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## First Trust Tactical Bond Index ETF

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Annual Management Report of Fund Performance  
December 31, 2017

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# **ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

## **December 31, 2017**

### **First Trust Tactical Bond 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 5102, 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 Tactical Bond Index ETF

## Management Report of Fund Performance

### For the year ended December 31, 2017

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#### **Investment Objective and Strategy**

The fundamental investment objective of **First Trust Tactical Bond Index ETF** (the “First Trust ETF”) is to replicate, to the extent possible, the performance of a total return fixed income index, net of expenses. Currently, the First Trust ETF seeks to replicate the performance of the NASDAQ IBIS Canadian Preservation Index CAD TR<sup>SM</sup>, net of expenses.

The investment strategy of the First Trust ETF is to invest in and hold a proportionate share of the constituent securities of the Index, or other securities, to seek 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.

The Manager may use a sampling methodology in selecting investments for the First Trust ETF. As an alternative or in conjunction with investing in and holding constituent securities, the First Trust ETF may also invest in other securities to obtain exposure to the constituent securities of the applicable Index in a manner that is consistent with the investment objective and investment strategy of the First Trust ETF.

The First Trust ETF offers one class of units on the TSX with the symbol: FTB

The inception date of the First Trust ETF was June 19, 2015.

#### **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 net asset value as of December 31, 2017 was \$34,097,106 or \$19.48 per unit. The First Trust ETF’s net asset value as of December 31, 2016 was \$35,082,554 or \$19.49 per unit.

For the year ended December 31, 2017, the First Trust ETF paid total cash distributions per unit of \$0.7854.

For the year ended December 31, 2017, the First Trust ETF declared cash distributions per unit of \$0.0600 with payment date of January 8, 2018.

#### **Investment Performance**

The First Trust ETF returned 4.01% for the year ended December 31, 2017. This compares with the NASDAQ IBIS Canadian Preservation Index CAD TR (the “Index”) total return of 4.66%. Unlike the Index, the First Trust ETF’s return is net of fees and expenses.

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, Invesco Canada, and BMO Asset Management Inc. The First Trust ETF tracks an index which applies a relative strength model on a quarterly basis. During the period, the First Trust ETF tactically rebalanced three times to align the weights of the fund components with the Index.

As an asset class, U.S. High yield corporate bonds was one of the top contributors to the First Trust ETF’s performance. The asset class was represented by the BMO High Yield US Corporate Bond Hedged to CAD ETF and the iShares U.S. High Yield Bond Index ETF (CAD-Hedged). Synchronized global growth has been a catalyst for risk-asset markets such as emerging market debt and corporate high-yield debt which has performed well during the year.

Another contributor to performance was Canadian Preferred shares. It was represented by the iShares S&P/TSX Canadian Preferred Share Index ETF. Preferred shares surged during the period, as Bank of Canada raised interest rates twice during the year.

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## First Trust Tactical Bond Index ETF Management Report of Fund Performance For the year ended December 31, 2017

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With positive trends in all the asset classes, there were no detractors from absolute performance during the year of 2017.

### **Recent Developments**

The portfolio had three rebalances during the year. During the first half of the year, the portfolio increased its position in Canadian Preferred Shares and Canadian Corporate Bonds while removing positions in Canadian Universe Bonds and Long-Term Government Bonds. The Canadian Corporate bonds position was replaced by Floating Rate Bonds in the second half of the year. This portfolio continues to produce a higher overall yield relative to broader Canadian bond universe indexes.

### **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.

# First Trust Tactical Bond Index ETF

## Management Report of Fund Performance

### For the year ended December 31, 2017

#### 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 June 19, 2015. The information are derived from the First Trust ETF's audited annual financial statements for the year ended December 31, 2016, and for the period from since inception to December 31, 2015.

#### Net Asset Value per Unit

	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015 <sup>(a)</sup>
Net asset value, beginning of period/year <sup>(1)</sup>	\$19.49	\$19.52	\$20.00 <sup>(b)</sup>
Increase (Decrease) from operations:			
Total revenue	0.86	0.78	0.39
Total expenses	(0.12)	(0.12)	(0.07)
Realized gains (losses) for the period/year	(0.25)	(0.09)	(0.32)
Unrealized gains (losses) for the period/year	0.27	(0.03)	(0.10)
Total increase (decrease) from operations <sup>(2)</sup>	\$0.76	\$0.54	\$(0.10)
Distributions:			
From income (excluding dividends)	(0.60)	(0.59)	(0.30)
From dividends	(0.13)	(0.03)	-
From capital gains	-	(0.17)	-
Return of capital	(0.05)	-	-
Total annual distributions <sup>(3)</sup>	\$(0.78)	\$(0.79)	\$(0.30)
Net asset value, end of period/year <sup>(4)</sup>	\$19.48	\$19.49	\$19.52

(a) December 31, 2015 does not relate to the full year as the date of inception of the First Trust ETF was July 19, 2015.

(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

	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Net asset value (000's)	\$34,097	\$35,083	\$25,382
Number of units outstanding	1,750,000	1,800,000	1,300,000
Management expense ratio <sup>(1)</sup>	1.09%	0.97%	0.92%
Management expense ratio before waivers or absorption	1.10%	0.99%	0.94%
Trading expense ratio <sup>(2)</sup>	0.06%	0.07%	0.16%
Portfolio turnover rate <sup>(3)</sup>	67.44%	135.87%	88.46%
Net asset value per unit	\$19.48	\$19.49	\$19.52

(1) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period, including the First Trust ETF's proportionate share of the MER of any underlying fund in which the First Trust ETF has invested, 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. This includes the First Trust ETF's proportionate share of the commissions of any underlying fund in which the First Trust ETF has invested.

(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.

# First Trust Tactical Bond Index ETF

## Management Report of Fund Performance

### For the year ended December 31, 2017

#### Management Fees

The First Trust ETF will pay the Manager a management fee up to 0.50% 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.

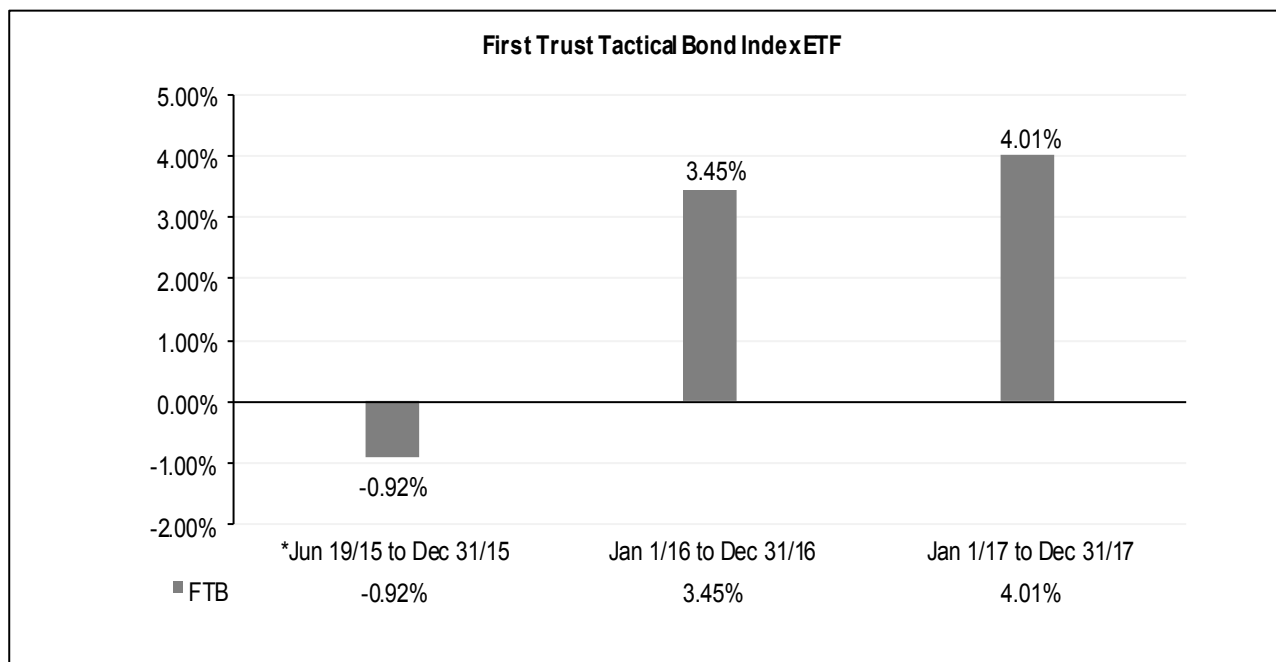
#### Past Performance

##### General

The past performance information shown assumes that all distributions made by the First Trust ETF in the period 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 chart below shows the First Trust ETF's performance, for the years ended December 31 and for the period from since inception to December 31, 2015 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

# First Trust Tactical Bond Index ETF

## Management Report of Fund Performance

### For the year ended December 31, 2017

#### Annual Compound Returns

The First Trust ETF seeks to track the performance of the NASDAQ IBIS Canadian Preservation Index CAD TR\*. The underperformance of First Trust ETF might be caused by various reasons, such as management fee deductions.

	1-year	Since Inception
First Trust Tactical Bond Index ETF	4.01%	2.56%
NASDAQ IBIS Canadian Preservation Index CAD TR*	4.66%	3.16%

*\*Reference Index - The NASDAQ IBIS Canadian Preservation Index utilizes IBIS' Quantitative Tactical Fixed Income Rotation model. The Index will invest in Canadian-listed Exchange-Traded Funds covering various segments of the global fixed income market. The selection of assets is determined through a proprietary technology for Relative Strength. The Index will tactically allocate into five TSX-listed ETFs on an equal-weighted basis based upon IBIS' proprietary model to take advantage of short and long term shifts in quality, duration, and geographic risk within fixed income.*

#### 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, 2017. 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).

Holdings	% of ETF Total Net Asset Value
iShares S&P/TSX Canadian Preferred Share Index ETF	20.37%
iShares Floating Rate Index ETF	20.10%
BMO Emerging Markets Bond Hedged to CAD Index ETF	19.84%
iShares U.S. High Yield Bond Index ETF	19.82%
BMO High Yield US Corporate Bond Hedged to CAD ETF	19.59%
Cash	0.20%
Other assets, less liabilities	0.08%
<b>Total</b>	<b>100.00%</b>

#### 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, 2017.

Sector Weightings	% of ETF Total Net Asset Value
Exchange-Traded Funds	99.72%
Cash	0.20%
Other assets, less liabilities	0.08%
<b>Total</b>	<b>100.00%</b>



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