



**First Trust AlphaDEX™ U.S. Dividend ETF
(CAD-Hedged)**

**Annual Management Report of Fund Performance
December 31, 2016**

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ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

December 31, 2016

First Trust AlphaDEX™ U.S. Dividend ETF (CAD-Hedged) **(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 or SEDAR at 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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Investment Objective and Strategy

The fundamental investment objective of **First Trust AlphaDEX™ U.S. Dividend ETF (CAD-Hedged)** (the “First Trust ETF”) is to provide Unitholders with exposure to the performance of a portfolio of higher yielding U.S. dividend paying stocks, as well as providing Unitholders with monthly distributions. The First Trust ETF will primarily invest in U.S. dividend paying equities.

To achieve its investment objectives, the portfolio advisor (the “Portfolio Advisor”) will select securities from a universe of U.S. companies whose dividend yield is greater than or equal to the median dividend yield of all members of the S&P 500 Index. Securities will also be subject to a screening process to ensure sufficient liquidity (minimum three month average daily trading volume of \$5 million), market capitalization (minimum of \$200 million) and price per security (minimum of \$2). Eligible companies will then be assigned a score and ranked based on the AlphaDEX™ selection methodology which is a rules based methodology that analyzes companies based on five growth factors consisting of three, six and twelve month price appreciation, one year sales growth and sales-price ratio and three value factors consisting of book value-to-price ratio, cash flow-to-price ratio and return on assets. Only the top 60 stocks based on selection scores are included in the portfolio subject to sector limits. The Portfolio will be broadly diversified by sector, with no sector representing greater than 15% above the benchmark weight at the time of each semi-annual rebalance and reconstitution of the portfolio. The resulting stocks are not weighted based on market capitalization, but on the basis of potential investment merit. The selected stocks are then divided equally into quintiles based on their AlphaDEX™ methodology scores; the higher scoring quintiles are given a greater weight than lower scoring quintiles. The top ranked quintile receives a top weight of 5/15 (33.3%) of the portfolio with successive quintiles receiving 4/15 (26.7%), 3/15 (20.0%), 2/15 (13.3%) and 1/15 (6.7%). The First Trust ETF will generally seek to hedge substantially all of its exposure to the U.S. dollar back to the Canadian dollar. The First Trust ETF will rebalance and reconstitute the portfolio of constituent securities semi-annually. Between rebalancing dates, the allocation between each of the constituent securities will change due to market movement and the Portfolio Advisor will typically not reallocate, include or exclude issuers from the First Trust ETF portfolio until its next rebalance date.

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

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

The inception date of the First Trust ETF was May 15, 2013.

Risk

The portfolio held 189 equity securities at the end of the reporting period. The top ten equity holdings accounted for 8.56% of the portfolio. Information Technology, Energy, and Consumer Discretionary were the top three sector weightings at the beginning of the period. At the end of the period, the top three sector weights were Financials, Consumer Discretionary, and Information Technology. The sector weighting changes were a result of applying the AlphaDEX™ stock selection process at the semi-annual rebalance, and not a material change in benchmark composition. The AlphaDEX™ stock selection methodology is a rules-based process and can result in sector weightings that differ from that of the benchmark. The First Trust ETF uses a base universe of U.S. stocks that pay dividends. The ability of a company to pay a dividend in the future is dependent on factors that are not controlled by fund management. A company held in the fund may, at any time, decide to cut or eliminate its dividend payment. During the first half of the year The First Trust ETF added 141 stocks and removed 12 stocks. The First Trust ETF added 34 stocks and removed 37 stocks as a result of the semi-annual rebalance at the beginning of December. The fund investment strategy changed in January. The change increased the portfolio size from a fixed number of 60 stocks to 75% of the eligible universe. The most overweight sectors at the end of the period were Utilities, Financials, and Consumer Discretionary. The most underweight sectors at the end of the period were Health Care, Information Technology, and Consumer Staples. At the beginning of the period, the most overweight sectors were Energy, Utilities, and Industrials. The most underweight sectors at the beginning of the period were Health Care, Information Technology, and Consumer Staples. Given the First Trust ETF employs a currency hedging strategy to minimize the impact of changes in the USD-CAD exchange rate, and considering that the portfolio remains consistent in its application of the AlphaDEX™ stock selection methodology to pick equities for the portfolio, we conclude there was no material change to the risk profile of the First Trust ETF.

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Results of Operations

The First Trust ETF's total net asset value as of December 31, 2016 \$8,534,880 or \$24.39 per Common Class unit and \$24.35 per Advisor Class unit. The First Trust ETF's total net asset value as of December 31, 2015 was \$10,883,971 or \$21.77 per Common Class unit and \$21.73 per Advisor Class unit.

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

	2016 Payment Dates											
	Jan 8 th	Feb 5 th	Mar 7 th	Apr 7 th	May 6 th	Jun 7 th	Jul 8 th	Aug 8 th	Sep 8 th	Oct 7 th	Nov 7 th	Dec 7 th
FUD	0.0642	0.0500	0.0510	0.0493	0.0490	0.0485	0.0485	0.0424	0.0425	0.0425	0.0425	0.0464
FUD.A	0.0437	0.0310	0.0315	0.0279	0.0276	0.0276	0.0272	0.0204	0.0204	0.0210	0.0210	0.0238

Investment Performance

The First Trust ETF's Common Class units returned 15.05% and the Advisor Class units returned 13.81%, net of fees and expenses, for the year ended December 31, 2016. This compares with the primary and secondary benchmarks, S&P 500 Index (CAD-Hedged) total return of 11.40% and S&P High Yield Dividend Aristocrats Index Total Return (CAD-Hedged) total return of 19.82%. The Industrials and Financials stocks were the biggest contributors to relative performance due to stock selection. An underweight position in Health Care names also boosted relative outperformance versus the benchmark. Stock selection in Consumer Discretionary and Consumer Staples holdings rounded out the top relative performing sectors in the fund during the year. An underweight position combined with stock selection resulted in relative underperformance for Information Technology holdings. Telecommunication Services also detracted from relative performance due to stock selection.

The top five stocks by contribution to return were Murphy Oil Corporation, Navient Corp, Best Buy Co., Inc., CSX Corporation, and Cummins Inc. The bottom five stocks by contribution to return were Boeing Company, Mosaic Company, Marathon Petroleum Corporation, Seagate Technology PLC, and Western Digital Corporation.

During the period, appreciation in the US dollar versus the Canadian dollar was advantageous for the First Trust ETF given the currency hedge.

Recent Developments

The First Trust ETF added 34 stocks and removed 37 stocks in early December in conjunction with the semi-annual rebalance. The changes were made by applying the AlphaDEX™ selection methodology to a universe of U.S. dividend paying stocks. The universe of dividend paying stocks was relatively stable over the period. Effective in January, the portfolio strategy changed to select 75% of the eligible stocks using the AlphaDEX™ selection methodology. This change resulted in the portfolio increasing from a fixed 60 stock portfolio to 189 stocks. The fund rebalanced using the new strategy in early June and again in early December.

Higher dividend paying stocks outperformed lower and non-paying stocks in the US during the first half of the year as growth concerns lingered and rate hikes were pushed out. Interest rate sensitive Financials were the best performing group during the second half however as the Federal Reserve telegraphed a late year increase during the period. Volatility in Europe and emerging markets could make the US more attractive relative to the rest of the world as the US economy continues to produce steady, though unspectacular growth, amid rising employment and consumer confidence.

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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 three years. The date of inception of the First Trust ETF was May 15, 2013. The information are derived from the First Trust ETF's annual financial statements for the years ending December 31 and for the period from since inception to December 31, 2013.

Net Asset Value per Unit – FUD

	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013 ^(a)
Net asset value, beginning of period/year⁽¹⁾	\$21.77	\$24.71	\$22.79	\$20.00^(b)
Increase (Decrease) from operations:				
Total revenue	0.83	1.13	0.90	0.74
Total expenses	(0.27)	(0.28)	(0.28)	(0.16)
Realized gains (losses) for the period/year	0.64	(2.68)	1.32	0.77
Unrealized gains (losses) for the period/year	1.49	(0.74)	0.63	2.08
Total increase (decrease) from operations⁽²⁾	\$2.69	\$(2.57)	\$2.57	\$3.43
Distributions:				
From income (excluding dividends)	(0.61)	(1.13)	(0.58)	(0.50)
From dividends	-	-	-	-
From capital gains	-	-	(1.55)	(0.90)
Return of capital	-	-	(0.02)	-
Total annual distributions⁽³⁾	\$(0.61)	\$(1.13)	\$(2.15)	\$(1.40)
Net asset value, end of period/year⁽⁴⁾	\$24.39	\$21.77	\$24.71	\$22.79

(a) December 31, 2013 does not relate to the full year as the date of inception of the First Trust ETF was May 15, 2013.

(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 – FUD

	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Net asset value (000's)	\$7,334	\$9,798	\$13,590	\$5,698
Number of units outstanding	300,663	450,000	550,000	250,000
Management expense ratio ⁽¹⁾	0.66%	0.67%	0.67%	0.64%
Management expense ratio before waivers or absorption	0.68%	0.69%	0.69%	0.64%
Trading expense ratio ⁽²⁾	0.07%	0.06%	0.07%	0.06%
Portfolio turnover rate ⁽³⁾	174.98%	154.98%	148.49%	77.46%
Net asset value per unit	\$24.39	\$21.77	\$24.71	\$22.79

(1) Management expense ratio is based on total expenses for the stated period 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 Assets Value per Unit – FUD.A

	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013 ^(a)
Net asset value, beginning of period/year⁽¹⁾	\$21.73	\$24.66	\$22.75	\$20.00^(b)
Increase (Decrease) from operations:				
Total revenue	0.57	1.90	1.29	0.69
Total expenses	(0.51)	(0.55)	(0.56)	(0.31)
Realized gains (losses) for the period/year	0.87	(2.56)	1.23	0.90
Unrealized gains (losses) for the period/year	2.04	(1.74)	0.28	1.86
Total increase (decrease) from operations⁽²⁾	\$2.97	\$(2.95)	\$2.24	\$3.14
Distributions:				
From income (excluding dividends)	(0.35)	(0.86)	(0.32)	(0.39)
From dividends	-	-	-	-
From capital gains	-	-	(1.55)	(0.90)
Return of capital	-	-	(0.01)	-
Total annual distributions⁽³⁾	\$(0.35)	\$(0.86)	\$(1.88)	\$(1.29)
Net asset value, end of period/year⁽⁴⁾	\$24.35	\$21.73	\$24.66	\$22.75

(a) December 31, 2013 does not relate to the full year as the date of inception of the First Trust ETF was May 15, 2013.

(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 – FUD.A

	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Net asset value (000's)	\$1,201	\$1,086	\$1,233	\$1,137
Number of units outstanding	49,335	50,000	50,000	50,000
Management expense ratio ⁽¹⁾	1.75%	1.79%	1.84%	1.74%
Management expense ratio before waivers or absorption	1.77%	1.81%	1.87%	1.74%
Trading expense ratio ⁽²⁾	0.07%	0.06%	0.07%	0.06%
Portfolio turnover rate ⁽³⁾	174.98%	154.98%	148.49%	77.46%
Net asset value per unit	\$24.35	\$21.73	\$24.66	\$22.75

(1) Management expense ratio is based on total expenses for the stated period 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 0.60% and, in respect of the FUD.A, an additional amount for a service fee (see “FUD.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.

FUD.A Service Fee

The Manager pays registered dealers a service fee equal to 1.00% per annum of the NAV 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.

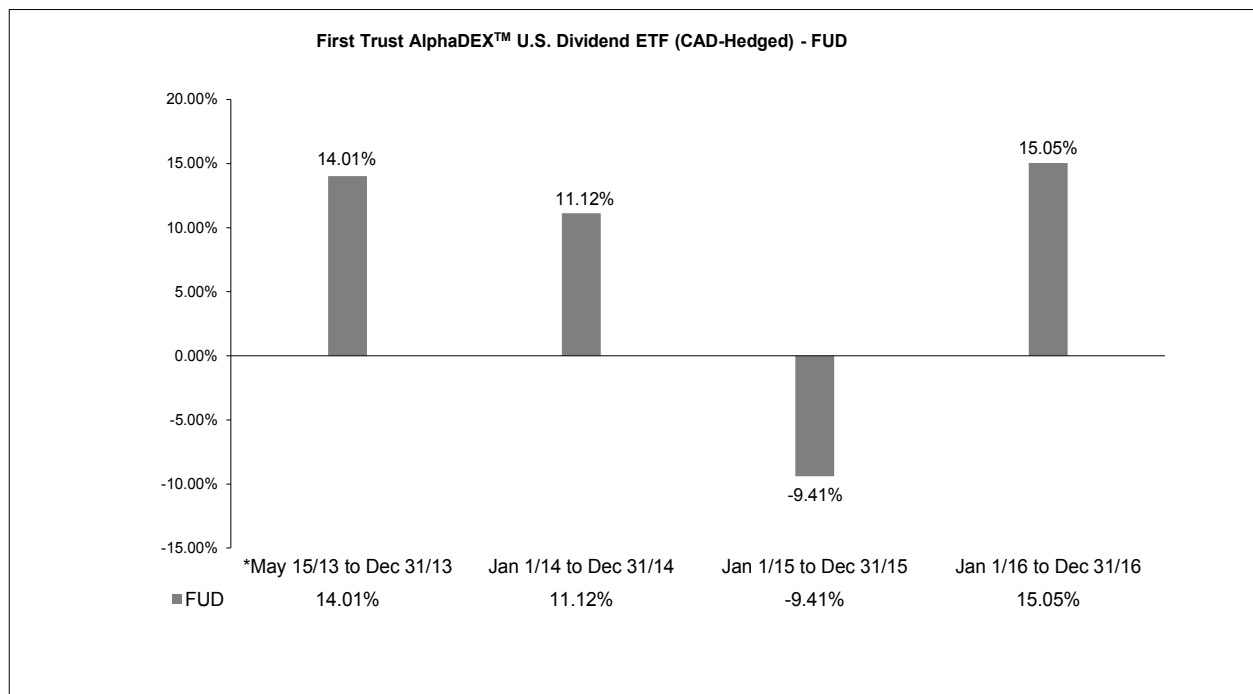
Past Performance

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.

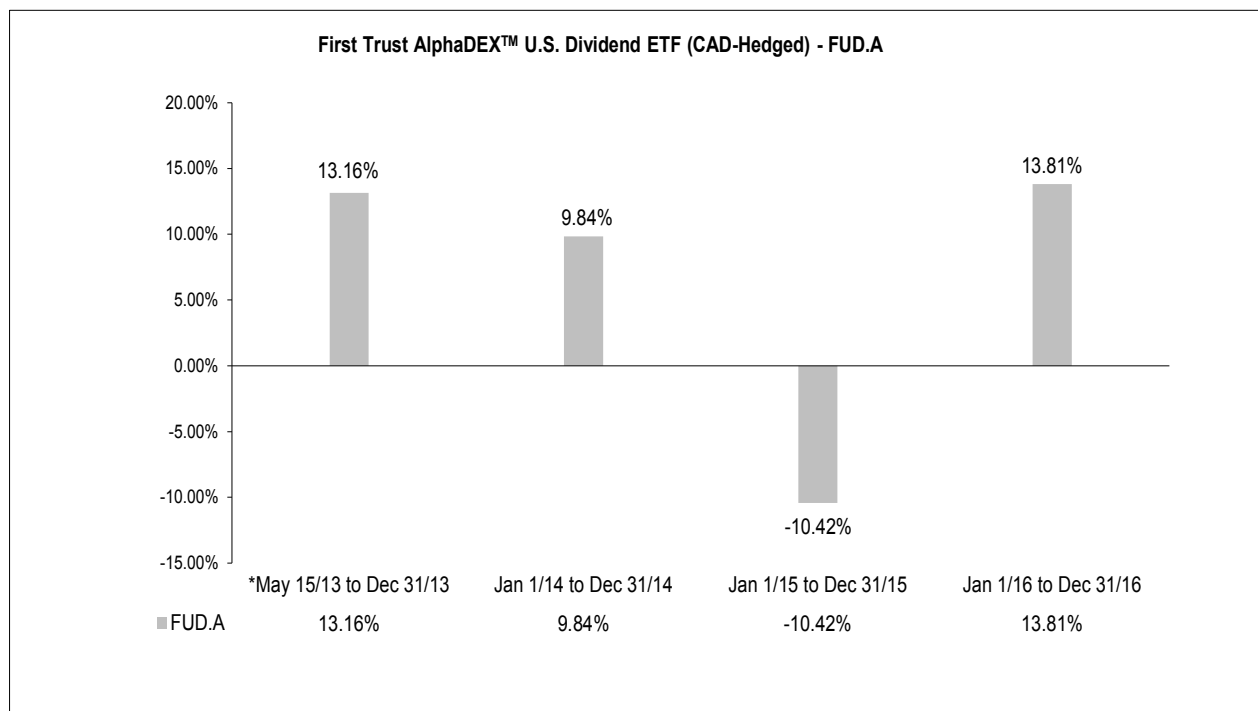
Year by Year Returns

The bar charts below show the First Trust ETF’s performance, per class, for the years ended December 31 and for the period from May 15, 2013 to December 31, 2013 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

The First Trust ETF Common Class units outperformed the primary benchmark over the period as Industrials, Financials, and Health Care holdings beat the benchmark on a relative basis.

	1-year	3-year	Since Inception
First Trust AlphaDEX™ U.S. Dividend ETF (CAD-Hedged) - FUD	15.05%	5.02%	8.12%
First Trust AlphaDEX™ U.S. Dividend ETF (CAD-Hedged) - FUD.A	13.81%	3.84%	6.92%
S&P 500 Index (CAD-Hedged)*	11.40%	8.72%	10.91%
S&P High Yield Dividend Aristocrats Index Total Return (CAD-Hedged)**	19.82%	11.01%	11.42%

*Primary Benchmark - S&P 500® Currency Hedged Indices are designed to represent the returns of index strategies that involve hedging currency risk while accepting underlying equity market risk. By employing such a strategy, the index seeks to reduce the risk of downward currency fluctuations while also sacrificing potential currency gains.

**Secondary Benchmark - S&P High Yield Dividend Aristocrats Index Total Return (CAD-Hedged) hedges the performance of the S&P High Yield Dividend Aristocrats® against fluctuations in the Canadian dollar. The S&P High Yield Dividend Aristocrats® index is designed to measure the performance of companies within the S&P Composite 1500® that have followed a managed-dividends policy of consistently increasing dividends every year for at least 20 years.

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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 top 25 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.

Top 25 Holdings	% of ETF Total Net Asset Value
Valero Energy Corp.	0.98%
Western Digital Corp.	0.96%
Intel Corp.	0.95%
Equity Residential	0.94%
Entergy Corp.	0.93%
Carnival Corp.	0.92%
ONEOK Inc.	0.92%
Tesoro Corp.	0.92%
Host Hotels & Resorts Inc.	0.92%
Macerich Co. (The)	0.92%
Regions Financial Corp.	0.92%
Royal Caribbean Cruises Ltd.	0.91%
Sysco Corp.	0.91%
BB&T Corp.	0.91%
Fifth Third Bancorp	0.91%
Prudential Financial Inc.	0.91%
Corning Inc.	0.91%
TE Connectivity Ltd.	0.91%
KeyCorp	0.90%
Dow Chemical Co. (The)	0.90%
WestRock Co.	0.89%
CenturyLink Inc.	0.89%
Ingersoll-Rand PLC	0.89%
Gilead Sciences Inc.	0.87%
Harris Corp.	0.87%

Portfolio Breakdown

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

Sector Weightings	% of ETF Total Net Asset Value
Financials	24.40%
Consumer Discretionary	15.61%
Industrials	13.32%
Information Technology	13.19%
Utilities	12.45%
Materials	5.73%
Energy	4.92%
Consumer Staples	3.85%
Healthcare	2.97%
Telecommunication Services	2.48%
Cash & Cash Equivalents	0.38%

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