First Trust

# First Trust Large Cap Equity Target High Income

The First Trust Large Cap Equity Target High Income strategy seeks to provide current income and capital appreciation.

**Target Income Annual Level:**
**10% over the annual dividend yield of the S&P 500® Index[1]**

[1]Before fees and expenses.

High Income Potential

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 an "option strategy" consisting of writing (selling) U.S. exchange-traded call options on the S&P 500® Index.

## 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.

## Target Income Option Strategy

The strategy uses a partial call selling option strategy that seeks additional cash flows in the form of option premiums received from writing (selling) call options on the S&P 500® Index. In exchange for the option premiums, the strategy will forgo some of the upside potential of the equity securities.

## Two Sources of Income Potential

Each week, the portfolio managers review the trailing twelve month income generated from the option premiums and dividends to its target distribution level and looks to bridge any difference with the premiums from the call options while still participating in some of the price appreciation potential of the equity securities.

## Investment Process

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

**Target Income Option Strategy**

Compare total income from equity portfolio to Target Income Annual Rate. > Sell at-the-money (ATM) call options on the S&P 500® Index for portion of portfolio. >

**Two Sources of Income Potential**

**Stock dividends**
+
**Option premiums**

**Target Income:** 10% over annual dividend yield of S&P 500® Index[1]

**Repeat Process Weekly**

**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.

## Portfolio Information

| | |
|---|---|
| Account Minimum | $500,000 |
| Inception Date | 9/1/24 |
| Primary Benchmark | Cboe S&P 500® Buy-Write |
| Secondary Benchmark | S&P 500® Index |
| Account 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.

**S&P 500® Index**

**Sample and Optimize**

**Portfolio Selection**

**Tax Loss Harvesting**

There is no guarantee that the strategy's income target will be achieved. The strategy does not seek to achieve any specific level of total return performance compared with the total return performance of the S&P 500® Index. Capital appreciation on the securities held by the strategy may be less than the capital appreciation of the S&P 500® Index, and the total return performance of the strategy may be less than the total return performance of the S&P 500® Index. Dividend growth among the companies included in the strategy may not necessarily correlate with the overall performance of the strategy. There is no guarantee that companies will declare dividends in the future or that, if declared, they will either remain at current levels or increase over time.

First Trust

# First Trust Large Cap Equity Target High Income

## 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 | 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 | ✓ |

**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.

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.

Securities of small- and mid-capitalization companies may experience greater price volatility and be less liquid than larger, more established companies whereas large capitalization companies may grow at a slower rate than the overall market.

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.

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

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.

Investment Strategies that seek to enhance after-tax performance may be unable to fully realize strategic gains or harvest losses due to various factors. Market conditions may limit the ability to generate tax losses. Tax-loss harvesting involves the risks that the new investment could perform worse than the original investment and that transaction costs could offset the tax benefit. Also, a tax-managed strategy may cause a client portfolio to hold a security in order to achieve more favorable tax treatment or to sell a security in order to create tax losses.

**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.

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.

## 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 buyers of options have the right, but not the obligation to buy (call option) or sell (put option) an underlying asset at a specified strike price within a certain time frame. Sellers of options may be obligated to sell (call option) or buy (put option) the underlying asset if the buyer exercises the option.

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.

Scan to view ODD