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First Trust AlphaDEX™ U.S. Consumer Staples Sector  
Index ETF • FHC, FHC.F

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Annual Management Report of Fund Performance  
December 31, 2019

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# **ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

## **December 31, 2019**

### **First Trust AlphaDEX™ U.S. Consumer Staples Sector Index ETF (the “First Trust ETF”)**

This annual management report of fund performance contains financial highlights, but does not contain the complete audited 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 website 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 AlphaDEX™ U.S. Consumer Staples Sector Index ETF

## Management Report of Fund Performance

### For the year ended December 31, 2019

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

The fundamental investment objective of **First Trust AlphaDEX™ U.S. Consumer Staples Sector Index ETF** (the “First Trust ETF”) is to replicate, to the extent possible, the performance of the StrataQuant® Consumer Staples Index (“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 such Index. The Index results from applying the AlphaDEX™ methodology to the Russell 1000® Index, a market index representing the large and mid-capitalization segment of the U.S. equity universe, and then selecting the constituent securities for the Index from those qualifying stocks included in the Consumer Staples Sector.

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.

In this case, the First Trust ETF may also obtain exposure to the applicable Index by holding securities of a US-listed index ETF, First Trust Consumer Staples AlphaDEX® Fund (NYSE Arca ticker: FXG), of an affiliate of the Manager, which replicates or substantially replicates the applicable Index.

#### **Risk**

The risks associated with an investment in the First Trust ETF remain as discussed in the First Trust 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. The First Trust ETF provides exposure to the consumer staples sector of the U.S. equity market in either a non-U.S. currency hedged and U.S. currency hedged manner.

#### **Results of Operations**

##### **General**

The First Trust ETF’s total net asset value as of December 31, 2019 was \$2,297,347 or \$25.71 per Unit (“FHC”) and \$20.24 per Hedged Unit (“FHC.F”). The First Trust ETF’s total net asset value as of December 31, 2018 was \$6,607,395 or \$22.80 per FHC and \$17.31 per FHC.F.

For the year ended December 31, 2019, the First Trust ETF paid total cash distributions per unit of \$0.4145 for FHC and \$0.2046 for FHC.F. In addition, the First Trust ETF declared cash distributions per unit of \$0.1900 for FHC and \$0.1500 for FHC.F for record date of December 31, 2019 with payment date of January 8, 2020.

##### **Investment Performance**

For the year ended December 31, 2019, FHC returned 14.49% compared to Russell 1000® Consumer Staples Index (CAD) (the “benchmark”) total return of 17.82% while FHC.F returned 18.68% compared to Russell 1000® Consumer Staples Index (USD) (the “hedged benchmark”) total return of 24.10%. Unlike the benchmark and the hedged benchmark, the First Trust ETF’s returns are net of fees and expenses.

As of December 31, 2019, the consumer staples sector accounted for 5.93% of the weight of the Russell 1000® Index. The benchmark underperformed the Russell 1000® Index (CAD) which returned 24.78%. The hedged benchmark underperformed the Russell 1000® Index (USD) which returned 31.43%.

The portfolio held 36 equity securities as of December 31, 2019. The top ten equity holdings accounted for 44.44% of the portfolio. The AlphaDEX™ stock selection process is a rules-based process and can result in industry weightings that differ from that of the benchmark and the hedged benchmark.

The First Trust ETF underperformed during the period due to stock selection, mostly within the Personal Care, Drug & Grocery Stores industry. Specifically, within the Personal Care sub-industry, a significant underweight position in

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# First Trust AlphaDEX™ U.S. Consumer Staples Sector Index ETF

## Management Report of Fund Performance

### For the year ended December 31, 2019

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Procter & Gamble Company contributed to the underperformance as this stock performed well during the period. Strong industry allocation mitigated the underperformance, especially in the Agriculture Fishing & Ranching and Foods sub-industries.

FHC underperformed FHC.F during the period because of its exposure to the U.S. dollar, which depreciated 4.7% against the Canadian dollar from December 31, 2018 to December 31, 2019. FHC.F is not exposed to movements in the U.S. dollar.

The top five stocks by contribution to return were Pilgrim's Pride Corporation, Tyson Foods, Inc. Class A, Conagra Brands, Inc., Campbell Soup Company, and General Mills, Inc. The bottom five stocks by contribution to return were Kraft Heinz Company, Herbalife Nutrition Ltd., Nu Skin Enterprises, Inc. Class A, Monster Beverage Corporation, and Sprouts Farmers Markets, Inc.

### **Recent Developments**

The Russell 1000® Index rebounded from steep losses in the fourth quarter of 2018 to post a 28.89% price return in 2019, its best year since 2013. The U.S. dollar depreciated relative to the Canadian dollar in 2019, meaning the index gained 22.78% over the same period measured in Canadian dollars. 2019's gain capped a strong decade for U.S. stocks in which the Russell 1000® Index advanced 11.29% annualized before dividends, measured in U.S. dollars. This year's gains were propelled in part by three interest rate cuts by the U.S. Federal Reserve in the second half of the year, a strong U.S. economy, and positive trade developments at the end of the year. The Fed cut rates to sustain the U.S. economic expansion and buffer it from a slowdown in global growth. Additionally, the Fed cited weak growth in certain areas of the U.S. economy, such as business investment, and low inflation for its accommodative moves. The U.S. economy remained strong during the period, despite weakness in manufacturing, with the unemployment rate reaching its lowest level since 1969 at 3.5%. Moreover, real GDP grew at least 2% annualized in each of the three quarters with data during the period. The year ended strong, with the Russell 1000® advancing in each of the final four months of the year. Positive trade developments contributed to the rally, as the U.S. and China agreed to a phase-one trade deal that is expected to be signed in 2020. The yield on the benchmark U.S. 10-year Treasury fell as low as 1.5% during the period but finished higher at 1.9%. After 2019's gains, the Russell 1000® Index finished the year trading at a P/E multiple of 22.3, compared to 16.9 at the end of 2018, with a dividend yield of 1.78%.

### **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 AlphaDEX™ U.S. Consumer Staples Sector Index ETF

## Management Report of Fund Performance

### For the year ended December 31, 2019

#### 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 five years for FHC and past two years for FHC.F. This information is derived from the First Trust ETF's audited annual financial statements.

#### Net Asset Value per Unit

FHC	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Net asset value, beginning of year <sup>(1)</sup>	\$22.80	\$24.21	\$24.62	\$24.73	\$21.63
Increase (Decrease) from operations:					
Total revenue	0.56	0.66	0.40	0.62	0.65
Total expenses	(0.28)	(0.36)	(0.28)	(0.28)	(0.26)
Realized gains (losses) for the period/year	0.73	0.91	(0.59)	0.57	1.04
Unrealized gains (losses) for the period/year	3.02	(2.30)	0.76	(1.25)	0.37
Total increase (decrease) from operations <sup>(2)</sup>	\$4.03	\$(1.10)	\$0.29	\$(0.34)	\$1.80
Distributions:					
From income (excluding dividends)	(0.38)	(0.17)	(0.44)	(0.15)	(0.41)
From dividends	-	-	-	-	-
From capital gains	-	(0.41)	-	(1.27)	-
Return of capital	-	-	-	-	(0.08)
Total annual distributions <sup>(3)</sup>	\$(0.38)	\$(0.58)	\$(0.44)	\$(1.42)	\$(0.49)
Net asset value, end of year <sup>(4)</sup>	\$25.71	\$22.80	\$24.21	\$24.62	\$24.73

FHC.F	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017 <sup>(a)</sup>
Net asset value, beginning of period/year <sup>(1)</sup>	\$17.31	\$20.03	\$20.00 <sup>(b)</sup>
Increase (Decrease) from operations:			
Total revenue	0.43	0.49	0.10
Total expenses	(0.22)	(0.27)	(0.03)
Realized gains (losses) for the period/year	0.10	(0.67)	0.01
Unrealized gains (losses) for the period/year	2.37	(3.00)	(0.05)
Total increase (decrease) from operations <sup>(2)</sup>	\$2.68	\$(3.45)	\$0.03
Distributions:			
From income (excluding dividends)	(0.29)	(0.13)	-
From dividends	-	-	-
From capital gains	-	-	-
Return of capital	-	-	-
Total annual distributions <sup>(3)</sup>	\$(0.29)	\$(0.13)	\$ -
Net asset value, end of period/year <sup>(4)</sup>	\$20.24	\$17.31	\$20.03

(a) FHC.F: December 31, 2017 does not relate to the full year as FHC.F commenced operations on December 8, 2017.

(b) Initial offering price

(1) This information is provided as at December 31 of the period/years 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 paid in cash or reinvested in additional units of the First Trust ETF, or both. Non-cash distributions are reinvested in additional units of the First Trust ETF and subsequently consolidated. Neither the number of units held by the unitholder, nor the net asset per unit of the First Trust ETF change as a result of any non-cash distributions.

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

First Trust AlphaDEX™ U.S. Consumer Staples Sector Index ETF  
Management Report of Fund Performance  
For the year ended December 31, 2019

**Ratios and Supplemental Data**

FHC	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Net asset value (000's)	\$1,285	\$2,280	\$2,421	\$2,462	\$3,710
Number of units outstanding	50,000	100,000	100,000	100,000	150,000
Management expense ratio <sup>(1)</sup>	0.77%	0.77%	0.82%	0.77%	0.79%
Management expense ratio before waivers or absorption	0.79%	0.79%	0.84%	0.79%	0.80%
Trading expense ratio <sup>(2)</sup>	0.05%	0.05%	0.11%	0.06%	0.04%
Portfolio turnover rate <sup>(3)</sup>	122.70%	116.28%	498.88%	289.16%	273.49%
Net asset value per unit	\$25.71	\$22.80	\$24.21	\$24.62	\$24.73

FHC.F	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Net asset value (000's)	\$1,012	\$4,328	\$1,001
Number of units outstanding	50,000	250,000	50,000
Management expense ratio <sup>(1)</sup>	0.79%	0.79%	0.74%
Management expense ratio before waivers or absorption	0.81%	0.80%	0.97%
Trading expense ratio <sup>(2)</sup>	0.05%	0.05%	0.11%
Portfolio turnover rate <sup>(3)</sup>	122.70%	116.28%	498.88%
Net asset value per unit	\$20.24	\$17.31	\$20.03

(1) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) 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.

**Management Fees**

The First Trust ETF will pay the Manager a management fee of 0.70% 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.

**First Trust AlphaDEX™ U.S. Consumer Staples Sector Index ETF  
 Management Report of Fund Performance  
 For the year ended December 31, 2019**

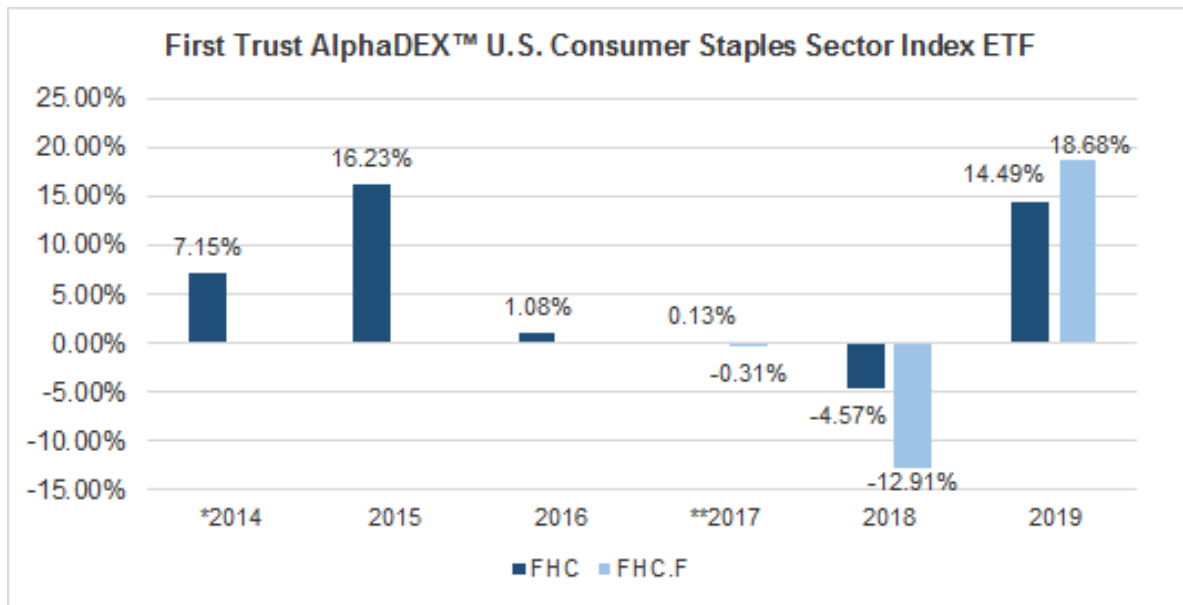
**Past Performance**

**General**

The past performance information shown assumes that all distributions made by the First Trust ETF in the periods/years 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, per class, for the years ended December 31, for the period from commencement of operations to December 31, 2017 for FHC.F, and for the period from commencement of operations to December 31, 2014 for FHC and illustrates how the investment fund's performance has changed from year to year. The chart also shows, 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.



\*FHC Commencement: October 30, 2014

\*\*FHC.F Commencement: December 8, 2017



# First Trust AlphaDEX™ U.S. Consumer Staples Sector Index ETF

## Management Report of Fund Performance

### For the year ended December 31, 2019

#### Annual Compound Returns

The table below shows the First Trust ETF's annual compound total return since inception and for the years ended December 31, 2019. The annual compound return is compared to the returns of the relevant benchmarks and reference index; however, the First Trust ETF's return is net of fees and expenses. See Results of Operations section of this report for further information regarding the current year performance of the First Trust ETF relative to the benchmark/index.

	1-year	3-year	5-year	Since Inception
First Trust AlphaDEX™ U.S. Consumer Staples Sector Index ETF – FHC	14.49%	3.04%	5.15%	6.38%
Russell 1000® Consumer Staples Index	17.82%	5.95%	9.48%	11.09%
Russell 1000® Index	24.78%	13.77%	14.03%	15.31%
S&P 500 Consumer Staples Index	21.16%	8.66%	10.78%	12.44%
StrataQuant® Consumer Staples Index*	15.62%	4.42%	8.15%	10.10%
First Trust AlphaDEX™ U.S. Consumer Staples Sector Index ETF – FHC.F	18.68%	N/A	N/A	1.46%
Russell 1000® Consumer Staples Index USD	24.10%	N/A	N/A	6.37%
Russell 1000® Index USD	31.43%	N/A	N/A	12.28%
S&P 500 Consumer Staples Index USD	27.61%	N/A	N/A	8.64%
StrataQuant® Consumer Staples Index USD*	21.60%	N/A	N/A	3.92%

*The Russell 1000® Consumer Staples Index - is an unmanaged index which includes the stocks in the consumer staples sector of the Russell 1000® Index.*

*The Russell 1000® Index – consists of the largest 1000 companies in the Russell 3000 Index. It represents the universe of large capitalization stocks from which most active money managers typically select.*

*The S&P 500 Consumer Staples Index - is an unmanaged index which includes the stocks in the consumer staples sector of the S&P 500 Index.*

*\*Reference Index: StrataQuant® Consumer Staples Index - is an "enhanced" index developed, maintained and sponsored by ICE Data Indices, LLC or its affiliates ("IDI") which employs the AlphaDEX® stock selection methodology to select stocks from the Russell 1000® Index.*

First Trust AlphaDEX™ U.S. Consumer Staples Sector Index ETF  
Management Report of Fund Performance  
For the year ended December 31, 2019

**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, 2019. 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).

Top 25 Holdings	% of ETF Total Net Asset Value
Sysco Corp.	4.88%
Walgreens Boots Alliance Inc.	4.83%
Campbell Soup Co.	4.77%
Pilgrim's Pride Corp.	4.63%
Casey's General Stores Inc.	4.48%
Hershey Co. (The)	4.30%
Molson Coors Brewing Co., Class 'B'	4.25%
Ingredion Inc.	4.13%
Archer-Daniels-Midland Co.	4.09%
Kroger Co. (The)	4.08%
Kellogg Co.	3.90%
Tyson Foods Inc., Class 'A'	3.83%
Bunge Ltd.	3.69%
Procter & Gamble Co. (The)	3.64%
Altria Group Inc.	3.32%
Lamb Weston Holdings Inc.	3.22%
CVS Health Corp.	3.20%
Brown-Forman Corp., Class 'B'	2.93%
Sprouts Farmers Markets Inc.	2.72%
Nu Skin Enterprises Inc., Class 'A'	2.62%
J.M. Smucker Co. (The)	2.57%
Conagra Brands Inc.	2.03%
Hormel Foods Corp.	1.87%
US Foods Holding Corp.	1.85%
Coca-Cola Co. (The)	1.84%
<b>Total</b>	<b>87.67%</b>

**Portfolio Breakdown**

The table below sets out the percentage (based on total net asset value) of the First Trust ETF's portfolio, by industry, as at December 31, 2019.

Industry Weightings	% of ETF Total Net Asset Value
Food Products	47.71%
Food & Staples Retailing	23.58%
Beverages	12.49%
Household Products	5.33%
Tobacco	4.21%
Health Care Providers & Services	3.20%
Personal Products	2.62%
Cash and Cash Equivalents	0.85%
Other Assets, Less Liabilities	0.00%
<b>Total</b>	<b>100.00%</b>

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[www.firsttrust.ca](http://www.firsttrust.ca)