First Trust

Covered Call Transition Direct Indexing

Strategy

The Covered Call Transition Direct Indexing strategy may be attractive for investors seeking a systematic way to diversify their holdings while setting time and price limits for the disposition of their stock. The strategy provides a disciplined approach to selling concentrated stock positions in a tax-efficient manner while allowing investors to participate in potential stock gains and accrue cash premiums from the sale of call options. The cash premiums are paired with direct indexing, via a separately managed account ("SMA"), for potential tax benefits and diversification.

Enhanced Income Potential | **Growth Potential** | **Diversification Potential**

Investment Process

Growth Potential
Concentrated Stock and Equity Holdings in the Direct Indexing SMA

Covered Call Transition

Sell call options on underlying stock while setting time and price limits for the disposition of the stock.

Call option premium, dividends (if any), and called-away stock proceeds are invested in a diversified basket of securities through a Direct Indexing SMA.

Direct Indexing

Track a diversified equity index.

Employ tax-loss harvesting strategies that utilize losses to offset capital gains.

Allows for individual account customization based on personal values or client specific needs.

Potential to offset gains in underlying stock with realized losses from Direct Indexing.

How Covered Calls Work

- For investors interested in enhancing income, the strategy sells a call on the underlying stock.
- The investor receives a premium for the call option sold and participates in potential price gains up to the call strike price.
- Investors may customize their desired income levels and risk of call exercise.

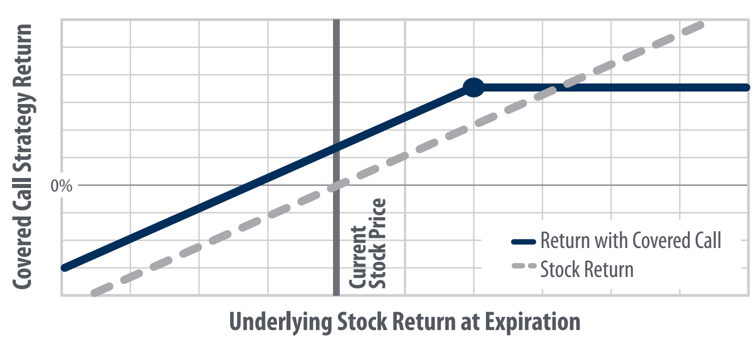
Potential Return Scenarios of the Covered Call Transition Direct Indexing Strategy

Stock Price Moves Higher
If the price of the underlying stock increases, the strategy will participate in gains up to the strike price. The profit potential is equal to the strike price plus call option premium and dividends paid on the underlying stock.

Stock Price Remains Unchanged
If the underlying stock remains unchanged, the profit potential is equal to the option premium received plus any stock dividends.

Stock Price Declines
If the stock price declines, the return is equal to the loss in the stock plus the call option premium and any dividends received.

Covered Call Illustration



The chart is for illustrative purposes only and not indicative of any actual investment. You could lose money by investing in the strategy. Options trading is not appropriate for all investors. There can be no assurance that the strategy will achieve its investment objectives. Diversification does not guarantee a profit or protect against loss.

Covered Call Transition Direct Indexing

What is Direct Indexing?

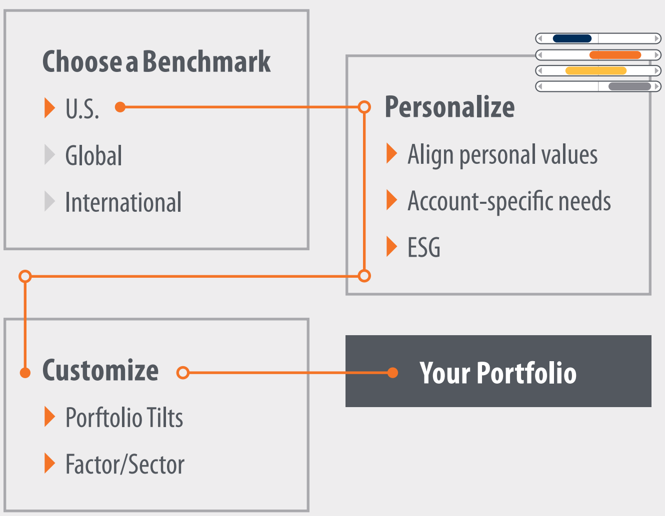
Direct indexing seeks to closely track the performance of a market index while creating tax savings to increase after-tax returns. Investors own individual securities in a portfolio via an SMA. Holding individual securities rather than a single fund allows investors to customize their exposure to the initial index according to their needs while allowing for greater tax efficiency.

Direct indexing seeks to:

- Mimic the exposures of a benchmark while seeking to keep tracking error in line with a specified target.
- Employ tax-loss harvesting strategies that utilize losses to offset potential capital gains realized anywhere in a taxable portfolio.
- Allow individual account customization for personal values or client-specific needs.

Personalization

Whether prioritizing traditional factors, risk management strategies, thematic positioning, or values-based investing, financial professionals can completely customize their clients' exposure to selected benchmarks based on their investment goals and personal values.



The personalization and customization screens shown above are examples. The First Trust Direct Indexing platform provides a menu of 70 levels of customization from which to choose.

Tax-Advantaged Investing

Enhanced After-Tax Returns

Direct indexing utilizes tax-loss harvesting to generate tax alpha, which increases after-tax returns. 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 return that exceeds pre-tax return in excess of a benchmark. The example below illustrates the tax alpha that may be achieved by the growth of an initial investment over a 25-year period.

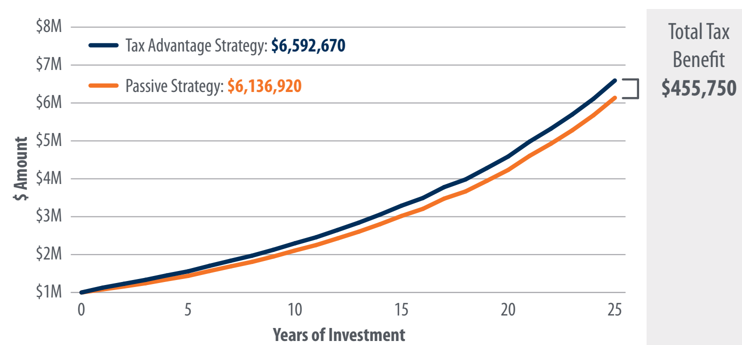
Excess After-tax Return – Excess Pre-tax Return = Tax Alpha

Tax-Efficient Transitions

Proper tax management is especially important when exiting securities with appreciated gains. When transitioning securities into a Direct Index SMA, the account can be funded in-kind without creating a taxable event. The tax management tools available through direct indexing can be used to achieve a tax-efficient portfolio transition and potentially minimize, delay, or avoid net taxes.

Liquidation vs. Transition Tax Savings = Transition Alpha

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%



This sample provided does not reflect the investment results of actual securities and is not a guarantee of future results. Changes to the assumptions will drastically change the results.

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. The Monte Carlo simulation takes an average across 2000 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 over-or-under stated. 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.

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.

Covered Call Transition Direct Indexing

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 index SMA, can be funded with either cash or with 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	X	✓
Potential to create transition alpha	X	X	✓
Portfolio customization	X	X	✓
Ability to fund in-kind	X	X	✓

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." 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 **covered call** is an option strategy where the investor sells a call option while also owning the underlying security.

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.

A **premium** is the income received by an investor who sells the option contract to another party.

Tax alpha (after-tax portfolio return – after-tax benchmark return) – (pre-tax portfolio return – pre-tax benchmark return).

IMPORTANT: THE INFORMATION CONTAINED HEREIN DOES NOT CONSTITUTE AN INVITATION, OFFER, SOLICITATION OR RECOMMENDATION TO ENGAGE IN ANY OPTIONS TRADING STRATEGY. An investment decision should not be made based solely on the information presented herein. There is no guarantee any options sold will not be exercised prior to FTA's attempt to close out a short options position. This will cause an investor to sell shares of their existing stock position at the option strike price in the case of a call option, or purchase shares at the strike price in the case of a put option and will limit an investor's ability to participate in potential gains or avoid losses beyond the strike price. This should not be construed as a representation that any portfolio will, or is likely to, achieve a specific level of profits, losses or tax savings. Results may vary over time. Accordingly, the information provided should not be considered indicative of the competence or skill of FTA.

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 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. custom options investment strategies. Mr. Erndl is also registered with an unaffiliated investment advisor, CWA Asset Management Group, LLC ("CWA"). Mr. Erndl is allowed to remain an investment adviser representative with CWA in order to service his current CWA client accounts ("CWA clients") during a transition period of up to 20 months beginning August 31, 2023 ("transition period"). Mr. Erndl receives compensation from CWA in exchange for providing his CWA clients advisory services through CWA during the transition period. Mr. Erndl will not seek any new CWA clients. In addition, during this transition period, Mr. Erndl's activities, as they relate to his CWA clients, will be limited to providing financial planning and guidance on asset allocation. He will not make any investment decisions on behalf of his CWA clients. The assets of Mr. Erndl's CWA clients invested in a custom options investment strategy managed by Mr. Erndl will be deducted from strategy assets under management when calculating advisory fees so that CWA clients will not be charged twice for advisory services.

There can be no assurance that a strategy will achieve its investment objectives. For additional information, please refer to FTA's Form ADV Part 2A.

Key Options Risks:

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.

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.

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