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## First Trust International Capital Strength ETF • FINT

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Annual Management Report of Fund Performance  
December 31, 2023

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# **ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

## **December 31, 2023**

### **First Trust International Capital Strength 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.sedarplus.ca](http://www.sedarplus.ca).

### **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 International Capital Strength ETF

## Management Report of Fund Performance

### For the year ended December 31, 2023

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

The fundamental investment objective of **First Trust International Capital Strength ETF** (the "First Trust ETF") is to provide unitholders with long term capital appreciation by investing primarily in equity securities of developed market companies, excluding the U.S. and Canada, that are traded on global exchanges, with a focus on fundamental strength and growth.

The First Trust ETF seeks to achieve its investment objective by investing primarily in securities of developed market companies, excluding the U.S. and Canada. Securities invested in by the First Trust ETF include common shares of public companies and American Depository Receipts ("ADRs"), Global Depository Receipts ("GDRs") and European Depository Receipts ("EDRs") that are traded on global exchanges or markets.

The First Trust ETF uses a multi-step, bottom-up quantitative selection process to identify its investible universe of securities, and fundamental analysis to make final portfolio selections. The selection process, described below, is designed to identify issuers that have certain objectives and easily determinable attributes that, in the portfolio advisor's opinion, makes them capital strength issuers.

The first step in the portfolio advisor's selection process is to identify the universe of securities from which the portfolio advisor will select the portfolio. The portfolio advisor begins by selecting securities of issuers that, primarily, are traded on global exchanges or markets, excluding United States and Canadian securities.

Next, the portfolio advisor evaluates issuers based on multiple quantitative metrics, including, but not limited to, market capitalization, cash on hand, return on equity and long-term debt to market value of equity. These factors are designed to identify those issuers which exhibit strong fundamental characteristics at the time of purchase and to eliminate those that do not meet the investment criteria.

After establishing the investment universe, the portfolio advisor examines other factors, including valuation and future growth prospects, to determine securities it may purchase for the First Trust ETF. The portfolio advisor then uses fundamental analysis to select securities that meet the First Trust ETF's investment objectives, trade at attractive valuations and in the opinion of the portfolio advisor, are likely to exceed market expectations of future cash flows.

#### **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 reporting period that affected the overall level of risk associated with the First Trust ETF.

#### **Results of Operations**

##### ***General***

The First Trust ETF's net asset value as of December 31, 2023 was \$6,279,441 or \$25.12 per unit. The First Trust ETF's net asset value as of December 31, 2022 was \$6,828,427 or \$22.76 per unit.

For the year ended December 31, 2023, the First Trust ETF paid total cash distributions of \$0.6188 per unit.

##### ***Investment Performance***

For the year ended December 31, 2023, the First Trust ETF returned 12.72% compared to MSCI EAFE Index (the "benchmark") return of 15.07%. Unlike the benchmark, the First Trust ETF's return is net of fees and expenses.

The First Trust ETF underperformed the benchmark for period. Overall, allocation effect and selection effect were both negative contributors to relative performance. Selections within the Information Technology and Industrials sectors, as well as an overweight allocation to the Information Technology sector were the largest positive contributors to relative performance. Negative contributions to relative performance came from stock selections within the Materials, Energy, and Consumer Discretionary sectors as well as an overweight allocation to the Energy and Health Care sectors.

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# First Trust International Capital Strength ETF

## Management Report of Fund Performance

### For the year ended December 31, 2023

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The top-performing stocks by total return for the period were Tokyo Electron Ltd., Novo Nordisk A/S, and Volvo AB. These stocks returned +81.98%, +51.45%, and +49.98%, respectively, in CAD, including dividends. The bottom-performing stocks by total return for the period were Anglo American plc, Genmab A/S, and Neste Corporation. These stocks returned -34.30%, -26.37%, and -21.50%, respectively, in CAD, including dividends.

The First Trust ETF held 40 equity positions for the year ended December 31, 2023 and made no net change to the number of positions from the beginning of the period. Portfolio changes were made in March 2023 (five positions added, five positions eliminated), in June 2023 (three positions added, three positions eliminated), and in October 2023 (five positions added, five positions eliminated). The top ten equity holdings of the First Trust ETF as of December 31, 2023 accounted for 28.45% of total NAV and the top ten equity holdings of the First Trust ETF as of December 31, 2022 accounted for 25.39% of total NAV. Information Technology, Consumer Discretionary, and Health Care (in order) were the top three sector weightings at the end of the period, whereas Health Care, Industrials, and Consumer Staples were the top three sector weightings at the beginning of the period. Relative to its benchmark over the period, the First Trust ETF was overweight the Communication Services, Consumer Staples, Energy, Health Care, Information Technology and Materials sectors and underweight the Consumer Discretionary, Financials, Industrials, Real Estate, and Utilities sectors. The sector weighting of the First Trust ETF changed somewhat over the reporting period, primarily as the result of our bottom-up, multi-step quantitative and fundamental stock selection strategy.

Portfolio changes were made in March, June, and October of 2023. There was no net change to the total number of portfolio positions over the period. In March, one position, Anglo American PLC was eliminated for failing to meet the initial screening criteria, while four positions, Nintendo Co Ltd, Diageo PLC, Unilever PLC, and Woodside Energy Group Ltd were removed at the manager's discretion. Five positions, JD Sports Fashion PLC, Yamaha Motor Co Ltd, Brenntag SE, STMicroelectronics NV, and Sumitomo Metal Mining Co Ltd were established in place of them. In June, one position, Sanofi was eliminated for failing to meet the initial screening criteria, while two positions, Kering SA and Tenaris SA were removed at the manager's discretion. Three positions, Kia Corp, ASML Holding NV, and Keyence Corp were established in place of them. In October, three positions, ArcelorMittal SA, Sandvik AB, and Sumitomo Metal Mining Co Ltd were eliminated for failing to meet the initial screening criteria, while two positions, Genmab A/S and Capcom Co Ltd were removed at the manager's discretion. Five positions, Chugai Pharmaceutical Co Ltd, Daito Trust Construction Co Ltd, Diageo PLC, Nintendo Co Ltd, and Schneider Electric SE were established in place of them.

### Recent Developments

Global conditions continue to soften as a result of ongoing quantitative tightening, elevated inflation, and heightened geopolitical risks. Global headline and core inflation measures have declined from 2022 peaks, though they still remain above target in most advanced economies. According to the World Bank's latest projections, global growth in 2023 is expected to come in at 2.6% and decline again in 2024 to 2.4%. This would mark the third consecutive year of decelerating growth. Regardless of their effects on global growth, many central banks remain focused on restoring price stability and reining in inflation. The Bank of Japan has maintained a cautious stance on monetary policy. At the latest Monetary Policy Meeting (December 2023), the bank voted unanimously to leave its key short-term interest rate unchanged at -0.10%, while sticking to its yield curve policy which keeps the upper limit for the 10-year government bond at 1%. The European Central Bank ("the ECB") raised their key bank rate from 2.50% to 4.00% throughout the year as they continue their efforts to curb inflation. The Bank of England Monetary Policy Committee ("the MPC") voted to raise rates at five different meetings in 2023. After beginning the year at 3.50%, the Bank Rate ended the year at 5.25%.

The MSCI EAFE Index returned 15.07% for the year, as all eleven GICS sectors posted positive returns. The largest positive contributors to total return were the Industrials, Financials, and Consumer Discretionary sectors, which make up approximately 47% of the benchmark. By country, Japanese, French, and German equities (42.85% of the benchmark) accounted for almost half of the benchmark's positive contribution to return for the period. Hong Kong equities were the largest negative contributor to total return for the period, though they only account for 2.45% of the benchmark. The Index rebounded in 2023 after posting a -16.79% decline in 2022. Amidst persistent inflationary pressures, the ongoing conflicts in Ukraine and the Middle East, and unprecedented tightening of monetary policy,

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## First Trust International Capital Strength ETF Management Report of Fund Performance For the year ended December 31, 2023

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global growth has slowed, but not stalled. However, according to the International Monetary Fund, despite the resiliency shown earlier in the year, economic activity is still falling short of pre-pandemic projections.

We continue to find attractive long-term candidates from within our selection universe of “international capital strength” companies. The First Trust ETF is positioned to provide exposure to the world’s most developed nations, e.g. the United States and Canada.

### **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 International Capital Strength ETF

## Management Report of Fund Performance

### For the year ended December 31, 2023

#### 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 five years ended December 31. This information is derived from the First Trust ETF's audited annual financial statements.

#### Net Asset Value per Unit

| FINT   | 2023     | 2022     | 2021    | 2020     | 2019     |
|--|----------|----------|---------|----------|----------|
| Net asset value, beginning of year <sup>(1)</sup>        | \$22.76  | \$27.08  | \$24.09 | \$20.71  | \$16.79  |
| Increase (Decrease) from operations:                     |          |          |         |          |          |
| Total revenue  | 0.82     | 0.90     | 0.79    | 0.46     | 0.68     |
| Total expenses   | (0.31)   | (0.28)   | (0.32)  | (0.27)   | (0.26)   |
| Realized gains (losses) for the year                     | 0.43     | (2.86)   | 2.38    | 0.81     | (1.74)   |
| Unrealized gains (losses) for the year                   | 1.96     | (2.17)   | (0.02)  | 3.76     | 4.95     |
| Total increase (decrease) from operations <sup>(2)</sup> | \$2.90   | \$(4.41) | \$2.83  | \$4.76   | \$3.63   |
| Distributions:   |          |          |         |          |          |
| From income (excluding dividends)                        | (0.42)   | (0.29)   | -       | -        | (0.19)   |
| From dividends   | -        | -        | -       | -        | -        |
| From capital gains                                       | -        | -        | -       | (1.14)   | -        |
| Return of capital  | (0.08)   | -        | -       | (0.06)   | (0.06)   |
| Total annual distributions <sup>(3)</sup>                | \$(0.50) | \$(0.29) | \$ -    | \$(1.20) | \$(0.25) |
| Net asset value, end of year <sup>(4)</sup>              | \$25.12  | \$22.76  | \$27.08 | \$24.09  | \$20.71  |

(1) This information is provided as at December 31 of the 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 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.

#### Ratios and Supplemental Data

| FINT  | 2023    | 2022    | 2021    | 2020    | 2019    |
|---|---------|---------|---------|---------|---------|
| Net asset value (000's)                               | \$6,279 | \$6,828 | \$9,477 | \$6,023 | \$2,071 |
| Number of units outstanding                           | 250,000 | 300,000 | 350,000 | 250,000 | 100,000 |
| Management expense ratio <sup>(1)</sup>               | 0.75%   | 0.74%   | 0.74%   | 0.75%   | 0.77%   |
| Management expense ratio before waivers or absorption | 0.76%   | 0.76%   | 0.76%   | 0.78%   | 0.79%   |
| Trading expense ratio <sup>(2)</sup>                  | 0.10%   | 0.15%   | 0.21%   | 0.33%   | 0.30%   |
| Portfolio turnover rate <sup>(3)</sup>                | 45.00%  | 61.18%  | 65.09%  | 55.67%  | 101.25% |

(1) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of daily average net asset value during the 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 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 year. The higher a First Trust ETF's portfolio turnover rate in a year, the greater the trading cost payable by the First Trust ETF in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of a First Trust ETF.

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# First Trust International Capital Strength ETF

## Management Report of Fund Performance

### For the year ended December 31, 2023

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#### 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.

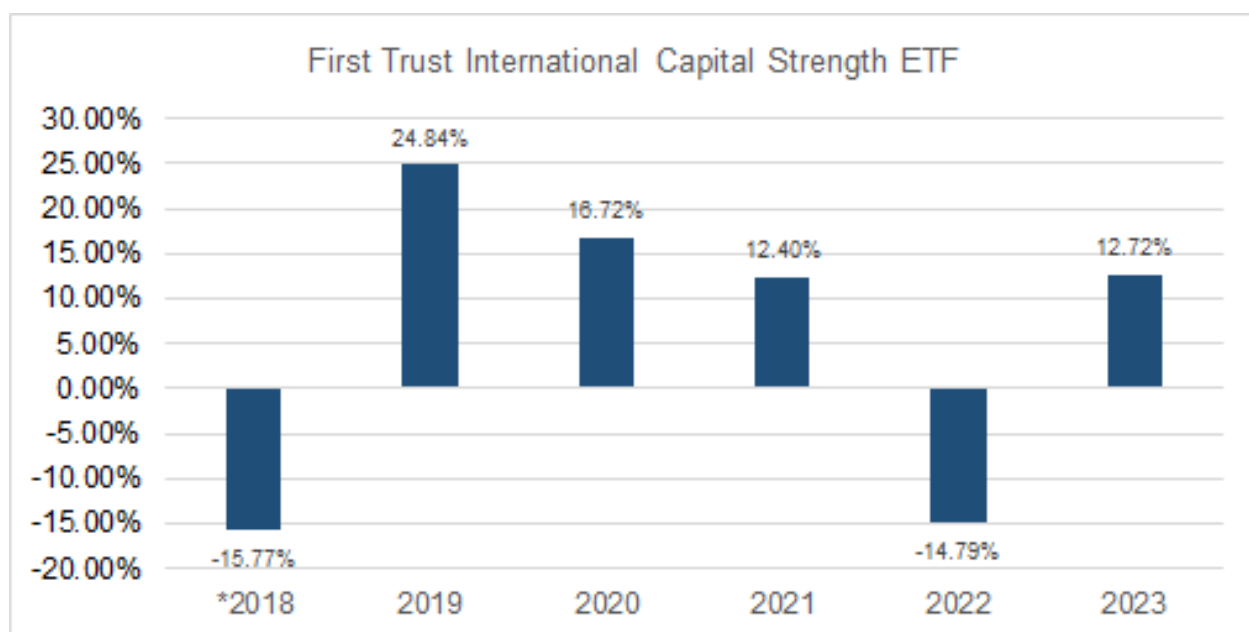
#### Past Performance

##### General

The past performance information shown assumes that all distributions made by the First Trust ETF in the period/year 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 commencement of operations to December 31, 2018 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.



\*First Trust ETF Commencement: May 17, 2018



# First Trust International Capital Strength ETF

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#### Annual Compound Returns

The table below shows the First Trust ETF's annual compound total return since inception and for the year ended December 31, 2023. The annual compound return is compared to the returns of the relevant benchmark; 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.

| Returns  | 1-Year | 3-Year | 5-Year | 10-Year | Since Inception |
|--|--------|--------|--------|---------|-----------------|
| First Trust International Capital Strength ETF | 12.72% | 2.58%  | 9.48%  | -       | 5.13%           |
| MSCI EAFE Index                                | 15.07% | 5.22%  | 7.41%  | -       | 4.80%           |

*MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.*

#### Summary of Investment Portfolio

The table below sets out the percentage (based on total net asset value) of the First Trust ETF's top 25 holdings as at December 31, 2023. This summary of portfolio holdings may change due to ongoing portfolio transactions of the First Trust ETF. Daily and quarterly updates are available at [www.firsttrust.ca](http://www.firsttrust.ca).

| Top 25 Holdings                     | % of ETF Total Net Asset Value |
|-------------------------------------|--------------------------------|
| Tokyo Electron Ltd.                 | 3.02%                          |
| Infineon Technologies AG            | 3.00%                          |
| Straumann Holding AG                | 2.87%                          |
| JD Sports Fashion PLC               | 2.86%                          |
| Kia Corp.                           | 2.85%                          |
| Keyence Corp.                       | 2.79%                          |
| CSL Ltd.                            | 2.78%                          |
| ABB Ltd., Registered                | 2.78%                          |
| Volvo AB, Series 'B'                | 2.75%                          |
| STMicroelectronics NV               | 2.75%                          |
| Schneider Electric SE               | 2.74%                          |
| Chugai Pharmaceutical Co. Ltd.      | 2.72%                          |
| Nintendo Co. Ltd.                   | 2.64%                          |
| ASML Holding NV                     | 2.64%                          |
| Deutsche Boerse AG                  | 2.63%                          |
| Brenntag SE                         | 2.60%                          |
| Samsung Electronics Co. Ltd.        | 2.58%                          |
| Sony Group Corp.                    | 2.51%                          |
| Capgemini SE                        | 2.48%                          |
| Mercedes-Benz Group AG              | 2.46%                          |
| Rio Tinto PLC                       | 2.44%                          |
| SAP SE                              | 2.41%                          |
| LVMH Moet Hennessy Louis Vuitton SE | 2.38%                          |
| Glencore PLC                        | 2.38%                          |
| Roche Holding AG Genusscheine       | 2.37%                          |
| <b>Total</b>                        | <b>66.43%</b>                  |

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**Portfolio Breakdown**

The table below sets out the percentage (based on total net asset value) of the First Trust ETF's portfolio as at December 31, 2023.

| Sector Weightings              | % of ETF Total Net Asset Value |
|--------------------------------|--------------------------------|
| Information Technology         | 24.31%                         |
| Consumer Discretionary         | 17.58%                         |
| Health Care                    | 15.27%                         |
| Industrials                    | 15.17%                         |
| Consumer Staples               | 8.65%                          |
| Energy                         | 6.33%                          |
| Financials                     | 4.93%                          |
| Materials                      | 4.83%                          |
| Communication Services         | 2.28%                          |
| Cash and Cash Equivalents      | 0.19%                          |
| Other Assets, Less Liabilities | 0.46%                          |
| <b>Total</b>                   | <b>100.00%</b>                 |

The table below sets out the percentage (based on total net asset value) of the First Trust ETF's portfolio excluding cash, by country, as at December 31, 2023.

| Country Weightings | % of ETF Total Net Asset Value |
|--------------------|--------------------------------|
| Japan              | 20.48%                         |
| Switzerland        | 17.71%                         |
| United Kingdom     | 13.97%                         |
| Germany            | 13.10%                         |
| France             | 11.83%                         |
| Korea              | 5.43%                          |
| Denmark            | 4.46%                          |
| Australia          | 2.78%                          |
| Sweden             | 2.75%                          |
| Netherlands        | 2.64%                          |
| Finland            | 2.22%                          |
| Norway             | 1.98%                          |
| <b>Total</b>       | <b>99.35%</b>                  |

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