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First Trust Dow Jones Internet ETF • FDN, FDN.F (*formerly, 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, 2020

\*Effective date of name change is February 17, 2021

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# **ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

## **December 31, 2020**

### **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

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### For the year ended December 31, 2020

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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, 2020 was \$4,680,275 or \$24.76 per Unit (“FHC”) and \$19.34 per Hedged Unit (“FHC.F”). The First Trust ETF’s total net asset value as of December 31, 2019 was \$2,297,347 or \$25.71 per FHC and \$20.24 per FHC.F.

For the year ended December 31, 2020, the First Trust ETF paid total cash distributions per unit of \$0.4000 for FHC and \$0.3075 for FHC.F. In addition, the First Trust ETF declared cash distributions per unit of \$1.2600 for FHC and \$1.3450 for FHC.F for record date of December 31, 2020 with payment date of January 8, 2021. The First Trust ETF also made total notional distributions per unit of \$0.7893 for FHC and \$0.5001 for FHC.F for the year ended December 31, 2020. These amounts were reinvested in the First Trust ETF and not paid in cash to unitholders.

##### **Investment Performance**

For the year ended December 31, 2020, FHC returned 2.11% compared to the Russell 1000® Consumer Staples Index (CAD) (the “benchmark”) total return of 5.24% while FHC.F returned 3.13% compared to the Russell 1000® Consumer Staples Index (USD) (the “hedged benchmark”) total return of 7.11%. Unlike the benchmark and the hedged benchmark, the First Trust ETF’s returns are net of fees and expenses.

As of December 31, 2020, the Consumer Staples sector accounted for 5.29% of the weight of the Russell 1000® Index. The benchmark underperformed the Russell 1000® Index (CAD) which returned 18.84%. The hedged benchmark underperformed the Russell 1000® Index (USD) which returned 20.96%.

The portfolio held 40 equity securities as of December 31, 2020. The top ten equity holdings accounted for 42.07% 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.

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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, 2020

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The First Trust ETF underperformed during the year due to stock selection, mostly within the Food Producers industry, including three of the five bottom contributors to return. Strong selection in the Beverages industry and an underweight allocation to the Tobacco industry mitigated the underperformance.

FHC underperformed FHC.F during the year because of its exposure to the U.S. dollar, which depreciated 2.04% against the Canadian dollar from December 31, 2019, to December 31, 2020. FHC.F is not exposed to movements in the U.S. dollar.

The top five stocks by contribution to return were Nu Skin Enterprises, Inc. Class A, Boston Beer Company, Inc. Class A, Monster Beverage Corporation, Dollar General Corporation, and Albertsons Companies, Inc. Class A. The bottom five stocks by contribution to return were Sysco Corporation, Pilgrim's Pride Corporation, Walgreens Boots Alliance Inc., Tyson Foods, Inc. Class A, and Lamb Weston Holdings, Inc.

### Recent Developments

The Russell 1000® Index gained 20.96% in 2020, including dividends, to close the year at a record high despite a 35% drawdown in the first quarter as it became clear the COVID-19 pandemic would cause significant disruptions to the U.S. economy. The U.S. dollar depreciated relative to the Canadian dollar in 2020, meaning the index gained 18.84% over the same year measured in Canadian dollars. Broad shutdowns of the U.S. economy caused the U.S. unemployment rate to rise from a 50-year low of 3.5% in February to a record high of 14.8% in April. Between March and April, the U.S. economy lost over 22 million jobs. However, over 12 million of those were recovered in the remaining 8 months of the year, bringing the unemployment rate back down to 6.7% in December. The rapid deterioration in economic conditions was met with swift action by the U.S. Federal Reserve, which cut interest rates to near zero in March and took unprecedented steps to keep liquidity flowing in the U.S. economy. The yield on the U.S. 10-Year Treasury fell to near 0.50%, which along with government stimulus contributed to the rally in U.S. stocks during the year. Vaccine rollouts towards the end of the year contributed to a rally in U.S. stocks in the fourth quarter, particularly cyclical stocks like financial and energy companies. The Russell 1000® Index finished the year trading at a P/E multiple of 31.5, compared to 22.2 at the end of 2019, with a dividend yield of 1.50%.

The Consumer Staples sector underperformed the Russell 1000® Index during the year despite retail sales in the food & beverage stores category being one of the strongest categories of retail sales during the year. Retail sales were significantly impacted by the COVID-19 pandemic during the year. In April, U.S. retail sales fell 14.7% over the prior month, which was the largest drop on record dating back to 1992. Retail sales rebounded in May, however, posting a record 18.3% increase from April. Retail sales recovered to pre-pandemic levels about mid-way through the year but fell in each of the final three months of the year as a surge in coronavirus cases and subsequent business restrictions curtailed spending. Certain industries within the Consumer Staples sector benefited economically from the pandemic, such as the Nondurable Household Products industry which includes companies that manufacture disinfectant and household cleaning products.

In February 2021, the First Trust ETF changed its investment objectives to replicate, to the extent possible, the performance of an index of U.S. companies involved in the internet industry, initially the Dow Jones Internet Composite Index<sup>SM</sup>. In connection with the change of investment objectives, the name of the First Trust ETF changed to First Trust Dow Jones Internet ETF and offer both units and hedged units to the U.S. dollar. The First Trust ETF provides exposure to its new index by investing all or substantially all of its assets in an underlying U.S. index fund known as First Trust Dow Jones Internet Index Fund, which is managed by the First Trust ETF's portfolio advisor.

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

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

## Management Report of Fund Performance

### For the year ended December 31, 2020

#### 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 three years for FHC.F. This information is derived from the First Trust ETF's current audited annual financial statements.

#### Net Asset Value per Unit

FHC	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Net asset value, beginning of year <sup>(1)</sup>	\$25.71	\$22.80	\$24.21	\$24.62	\$24.73
Increase (Decrease) from operations:					
Total revenue	0.49	0.56	0.66	0.40	0.62
Total expenses	(0.28)	(0.28)	(0.36)	(0.28)	(0.28)
Realized gains (losses) for the year	1.05	0.73	0.91	(0.59)	0.57
Unrealized gains (losses) for the year	0.19	3.02	(2.30)	0.76	(1.25)
Total increase (decrease) from operations <sup>(2)</sup>	\$1.45	\$4.03	\$(1.10)	\$0.29	\$(0.34)
Distributions:					
From income (excluding dividends)	(1.95)	(0.38)	(0.17)	(0.44)	(0.15)
From dividends	-	-	-	-	-
From capital gains	(0.31)	-	(0.41)	-	(1.27)
Return of capital	-	-	-	-	-
Total annual distributions <sup>(3)</sup>	\$(2.26)	\$(0.38)	\$(0.58)	\$(0.44)	\$(1.42)
Net asset value, end of year <sup>(4)</sup>	\$24.76	\$25.71	\$22.80	\$24.21	\$24.62

FHC.F	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017 <sup>(a)</sup>
Net asset value, beginning of period/year <sup>(1)</sup>	\$20.24	\$17.31	\$20.03	\$20.00 <sup>(b)</sup>
Increase (Decrease) from operations:				
Total revenue	0.39	0.43	0.49	0.10
Total expenses	(0.22)	(0.22)	(0.27)	(0.03)
Realized gains (losses) for the period/year	0.80	0.10	(0.67)	0.01
Unrealized gains (losses) for the period/year	(0.38)	2.37	(3.00)	(0.05)
Total increase (decrease) from operations <sup>(2)</sup>	\$0.59	\$2.68	\$(3.45)	\$0.03
Distributions:				
From income (excluding dividends)	(2.00)	(0.29)	(0.13)	-
From dividends	-	-	-	-
From capital gains	-	-	-	-
Return of capital	-	-	-	-
Total annual distributions <sup>(3)</sup>	\$(2.00)	\$(0.29)	\$(0.13)	\$ -
Net asset value, end of period/year <sup>(4)</sup>	\$19.34	\$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) Seed capital

(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.

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**Ratios and Supplemental Data**

FHC	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Net asset value (000's)	\$3,713	\$1,285	\$2,280	\$2,421	\$2,462
Number of units outstanding	150,000	50,000	100,000	100,000	100,000
Management expense ratio <sup>(1)</sup>	0.77%	0.77%	0.77%	0.82%	0.77%
Management expense ratio before waivers or absorption	0.79%	0.79%	0.79%	0.84%	0.79%
Trading expense ratio <sup>(2)</sup>	0.05%	0.05%	0.05%	0.11%	0.06%
Portfolio turnover rate <sup>(3)</sup>	113.57%	122.70%	116.28%	498.88%	289.16%
Net asset value per unit	\$24.76	\$25.71	\$22.80	\$24.21	\$24.62

FHC.F	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Net asset value (000's)	\$967	\$1,012	\$4,328	\$1,001
Number of units outstanding	50,000	50,000	250,000	50,000
Management expense ratio <sup>(1)</sup>	0.79%	0.79%	0.79%	0.74%
Management expense ratio before waivers or absorption	0.81%	0.81%	0.80%	0.97%
Trading expense ratio <sup>(2)</sup>	0.05%	0.05%	0.05%	0.11%
Portfolio turnover rate <sup>(3)</sup>	113.57%	122.70%	116.28%	498.88%
Net asset value per unit	\$19.34	\$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.



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

## Management Report of Fund Performance

### For the year ended December 31, 2020

#### 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.

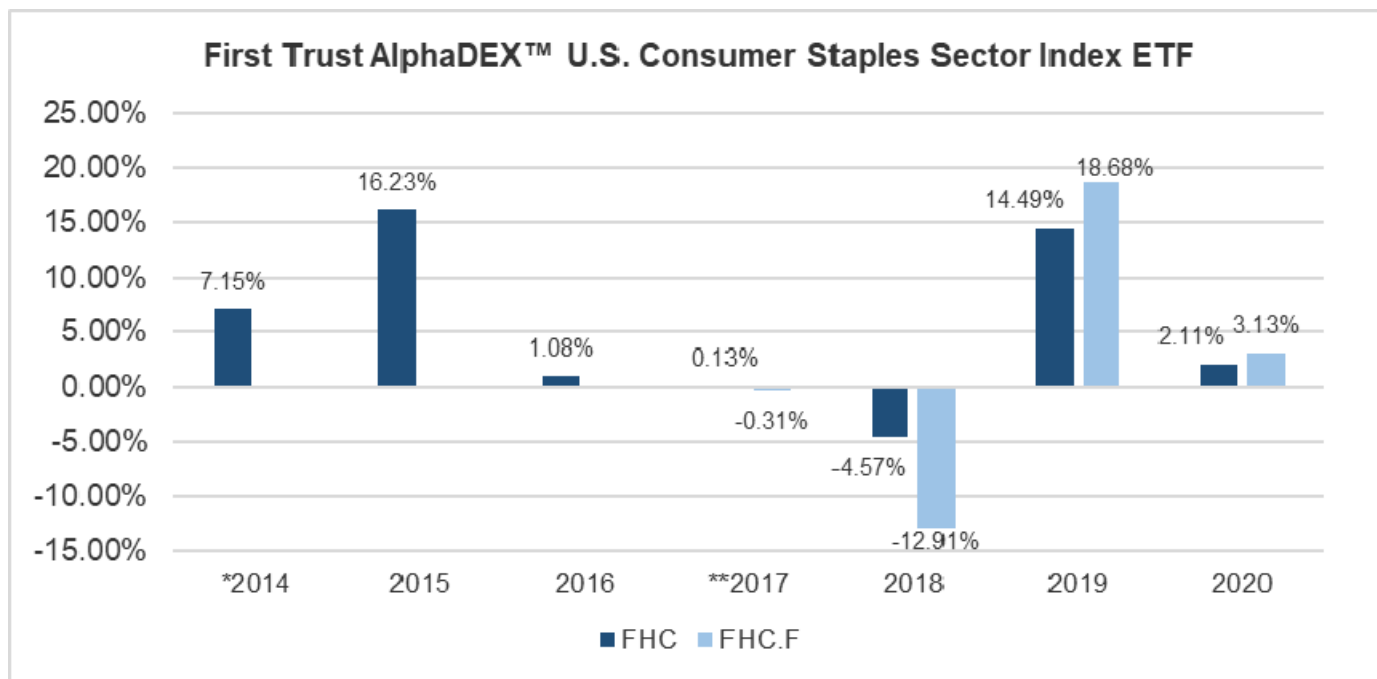
#### Past Performance

##### General

The past performance information shown assumes that all distributions made by the First Trust ETF in the 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

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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 years ended December 31, 2020. 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	2.11%	3.71%	2.46%	5.68%
Russell 1000® Consumer Staples Index	5.24%	6.85%	4.99%	10.12%
Russell 1000® Index	18.84%	15.46%	13.61%	15.88%
S&P 500 Consumer Staples Index	8.80%	9.60%	7.27%	11.84%
StrataQuant® Consumer Staples Index*	3.37%	5.13%	3.77%	8.98%
First Trust AlphaDEX™ U.S. Consumer Staples Sector Index ETF – FHC.F	3.13%	2.15%	N/A	2.00%
Russell 1000® Consumer Staples Index USD	7.11%	6.26%	N/A	6.61%
Russell 1000® Index USD	20.96%	14.82%	N/A	15.04%
S&P 500 Consumer Staples Index USD	10.75%	8.99%	N/A	9.32%
StrataQuant® Consumer Staples Index USD*	5.45%	4.58%	N/A	4.42%

*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.*

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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, 2020. 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
Pilgrim's Pride Corp.	5.06%
Albertsons Cos. Inc., Class 'A'	4.90%
CVS Health Corp.	4.52%
Boston Beer Co. Inc. (The), Class 'A'	4.35%
Tyson Foods Inc., Class 'A'	4.18%
Molson Coors Beverage Co., Class 'B'	4.16%
Ingredion Inc.	4.01%
Sprouts Farmers Markets Inc.	3.71%
Kroger Co. (The)	3.62%
Monster Beverage Corp.	3.56%
Nu Skin Enterprises Inc., Class 'A'	3.37%
Archer-Daniels-Midland Co.	3.35%
Herbalife Nutrition Ltd.	3.18%
Corteva Inc.	3.11%
J.M. Smucker Co. (The)	3.09%
Church & Dwight Co. Inc.	2.88%
Walgreens Boots Alliance Inc.	2.57%
Conagra Brands Inc.	2.35%
Beyond Meat Inc.	2.33%
Casey's General Stores Inc.	2.33%
Procter & Gamble Co. (The)	2.32%
Grocery Outlet Holding Corp.	2.31%
McCormick & Co. Inc.	2.28%
General Mills Inc.	2.21%
Sysco Corp.	1.84%
<b>Total</b>	<b>81.59%</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, 2020.

Industry Weightings	% of ETF Total Net Asset Value
Personal Care, Drug and Grocery Stores	42.38%
Food Producers	40.86%
Beverages	15.43%
Tobacco	0.85%
Cash & Cash Equivalents	5.55%
Other Assets, Less Liabilities	-5.07%
<b>Total</b>	<b>100.00%</b>

FT Portfolios Canada Co.

40 King Street West, Suite 5102  
Scotia Plaza, Box 312  
Toronto, Ontario M5H 3Y2

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