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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, 2018

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# **ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

## **December 31, 2018**

### **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 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 year ended December 31, 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 year ending December 31, 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), May 2018 (2 positions added, 2 positions eliminated), August 2018 (2 positions added, 2 positions eliminated), and December 2018 (3 positions added, 3 positions eliminated). The top ten equity holdings of the First Trust ETF at December 31, 2018 accounted for 40.64% 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 Materials (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 Industrials, Information Technology, Consumer Discretionary, and Consumer Staples Sectors and underweight the Energy, Communications Services, and Financials 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 December 31, 2018 was \$68,848,611 or \$30.18 per Common Class unit (“FST”) and \$25.27 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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# First Trust Canadian Capital Strength ETF Management Report of Fund Performance For the year ended December 31, 2018

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For the year ended December 31, 2018, the First Trust ETF paid total cash distributions per unit of \$0.2900 for FST and \$0.1100 for FST.A. In addition, the First Trust ETF declared cash distributions per unit of \$0.1000 for FST and \$0.0350 for FST.A for record date of December 31, 2018 with payment date of January 8, 2019.

## **Investment Performance**

For the year ended December 31, 2018, FST returned -8.79% and FST.A returned -9.79%. These compare with the S&P/TSX Composite Index (the “benchmark”) return of -8.89%. Unlike the benchmark, the First Trust ETF’s returns are net of fees and expenses.

FST outperformed the benchmark for the year. Positive contribution to relative performance included an overweight allocation in the Information Technology Sector, stock selection and an overweight allocation in the Consumer Staples Sector, an underweight allocation and stock selection in the Materials Sector versus the benchmark, and an underweight allocation in the Health Care and Energy Sectors. Negative contributions to relative performance came predominantly from an underweight allocation and stock selection in the Communication Services Sector, and stock selection within the Consumer Discretionary, Financials, and Industrial Sectors.

The top-performing stocks by total return for the year were Kirkland Lake Gold Ltd., CGI Group Inc. Class A. and Metro Inc. These stocks returned +48.54%, +22.25%, and +11.07% respectively, in CAD, including dividends. The bottom-performing stocks by contribution for the period were Encana Corporation, Canfor Corporation, and Russel Metals Inc. These stocks returned -56.26%, -33.29%, and -29.80% respectively, in CAD, including dividends.

Portfolio changes were made in January, May, August, and December 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. In August, one position, Linamar Corp., was eliminated for failing to meet the initial screening criteria, and Saputo Inc. was removed at the portfolio manager’s discretion. Positions in Metro Inc. and Pembina Pipeline Corp. replaced the eliminated positions. In December, three positions, Encana Corp., Russel Metals Inc., and Transcontinental Inc., were eliminated for failing to meet the initial screening criteria. New positions in BCE Inc., Suncor Energy Inc., and Waste Connections Inc. were established in place of the eliminated positions.

## **Recent Developments**

The resilience of the Canadian economy was tested in 2018 following a larger-than-expected economic boom in 2017 of around 3% GDP growth. The economy grew at a more modest pace of around 2% GDP growth while operating near full capacity in 2018. The Bank of Canada (the “BoC”) raised the overnight benchmark rate three times in 2018, up to 1.75%, with the last rate hike coming in October. The BoC left its overnight benchmark rate unchanged at 1.75% in December, taking into account the housing market, oil markets, and the global trade policy. The BoC reiterated its stance on eventually raising the overnight benchmark rate to a neutral range between 2.5% and 3.5% as the economic outlook dictates. Canada’s rising rate environment along with new housing regulations and tougher mortgage guidelines dampened housing activity throughout 2018. The housing market is trying to stabilize as homebuyers are eying smaller, cheaper houses while sellers drop prices. These factors did not deter the economy from generally performing well. Unemployment is at a 40-year low while the participation rate remains high, employment growth remained strong, and the passage of the Canada-United States-Mexico Agreement (“CUSMA”) relieved some concerns over non-energy exports.

Canada’s equity market enjoyed small gains in the first half of 2018 with the S&P/TSX Composite Index up 1.95% on a total return basis. Equity markets fell off the second half of the year with the S&P/TSX Composite Index finishing the year down 8.89% on a total return basis. The Financials and Energy Sectors, which make up slightly more than half of the S&P/TSX Composite Index, accounted for most of the negative contribution for the year. The Energy Sector ran into major headwinds in the second half of 2018. Canadian oil prices plummeted in the second half of the year as the BoC’s energy price index fell about 25% since their July Report. Lower global oil prices along with transportation

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constraints and rising production pushed Canadian oil prices lower, materially weakening the Energy Sector. The Financials Sector outperformed the S&P/TSX Composite Index for most of the year but fell behind at the end of the year. Higher interest rates should fuel further interest-income gains but slowing consumer spending and housing concerns are headwinds for banks.

The BoC revised down their economic outlook for 2019. The BoC is now expecting 1.7% GDP growth for 2019, from 2.1% previously. Canadian oil prices plummeted lower than global prices due to transportation constraints and refinery shutdowns, leaving Canadian producers oversupplied. Alberta's government mandated price cuts, which helped narrow differentials. The BoC projects oil headwinds to materially hurt exports and business investment in the short-term. The BoC expects the economy outside of the Energy Sector to remain solid. "Economic activity should continue to be supported by strong employment, expanding foreign demand and accommodative financial conditions. Business investment and exports outside the energy sector are projected to grow steadily and will benefit from favourable arrangements with many trading partners and recently announced federal tax measures targeting investment. Ongoing gains in employment and wages should continue to underpin consumption as households adjust to the tighter mortgage guidelines and increases in mortgage rates," according to the Bank of Canada. The broader market does not expect the Bank of Canada to increase the overnight benchmark rate in 2018.

We believe Canada has many positive investment attributes, including low unemployment, high wages, continued business investment driven by a lower Canadian dollar, the CUSMA, and business-friendly federal tax measures. Historically, the Canadian equity market has delivered investors a global best blend of reward-to-risk, making it an attractive market for long-term oriented investors.

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 62% of the sector weights for the S&P/TSX Composite Index over the period versus roughly 52% 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 year ended December 31, 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 annual audited financial statements for the years ending December 31, 2018 and 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	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	June 30, 2016	June 30, 2015
Net asset value, beginning of period/year <sup>(1)</sup>	\$28.14	\$24.68	\$21.74	\$23.67	\$23.01
Increase (Decrease) from operations:					
Total revenue	0.62	0.51	0.28	0.66	0.53
Total expenses	(0.50)	(0.47)	(0.29)	(0.60)	(0.64)
Realized gains (losses) for the period/year	0.36	2.14	1.05	(0.23)	1.70
Unrealized gains (losses) for the period/year	(3.19)	1.37	1.97	(1.90)	(0.82)
Total increase (decrease) from operations <sup>(2)</sup>	\$ (2.71)	\$ 3.55	\$ 3.01	\$ (2.07)	\$ 0.77
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	(0.03)	-	-	-	-
From capital gains	(0.10)	-	-	-	-
Return of capital	-	(0.09)	-	-	-
Total annual distributions <sup>(3)</sup>	\$ (0.13)	\$ (0.09)	\$ -	\$ -	\$ -
Net asset value, end of period/year <sup>(4)</sup>	\$25.27	\$28.14	\$24.68	\$21.74	\$23.67

FST	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	June 30, 2016	June 30, 2015
Net asset value, beginning of period/year <sup>(1)</sup>	\$33.44	\$29.12	\$25.50	\$27.46	\$26.39
Increase (Decrease) from operations:					
Total revenue	0.75	0.63	0.34	0.77	0.61
Total expenses	(0.23)	(0.22)	(0.19)	(0.42)	(0.43)
Realized gains (losses) for the period/year	0.07	2.28	1.27	(0.26)	1.96
Unrealized gains (losses) for the period/year	(3.97)	2.77	2.20	(2.15)	(0.95)
Total increase (decrease) from operations <sup>(2)</sup>	\$ (3.38)	\$ 5.46	\$ 3.62	\$ (2.06)	\$ 1.19
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	(0.34)	(0.08)	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	(0.14)	-	-	-
Total annual distributions <sup>(3)</sup>	\$ (0.34)	\$ (0.22)	\$ -	\$ -	\$ -
Net asset value, end of period/year <sup>(4)</sup>	\$30.18	\$33.44	\$29.12	\$25.50	\$27.46

(1) This information is provided for the 12-month years ended December 31, 2018 and 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 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) 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	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	June 30, 2016	June 30, 2015
Net asset value (000's)	\$26,803	\$35,547	\$34,626	\$35,433	\$49,650
Number of units outstanding	1,060,726	1,263,337	1,402,854	1,630,111	2,097,763
Management expense ratio <sup>(1)</sup>	1.76%	1.76%	2.41%	2.67%	2.66%
Management expense ratio before waivers or absorption	1.78%	1.78%	2.41%	2.67%	2.66%
Trading expense ratio <sup>(2)</sup>	0.03%	0.03%	0.04%	0.04%	0.03%
Portfolio turnover rate <sup>(3)</sup>	63.24%	54.57%	26.70%	52.71%	62.79%
Net asset value per unit	\$25.27	\$28.14	\$24.68	\$21.74	\$23.67

FST	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	June 30, 2016	June 30, 2015
Net asset value (000's)	\$42,046	\$39,815	\$7,207	\$6,644	\$8,258
Number of units outstanding	1,392,993	1,190,807	247,534	260,571	300,783
Management expense ratio <sup>(1)</sup>	0.66%	0.66%	1.29%	1.56%	1.54%
Management expense ratio before waivers or absorption	0.68%	0.68%	1.29%	1.56%	1.54%
Trading expense ratio <sup>(2)</sup>	0.03%	0.03%	0.04%	0.04%	0.03%
Portfolio turnover rate <sup>(3)</sup>	63.24%	54.57%	26.70%	52.71%	62.79%
Net asset value per unit	\$30.18	\$33.44	\$29.12	\$25.50	\$27.46

(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.



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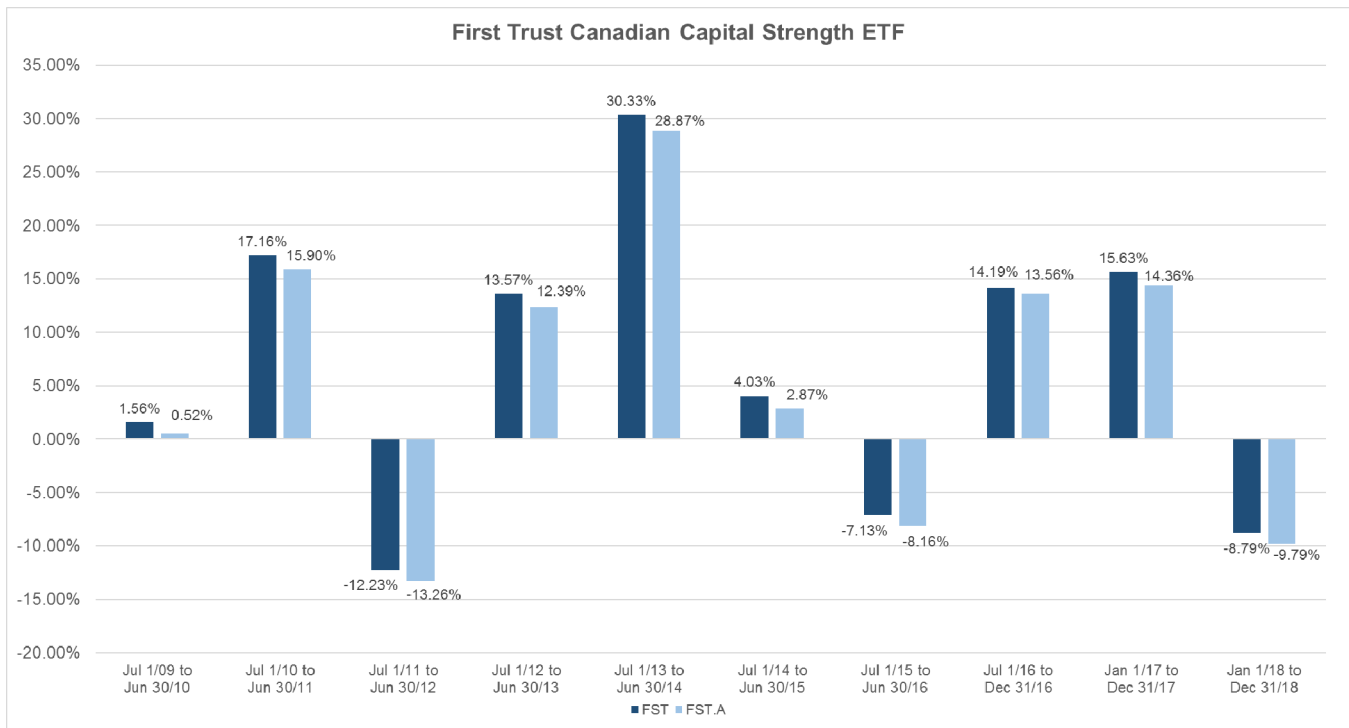
## Past Performance

### 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 12-month years ended December 31, 2018 and 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 Management Report of Fund Performance For the year ended December 31, 2018

## Annual Compound Returns

The following table shows the First Trust ETF's annual compound total return since inception and for the years ended December 31, 2018. 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)	-9.79%	5.00%	4.19%	5.55%	5.10%
First Trust Canadian Capital Strength ETF (FST)	-8.79%	6.16%	5.36%	6.73%	6.25%
S&P/TSX Composite Index	-8.89%	6.37%	4.06%	7.92%	6.71%

*S&P/TSX Composite Index – The S&P/TSX Composite 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 sets out the percentage (based on total net asset value) of the First Trust ETF's holdings as at December 31, 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.	4.18%
CGI Group Inc., Class 'A'	4.11%
Enerplus Corp.	4.05%
Suncor Energy Inc.	4.05%
Constellation Software Inc.	4.05%
Canfor Corp.	4.05%
Alimentation Couche-Tard Inc., Class 'B'	4.04%
Sun Life Financial Inc.	4.04%
Teck Resources Ltd., Class 'B'	4.04%
Canadian Pacific Railway Ltd.	4.03%
Waste Connections Inc.	4.02%
Metro Inc., Class 'A'	4.01%
Open Text Corp.	4.01%
Toronto-Dominion Bank (The)	3.99%
Canadian National Railway Co.	3.99%
Royal Bank of Canada	3.98%
Bank of Montreal	3.97%
Canadian Tire Corp. Ltd., Class 'A'	3.92%
Magna International Inc.	3.92%
National Bank of Canada	3.92%
Bank of Nova Scotia	3.91%
Pembina Pipeline Corp.	3.89%
Canadian Imperial Bank of Commerce	3.87%
CAE Inc.	3.86%
BCE Inc.	3.84%
Cash and Cash Equivalents	0.44%
Other Assets, Less Liabilities	(0.18)%
<b>Total</b>	<b>100.00%</b>

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### Portfolio Breakdown

The table sets out the percentage (based on total net asset value) of the First Trust ETF's portfolio as at December 31, 2018.

Sector Weightings	% of ETF Net Asset Value
Financials	27.68%
Industrials	15.90%
Materials	12.27%
Information Technology	12.17%
Energy	11.99%
Consumer Staples	8.05%
Consumer Discretionary	7.84%
Communication Services	3.84%
Cash and Cash Equivalents	0.44%
Other Assets, Less Liabilities	(0.18)%
Total	100.00%

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