

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

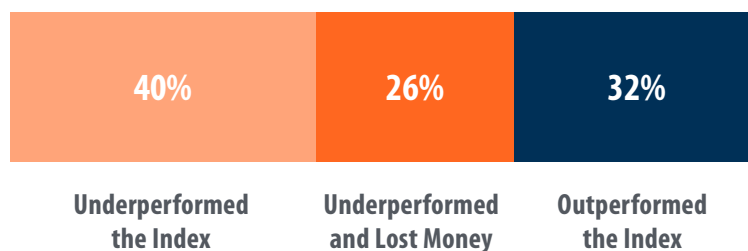
Many investors find themselves with concentrated equity positions for a variety of reasons including:

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

## Historical Return Breakdown of the S&P 500® Index Constituents<sup>1</sup>



**66% of the S&P 500® Index constituents underperformed the Index.**

Since 1990, approximately **25% of the stocks** in the S&P 500® Index went down by at least 50% and remain below that level.

Since 2015, individual stocks in the S&P 500® Index have averaged **28.24%** volatility, compared to **18.11%** for the Index itself.

<sup>1</sup>Data from 1/31/1990 to 12/31/2025. 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.

**Options trading is not appropriate for all investors.** Diversification does not guarantee a profit or protect against loss.

### 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.

## 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.

### 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.

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.

**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 the securities and potential transactions in this strategy, along with all the other securities and transactions in the investor's 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>.

The strategies were 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. ("FTA") custom options investment strategies which are offered in the form of a First Trust private fund ("Private Fund") for which Mr. Erndl also sits on the Advisory Board and separately-managed accounts ("SMAs"). Mr. Erndl receives compensation from CWA Asset Management Group, LLC ("CWA") for providing guidance and support to CWA clients who were previously clients of Mr. Erndl before he transitioned to FTA. He does not make any investment decisions on behalf of CWA clients and does not receive an advisory fee or other payment from his former CWA clients. If one of Mr. Erndl's former CWA clients invests in the Private Fund or an SMA investing in a custom options strategy, those client assets are excluded from the FTA assets under management used to calculate Mr. Erndl's compensation.

## 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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