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First Trust Canadian Capital Strength ETF  
• FST, FST.A

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Annual Management Report of Fund Performance  
December 31, 2021

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# **ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

## **December 31, 2021**

### **First Trust Canadian 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.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 Canadian Capital Strength ETF Management Report of Fund Performance For the year ended December 31, 2021

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## **Investment Objective and Strategy**

The fundamental investment objective of **First Trust Canadian Capital Strength ETF** (the “First Trust ETF”) is to provide unitholders with long term capital appreciation by investing primarily in securities traded on a Canadian exchange or market.

To achieve its investment objectives, the First Trust ETF will primarily invest in securities of issuers that are based in Canada or have significant business operations in the Canadian market. Securities invested in by the First Trust ETF include common shares of public companies that are traded on a Canadian exchange or market.

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 a Canadian exchange or market.

Next, the portfolio advisor evaluates issuers based on multiple quantitative metrics, including, but not limited to, 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 total net asset value as of December 31, 2021 was \$46,363,676 or \$41.02 per Common Class unit (“FST”) and \$34.36 per Advisor Class unit (“FST.A”). The First Trust ETF’s total net asset value as of December 31, 2020 was \$43,551,288 or \$34.44 per FST and \$28.87 per FST.A.

For the year ended December 31, 2021, the First Trust ETF paid total cash distributions per unit of \$0.7700 for FST and \$0.3250 for FST.A. In addition, the First Trust ETF declared cash distributions per unit of \$0.1500 for FST and \$0.0300 for FST.A for record date of December 31, 2021 with payment date of January 10, 2022.

### ***Investment Performance***

For the year ended December 31, 2021, FST returned 21.46% and FST.A returned 20.15% compared to S&P/TSX Composite® Index (the “benchmark”) return of 25.09%. Unlike the benchmark, the First Trust ETF’s returns are net of fees and expenses.

The First Trust ETF underperformed the benchmark for the year. Allocation effect and stock selection for the portfolio were both negative contributors to relative performance. Positive contributions to relative performance can be attributed to stock selection in Industrials, Consumer Discretionary and Energy as well as underweight allocations in

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## First Trust Canadian Capital Strength ETF Management Report of Fund Performance For the year ended December 31, 2021

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Health Care and Utilities. Negative contributions can mostly be attributed to stock selection in Information Technology and Financials, as well as an underweight allocation in Energy.

The top-performing stocks for the year, based on total return, were TFI International Inc., West Fraser Timber Co., Ltd., and Constellation Software Inc. These stocks returned +118.74%, +49.05%, and +42.35% respectively, in CAD, including dividends. The bottom-performing stocks, based on total return, were B2Gold Corp, Enghouse Systems Limited, and Barrick Gold Corporation. These stocks returned -31.28%, -18.70%, and -12.42%, respectively, in CAD, including dividends.

The First Trust ETF held 25 equity positions for the twelve-month period ending December 31, 2021 and made no net change to the number of positions from the beginning of the period. Portfolio changes were made in April 2021 (2 positions added, 2 positions eliminated), August 2021 (3 positions added, 3 positions eliminated), and December 2021 (4 positions added, 4 positions eliminated). The top ten equity holdings of the First Trust ETF at December 31, 2021 accounted for 41.16% of total NAV and the top ten equity holdings of the First Trust ETF at December 31, 2020 accounted for 42.32% of total NAV. Financials, Consumer Discretionary and Information Technology (in order) were the top three sector weightings at the end of the period. Financials, Information Technology and Materials were the top three sector weights at the beginning of the period. Relative to its benchmark over the period, the First Trust ETF on average was overweight the Consumer Discretionary, Consumer Staples, Industrials, Information Technology and Materials sectors and underweight the Communication Services, Energy, Financials, Health Care, 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 April, August, and December of 2021, though there was no net change to the total number of portfolio positions over the period. In April, one position, Kinaxis Inc was eliminated for failing to meet the initial screening criteria and Toromont Industries Ltd. was removed at the portfolio manager's discretion. Positions in Finning International Inc. and iA Financial Corp Inc. were established to replace them. In August, one position, BCE Inc., was eliminated for failing to meet the initial screening criteria and Barrick Gold Corp and Canadian National Railway Co were removed at the portfolio manager's discretion. Positions in Richelieu Hardware Ltd., Canadian National Resources Ltd., and Gildan Activewear Inc. were established to replace them. In December, one position, Richelieu Hardware Ltd., was eliminated for failing to meet the initial screening criteria and B2Gold Corp, Intact Financial Corp, and Magna International Inc. were removed at the portfolio manager's discretion. Positions in Stelco Holdings Inc., Tourmaline Oil Corp, Dollarama Inc., and Aritzia Inc. were established to replace them.

### Recent Developments

The Canadian economy is once again growing robustly after faltering over the summer. High vaccination rates, strong demand (both domestic and global) and an easing of containment measures from the COVID-19 pandemic have been the driving forces behind the recovery. According to the Bank of Canada (the "BoC"), annual growth in economic activity is forecasted to come in around 5% in 2021, 4.25% in 2022 and 3.75% in 2023. While new variants of COVID-19 still pose as a threat to the recovery, the likelihood of more lockdowns is declining as over 80% of the population is at least partially vaccinated. The Bank of Canada has maintained the Bank Rate at 0.25% throughout the year and has announced it is ending quantitative easing ("QE") as it transitions into a reinvestment phase. After more than a year and a half of stimulus, the BoC will now purchase bonds only to replace those that are maturing in an effort to control inflation. Though rising inflation was expected, higher energy prices and supply constraints have led to stronger and more persistent price increases. CPI inflation for 2021 is forecasted to be around 4.75% and drop down to around 2% at the end of 2022 as supply chains improve and energy prices normalize.

The Canadian equity market rebounded in 2021 as the benchmark increased 25.09%, its best year since 2009. This can largely be attributed to the country's high vaccination rate and continued accommodative policy actions. The Energy sector was the top performing sector on the year with a total return of 80%, resulting from solid gains in oil and natural gas commodity prices. Financials, which makes up nearly a third of the benchmark, had a substantial impact on the overall market gains as it had a total return of 31.6%. The outperformance of the sector is largely due to all six of the big Canadian banks generating record profits. Health Care was the only sector to post negative returns on the year. The underperformance stems from cannabis stocks experiencing significant declines as speculative enthusiasm faded as cannabis companies are still not generating profits despite stronger revenue growth.

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According to the BoC, the global economy contracted by 2.5% in 2020 as the world grappled with COVID-19. The lingering effects of the virus are still being felt all around the world resulting in governments and central banks continuing to intervene with fiscal and monetary policy. The BoC forecasts that global growth rebounded in 2021 with a global GDP of about 6.5%. Much of the global recovery is reliant upon other countries doing their part to reduce the impact of emerging COVID-19 variants by continuing to administer vaccinations along with adhering to local COVID-19 guidelines.

Despite the unprecedented conditions, there are still plenty of attractive opportunities in Canada. We believe that the economic recovery will continue largely due to easing supply constraints, the strong vaccination effort domestically, and the increase in oil prices. As COVID-19 comes under control and business activity continues to improve, we expect the Canadian equity market will provide ample returns for investors with longer time horizons.

We continue to find attractive candidates from within our selection universe of “capital strength” companies. The First Trust ETF is positioned to provide exposure to one of the world’s most developed nations, but with less overall concentration in the three leading sectors (Financials, Energy and Materials represented roughly 57% of the sector weights for the benchmark over the period versus roughly 47% within the First Trust ETF portfolio).

As of February 28, 2022, the First Trust ETF is no longer offering FST.A and the Manager successfully redesignated FST.A to FST providing unitholders with a lower cost solution going forward.

### **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 Canadian Capital Strength ETF Management Report of Fund Performance For the year ended December 31, 2021

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

### Net Asset Value per Unit

FST.A	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Net asset value, beginning of year <sup>(1)</sup>	\$28.87	\$28.95	\$25.27	\$28.14	\$24.68
Increase (Decrease) from operations:					
Total revenue	0.82	0.66	0.70	0.62	0.51
Total expenses	(0.57)	(0.48)	(0.50)	(0.50)	(0.47)
Realized gains (losses) for the year	3.64	(0.52)	2.09	0.36	2.14
Unrealized gains (losses) for the year	1.92	0.34	1.74	(3.19)	1.37
Total increase (decrease) from operations <sup>(2)</sup>	\$5.81	\$ -	\$4.03	\$(2.71)	\$3.55
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	(0.12)	(0.10)	(0.18)	(0.03)	-
From capital gains	(0.18)	-	-	(0.10)	-
Return of capital	-	(0.12)	(0.07)	-	(0.09)
Total annual distributions <sup>(3)</sup>	\$(0.30)	\$(0.22)	\$(0.25)	\$(0.13)	\$(0.09)
Net asset value, end of year <sup>(4)</sup>	\$34.36	\$28.87	\$28.95	\$25.27	\$28.14

FST	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Net asset value, beginning of year <sup>(1)</sup>	\$34.44	\$34.59	\$30.18	\$33.44	\$29.12
Increase (Decrease) from operations:					
Total revenue	0.99	0.78	0.84	0.75	0.63
Total expenses	(0.27)	(0.22)	(0.23)	(0.23)	(0.22)
Realized gains (losses) for the year	4.28	(1.13)	2.33	0.07	2.28
Unrealized gains (losses) for the year	2.53	(1.82)	2.73	(3.97)	2.77
Total increase (decrease) from operations <sup>(2)</sup>	\$7.53	\$(2.39)	\$5.67	\$(3.38)	\$ 5.46
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	(0.56)	(0.49)	(0.48)	(0.34)	(0.08)
From capital gains	(0.20)	-	-	-	-
Return of capital	-	(0.15)	-	-	(0.14)
Total annual distributions <sup>(3)</sup>	\$(0.76)	\$(0.64)	\$(0.66)	\$(0.34)	\$(0.22)
Net asset value, end of year <sup>(4)</sup>	\$41.02	\$34.44	\$34.59	\$30.18	\$33.44

(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.

# First Trust Canadian Capital Strength ETF Management Report of Fund Performance For the year ended December 31, 2021

## Ratios and Supplemental Data

FST.A	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Net asset value (000's)	\$26,141	\$24,849	\$27,810	\$26,803	\$35,547
Number of units outstanding	760,726	860,726	960,726	1,060,726	1,263,337
Management expense ratio <sup>(1)</sup>	1.75%	1.76%	1.77%	1.76%	1.76%
Management expense ratio before waivers or absorption	1.77%	1.78%	1.79%	1.78%	1.78%
Trading expense ratio <sup>(2)</sup>	0.03%	0.03%	0.02%	0.03%	0.03%
Portfolio turnover rate <sup>(3)</sup>	56.13%	60.13%	45.10%	63.24%	54.57%

FST	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Net asset value (000's)	\$20,223	\$18,703	\$32,614	\$42,046	\$39,815
Number of units outstanding	492,993	542,993	942,993	1,392,993	1,190,807
Management expense ratio <sup>(1)</sup>	0.66%	0.66%	0.65%	0.66%	0.66%
Management expense ratio before waivers or absorption	0.68%	0.69%	0.67%	0.68%	0.68%
Trading expense ratio <sup>(2)</sup>	0.03%	0.03%	0.02%	0.03%	0.03%
Portfolio turnover rate <sup>(3)</sup>	56.13%	60.13%	45.10%	63.24%	54.57%

(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 period/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 0.60% and, in respect of the FST.A, an additional amount for a service fee (see "FST.A Service Fee" below) 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.

## FST.A Service Fee

The Manager pays registered dealers a service fee equal to 1.00% per annum of the NAV of the Advisor Class Units held by clients of the registered dealer, plus any applicable taxes. The service fee will be calculated and accrued daily and paid quarterly at the end of each calendar quarter.



# First Trust Canadian Capital Strength ETF Management Report of Fund Performance For the year ended December 31, 2021

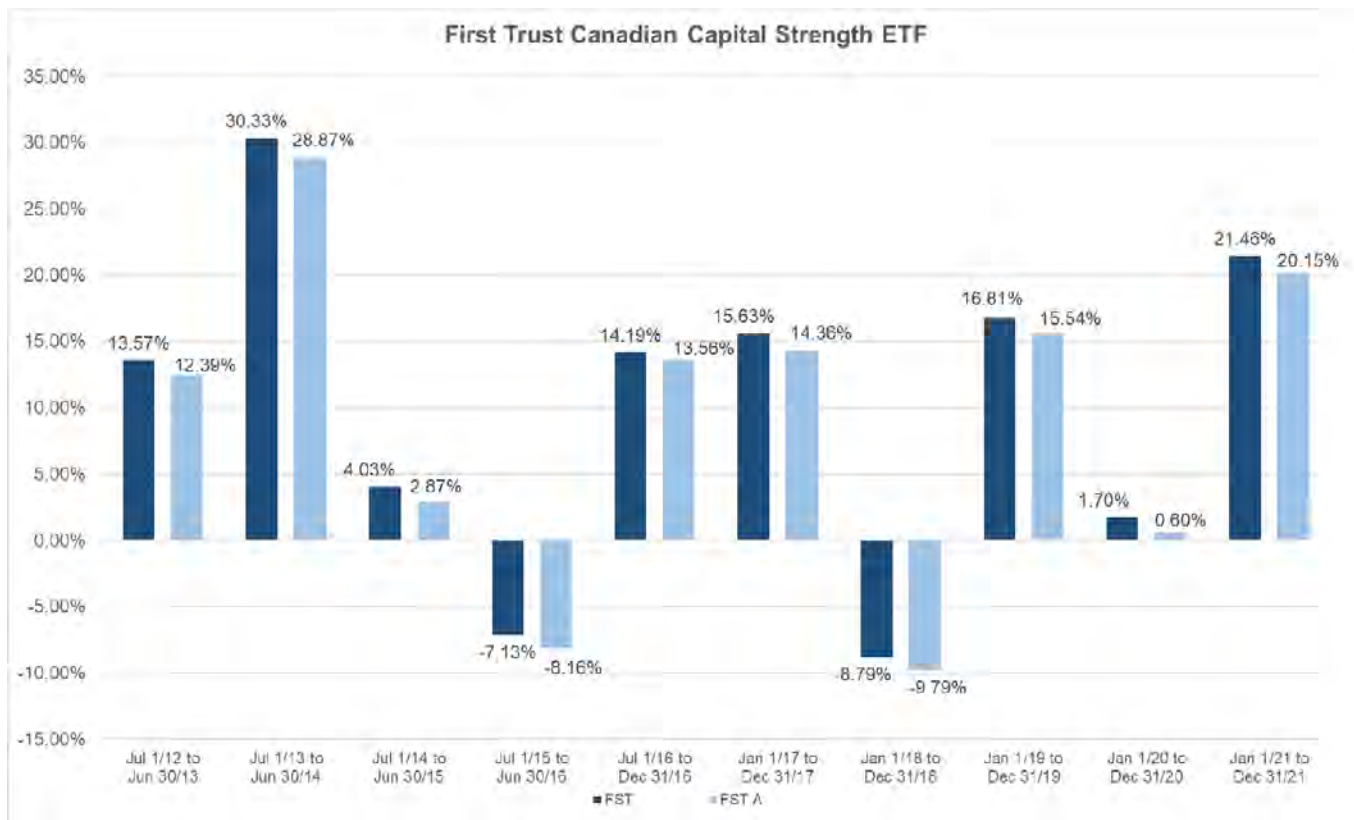
## Past Performance

### General

The past performance information shown assumes that all distributions made by the First Trust ETF in the period/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 six-month period ended December 31, 2016, and for the fiscal years ended June 30 and illustrate 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 Canadian Capital Strength ETF Management Report of Fund Performance For the year ended December 31, 2021

## 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, 2021. 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.

	1-Year	3-Year	5-Year	10-Year	Since Inception
First Trust Canadian Capital Strength ETF (FST.A)	20.15%	11.77%	7.57%	8.04%	6.07%
First Trust Canadian Capital Strength ETF (FST)	21.46%	13.00%	8.76%	9.25%	7.23%
S&P/TSX Composite® Index	25.09%	17.52%	10.04%	9.14%	8.26%

*S&P/TSX Composite® Index is the premier indicator of market activity for Canadian equity markets going back to its original incarnation in 1977. With approximately 95% coverage of the Canadian equities market, it is the primary gauge for Canadian-based, TSX-listed companies. It addresses the needs of investment managers who require a portfolio benchmark characterized by sufficient size and liquidity. The size of the S&P/TSX Composite and its broad economic sector coverage has made the S&P/TSX Composite Index the primary benchmark for Canadian pension funds and mutual market funds.*

## 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, 2021. 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
Dollarama Inc.	4.21%
Constellation Software Inc.	4.18%
Stelco Holdings Inc.	4.18%
West Fraser Timber Co. Ltd.	4.18%
Metro Inc.	4.17%
CCL Industries Inc., Class 'B'	4.11%
Bank of Nova Scotia	4.04%
Canadian Imperial Bank of Commerce	4.04%
CGI Inc.	4.03%
Gildan Activewear Inc.	4.02%
Alimentation Couche-Tard Inc.	4.02%
Royal Bank of Canada	4.02%
iA Financial Corp. Inc.	3.98%
Aritzia Inc.	3.97%
TFI International Inc.	3.96%
Canadian Natural Resources Ltd.	3.95%
Sun Life Financial Inc.	3.95%
Toronto-Dominion Bank (The)	3.95%
Manulife Financial Corp.	3.90%
Tourmaline Oil Corp.	3.89%
Open Text Corp.	3.87%
Finning International Inc.	3.85%
Canadian Pacific Railway Ltd.	3.84%
Enghouse Systems Ltd.	3.71%
Canada Goose Holdings Inc.	3.70%
Total	99.72%

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## First Trust Canadian Capital Strength ETF Management Report of Fund Performance For the year ended December 31, 2021

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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, 2021.

Sector Weightings	% of ETF Net Asset Value
Financials	27.88%
Information Technology	15.79%
Materials	12.47%
Consumer Discretionary	12.20%
Consumer Staples	11.89%
Industrials	11.65%
Energy	7.84%
Cash and Cash Equivalents	0.45%
Other Assets, Less Liabilities	-0.17%
Total	100.00%

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