



First Trust Long/Short Premium Direct Indexing™

The First Trust Long/Short Premium Direct Indexing™ strategy seeks to provide investors with capital appreciation while also engaging in tax-loss harvesting opportunities.

The First Trust Long/Short Premium Direct Indexing™ strategy is designed for investors seeking more from their portfolios – more sophistication, more flexibility in managing liquidity, and more opportunities for tax efficiency. In a market where it's increasingly difficult for investors to meet those objectives through traditional means, this strategy offers a distinctive path forward. Built on First Trust's Premium Direct Indexing™ platform, it combines the transparency and control of direct indexing with an advanced long/short strategy that brings new depth, flexibility, and adaptability to portfolios.

Key Features

- » **Greater Sophistication:** The strategy pairs a long portfolio with an offsetting short portfolio, providing the potential to capture a broader range of market movements and opportunities.
- » **Full Market Exposure:** Seeks to retain 100% net long exposure, maintain a target beta of 1.00 to the benchmark and minimize tracking error.
- » **Transparency:** Provides complete visibility into all holdings within your account.
- » **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.

How It Works: The Long/Short Structure

This strategy borrows money on margin to increase the long exposure while simultaneously shorting broad-market ETFs to manage the downside risk of the leveraged long exposure. 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 without substantial overlap with the short position.¹ 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, broad market ETFs (e.g., VTI) that track equity indexes that are different from the benchmark. This short position is used to provide a potential downside hedge with the ability for loss opportunities.¹



¹Differences in the performance profiles and overlap restrictions between the long and short positions will lead to increased tracking error when compared to traditional direct indexing strategies.

There is no guarantee that tax-loss harvesting will achieve value creation. The Long/Short strategy requires investors to open a margin account. Margin costs will vary by account custodian and will negatively impact the performance an investor within the Long/Short strategy will achieve.

Portfolio Information

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

The Premium Direct Indexing™ Difference

Market Choice

Customize exposure across U.S., International, or Global equity indexes.

Strategic Transition Management

Proper tax management is especially important when exiting securities with appreciated gains. The strategy's disciplined long/short design enables investors to gradually unwind concentrated holdings while staying invested, allowing for an efficient, tax-aware transition to a more diversified portfolio.

The Power of Compounding

Premium Direct Indexing can be a powerful tool to reduce the "drag" taxes may have on a portfolio, allowing more of your money to stay invested and compound over time.

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.

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.

Preventing Portfolio Ossification

A key challenge for long-term 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.

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 aims 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 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).

Definitions

The **S&P 500® Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance.

Vanguard Total Stock Market ETF (“VTI”) is an exchange traded fund based on the CRSP US Total Market Index, which represents approximately 100% of the investable U.S. stock market and includes large-, mid-, small-, and micro-cap stocks regularly traded on the New York Stock Exchange and Nasdaq.

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.

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.

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. (“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.