

# Market-Linked Certificates of Deposit (MLCDs)



- 100% Principal Protection When Held to Maturity\*
- FDIC Insured\*\*
- Income and Growth Potential

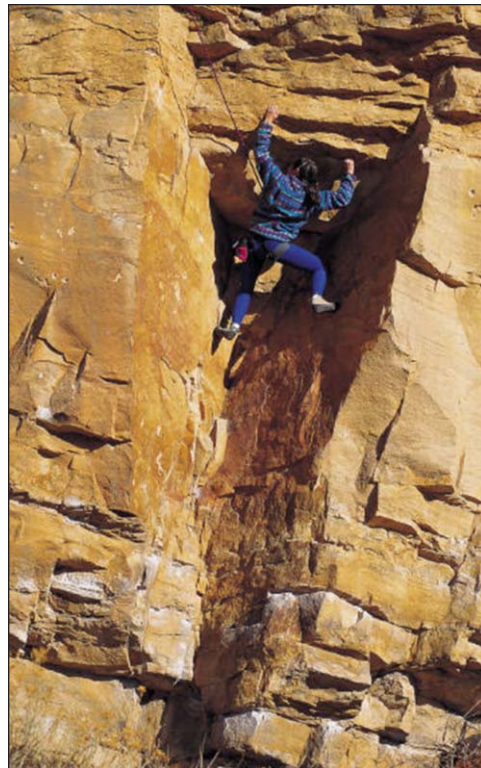
\*Principal protection is the return of an investor's initial principal amount if held to maturity. MLCDs should be purchased with the intention of holding them until maturity. Some MLCDs may offer an early redemption opportunity, allowing holders the option to redeem prior to maturity. Generally MLCDs held to maturity are entitled to full return of the principal amount invested. A secondary market for the MLCDs may develop, although there is no guarantee that any person will maintain a secondary market. The value of the MLCD sold prior to maturity in the secondary market will be subject to then prevailing market conditions and may include a transaction charge. The sale proceeds may be less or more than the original purchase amount paid.

\*\*Market-Linked CDs are FDIC insured up to the FDIC limits. Any amount that exceeds the FDIC limits is subject to the credit and claims paying ability of the issuer.

 **First Trust**

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Market-Linked CDs allow an investor to participate in the upside potential of the market...



...while offering the potential for repayment of principal at maturity\*

\*MLCDs are FDIC insured up to the FDIC limits. Any amount that exceeds the FDIC limits is subject to the credit and claims paying ability of the issuer.

### ■ FDIC Insurance

Market-Linked CDs carry federal deposit insurance administered by the FDIC and backed by the full faith and credit of the U.S. Government, up to a maximum amount for all deposits held in the same legal capacity per depository institution. In general, FDIC insurance covers the principal of, and any accrued interest on, the Market-Linked CDs. FDIC insurance covers the deposits up to \$250,000 for all deposits held in the same legal capacity per depositor, per institution. Amounts exceeding the FDIC limits are subject to the credit and claims paying ability of the issuer.

### ■ Estate Feature

The estate feature, also known as a “death put” or “survivor’s option”, is a benefit that may be appealing to investors concerned about their estate because their beneficiaries can redeem the Market-Linked CD at par, without interest, before maturity upon death or adjudication of incompetence. The terms and conditions regarding redemptions, including amounts that may be available, are subject to the terms and conditions of the issuer.

### ■ Secondary Market

Some issuers may maintain a secondary market, but they are not obligated to do so. Investors should purchase a Market-Linked CD with the intent to hold it to maturity. Currently there is no established secondary trading market for Market-Linked CDs, and therefore, limited opportunities, if any, to redeem prior to maturity. In the event that clients are able to redeem Market-Linked CDs prior to maturity, the CDs may redeem at less than the original amount due to fluctuations in the underlying assets and other market factors. Liquidity varies by issuer. Some may provide daily liquidity, while others allow redemptions on the secondary market on a limited basis.

### ■ Versatility

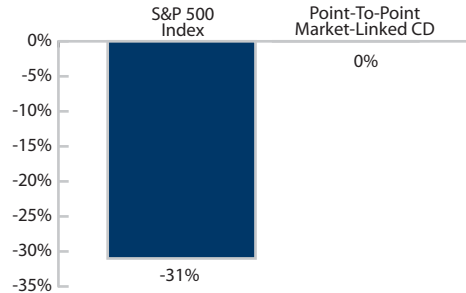
Market-Linked CDs are highly versatile instruments as they may fit a variety of market outlooks and may hedge a variety of existing positions. The versatile characteristic of Market-Linked CDs is reflected in the variety of performance structures that are available. However, many Market-Linked CDs have complex payout structures that impact returns. Market-Linked CDs subject investors to the risks associated with the underlying reference asset and are not suitable for all investors.



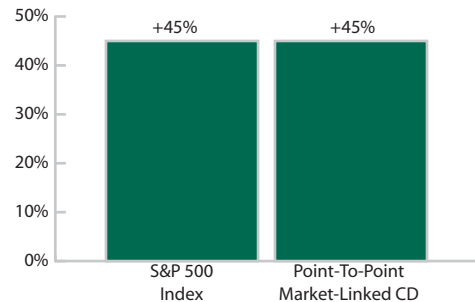
### Hypothetical Market-Linked CD Terms:

- Performance Structure: Point-To-Point
- Underlying Reference Asset: S&P 500 Index
- Participation Rate: 100%
- Maximum Return: 60%

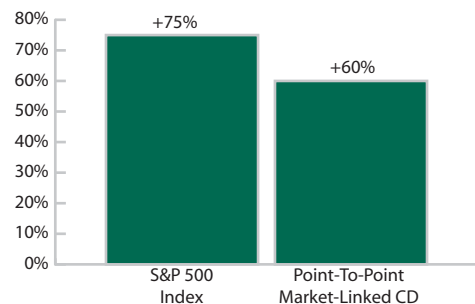
If the underlying reference asset has a negative return at maturity, the Market-Linked CD returns the investor's initial principal at maturity.



Since the participation rate is 100% in this hypothetical example, at maturity the Market-Linked CD investor participates in 100% of the upside performance of the underlying reference asset up to the maximum return.

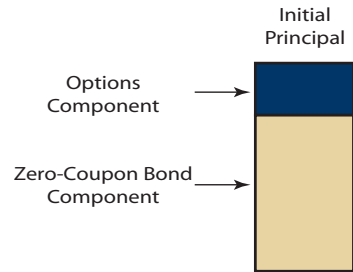


In this hypothetical example, the underlying reference asset's performance at maturity exceeds the 60% maximum return of the MLCD. Therefore, the investor only receives the maximum return of the MLCD and the initial principal at maturity.

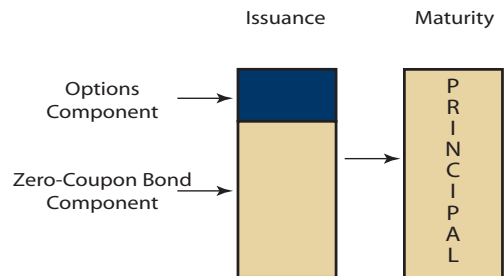


The examples are for illustrative purposes only; not a specific product. MLCDs have complex payout structures that impact returns. MLCDs subject investors to the risks associated with the underlying reference asset and may not be suitable for all investors.

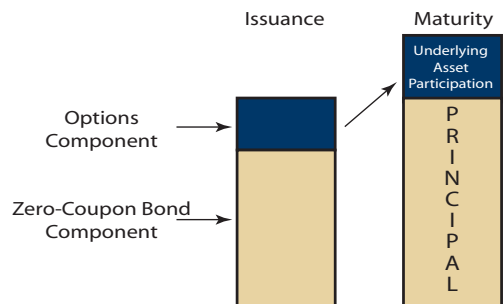
Market-Linked CDs are generally composed of two main components: a zero-coupon bond component and an options component.



The zero-coupon bond component provides principal protection at maturity because the maturing value is equivalent to the initial principal. This component is purchased at a discount to face value and the remainder of the initial principal is invested in options.



The options component provides the performance link to the underlying reference asset. Depending on the underlying reference asset, the options component may consist of one or several options. Since options are purchased and not the actual underlying reference asset itself, there are no cash payments as a result of distributions from the underlying reference asset.



For example, if the underlying reference asset is a stock and the stock issuer pays a cash dividend, the CD investor does not receive any portion of the cash dividend because the Market-Linked CD is hedged with options, not the actual stock.

The examples are for illustrative purposes only; not a specific product. Market-Linked CDs are complex products and the components of any MLCD can vary depending on the terms of the MLCD.

## Market-Linked CDs may be treated differently than traditional CDs for tax purposes.

### Investor Pays Annual Income Taxes

For Market-Linked CDs treated as “contingent payment debt instruments” for U.S. federal income tax purposes, the bearer of an Market-Linked CD may be required to pay annual income taxes on a “comparable yield” from a coupon paying debt instrument as determined by the issuer. The interest reported each year will be added to the investor’s cost basis.

Generally, amounts received in excess of the investor’s adjusted cost basis will be treated as additional interest income while any loss will be treated as an ordinary loss, which will be deductible against other income.

For CDs treated as “variable rate debt instruments”; interest paid on the CDs should generally be taxable to you as ordinary interest income at the time it accrues or is received in accordance with your regular method of accounting for U.S. federal income tax purposes. In general, gain or loss realized on the sale, exchange or other disposition of the CDs will be capital gain or loss.

Investors should consult their tax advisor regarding the tax implications of an investment in Market-Linked CDs, and whether it is advisable to make the investment in light of their tax situation.



## Risk and Important Considerations

*Liquidity Risk:* Liquidity risk will exist if the issuer chooses not to maintain a secondary market. Available liquidity may vary by issuer. Some issuers may maintain daily liquidity while others may be more limited. Early withdrawal is generally not permitted.

*Secondary Market Risk:* Investors who sell MLCDs prior to maturity are subject to secondary market risk, including the risk of loss, as the market price may be less than the initial principal or face value. There is no guarantee of principal return unless the MLCD is held to maturity. Factors that determine secondary market pricing may include, but are not limited to, supply and demand, general market conditions, then-current interest rates, the level, liquidity and volatility of any relevant index and time remaining until maturity. These factors differ from the parameters used to calculate the CD's final return at maturity. Therefore, secondary market pricing may not be equivalent to a return determined by the calculation method used at maturity.

*Credit Risk:* Any amount higher than the maximum amount insured by the FDIC is an obligation of the issuer and is not insured by the FDIC. This portion is subject to the credit and claims paying ability of the issuer.

*Call Risk:* A MLCD may be callable at the option of the issuer. If the issuer exercises that option, the client will only receive the applicable call price and will not receive any interest payments that would have been payable for the remainder of the term of the MLCD.

*May Not Pay Periodic Interest Payments:* Some MLCDs pay a contingent interest payment only at maturity. MLCDs with an income opportunity performance structure, however, generally pay a variable-interest rate, ranging from zero to a pre-determined maximum amount, periodically depending on the performance of the underlying reference asset or index.

*Opportunity Costs:* The opportunity cost of investing in MLCDs can be defined as the forgone "risk-free rate of return" that would be received if the principal was invested in other fixed-income investments.

*No Early Redemption:* MLCDs should be purchased with the intention of holding them until maturity. Some MLCDs may offer an early redemption opportunity, allowing holders the option to redeem prior to maturity. Generally MLCDs held to maturity are entitled to full return of the principal amount invested. A secondary market for the MLCDs may develop, although there is no guarantee that any person will maintain a secondary market. The value of the MLCD sold prior to maturity in the secondary market will be subject to then prevailing market conditions and may include a transaction charge. The sale proceeds may be less or more than the original purchase amount paid.

*FDIC Insurance:* FDIC insurance does not protect against loss if the MLCD is sold or redeemed prior to maturity. Furthermore, FDIC insurance applies only to the principal amount and the accrued interest, if any, of the MLCD. FDIC insurance protects the deposits up to \$250,000 for all deposits held in the same legal capacity per depositor, per institution. Amounts exceeding the FDIC limits are subject to the credit and claims paying ability of the issuer.

**There are a wide variety of MLCDs available, with attributes which affect their risks and potential rewards. Before making any investment decision, you should obtain advice from your financial, legal and tax advisers for information about and analysis of the investment, its risks and its suitability in your particular circumstances.**



**For additional information contact First Trust at:  
1-877-387-8444 or visit us on the web at [www.ftportfolios.com](http://www.ftportfolios.com)**