

# First Trust Equity Managed Floor Strategy

The First Trust Equity Managed Floor Strategy seeks to provide partial capital appreciation without a fixed cap while providing downside protection at a level that defines an investor's maximum potential loss over the course of a one year outcome period.



**Downside Protection Level**



**Growth Potential**



**Tax-Advantaged**



**Market Exposure**

## Premium Direct Indexing™ | Direct Indexing + Option Overlay

The strategy seeks to achieve its objective by providing tax-advantaged exposure to the large-cap segment of the U.S. equity market through an "equity strategy" and by utilizing U.S. exchange-traded call options on the S&P 500® Index to create a known "floor".

### Equity Portfolio

The strategy uses Direct Indexing to invest in individual stocks that seek to closely track the performance of the S&P 500® Index while monitoring the portfolio for tax loss harvesting ("TLH") opportunities.

### Managed Floor Option Strategy

The strategy consists of purchasing a long term out-of-the-money ("OTM") S&P 500® Index put option to set a downside protection level against potential losses and writing (selling) weekly at-the-money ("ATM") S&P 500® Index call options on a portion of a portfolio to generate premiums to offset the cost of the put purchase. Selling weekly call options will set an upside participation rate on potential gains.

### Investment Process

**Growth & Tax Loss Harvesting Potential | Invest in S&P 500® Index Direct Indexing Strategy**

#### Managed Floor Option Strategy

##### Protective Put

Purchase OTM S&P 500® Index put options at predetermined level to set downside floor (limit on possible loss)



##### Call Option

Write weekly ATM S&P 500® Index call options to offset the cost of the put and set the participation rate on potential upside participation

Options trading strategies have characteristics unlike many other traditional investments and may not be appropriate for all investors. You could lose money by investing in the strategy. There can be no assurance that the strategy will achieve its investment objectives. Refer to Definitions for an explanation of terms.

## Minimizing Losses Can Significantly Impact the Value of a Portfolio

Losses can significantly impact investments because they require a larger percentage gain to recover compared to the initial loss. The math of percentages shows that as losses increase, the return needed to break even rises at a faster rate. For example, a 10% loss requires an 11% gain to recover, while a 50% loss demands a 100% gain just to break even. The managed floor option strategy may minimize losses by providing a defined level of protection, encouraging investors to stay invested. However, this strategy also limits potential gains.

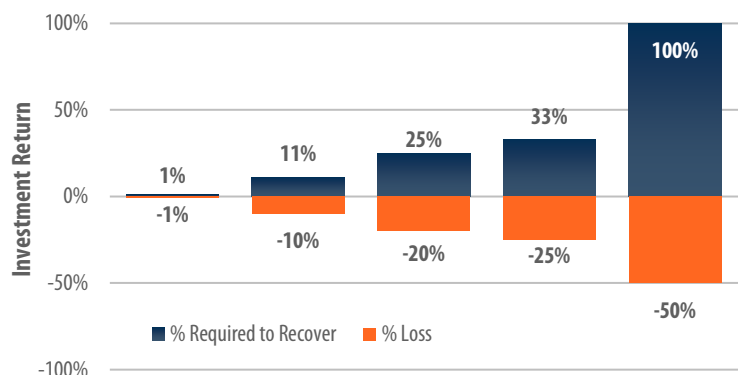
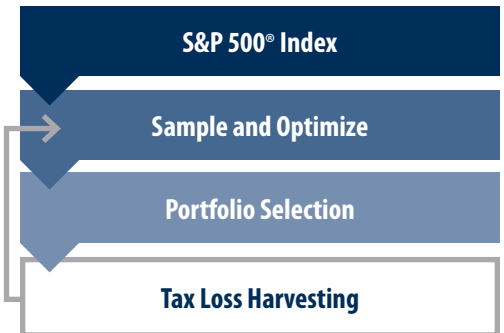
The chart is for illustrative purposes only and not indicative of any actual investment.

### Portfolio Information

Account Minimum	\$500,000
Inception Date	10/1/23
Primary Benchmark	Cboe S&P 500® 95-110 Collar Index
Secondary Benchmark	S&P 500® Index
Strategy Type	Premium Direct Indexing™

### TLH with Direct Indexing

Direct Indexing provides exposure to a benchmark index through direct ownership of individual securities in a portfolio via a separately managed account (SMA). The SMA offers ongoing portfolio review for TLH to provide the potential to generate tax savings. The harvested losses may increase the after-tax returns generated in this strategy or offset other gains realized in an investor's broader portfolio.



## Potential Return Scenarios of the Equity Managed Floor Strategy

### Index Price Moves Higher and Stays Above the Call Strike

The investor will partially participate in gains with no upside cap on the portion of assets not covered by an at-the-money call option.

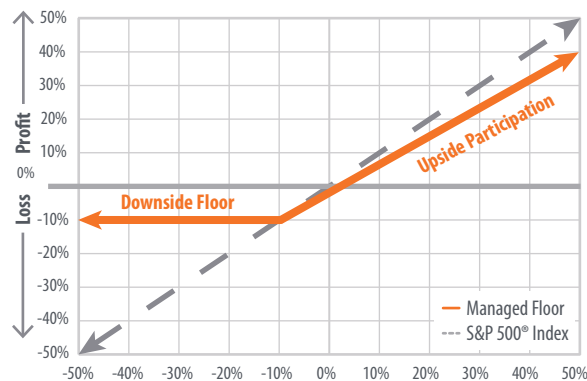
### Index Price Moves Lower But Above the Put Strike

The investor will participate in losses to the downside floor.

### Index Price Moves Below the Put Strike

The investor will participate in losses to the downside floor but will be protected against losses below the downside floor.

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. Index options are settled in cash creating realized capital gains or losses. 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.



## What is an SMA?

SMAs are investment accounts managed by professional asset managers on behalf of individual investors or institutions. Unlike mutual funds or exchange-traded funds (ETFs), which pool money from multiple investors into a single fund, SMAs are personalized investment portfolios tailored to the specific needs and preferences of a single investor.

### Potential Benefits

Seeks to match or exceed the returns of a benchmark

Tax efficiency

Potential to create tax alpha

Potential for tax-efficient transitions

Portfolio customization

Ability to fund in-kind

	Mutual Funds	ETFs	SMAs
Seeks to match or exceed the returns of a benchmark	✓	✓	✓
Tax efficiency	X	✓	✓
Potential to create tax alpha	X	X	✓
Potential for tax-efficient transitions	X	X	✓
Portfolio customization	X	X	✓
Ability to fund in-kind	X	X	✓

### 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.

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.

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.

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 First Trust Advisor L.P.'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.

### 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.

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

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

**Downside floor** is a limit on a possible loss during the collar implementation.

**Upside participation** measures the gain for a portfolio relative to the gain of a benchmark.

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