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## First Trust Global Risk Managed Income Index ETF

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Annual Management Report of Fund Performance  
December 31, 2016

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# **ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

## **December 31, 2016**

### **First Trust Global Risk Managed Income Index ETF (the “First Trust ETF”)**

This annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the First Trust ETF. All references to dollars contained herein are to Canadian dollars.

Securityholders may also contact us to request a copy of the First Trust ETF’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosures relating to the First Trust ETF by calling 1-877-622-5552, by writing to us at FT Portfolios Canada Co., 40 King Street West, Suite 3001, Scotia Plaza, Box 312, Toronto, Ontario M5H 3Y2 or by visiting our web site at [www.firsttrust.ca](http://www.firsttrust.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward Looking Statements**

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent beliefs regarding future events. By their nature, forward-looking statements are based on assumptions and are subject to inherent risks and uncertainties. There is significant risk that forward-looking statements will not prove to be accurate. Readers of this document should not place undue reliance on forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the expectations, estimates or intentions expressed or implied in the forward-looking statements. These factors include but are not limited to market and general economic conditions, interest rates, foreign currency exchange rates, the extent of industry sector exposure, the performance of the securities of the issuers held in the portfolio and regulatory developments and the risks detailed in the First Trust ETF’s prospectus. The Manager does not undertake and specifically disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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# First Trust Global Risk Managed Income Index ETF

## Management Report of Fund Performance

### For the year ended December 31, 2016

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#### Investment Objective and Strategy

The fundamental investment objective of **First Trust Global Risk Managed Income Index ETF** (the “First Trust ETF”) is to replicate, to the extent possible, the performance of the NASDAQ Global Risk Managed Income Index<sup>SM</sup> (the “Index”), net of expenses.

The investment strategy of the First Trust ETF is to invest in and hold the constituent securities of the Index in the same proportion as they are reflected in the Index or securities intended to replicate the performance of the Index. The Index seeks to provide a risk managed, global income portfolio which generates a high yield for the risk taken and consists of liquid income-bearing exchange traded funds and other exchange traded products across various asset classes. The First Trust ETF may also hold cash and cash equivalents or other money market instruments to fund current liabilities.

There are two classes of units offered by the First Trust ETF:

- Common Class (TSX symbol: ETP)
- Advisor Class (TSX symbol: ETP.A)

The inception date of the First Trust ETF was July 23, 2014.

#### Risk

The risks associated with an investment in the First Trust ETF remain as discussed in the ETF’s most recent prospectus. There have been no significant changes during the period that affected the overall level of risk associated with the First Trust ETF.

#### Results of Operations

The First Trust ETF’s total net asset value as of December 31, 2016 was \$53,972,590 or \$19.27 of Common Class units and \$19.32 of Advisor Class units. The First Trust ETF’s total net asset value as of December 31, 2015 was \$48,980,217 or \$18.48 of Common Class units and \$18.52 of Advisor Class units.

The First Trust ETF paid cash distributions per unit as follows:

	2016 Payment Dates											
	Jan 8 <sup>th</sup>	Feb 5 <sup>th</sup>	Mar 7 <sup>th</sup>	Apr 7 <sup>th</sup>	May 6 <sup>th</sup>	Jun 7 <sup>th</sup>	Jul 8 <sup>th</sup>	Aug 8 <sup>th</sup>	Sep 8 <sup>th</sup>	Oct 7 <sup>th</sup>	Nov 7 <sup>th</sup>	Dec 7 <sup>th</sup>
ETP	0.0620	0.0606	0.0606	0.0630	0.0630	0.0630	0.0630	0.0630	0.0610	0.0610	0.0610	0.0590
ETP.A	0.0447	0.0523	0.0523	0.0544	0.0544	0.0543	0.0543	0.0541	0.0521	0.0521	0.0521	0.0503

#### Investment Performance

The First Trust ETF’s Common Class units returned 8.43% and the Advisor Class units returned 7.84%, net of fees and expenses, for the year ended December 31, 2016.

The First Trust ETF was invested at all times during the period in the securities of various Canadian ETF providers including BlackRock Asset Management Canada Limited, Vanguard Investments Canada Inc., BMO Asset Management Inc. and First Trust Canada. During the period, the First Trust ETF tactically rebalanced five times to align the weights of the fund components with the index.

Senior bank loans was one of the top contributors to the First Trust ETF performance. It was represented by the First Trust Senior Loan ETF (CAD-Hedged), an actively managed fund, which primarily invest in a portfolio of senior floating rate loans that generally rated at or below BB+ by Standard & Poors, or Ba1 or less by Moody’s Investor Services, Inc., or a similar rating by an approved credit rating organization. The low duration, high income characteristics of senior floating rate loans were benefited in a rising rate environment like the second half of the year. The portfolio is hedged back to Canadian Dollar.

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Other contributors included BMO High Yield US Corporate Bond Hedged to CAD ETF and the iShares Core S&P/TSX Composite High Dividend Index ETF. In the face of macro headwinds, the recovery of energy and commodity prices has fueled the rally on both high yield bonds and Canadian equity market.

Global REITs were the only asset class in the portfolio that ended negative for the time period. On average, they only represented 1.56% of the portfolio due to the unfavorable momentum signal for this sector. Portfolio diversification is a significant theme in portfolio's risk management

### **Recent Developments**

The portfolio was diversified across 19 asset classes with a 75% allocation to fixed income. The portfolio rebalanced in the first quarter, moving more toward fixed income, and away from equities. The underlying fixed income portfolio moved to a slightly lower duration while maintaining the same approximate credit quality throughout the period.

### **Related Party Transactions**

FT Portfolios Canada Co. is the Manager of the First Trust ETF and is a Canadian affiliate of First Trust Advisors L.P., the investment advisor (the "Advisor") of the First Trust ETF.

Pursuant to terms of the declaration of trust of the First Trust ETF, the Manager provides or arranges for all management, administrative and other services required by the First Trust ETF. The Manager receives a management fee from the First Trust ETF. For further details, please see "Management Fees".

The Manager has retained the Advisor to provide certain services to the First Trust ETF pursuant to an investment advisory agreement. The Advisor receives advisory fees from the Manager out of the management fee.

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**Financial Highlights**

The following tables show selected key financial information about the First Trust ETF and are intended to help you understand the First Trust ETF's financial performance for the past two years. The date of inception of the First Trust ETF was July 23, 2014. The information are derived from the First Trust ETF's annual financial statements for the years ended December 31 and for the period from since inception to December 31, 2014.

**Net Asset Value per Unit – ETP**

	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014 <sup>(a)</sup>
<b>Net asset value, beginning of period/year<sup>(1)</sup></b>	<b>\$18.48</b>	<b>\$19.67</b>	<b>\$20.00<sup>(b)</sup></b>
<b>Increase (Decrease) from operations:</b>			
Total revenue	0.72	0.79	0.41
Total expenses	(0.10)	(0.09)	(0.04)
Realized gains (losses) for the period/year	(0.25)	(0.56)	(0.03)
Unrealized gains (losses) for the period/year	1.10	(0.89)	(0.39)
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$1.47</b>	<b>\$(0.75)</b>	<b>\$(0.05)</b>
<b>Distributions:</b>			
From income (excluding dividends)	(0.53)	(0.55)	(0.18)
From dividends	(0.12)	(0.15)	(0.10)
From capital gains	-	-	(0.10)
Return of capital	(0.09)	(0.09)	(0.02)
<b>Total annual distributions<sup>(3)</sup></b>	<b>\$(0.74)</b>	<b>\$(0.79)</b>	<b>\$(0.40)</b>
<b>Net asset value, end of period/year<sup>(4)</sup></b>	<b>\$19.27</b>	<b>\$18.48</b>	<b>\$19.67</b>

(a) December 31, 2014 does not relate to the full year as the date of inception of the First Trust ETF was July 23, 2014.

(b) Initial offering price

(1) This information is provided as at December 31 of the years/period shown and is prepared under IFRS.

(2) Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the period/year.

(3) Distributions were either paid in cash or reinvested in additional units of the First Trust ETF.

(4) This table is not intended to be a reconciliation of beginning to ending net asset value per unit.

**Ratios and Supplemental Data – ETP**

	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
Net asset value (000's)	\$51,774	\$46,757	\$20,260
Number of units outstanding	2,686,214	2,530,000	1,030,000
Management expense ratio <sup>(1)</sup>	0.98%	0.93%	0.94%
Management expense ratio before waivers or absorption	1.18%	1.18%	1.11%
Trading expense ratio <sup>(2)</sup>	0.08%	0.07%	0.10%
Portfolio turnover rate <sup>(3)</sup>	78.97%	106.68%	39.96%
Net asset value per unit	\$19.27	\$18.48	\$19.67

(1) Management expense ratio is based on total expenses for the stated period/year and is expressed as an annualized percentage of daily average net asset value during the period/year.

(2) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period/year.

(3) The First Trust ETF's portfolio turnover rate indicates how actively the First Trust ETF's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the First Trust ETF buying and selling all of the securities in its portfolio once in the course of the period/year. The higher a First Trust ETF's portfolio turnover rate in a period/year, the greater the trading cost payable by the First Trust ETF in the period/year, and the greater the chance of an investor receiving taxable capital gains in the period/year. There is not necessarily a relationship between high turnover rate and the performance of a First Trust ETF.

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**Net Asset Value per Unit – ETP.A**

	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014 <sup>(a)</sup>
<b>Net asset value, beginning of period/year<sup>(1)</sup></b>	<b>\$18.52</b>	<b>\$19.66</b>	<b>\$20.00<sup>(b)</sup></b>
<b>Increase (Decrease) from operations:</b>			
Total revenue	0.71	0.78	0.40
Total expenses	(0.20)	(0.25)	(0.14)
Realized gains (losses) for the period/year	(0.24)	(0.55)	(0.03)
Unrealized gains (losses) for the period/year	1.15	(0.79)	(0.27)
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$1.42</b>	<b>\$(0.81)</b>	<b>\$(0.04)</b>
<b>Distributions:</b>			
From income (excluding dividends)	(0.45)	(0.40)	(0.13)
From dividends	(0.10)	(0.11)	(0.07)
From capital gains	-	-	(0.09)
Return of capital	(0.08)	(0.06)	(0.01)
<b>Total annual distributions<sup>(3)</sup></b>	<b>\$(0.63)</b>	<b>\$(0.57)</b>	<b>\$(0.30)</b>
<b>Net asset value, end of period/year<sup>(4)</sup></b>	<b>\$19.32</b>	<b>\$18.52</b>	<b>\$19.66</b>

(a) December 31, 2014 does not relate to the full year as the date of inception of the First Trust ETF was July 23, 2014.

(b) Initial offering price

(1) This information is provided as at December 31 of the years/period shown and is prepared under IFRS.

(2) Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the period/year.

(3) Distributions were either paid in cash or reinvested in additional units of the First Trust ETF.

(4) This table is not intended to be a reconciliation of beginning to ending net asset value per unit.

**Ratios and Supplemental Data – ETP.A**

	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
Net asset value (000's)	\$2,198	\$2,223	\$1,376
Number of units outstanding	113,800	120,000	70,000
Management expense ratio <sup>(1)</sup>	1.53%	1.78%	2.06%
Management expense ratio before waivers or absorption	1.74%	2.03%	2.24%
Trading expense ratio <sup>(2)</sup>	0.08%	0.07%	0.10%
Portfolio turnover rate <sup>(3)</sup>	78.97%	106.68%	39.96%
Net asset value per unit	\$19.32	\$18.52	\$19.66

(1) Management expense ratio is based on total expenses for the stated period/year and is expressed as an annualized percentage of daily average net asset value during the period/year.

(2) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period/year.

(3) The First Trust ETF's portfolio turnover rate indicates how actively the First Trust ETF's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the First Trust ETF buying and selling all of the securities in its portfolio once in the course of the period/year. The higher a First Trust ETF's portfolio turnover rate in a period/year, the greater the trading cost payable by the First Trust ETF in the period/year, and the greater the chance of an investor receiving taxable capital gains in the period/year. There is not necessarily a relationship between high turnover rate and the performance of a First Trust ETF.

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#### Management Fees

The First Trust ETF will pay the Manager a management fee equal to up to 0.60% and, in respect of the ETP.A, an additional amount for a service fee (see “ETP.A Service Fee” below) based on the average daily NAV of the First Trust ETF. The management fee, plus applicable taxes including HST, will be accrued daily and paid monthly in arrears. The Manager may, from time to time in its discretion, waive all or a portion of the management fee charged at any given time.

#### ETP.A Service Fee

The Manager pays registered dealers a service fee equal to 0.50% per annum of the NAV of the Units held by clients of the registered dealer, plus any applicable taxes. The service fee will be calculated and accrued daily and paid quarterly at the end of each calendar quarter.

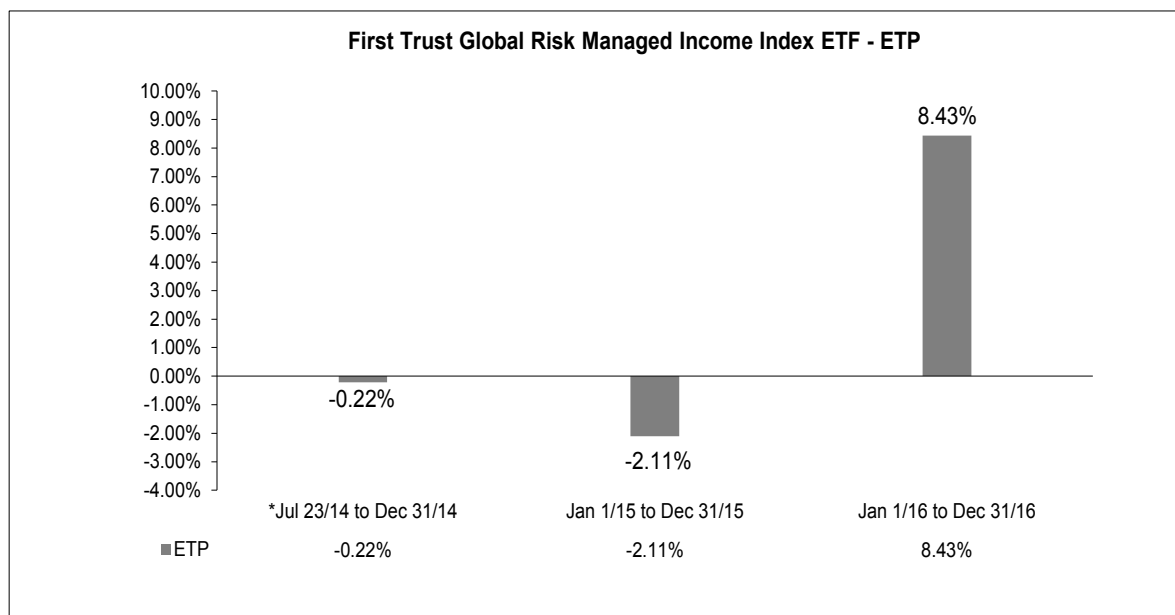
#### Past Performance

##### General

The past performance information shown assumes that all distributions made by the First Trust ETF in the periods shown were reinvested in additional securities of the First Trust ETF. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. How the First Trust ETF has performed in the past does not necessarily indicate how it will perform in the future.

##### Year by Year Returns

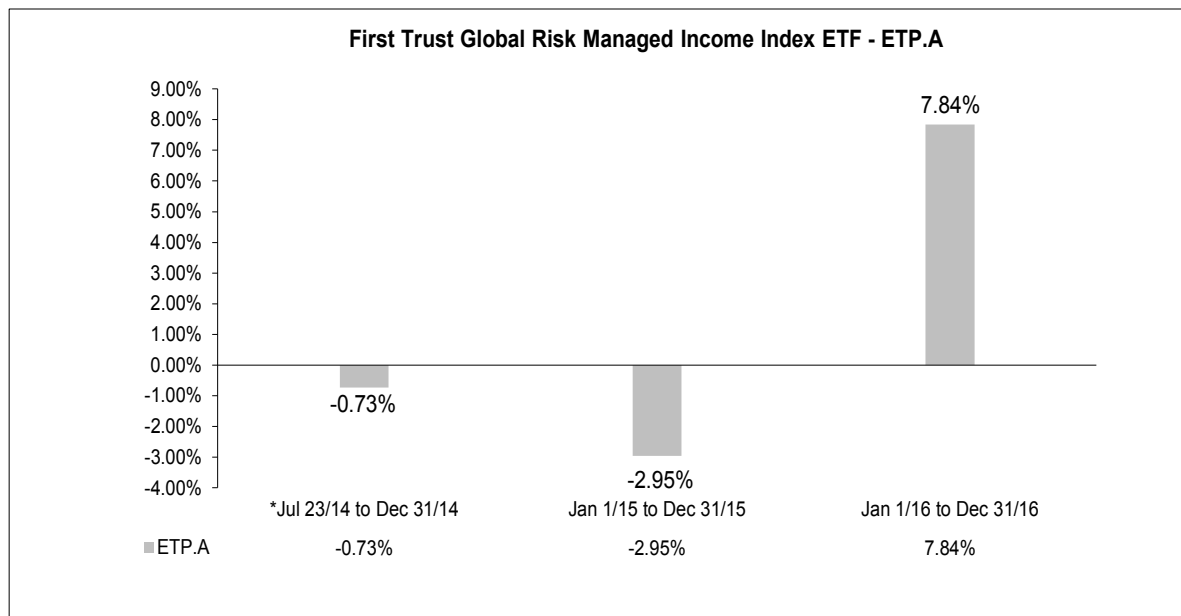
The bar charts below show the First Trust ETF’s performance, per class, for the years ended December 31, and for the period from July 23, 2014 to December 31, 2014 and illustrate how the investment fund’s performance has changed from year to year. The charts also show, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.



\*Date of Inception



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\*Date of Inception

**Annual Compound Returns**

First Trust ETFs seek to track the performance of the NASDAQ Global Risk Managed Income CAD TR Index\*. The underperformance of First Trust ETF might be caused by various reasons, such as management fee deductions.

	<b>1 year</b>	<b>Since Inception</b>
First Trust Global Risk Managed Income Index ETF - ETP	8.43%	2.37%
First Trust Global Risk Managed Income Index ETF - ETP.A	7.84%	1.58%
NASDAQ Global Risk Managed Income CAD TR Index*	9.00%	2.91%

\*Reference Index - The NASDAQ Global Risk Managed Income Index is a rules-based, quantitatively enabled index which is designed to provide risk managed, globally diversified exposure to income generating asset classes to produce a high yield for the risk taken. The index consists of liquid, income-bearing exchange-traded funds ("ETFs") and other exchange traded products across various asset classes to gain the diversified, risk managed exposure.

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**Summary of Investment Portfolio**

The table sets out the percentage (based on total net asset value) of the First Trust ETF's holdings as at December 31, 2016. This summary of portfolio holdings may change due to ongoing portfolio transactions of the First Trust ETF. A quarterly update is available at [www.firsttrust.ca](http://www.firsttrust.ca).

<b>Holdings</b>	<b>% of ETF Total Net Asset Value</b>
First Trust Senior Loan ETF (CAD-Hedged)	22.08%
iShares S&P/TSX Canadian Preferred Share Index ETF	11.27%
BMO High Yield US Corporate Bond Hedged to CAD ETF	10.21%
iShares Convertible Bond Index Fund, Convertible Bonds	8.37%
iShares Canadian Corporate Bond Index ETF	6.00%
Vanguard Canadian Short-Term Bond Index ETF	5.64%
iShares Core S&P / TSX Composite High Dividend Index ETF	4.78%
BMO Emerging Markets Bond Hedged to CAD Index ETF	4.36%
BMO Equal Weight REITs Index ETF	3.92%
Vanguard FTSE Canadian High Dividend Yield Index ETF	3.11%
iShares Global Monthly Dividend Index Fund ETF (CAD-Hedged)	3.01%
Vanguard Canadian Aggregate Bond Index ETF	2.86%
iShares S&P/TSX Capped Financials Index ETF	2.80%
BMO Equal Weight Utilities Index ETF	2.51%
iShares Canadian Government Bond Index ETF	2.44%
BMO Mid-Term US IG Corporate Bond Index ETF	2.13%
iShares Core Canadian Long Term Bond Index Fund ETF	1.85%
iShares Global Real Estate Index Fund	1.49%
Vanguard U.S. Dividend Appreciation Index ETF	0.95%
Cash	0.14%

**Portfolio Breakdown**

The table sets out the percentage (based on total net asset value) of the First Trust ETF's portfolio as at December 31, 2016.

<b>Sector Weightings</b>	<b>% of ETF Total Net Asset Value</b>
Exchange-Traded Funds	99.78%
Cash and Cash Equivalents	0.14%

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