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

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Interim Management Report of Fund Performance  
June 30, 2018

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# **INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE**

## **June 30, 2018**

### **First Trust Canadian Capital Strength ETF (the “First Trust ETF”)**

This interim management report of fund performance contains financial highlights, but does not contain the complete unaudited interim financial report 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 web site 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 six-month period ended June 30, 2018

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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 First Trust ETF held 25 equity positions for the reporting period ending June 30, 2018, and made no net change to the number of positions from the beginning of the period. Portfolio changes were made in January 2018 (2 positions added, 2 positions eliminated) and May 2018 (2 positions added, 2 positions eliminated). The top ten equity holdings of the First Trust ETF at June 30, 2018 accounted for 42.27% of total NAV and the top ten equity holdings of the First Trust ETF at December 31, 2017 accounted for 42.09% of total NAV. Financials, Industrials, and Information Technology (in order) were the top three sector weightings at the end of the period, whereas Financials, Industrials, and Consumer Discretionary were the top three sector weights at the beginning of the period. Relative to its benchmark over the period, the First Trust ETF was overweight the Information Technology, Consumer Discretionary, Consumer Staples and Industrials Sectors and underweight the Energy, Financials, and Telecom 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.

There were no changes to the First Trust ETF over the reporting period that materially affected the overall level of risk associated with the First Trust ETF. Investors should refer to the simplified prospectus as it contains detailed discussion of risk relating to the investment of the First Trust ETF.

## **Results of Operations**

### **General**

The First Trust ETF’s total net asset value as of June 30, 2018 was \$73,481,641 or \$34.59 per Common Class unit (“FST”) and \$29.01 per Advisor Class unit (“FST.A”). The First Trust ETF’s total net asset value as of December 31, 2017 was \$75,362,135 or \$33.44 per FST and \$28.14 per FST.A.

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For the six-month period ended June 30, 2018, the First Trust ETF paid total cash distributions per unit of \$0.1150 for FST and \$0.0450 for FST.A. In addition, the First Trust ETF declared cash distributions per unit of \$0.0750 for FST and \$0.0300 for FST.A for record date June 29, 2018 and payment date of July 9, 2018.

### **Investment Performance**

For the six-month period ended June 30, 2018, FST returned 3.86% and FST.A returned 3.29%. These compare with the S&P/TSX Composite Index (the “benchmark”) return of 1.95%. Unlike the benchmark, the First Trust ETF’s returns are net of fees and expenses. The First Trust ETF outperformed the benchmark for the period. Positive contribution to relative performance included an underweight allocation and stock selection in the Materials Sector versus the Index, stock selection within the Energy Sector, an overweight allocation in the Information Technology Sector, and an overweight allocation and stock selection with respect to the Industrials Sector. Negative contributions to relative performance came predominantly from stock selections within the Consumer Discretionary and Information Technology Sectors, as well as stock selection and an overweight allocation in the Consumer Staples Sector.

The top-performing stocks by contribution for the period were Enerplus Corporation, Canfor Corporation, Transcontinental Inc. Class A, and CGI Group Inc. Class A. These stocks returned +35.23%, +27.68%, +25.77%, and +21.98% respectively, in CAD, including dividends. The bottom-performing stocks by contribution for the period were Linamar Corporation, Alimentation Couche-Tard Inc. Class B, and Industrial Alliance Insurance and Financial Services Inc. These stocks returned -20.76%, -12.79%, and -12.46% respectively, in CAD, including dividends.

Portfolio changes were made in January and May of 2018. There was no net change to the total number of portfolio positions over the period. In January, one position, Celestica Inc., was eliminated for failing to meet the initial screening criteria and CCL Industries Inc. was removed at the portfolio manager’s discretion. Positions in Russel Metals Inc. and Teck Resources Ltd. were established to replace them. In May, Gildan Activewear Inc. was eliminated for failing to meet screening criteria and Industrial Alliance Insurance & Financial Services Inc. was removed at the portfolio manager’s discretion. Constellation Software Inc. and Kirkland Lake Gold Ltd. were subsequently established as new positions.

### **Recent Developments**

After seeing an unexpected boom of more than 3% GDP growth in 2017, the Canadian economy cooled off in the first half of 2018. The economy grew at a reserved 1.35% annualized GDP for the first quarter. The modest growth was partially due to housing market activity dropping off as sales and new listings fell sharply amid new housing regulations put into effect at the beginning of the year. The deterioration of the trade relationship between Canada and the United States has put pressure on the Canadian economy. Of note, 75% of Canada’s exports go to the United States. The United States placed tariffs on aluminum and steel products from Canada and the Canadian government slapped its own retaliatory tariffs on United States aluminum and steel products, as well as a handful of consumer products. Most companies are expected to pass these costs on to the customer. Buoying sentiment, business investment accelerated in the first quarter, while inflation remained steady around 2%, and unemployment continues to be near all-time low levels. The Bank of Canada increased interest rates by 25 bps in January and is expected to increase rates once more this year.

Canada’s equity market showed modest gains in the first half of 2018 with the S&P/TSX Composite Index up 1.95% on a total return basis. S&P/TSX Composite Index gains were largely due to the continued strength of S&P/TSX Energy Sector, contributing about 1% to the index’s total return for the period. Also, despite constituting only 4% of the index, the S&P/TSX Information Technology Sector contributed about 0.75% to the S&P/TSX Composite Index’s total return for the period. The Financials Sector, which is the largest sector in the S&P/TSX Composite Index, was down for the first half of 2018, hampering S&P/TSX Composite Index’s overall return through the first half of 2018.

Despite Canadian energy equities lagging the increase in oil prices, amid pipeline constraints and negative sentiment surrounding Canadian oilsands, the Energy Sector continues to be a sector of positive performance. The Energy Sector has numerous tailwinds at the moment, including increasing demand, tight supply, accelerating revenue growth, and elevated geopolitical risks. Conversely, the Financial Sector was down in the first half of 2018. Housing

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market concerns potentially affecting credit quality and the flattening of the yield curve caused investors to shy away from Canadian banks. Earnings for Canadian banks remain strong despite the recent uptick in risk.

Expected growth for the Canadian economy in 2018 is around 2% with the economy growing slightly faster in the second half. The Bank of Canada is expected to raise interest rates one more time in 2018. Canada currently enjoys a healthy labor market while unemployment remains low. Average hourly earnings have increased 3.9% year-on-year, which is the highest in the past nine years. Global protectionism and the uncertainty surrounding NAFTA negotiations dampening trade and business investment continues to be a headwind for the Canadian economy. The Canadian economy is expected to manage the impact of United States tariffs on aluminum and steel, 80% of which the industry exports to the United States. So far, the Canadian economy has been able to focus on strong overall global trade and domestic business investments amid the headwinds. The impact of the tightening of mortgage lending regulations is expected to even out the supply and demand for housing while dulling the outsized price gains the housing market experienced the previous two years. Consumer spending is expected to stabilize compared to the previous year. Income growth remains solid, but a larger share of household incomes is expected to go towards debt.

We believe Canada has many positive investment attributes, including low unemployment, high wages, continued business investment, and further growth in the Energy Sector.

We continue to find attractive candidates from within our selection universe of “capital strength” companies. The Canadian Capital Strength Portfolio 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 65% of the sector weights for the S&P/TSX Composite Index over the period versus roughly 45% within the FST portfolio).

### **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 six-month period ended June 30, 2018

## 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. The information is derived from the First Trust ETF's unaudited interim financial statements for the period ended June 30, 2018, annual audited financial statements for the year ending December 31, 2017, for the period from July 1, 2016 to December 31, 2016, and for the fiscal years ending June 30.

### Net Asset Value per Unit

FST.A	Jun. 30, 2018	Dec. 31, 2017	Dec. 31, 2016	June 30, 2016	June 30, 2015	June 30, 2014
Net asset value, beginning of period/year <sup>(1)</sup>	\$28.14	\$24.68	\$21.74	\$23.67	\$23.01	\$17.85
Increase (Decrease) from operations:						
Total revenue	0.30	0.51	0.28	0.66	0.53	0.51
Total expenses	(0.25)	(0.47)	(0.29)	(0.60)	(0.64)	(0.56)
Realized gains (losses) for the period/year	1.10	2.14	1.05	(0.23)	1.70	2.20
Unrealized gains (losses) for the period/year	(0.28)	1.37	1.97	(1.90)	(0.82)	2.96
Total increase (decrease) from operations <sup>(2)</sup>	\$ 0.87	\$ 3.55	\$ 3.01	\$ (2.07)	\$ 0.77	\$ 5.11
Distributions:						
From income (excluding dividends)	(0.06)	-	-	-	-	-
From dividends	-	-	-	-	-	-
From capital gains	-	-	-	-	-	-
Return of capital	-	(0.09)	-	-	-	-
Total annual distributions <sup>(3)</sup>	\$(0.06)	\$(0.09)	\$ -	\$ -	\$ -	\$ -
Net asset value, end of period/year <sup>(4)</sup>	\$29.01	\$28.14	\$24.68	\$21.74	\$23.67	\$23.01

FST	Jun. 30, 2018	Dec. 31, 2017	Dec. 31, 2016	June 30, 2016	June 30, 2015	June 30, 2014
Net asset value, beginning of period/year <sup>(1)</sup>	\$33.44	\$29.12	\$25.50	\$27.46	\$26.39	\$20.25
Increase (Decrease) from operations:						
Total revenue	0.36	0.63	0.34	0.77	0.61	0.59
Total expenses	(0.11)	(0.22)	(0.19)	(0.42)	(0.43)	(0.38)
Realized gains (losses) for the period/year	1.28	2.28	1.27	(0.26)	1.96	2.51
Unrealized gains (losses) for the period/year	(0.14)	2.77	2.20	(2.15)	(0.95)	3.37
Total increase (decrease) from operations <sup>(2)</sup>	\$ 1.39	\$ 5.46	\$ 3.62	\$ (2.06)	\$ 1.19	\$ 6.09
Distributions:						
From income (excluding dividends)	(0.14)	-	-	-	-	-
From dividends	-	(0.08)	-	-	-	-
From capital gains	-	-	-	-	-	-
Return of capital	-	(0.14)	-	-	-	-
Total annual distributions <sup>(3)</sup>	\$(0.14)	\$(0.22)	\$ -	\$ -	\$ -	\$ -
Net asset value, end of period/year <sup>(4)</sup>	\$34.59	\$33.44	\$29.12	\$25.50	\$27.46	\$26.39

(1) This information is provided for the six-month period ended June 30, 2018, for the 12-month year ended December 31, 2017, for the six-month period ended December 31, 2016, and fiscal years ended June 30 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 period/year.

(3) Distributions were either paid in cash or reinvested in additional units of the First Trust ETF.

(4) At the time of the conversion to an ETF, there was an exchange of units whereby holders of Series F units received 1 Common unit for each Series F unit held and holders of Series A units received 1 Advisor Class unit for each Series A held.

(5) 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**

FST.A	Jun. 30, 2018	Dec. 31, 2017	Dec. 31, 2016	June 30, 2016	June 30, 2015	June 30, 2014
Net asset value (000's)	\$32,250	\$35,547	\$34,626	\$35,433	\$49,650	\$58,322
Number of units outstanding	1,111,740	1,263,337	1,402,854	1,630,111	2,097,763	2,534,908
Management expense ratio <sup>(1)</sup>	1.76%	1.76%	2.41%	2.67%	2.66%	2.65%
Management expense ratio before waivers or absorption	1.78%	1.78%	2.41%	2.67%	2.66%	2.65%
Trading expense ratio <sup>(2)</sup>	0.02%	0.03%	0.04%	0.04%	0.03%	0.12%
Portfolio turnover rate <sup>(3)</sup>	29.58%	54.57%	26.70%	52.71%	62.79%	108.36%
Net asset value per unit	\$29.01	\$28.14	\$24.68	\$21.74	\$23.67	\$23.01

FST	Jun. 30, 2018	Dec. 31, 2017	Dec. 31, 2016	June 30, 2016	June 30, 2015	June 30, 2014
Net asset value (000's)	\$41,232	\$39,815	\$7,207	\$6,644	\$8,258	\$9,800
Number of units outstanding	1,192,145	1,190,807	247,534	260,571	300,783	371,308
Management expense ratio <sup>(1)</sup>	0.66%	0.66%	1.29%	1.56%	1.54%	1.53%
Management expense ratio before waivers or absorption	0.68%	0.68%	1.29%	1.56%	1.54%	1.53%
Trading expense ratio <sup>(2)</sup>	0.02%	0.03%	0.04%	0.04%	0.03%	0.12%
Portfolio turnover rate <sup>(3)</sup>	29.58%	54.57%	26.70%	52.71%	62.79%	108.36%
Net asset value per unit	\$34.59	\$33.44	\$29.12	\$25.50	\$27.46	\$26.39

(1) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period/year and is expressed as an annualized percentage of daily average net asset value during the period/year.

(2) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period/year.

(3) The First Trust ETF's portfolio turnover rate indicates how actively the First Trust ETF's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the First Trust ETF buying and selling all of the securities in its portfolio once in the course of the period/year. The higher a First Trust ETF's portfolio turnover rate in a period/year, the greater the trading cost payable by the First Trust ETF in the period/year, and the greater the chance of an investor receiving taxable capital gains in the period/year. There is not necessarily a relationship between high turnover rate and the performance of a First Trust ETF.

**Management Fees**

The First Trust ETF will pay the Manager a management fee of 0.60% 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 six-month period ended June 30, 2018

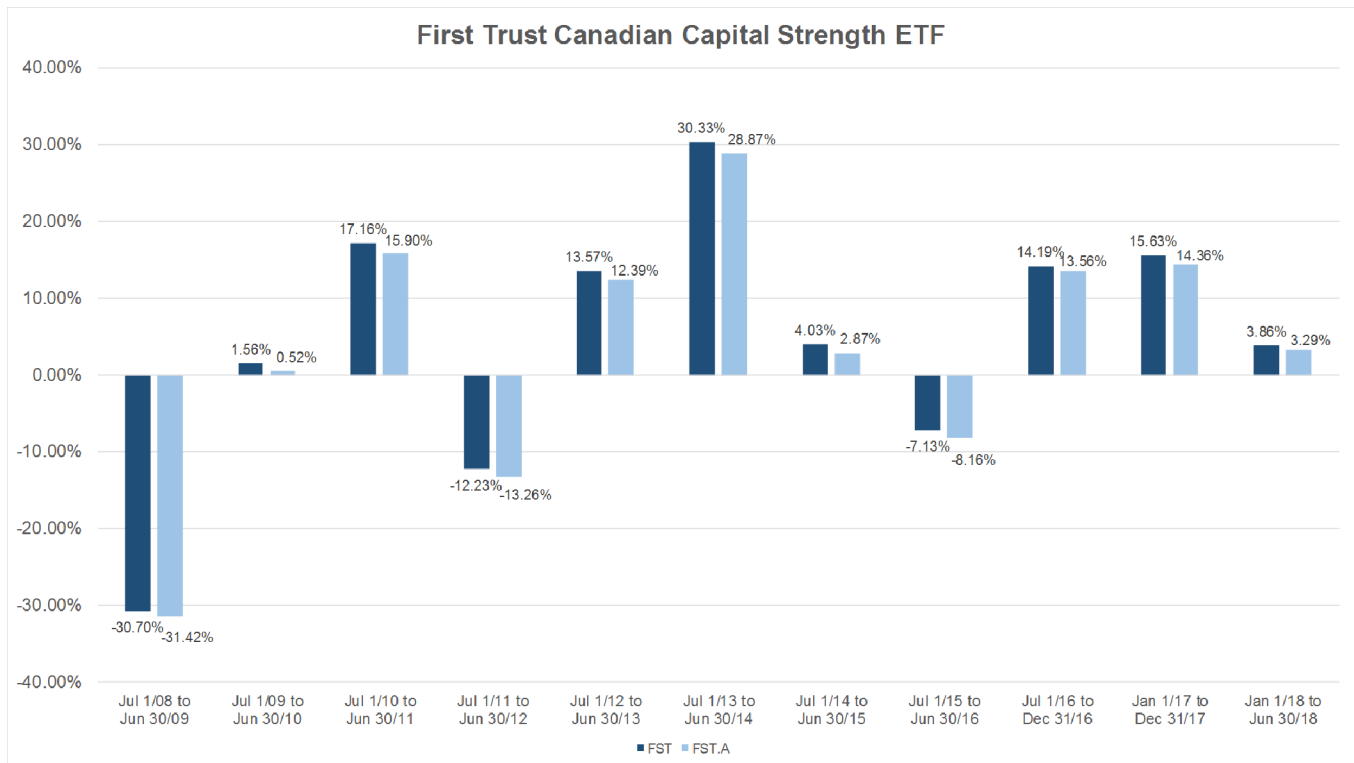
## Past Performance

### General

The past performance information shown assumes that all distributions made by the First Trust ETF in the period 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 period ended June 30, 2018, for the 12-month year ended December 31, 2017, for the six-month period ended December 31, 2016, and for past 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  
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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 holdings as at June 30, 2018. This summary of portfolio holdings may change due to ongoing portfolio transactions of the First Trust ETF. A quarterly update is available at [www.firsttrust.ca](http://www.firsttrust.ca).

Holdings	% of ETF Net Asset Value
Kirkland Lake Gold Ltd.	4.53%
CAE Inc.	4.39%
Transcontinental Inc., Class 'A'	4.28%
Enerplus Corp.	4.26%
Constellation Software Inc.	4.22%
CGI Group Inc., Class 'A'	4.20%
Canadian National Railway Co.	4.15%
Canfor Corp.	4.12%
Saputo Inc.	4.06%
Alimentation Couche-Tard Inc., Class 'B'	4.05%
Toronto-Dominion Bank (The)	4.04%
Bank of Montreal	4.02%
Canadian Pacific Railway Ltd.	4.01%
National Bank of Canada	3.99%
Encana Corp.	3.95%
Canadian Imperial Bank of Commerce	3.94%
Royal Bank of Canada	3.92%
Teck Resources Ltd., Class 'B'	3.92%
Sun Life Financial Inc.	3.88%
Open Text Corp.	3.88%
Magna International Inc.	3.84%
Canadian Tire Corp. Ltd., Class 'A'	3.78%
Bank of Nova Scotia	3.65%
Russel Metals Inc.	3.46%
Linamar Corp.	3.11%
Cash	0.44%
Other assets, less liabilities	(0.09)%
<b>Total</b>	<b>100.00%</b>

**Portfolio Breakdown**

The table sets out the percentage (based on total net asset value) of the First Trust ETF's portfolio as at June 30, 2018.

Sector Weightings	% of ETF Net Asset Value
Financials	27.44%
Industrials	20.29%
Materials	12.57%
Information Technology	12.30%
Consumer Discretionary	10.73%
Energy	8.21%
Consumer Staples	8.11%
Cash	0.44%
Other assets, less liabilities	(0.09)%
<b>Total</b>	<b>100.00%</b>

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