Concentrated Stock Positions

1 Reasons — 2 Needs — 3 Risks — 4 **Solutions**

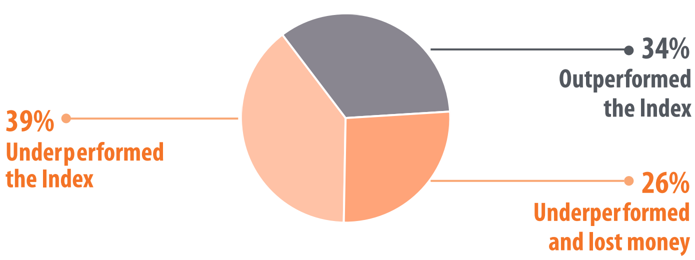
Many investors find themselves with concentrated equity positions for a variety of reasons including:

- **Sale of a business in a stock-for-stock merger**
- **Stock price appreciation during extended bull markets in U.S. equities**
- **Significant appreciation of employer-issued stock and stock options**
- **Inheritance or gifts**

First Trust's custom option strategies seek to mitigate risk and may help achieve a client's goals in several ways:

- Preserve Capital
- Generate Income
- Diversify Exposure
- Offset Capital Gains Tax
- Generate Liquidity
- Increase Borrowing Capacity

Historical Return Breakdown of the S&P 500® Index Constituents[1]



65% 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.

For stocks in the S&P 500® Index since 1990, the average volatility has measured 29.81% compared to 18.08% for the index itself.

[1]Data from 1/31/1990 to 12/31/2024. 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.**

Custom Option Strategies

Our hedging and overlay strategies are executed in separately managed accounts. Each case is fully customized and tailored to the investor's goals and objectives. Every account is unique to that investor and managed according to the policies established.

Income Enhancement

Covered Call Income
Sell a call on an underlying stock. Receive a premium on the call option and participate in potential price gains up to the call strike price.

Hedging Strategies

Protective Puts
Purchases a put on an underlying stock. The premium paid for the put option will establish a floor price. Seeks to protect investors from stock declines below the floor price until the option's expiration date.

Stock Collars
Zero-Premium, Credit and Debit Collars are customized to seek to hedge a concentrated stock position while maintaining a predetermined amount of upside tailored to an investor's desired outcomes.

Diversification Strategies

Covered Call Transition Direct Indexing
Sell a call on an underlying stock while setting time and price limits for the disposition of the stock. Seeks a systematic way for investors to diversify their holdings, participate in stock gains, and receive call option premiums. Cash premiums are paired with direct indexing for potential tax benefits and diversification.

Hedged Equity Exchange
An equity collar is used to hedge a concentrated position. Options are utilized to create diversified market exposure. Diversify market exposure while providing liquidity, flexibility, and control.

First Trust

Solutions for Concentrated Stock Positions

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.

Definitions

An **option** is a contractual obligation between a buyer and a seller. There are two types of options known as "calls" and "puts."

A **call option** gives the holder the right to buy the underlying asset at a predetermined price (the strike price), within a specified time period.

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

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

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

Moneyness is how much an option contract's strike price is in-the-money (ITM) or out-of-the-money (OTM) expressed as a percentage of the price of the option contract's underlying asset.

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