First Trust Portfolios L.P.

UIT Questions & Answers

What is a unit investment trust (UIT)?
A UIT is a fixed portfolio of securities, held for a predetermined time, investors purchase units which represent an undivided ownership in the securities contained in the portfolio.

How are they priced?
UITs are priced at the end of the day, similar to mutual funds, based on the market price of the underlying securities.

How can I find pricing for UITs?
UITs have ticker symbols and pricing can be found on financial websites as well as the sponsor of the UITs website.

What happens when the UIT matures?
There are three options. First, if the investor holds the appropriate number of units in a UIT (usually 2500 units) the investor can elect to take the securities in kind. This allows investors to control the timing of when they sell their shares. They also will incur capital gains on those shares. Second, the investor may elect to invest their proceeds into another UIT at a reduced sales charge. This will be a taxable event in a taxable account. Third the investor may do nothing and the trust will liquidate and distribute its proceeds to unit holders. This is also a taxable event.

Can a security be removed from a portfolio?
A UIT is supervised and can only liquidate a security for serious issues like fraud, bankruptcy and a severe change in credit rating.

What are the minimum investments in UITs?
Typically the minimums are $500 for non taxable accounts and $1000 for taxable accounts.

Are UITs only for commission accounts?
No. Most UITs are also available at NAV in the majority of fee based platforms. The NAV price does not include the initial or deferred sales charges, but will be reduced by the creation and development fee and expenses. The creation and development fee is a sales charge payable to the UIT sponsor. The sponsor does not receive management fees.

It is best to check with your individual brokerage firm to see what is approved on your fee based platform.

What are the different types of UITs that First Trust Portfolios L.P. offers?
The main types of UITs are asset allocation, sector, strategy, theme, and income oriented UITs.

How do UITs fit into sector investing?
UITs take a diversified approach to sector investing. Instead of choosing a single company in a sector, a UIT buys a group of 25 to 30 companies in that sector. This spreads the investment risk out among more holdings.

What is Strategy investing?
Strategy investing is investing based on a previously tested plan and having the discipline to stick with it. It is unemotional and often quantitative.

What is an example of a Strategy UIT?
A very popular strategy is the Dogs of the Dow. The Dogs of the Dow strategy is a quantitative strategy based off the DJIA. The Strategy buys the 10 highest dividend yielding stocks of the DJIA, holds them for one year then repeats the process.

What is theme investing?
Theme investing is simply taking an idea or trend that doesn't fit neatly into a sector or asset class. Portfolios of this type invest in companies across a variety of sectors that share a common theme such as global blue-chip companies or companies that sell brand name products.

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Are there UITs for all areas of investing?
Yes. UITs have many unique characteristics that lend themselves to be an effective option when considering all types of investing.

What if investors don't want to liquidate their holdings at the end of the portfolios investment horizon?
Investors with initial investments of $25,000 or more may request an in-kind distribution of the underlying securities and continue holding them with the original cost basis. This gives investors greater tax control allowing them to manage when they sell their holdings and realize capital gains or losses.

What happens if a company in the portfolio is merged or acquired by another company?
If the acquisition or merger is in exchange for stock, investors will receive their proportionate share of stock in the new entity. For cash transactions investors will receive their share of the cash or it will be reinvested of the investor chooses dividend reinvestment.

What if a portfolio holding is losing value?
A holding may be eliminated for credit reasons under extreme circumstances. Typically all holdings remain in the portfolio regardless of market value. Similar to an index, holdings are not removed based on price movement.

The Investment Approach of UITs

How do UITs differ from a mutual fund?
First, mutual funds are similar because they offer investment in stocks or bonds. But there are two differences. UITs employ a "buy-hold" strategy, which provides a portfolio that remains fixed for the life of the trust. Second, UITs are not actively managed.

How are securities in the UIT chosen?
The equities included in the trust are screened for quality and suitability according to the specific objectives of each UIT.

How does one determine suitability?
The types of UITs suitable for investment needs depend on everything from the age of the investor to his or her tolerance for risk. Generally, equity UITs are designed for capital appreciation potential, while bond trusts focus on preservation of principal and generating regular income. A financial representative can help determine which UIT matches an investor's objective.

Can one reinvest my earnings?
Yes. Most UITs offer a reinvestment plan. These plans allow investors to increase the amount of units they own by reinvesting earnings from an existing UIT into additional units. Please remember that this reinvestment opportunity has no sales charge.

Are UITs suitable for my retirement accounts?
UITs may be an attractive investment vehicle for IRAs or self-employed retirement plans. A variety of investment opportunities range from relatively conservative to more aggressive investments. Investors are encouraged to consult their financial representatives.

Can I sell my units?
All or a portion of an investors units may be sold back any day the stock market is open. He or she will receive the current market value of the underlying securities in the portfolio, less any deferred sales charge. Remember that when the market fluctuates, so will the value of a UIT.

Can I reinvest my units at the termination date?
Yes. At maturity, investors will have the option of reinvesting their proceeds in to a new UIT at a reduced sales charge. There may be tax consequences associated with rolling an investment from one series to the next.

Can I roll over my units?
Yes. After one year investors in equity UITs have the option of "rolling over" their holdings into a new trust, generally in the next series, if available. Please talk to your financial representative if you are interested in roll over options. There may be tax consequences associated with rolling an investment from one series to the next.

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Can you provide more information about your research and stock selection philosophy?
It is our view that financial markets set the price of securities based upon expectations for future cash flows. Therefore, changes in the perceived ability of corporations to generate net cash receipts in the future are what drive valuations in the stock market. Companies can be thought of as cash flow conduits with management directing the investment process. The relationship between the level of investment in a business and the cash internal rate of return on that investment represents a gauge by which management can be judged. The trick to valuation and successful investing in the stock market is to first arrive at expectations for future returns on invested assets and corresponding levels of asset or balance sheet growth. A successful investor tends to select stocks, which exceed the expectations of the market by generating better-than-anticipated levels of cash flow through either higher internal rates of return, greater asset growth or a combination of the two.

Can you elaborate on the PROCESS of your stock selection?

1. Fundamental Equity Investment Philosophy
What Drives the Market? It is our view that financial markets generally set the price of securities based on expectations of future cash flows and not solely on traditional accounting measures of corporate performance. Accounting distortions, inflation, and other factors often make traditional measures, such as return on equity, misleading as an assessment of a company's performance. Because of this, we believe that perceived changes in the ability of a company to generate cash flow in the future is what, in large part, drives valuations in the stock market.

Our Approach to Fundamental Stock Selection
Companies can be thought of as cash flow conduit with management directing the investment process. The relationship between the capital they have tied up in their business and the cash flow return on that investment represents a gauge by which management can be judged. We believe that the key to finding value in the market and successful investing is to select stocks where management is able to exceed the expectations of the market. This approach enables us to concentrate on a company's cash flow return on its investment, asset growth, and investor expectations.

Identify the Universe
The first step in our selection process is to identify the universe of all potential stocks. The selected stocks must meet the investment objective of the portfolio and have sufficient trading volume to avoid liquidity problems. To help reduce risk, we avoid newly-issued stocks and companies with little or no earnings history.

Examine Historical Financial Results
Once the universe of stocks has been selected, we look for those companies that have earned a net cash flow rate of return that is above the average of their peers. Historically, companies that have increased their cash flows at a higher rate have rewarded shareholders with superior total returns.

Select Companies with Attractive Valuations
Calculating the past performance of a company's cash flow is only half of the equation. The other half is determining the value of the company based on that information. An estimate of value for a company is derived by discounting projected future cash flows of the company. We select only the companies which, in our opinion, currently trade at an attractive market price to their discounted cash flow. Our selection process attempts to find the stocks with the best prospects for capital appreciation by identifying those that meet our investment objective, trade at attractive valuations, and, in our opinion, are likely to exceed market expectations of future cash flows.

2. Strategy Investment Philosophy

History shows that the market has favored certain investment strategies over others. While many strategies often struggle or fail to outperform an appropriate benchmark, other strategies enjoy a higher rate of success. The inability to outperform a benchmark can stem from the lack of a clearly articulated strategy. Even though past performance is no guarantee of future results, history plays a significant role in shaping the future. While there are periods where the market rewards some strategies, history tells us that these results cannot be maintained over the long term. Once we discover a strategy that has been consistently rewarded over time, we believe that the market will continue to reward such a strategy in the future. In our opinion, above-average long-term performance can be attained with the consistent application of a strategy that is founded on sensible, rational thought. Our process to create an investment strategy is based on the following four steps.

Identify the Universe

We first establish the objectives and select a benchmark index. The universe of stocks that is eligible for consideration is based on these two criteria.

Identify the Strategy

We then identify factors that will define a strategy. The factors must be economically and financially feasible and relevant at the time we select securities for the strategy.

Determine the Soundness of the Strategy

Once the strategy is quantitatively defined in terms of its underlying factors, we evaluate the strategy to determine its historical risk and return characteristics compared to its respective benchmark. If the strategy does not meet its original objectives, we return to step 2 and alter the mix of factors. The result is a highly structured, quantitatively defined strategy having demonstrated success over a lengthy period of time.

Select the Securities

Using current data, we select stocks for the strategy according to its quantitative model. We believe that one of the keys to successful investing is to choose one or more investment strategies that have succeeded over the long-term and to continuously apply such strategies without regard to the short-term fluctuations of the market.