COMBINING EQUITIES AND COVERED CALLS FOR TOTAL RETURN POTENTIAL

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At SmartTrust®, we look to provide for diversified income and total return opportunities through innovative investment strategies. The majority of SmartTrust® Unit Investment Trusts (UITs) offer diversified income opportunities (*as well as the potential for growth and total return*) and have incorporated such underlying investment strategies as individual taxable and tax-free bonds, individual stocks, preferred stocks, business development companies (BDCs), closed-end funds (CEFs) and exchange-traded funds (ETFs). This report will focus on a portfolio strategy that combines equities with covered calls to arrive at a solution that can help provide growth and income potential with some degree of downside protection.

One of the more popular investment strategies for growth investors is based on the Nasdaq-100 Index® and is commonly referred to as "QQQ" or "the Q's" because of the ticker symbol of the exchange-traded fund (ETF) that tracks the index. The index includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization. According to the Nasdaq website, the Nasdaq-100® Index, which was created in 1985, "defines today's modern-day industrials—comprised of 100 of the largest and most innovative non-financial companies listed on the Nasdaq Stock Market based on market capitalization." Also, according to the Nasdaq website, the Nasdaq-100® is home to many high-performing companies from popular sectors like technology, healthcare, consumer goods & services, and industrials.

The Nasdaq-100® approach has a history of outperforming certain other large-cap stock indexes, such as the S&P 500® Index. The S&P 500® Index, of course, is widely considered the benchmark of large-cap U.S. equities performance and includes 500 leading companies covering approximately 80% of available market capitalization. It is important to note that both of these indexes employ market cap weightings. Consider the chart below, which compares the 10-year trailing monthly performance of the Nasdaq-100® index (the white line in the graph below) with the S&P 500® Index (the orange line in the graph below) as of November 30, 2022.

Source: *Bloomberg, December 29, 2022. You cannot invest directly in an index. Past performance is not indicative of future results.*

Some of this performance differential can likely be attributed not only to individual stock differences but also to the sector representation within both respective indexes. To this end, below are the GICS sector weightings of both indexes as of November 30, 2022, according to Bloomberg.

S&P 500 Index (505 total constituents across all 11 GICS sectors)

GICS Sector Name	Number of Constituents	Approximate Weighting
Information Technology	75	26.40%
Health Care	64	15.20%
Financials	67	11.60%
Consumer Discretionary	56	10.40%
Industrials	71	8.40%
Communication Services	25	7.40%
Consumer Staples	25	6.90%
Energy	23	5.10%
Utilities	30	2.90%
Materials	28	2.70%
Real Estate	31	2.70%
Not Classified	2	0.00%

Nasdaq 100 Index (104 total constituents across 7 of the 11 GICS sectors)

GICS Sector Name	Number of Constituents	Approximate Weighting
Information Technology	42	50.50%
Communication Services	13	15.40%
Consumer Discretionary	15	14.30%
Health Care	13	7.50%
Consumer Staples	7	7.00%
Industrials	8	3.80%
Utilities	4	1.50%
Not Classified	2	0.00%

From the tables above, it is apparent that the S&P 500 Index is a more diversified index than the Nasdaq 100 Index, with a greater number of constituents and more GICS sector coverage. What is even more apparent is the concentration of the Nasdaq 100 Index in three sectors: information technology, communication services, and consumer discretionary. 80.2% of the weightings in the Nasdaq 100 index are associated with these sectors, as are 67.3% of the index constituents. Conversely, just 44.2% of the weightings in the S&P 500 Index are associated with these sectors, and just 30.8% of the index constituents.

All three of these sectors are typically associated with innovation and leadership within growing and evolving economies. An example of a company within each of these three sectors from the Nasdaq 100 Index is provided below:

Apple (Technology)

Google (Communication Services)

Amazon (Consumer Discretionary)

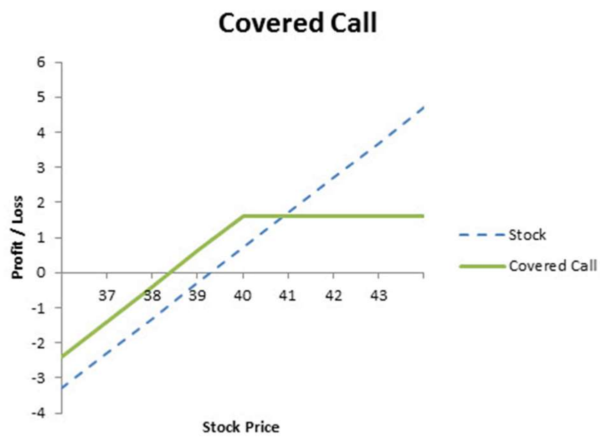
Investing in these types of innovative, growth companies come with its fair share of risk and volatility. Adding to this potential risk and volatility are high concentrations within the sectors, as seen in the Nasdaq 100 Index. One way to potentially mitigate the associated risk and volatility is through the utilization of a covered call option strategy. A covered call is a popular options strategy where a stock/stocks is/are purchased, and call options are sold against the stock/stocks. In this sense, covered calls are a type of hedged strategy, as the seller of the call option in giving up some of the stock's upside potential for a certain specified period of time in exchange for the option premium that the investor receives for selling the call option. In essence, the premium provides for income and some degree of downside protection on the underlying stock/stocks, though the upside potential on the underlying stock/stocks is now limited by the price associated with the call option.

Drilling down in more detail, a covered call strategy involves writing (selling) call options on an underlying security that the investor already owns. The call options grant the buyer the right to purchase the underlying security from the seller at a predetermined price (the strike price) on or before a specified date (the expiration date). By writing call options, the investor collects a premium from the buyer of the call option, which provides some additional income.

If the market price of the underlying security increases, the call option may be exercised by the buyer, in which case the investor would be required to sell the underlying security at the strike price. This means that the investor would miss out on any further price appreciation above the strike price. However, the premium collected from writing the call option provides some compensation for this potential loss.

If the market price of the underlying security remains below the strike price, the call option will expire unexercised, and the investor will continue to hold the underlying security. In this case, the investor continues to benefit from any potential price appreciation of the underlying security and keeps the premium collected from writing the call option.

Overall, a covered call strategy can provide some additional income from the premiums collected on the written call options while still allowing the investor to benefit from some of the potential price appreciation of the underlying security, as demonstrated in the graphic below.



Source: Fidelity anatomy of a covered call via Fidelity website (2013)

Potential Benefits

- The premium received from selling a covered call can be kept as income.
- Selling covered calls can help investors target a selling price for the stock that is above the current price.
- Another reason some investors sell covered calls is to get a limited amount of downside protection.

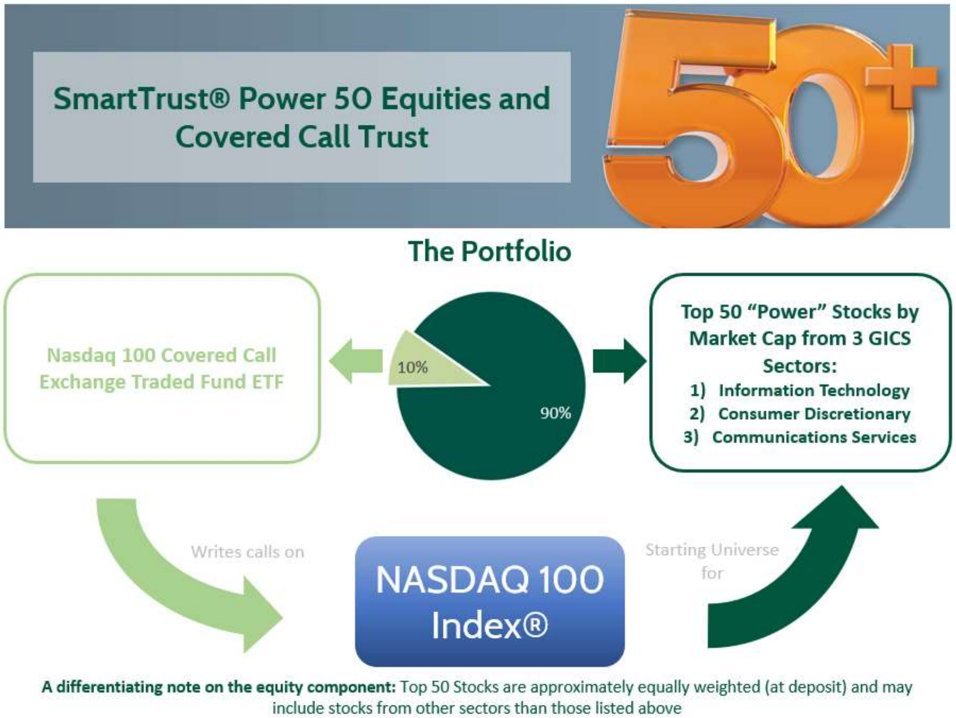
Potential Risks

- The real risk of losing money if the stock price declines below the breakeven point.
- The opportunity risk of not participating in a large stock price rise.

We contend that the application of a covered call option strategy in conjunction with investments in the larger cap stocks from powerful companies within the information technology, consumer discretionary, and communication services sectors provide for risk-managed total return potential worthy of consideration.

The SmartTrust® Approach

The **Power 50 Equities and Covered Call Trust** strategy from SmartTrust® seeks to provide investors with the possibility of total return potential through capital appreciation and dividend income. There is, of course, no guarantee that the investment objective of the trust will be achieved. For this strategy, we seek to invest approximately 90% of the portfolio in equity securities of operating companies and approximately 10% of the portfolio in the common stock of one ETF as of the trust's inception.



For each series of the innovative strategy, we will select the equity securities of operating companies using our "power 50" selection methodology as of a specified security selection date. Our "power 50" selection methodology starts with the securities in the Nasdaq-100 Index®. From those securities, the strategy eliminated any security not belonging to the following Global Industry Classification Standard (GICS®) sectors:

- Communication Services
- Consumer Discretionary
- and Information Technology

From those securities, our strategy looks to eliminate securities that do not have an average trading volume of $500,000 or more as of the security selection date.

The strategy ultimately selects the 50 remaining equity securities with the largest market capitalizations as of the security selection date for inclusion in the trust's portfolio. If there are not 50 securities that meet the criteria above from the Communication Services, Consumer Discretionary, and Information Technology GICS® sectors, securities from other sectors were considered to arrive at a total of 50 equity securities in the portfolio. The 90% portion of the trust's portfolio that invests in the "power 50" selected securities were then approximately equally weighted as of the trust's inception. Also, companies that, based on publicly available information as of the security selection date, are the subject of an announced business combination reported by such company as expected to occur within 12 months of the date of the series prospectus will be excluded from the universe of securities from which the trust's portfolio is selected.

The remaining portfolio allocation of approximately 10% as of the trust's inception date is invested in the common stock of one ETF selected by the sponsor. The selected ETF will have an investment strategy to follow a covered call investment strategy in which the ETF buys a stock or a basket of stocks and also writes (or sells) call options that correspond to the stock or basket of stocks. In selecting the ETF, the sponsor considered factors including, but not limited to, the ETF's expense ratio, the ETF's market capitalization, and the ETF's average trading volume.

The equal weighting process of the stock positions representing 90% of the portfolio help to alleviate concentration concerns that may be associated with a market-cap weighting process, as seen in the Nasdaq 100 Index. In addition, the 10% allocation to a covered call ETF based on the overall Nasdaq 100 Index adds some degree of downside protection on the stock holdings that are selected from this index as well as income potential to the portfolio strategy.
