



First Trust Long/Short Premium Direct Indexing™

The First Trust Long/Short Premium Direct Indexing™ strategy seeks to provide investors with capital appreciation and enhanced tax-loss harvesting opportunities compared to a traditional long only direct indexing account.

Portfolio Information

Account Minimum	\$1,000,000
Inception Date	3/7/25
Benchmark	S&P 500® Index
Account Type	Premium Direct Indexing™

The pursuit of outperformance, or alpha, is a perennial challenge for investors, especially those in taxable accounts. Rather than chasing the uncertain prospect of traditional alpha, the First Trust Long/Short Premium Direct Indexing™ strategy focuses on maximizing the impact of tax-loss harvesting. The strategy is built on First Trust's Premium Direct Indexing™ platform, which offers a structurally distinct approach designed to capture potential tax benefits more consistently over time.

A Tax-Advantaged Framework

The strategy pairs a long portfolio with an offsetting short portfolio. Key features include:

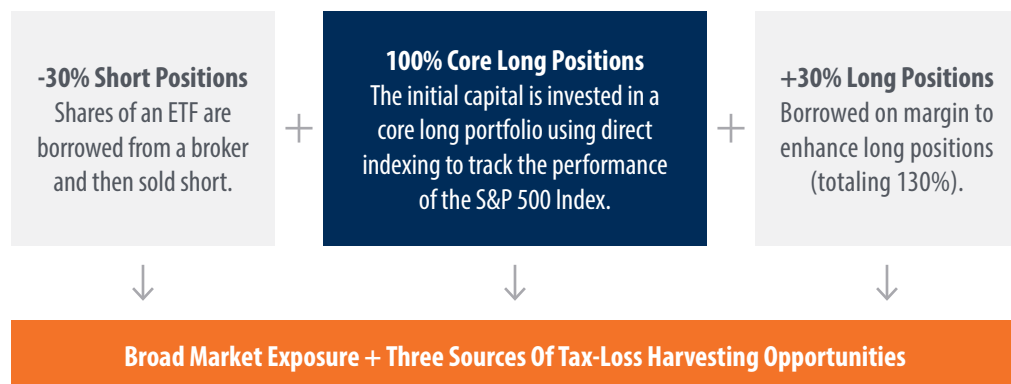
- » **Full Market Exposure**
Retains 100% net long exposure, with a target beta of 1.00 to the S&P 500 Index and minimal tracking error.
- » **Multiple Sources of Tax-Loss Harvesting**
Enables multiple sources of tax-loss harvesting through individual stocks in the long portfolio and broad-market exchange-traded funds (ETFs) in the short portfolio.
- » **Transparency**
Complete visibility into all holdings within your account.

This strategy borrows money on margin to increase the long exposure while simultaneously shorting broad-market ETFs. The example below describes how the strategy works with 130% long exposure and an offsetting 30% short position for a net exposure of 100%.

Long Position (130%): Direct indexing is used to purchase individual securities designed to closely track the benchmark. The long exposure includes the initial 100% investment plus an additional 30% funded by borrowed money (margin).

Short Position (30%): A 30% short position is established in highly liquid, market-tracking ETFs (e.g., SPY). This short position is used solely to offset the additional 30% long position and to provide additional opportunities for harvesting losses, not for market timing or to reflect a bearish view.

How it Works: The Long/Short Structure



There is no guarantee that tax-loss harvesting will achieve value creation.

Enhanced Tax-Loss Harvesting

The long/short structure acts as an engine for tax-loss harvesting, introducing two additional sources to increase the likelihood of finding harvestable losses in any market environment.

Down Markets: With 130% invested long, the portfolio naturally holds more exposure to the market than a 100% long portfolio. When the market declines, this magnified exposure has the potential to provide greater realized losses (tax assets) to offset gains elsewhere.

Up Markets: Even in rising markets, stock returns diverge, some advance strongly, others lag, and some still decline. A 130% long portfolio increases the impact of holding positions that underperform or experience short-term pullbacks during a rally, creating more tax-loss harvesting value than a 100% long portfolio.

Short Portfolio Contribution: Rising prices in a shorted security can generate realized losses when positions are closed, adding a second source of tax assets.

Definitions

Tax-loss harvesting is a strategy where investors sell investments at a loss to offset capital gains taxes on other investments.

The **S&P 500® Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. **SPDR® S&P 500® ETF Trust ("SPY")** is an exchange-traded fund based on the S&P 500 Index.

"Long" and "short" are investment terms used to describe ownership of securities. To buy securities is to "go long." The opposite of going long is "selling short." Short selling is an advanced trading strategy that involves selling a borrowed security. Short sellers make a profit if the price of the security goes down and they are able to buy the security at a lower amount than the price at which they sold the security short.

Alpha is an indication of how much an investment outperforms or underperforms on a risk-adjusted basis relative to its benchmark.

Beta is a measure of a portfolio's sensitivity to market movements. A beta of 1.0 means the security is expected to move in line with the market.

Margin refers to the use of borrowed funds from a brokerage firm to purchase securities. In essence, it allows investors to buy more stocks than they could otherwise afford with their available capital.

The Premium Direct Indexing™ Difference: Customization and Continuous Tax-Loss Harvesting

A key challenge for long-term direct indexing investors is sustaining the benefits of tax-loss harvesting over time. “Portfolio ossification” occurs when successful long-term tax-loss harvesting drives the cost basis of portfolio holdings so low that new harvesting opportunities become scarce. At that point, the portfolio “hardens,” and its tax advantages gradually diminish. The First Trust Long/Short Premium Direct Indexing™ strategy is designed to directly combat this issue. By harvesting losses from both the long and short sides, the strategy seeks to create a persistent source of tax-loss harvesting, helping to prevent the portfolio from becoming “locked up” with unrealized gains.

In addition, Premium Direct Indexing offers a high level of customization:

Risk Management: Flexibility to adjust long/short exposure (e.g., 120/20, 130/30, 200/100) to align with an investor’s risk tolerance, market outlook, or liquidity considerations. This adaptability helps balance the opportunity for tax-loss harvesting with appropriate levels of gross exposure and volatility.

Concentrated Position Management: Build a portfolio around an existing concentrated stock position to manage risk and tax liability.

The impact of taxes can be one of the most significant determinants of long-term wealth accumulation. A strategy that delivers strong pre-tax returns can be far less compelling once the tax bill comes due. By combining long and short exposures, the First Trust Long/Short Premium Direct Indexing™ strategy is designed to generate a consistent flow of harvestable losses that can be used to offset gains from other investments, while keeping market exposure aligned with the benchmark.

Risk Considerations and Other Important Information

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.

Investment strategies that involve the use of margin may amplify losses. Using Margin as part of an investment strategy can be very risky and is not appropriate for everyone. Some of these strategies may expose you to losses that exceed your initial investment amount (i.e., you will owe money to your broker in addition to the investment loss). Before investing in a strategy that uses margin account, you should fully understand that:

- You can lose more money than you have invested;
- You will be responsible for the full amount borrowed plus any commissions, fees, interest or other charges that you incur by trading or being on margin.
- You may have to deposit additional cash or securities in your account on short notice to cover market losses;
- You may be forced to sell some or all of your securities when falling stock prices reduce the value of your securities;
- Your account custodian may sell some or all of your securities without consulting you to pay off your margin loan;
- You are not entitled to choose which securities your account custodian sells in your accounts to cover your margin loan;
- Your account custodian can increase its margin requirements at any time and is not required to provide you with advance notice; and
- You are not entitled to an extension of time on a margin call.

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.

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 through the end of 2025 (“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 First Trust Advisors L.P. 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.