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## First Trust Dow Jones Internet ETF • FDN, FDN.F

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Annual Management Report of Fund Performance  
December 31, 2022

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# **ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

## **December 31, 2022**

### **First Trust Dow Jones Internet 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 Dow Jones Internet ETF

## Management Report of Fund Performance

### For the year ended December 31, 2022

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

The fundamental investment objective of **First Trust Dow Jones Internet ETF** (the “First Trust ETF”) is 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>.

The Dow Jones Internet Composite Index<sup>SM</sup>, is a float-adjusted market capitalization weighted index designed to represent the largest and most actively traded stocks of U.S. companies in the Internet industry.

#### **Risk**

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 (the “Underlying Fund”), which is managed by the First Trust ETF's portfolio advisor.

The risks associated with an investment in the First Trust ETF is discussed in the First Trust ETF's most recent prospectus.

#### **Results of Operations**

##### **General**

The First Trust ETF's total net asset value as of December 31, 2022 was \$4,400,003 or \$13.58 per Unit (“FDN”) and \$9.51 per Hedged Unit (“FDN.F”). The First Trust ETF's total net asset value as of December 31, 2021 was \$4,035,693 or \$23.33 per FDN and \$17.87 per FDN.F.

There were no cash distributions paid nor declared for the year ended December 31, 2022.

##### **Investment Performance**

For the year ended December 31, 2022, FDN returned -41.79% compared to the S&P 500® Index (the “benchmark”) return of -12.16% while FDN.F returned -46.79% compared to the S&P 500® Index (CAD-Hedged) (the “hedged benchmark”) total return of -18.77%. Unlike the benchmark and the hedged benchmark, the First Trust ETF's returns are net of fees and expenses.

The First Trust ETF's only holding, the Underlying Fund, held 42 equity securities as of December 31, 2022. The top ten equity holdings for the Underlying Fund accounted for 48.72% of the portfolio within the Underlying Fund.

The Underlying Fund underperformed the benchmark and the hedged benchmark during the reporting year primarily due to stock selection within Information Technology and Communication Services. These sectors typically have a large concentration of growth names, which struggled during the year due to rising interest rates, inflationary pressures, and a decline in investor enthusiasm for so-called “work from home” stocks as economies continue to reopen from the COVID-19 pandemic. The main drivers of underperformance within these sectors included overweight positions in names like Meta Platforms Inc., Snap Inc., and PayPal Holdings.

The Underlying Fund's top five stocks by contribution to return were Twitter, Inc., Box, Inc., Citrix Systems, Inc., Smartsheet Inc., and Vonage Holdings Corp. The bottom five stocks by contribution to return were Meta Platforms, Inc., Amazon.com, Inc., PayPal Holdings, Inc., Snap Inc., and Salesforce, Inc.

The U.S. dollar appreciated 6.96% against the Canadian dollar from December 31, 2021 to December 31, 2022. FDN.F hedges its exposure to the U.S. dollar.

#### **Recent Developments**

Internet companies experienced a painful first half of the year as the 10-year treasury rose and inflation peaked in June. After the midpoint of the year there was a bifurcation as mega cap internet companies such as Amazon, Meta, and Alphabet all experienced organic slowdowns and share prices dropped another 20% on average while smaller names such as Netflix, Etsy, and Twitter experienced relief rallies. Unfortunately, the positive performance of the

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## First Trust Dow Jones Internet ETF Management Report of Fund Performance For the year ended December 31, 2022

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smaller companies was not enough to overcome the overall negative performance of internet companies for the whole year. The Tech sector ended 2022 shedding thousands of jobs, especially from the largest players which hired at all costs while the COVID-19 boom caused them to warehouse workers to meet demand. According to Layoffs.fyi, more than 1,000 tech companies announced layoffs totaling nearly 154,000 cuts in 2022 with Amazon, Meta, and Alphabet making up a significant portion of these layoffs. Microsoft CEO Satya Nadella warned that he sees two challenging years ahead as the COVID demand normalizes and a potential US recession creates headwinds to the industry. In 2023 we expect the high cost of borrowing to hamper capital raises and potentially lead to a consolidation of talent in the larger firms. If we see a rally from the mega cap companies that are currently trading below their typical premium valuation to the S&P 500 and smaller internet stocks with more secular growth stories continue to work then the internet theme could be in for a favorable next year as long as a recession does not eradicate demand.

### **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 Dow Jones Internet ETF

## Management Report of Fund Performance

### For the year ended December 31, 2022

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

#### Net Asset Value per Unit

FDN	2022	2021 <sup>(a)</sup>	2020	2019	2018
Net asset value, beginning of year <sup>(1)</sup>	\$23.33	\$24.76	\$25.71	\$22.80	\$24.21
Increase (Decrease) from operations:					
Total revenue	-	0.07	0.49	0.56	0.66
Total expenses	(0.03)	(0.08)	(0.28)	(0.28)	(0.36)
Realized gains (losses) for the year	(1.61)	1.86	1.05	0.73	0.91
Unrealized gains (losses) for the year	(6.54)	(2.47)	0.19	3.02	(2.30)
Total increase (decrease) from operations <sup>(2)</sup>	\$(8.18)	\$(0.62)	\$1.45	\$4.03	\$(1.10)
Distributions:					
From income (excluding dividends)	-	(0.36)	(1.95)	(0.38)	(0.17)
From dividends	-	-	-	-	-
From capital gains	-	-	(0.31)	-	(0.41)
Return of capital	-	(0.04)	-	-	-
Total annual distributions <sup>(3)</sup>	\$ -	\$(0.40)	\$(2.26)	\$(0.38)	\$(0.58)
Net asset value, end of year <sup>(4)</sup>	\$13.58	\$23.33	\$24.76	\$25.71	\$22.80

FDN.F	2022	2021 <sup>(a)</sup>	2020	2019	2018
Net asset value, beginning of year <sup>(1)</sup>	\$17.87	\$19.34	\$20.24	\$17.31	\$20.03
Increase (Decrease) from operations:					
Total revenue	-	0.08	0.39	0.43	0.49
Total expenses	(0.02)	(0.07)	(0.22)	(0.22)	(0.27)
Realized gains (losses) for the year	(2.12)	1.84	0.80	0.10	(0.67)
Unrealized gains (losses) for the year	(7.09)	(1.99)	(0.38)	2.37	(3.00)
Total increase (decrease) from operations <sup>(2)</sup>	\$(9.23)	\$(0.14)	\$0.59	\$2.68	\$(3.45)
Distributions:					
From income (excluding dividends)	-	(0.72)	(2.00)	(0.29)	(0.13)
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total annual distributions <sup>(3)</sup>	\$ -	\$(0.72)	\$(2.00)	\$(0.29)	\$(0.13)
Net asset value, end of year <sup>(4)</sup>	\$9.51	\$17.87	\$19.34	\$20.24	\$17.31

(a) Effective February 17, 2021, the First Trust ETF is fully invested in the Underlying Fund.

(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.

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Management Report of Fund Performance  
For the year ended December 31, 2022**

**Ratios and Supplemental Data**

FDN	2022	2021 <sup>(a)</sup>	2020	2019	2018
Net asset value (000's)	\$4,210	\$3,500	\$3,713	\$1,285	\$2,280
Number of units outstanding	310,000	150,000	150,000	50,000	100,000
Management expense ratio <sup>(1)</sup>	0.67%	0.68%	0.77%	0.77%	0.77%
Management expense ratio before waivers or absorption	0.69%	0.70%	0.79%	0.79%	0.79%
Trading expense ratio <sup>(2)</sup>	0.00%	0.04%	0.05%	0.05%	0.05%
Portfolio turnover rate <sup>(3)</sup>	50.58%	281.48%	113.57%	122.70%	116.28%

FDN.F	2022	2021 <sup>(a)</sup>	2020	2019	2018
Net asset value (000's)	\$190	\$536	\$967	\$1,012	\$4,328
Number of units outstanding	20,000	30,000	50,000	50,000	250,000
Management expense ratio <sup>(1)</sup>	0.67%	0.71%	0.79%	0.79%	0.79%
Management expense ratio before waivers or absorption	0.69%	0.72%	0.81%	0.81%	0.80%
Trading expense ratio <sup>(2)</sup>	0.00%	0.04%	0.05%	0.05%	0.05%
Portfolio turnover rate <sup>(3)</sup>	50.58%	281.48%	113.57%	122.70%	116.28%

(a) Effective February 17, 2021, the First Trust ETF is fully invested in the Underlying Fund.

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

**Management Fees**

The First Trust ETF will pay the Manager a management fee of 0.15% 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.

*The First Trust ETF will bear the Underlying Fund's management fee of 0.40% per annum on average daily net assets on the First Trust ETF's portfolio assets invested in the Underlying Fund. Accordingly, the management fee cost to unitholders of their investment will be 0.55% per annum of NAV of the First Trust ETF plus applicable taxes.*

# First Trust Dow Jones Internet ETF Management Report of Fund Performance For the year ended December 31, 2022

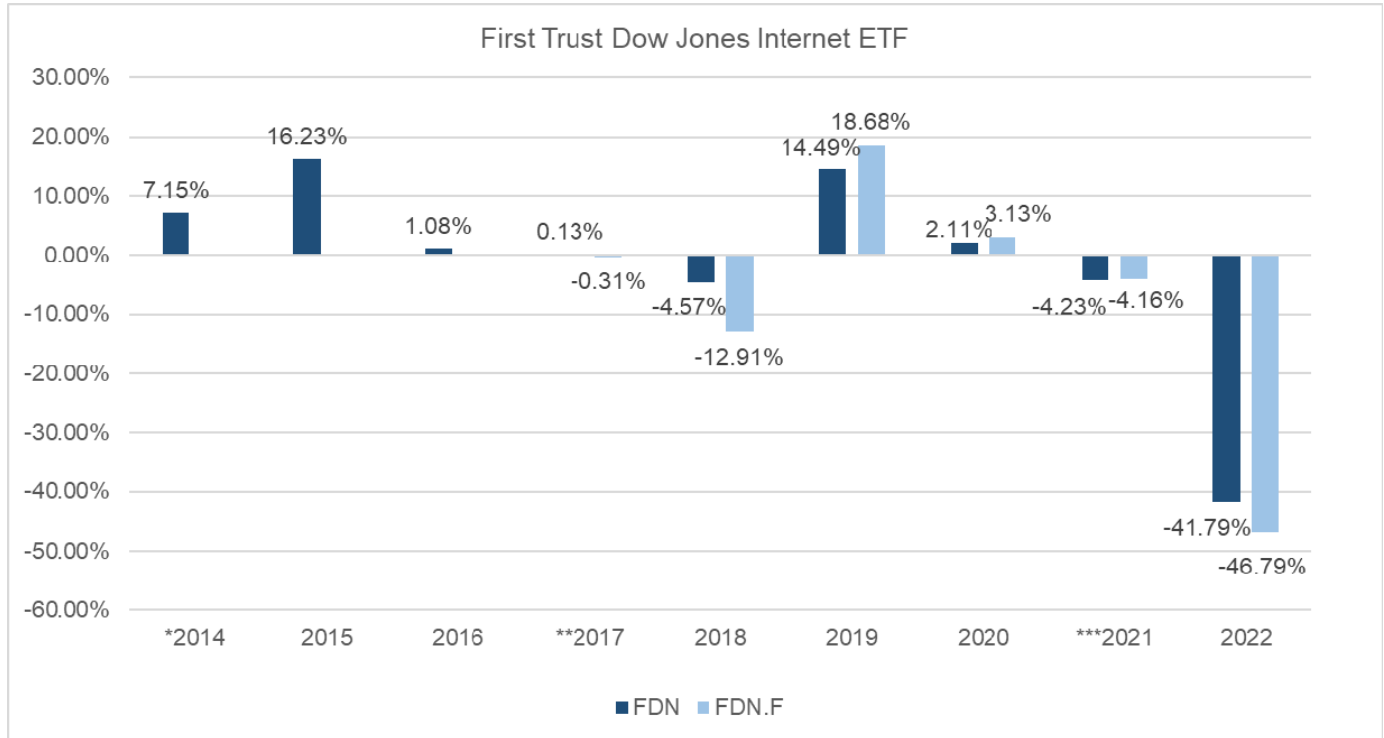
## Past Performance

### 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, 2014 for FDN, and for the period from commencement of operations to December 31, 2017 for FDN.F 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.



\*FDN Commencement: October 30, 2014

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

\*\*\*Effective February 17, 2021, the First Trust ETF is fully invested in the Underlying Fund.



# First Trust Dow Jones Internet ETF

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### For the year ended December 31, 2022

#### 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, 2022. The annual compound return is compared to the returns of the relevant benchmarks; 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.

Returns	1-year	3-year	5-year	10-year	Since Inception
First Trust Dow Jones Internet ETF - FDN	-41.79%	-17.13%	-9.06%	-	-2.94%
S&P 500® Index	-12.16%	9.25%	11.15%	-	13.19%
First Trust Dow Jones Internet ETF – FDN.F	-46.79%	-19.28%	-11.48%	-	-11.39%
S&P 500® CAD-Hedged Index	-18.77%	6.92%	8.51%	-	8.71%

*S&P 500® Index is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.*

*S&P 500® CAD-Hedged Index is a world-renowned float-adjusted market capitalization weighted Index that tracks the securities of the largest and most liquid public companies in the United States. Constituent securities must pass minimum float-adjusted and liquidity screens to qualify and maintain membership in the Index. Index weights are reviewed quarterly. The U.S. dollar currency exposure is hedged back to the Canadian dollar.*

#### Summary of Investment Portfolio

The table below sets out the percentage (based on total net asset value) of the First Trust ETF's holdings as at December 31, 2022. 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).

Holdings	% of ETF Total Net Asset Value
First Trust Dow Jones Internet Index Fund	100.01%
Cash and Cash Equivalents	0.02%
Other Assets, Less Liabilities	-0.03%
Total	100.00%

#### 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, 2022.

Breakdown	% of ETF Total Net Asset Value
Exchange-Traded Fund	100.01%
Cash and Cash Equivalents	0.02%
Other Assets, Less Liabilities	-0.03%
Total	100.00%

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