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## First Trust International Capital Strength ETF • FINT

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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 International 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 International Capital Strength 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 International Capital Strength ETF** (the "First Trust ETF") is to provide unitholders with long term capital appreciation by investing primarily in equity securities of developed market companies, excluding the U.S. and Canada, that are traded on global exchanges, with a focus on fundamental strength and growth.

The First Trust ETF seeks to achieve its investment objective by investing primarily in securities of developed market companies, excluding the U.S. and Canada. Securities invested in by the First Trust ETF include common shares of public companies and American Depository Receipts ("ADRs"), Global Depository Receipts ("GDRs") and European Depository Receipts ("EDRs") that are traded on global exchanges or markets.

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 global exchanges or markets, excluding United States and Canadian securities.

Next, the portfolio advisor evaluates issuers based on multiple quantitative metrics, including, but not limited to, market capitalization, 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 net asset value as of December 31, 2022 was \$6,828,427 or \$22.76 per unit. The First Trust ETF's net asset value as of December 31, 2021 was \$9,477,497 or \$27.08 per unit.

For the year ended December 31, 2022, the First Trust ETF paid total cash distributions per unit of \$0.1700. In addition, the First Trust ETF declared cash distributions per unit of \$0.1188 for record date of December 30, 2022 with payment date of January 9, 2023.

##### ***Investment Performance***

For the year ended December 31, 2022, the First Trust ETF returned -14.79% compared to MSCI EAFE Index (the "benchmark") return of -8.23%. Unlike the benchmark, the First Trust ETF's return is net of fees and expenses.

The First Trust ETF underperformed the benchmark for the year. Overall, allocation effect, stock selection, and currency effect were negative contributors to relative performance. Positive contribution to relative performance was mainly due to stock selections in the Communication Services, Materials, and Industrials sectors, as well as currency effect in the Financials and Consumer Staples sectors. Negative contributions to relative performance came from

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# First Trust International Capital Strength ETF

## Management Report of Fund Performance

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stock selections within the Financials and Consumer Discretionary sectors, an overweight allocation in the Information Technology sector, and an underweight allocation in the Financials sector.

The top-performing stocks by total return for the year were Thales S.A., Novo Nordisk A/S, and Capcom Co., Ltd. These stocks returned +53.33%, +31.74%, and +27.98%, respectively in CAD, including dividends. The bottom-performing stocks by total return for the year were Skanska AB, Deutsche Post AG, and adidas AG. These stocks returned -49.11%, -49.08%, and -48.94% respectively, in CAD, including dividends.

The First Trust ETF held 40 equity positions for the year ended December 31, 2022 and made no net change to the number of positions from the beginning of the year. Portfolio changes were made in March 2022 (five positions added, five positions eliminated), September 2022 (ten positions added, 13 positions eliminated), and December 2022 (five positions were added, six positions were eliminated). The top ten equity holdings of the First Trust ETF as of December 31, 2022 accounted for 25.39% of total NAV and the top ten equity holdings of the First Trust ETF as of December 31, 2021 accounted for 25.56% of total NAV. Health Care, Industrials, and Consumer Staples (in order) were the top three sector weightings at the end of the year, whereas Information Technology, Industrials, and Consumer Discretionary (in order) were the top three sector weightings at the beginning of the year. Relative to its benchmark over the year, the First Trust ETF was overweight the Communication Services, Consumer Discretionary, Energy, Health Care, Industrials, and Information Technology sectors and underweight the Consumer Staples, Financials, Materials, Real Estate and Utilities sectors. The sector weighting of the First Trust ETF changed somewhat over the reporting year, primarily as the result of our bottom-up, multi-step quantitative and fundamental stock selection strategy. Portfolio changes were made in March, September, and December of 2022. There was no net change to the total number of portfolio positions over the year. In March, one position, Barratt Developments PLC was eliminated for failing to meet the initial screening criteria, while four positions, JD Sports Fashion PLC, Persimmon PLC, Novartis AG, and Telefonaktiebolaget LM Ericsson were removed at the portfolio manager's discretion. Five positions, adidas AG, Equinor ASA, GlaxoSmithKline PLC, BAE Systems PLC, and Capgemini SE were established in place of them. In September, five positions, Skanska AB, Deutsch Post AG, GSK PLC, Prudential PLC, and Open House Group Co LTD were eliminated for failing to meet screening criteria, while eight positions, adidas AG, Ferguson PLC, Xinyi Glass Holdings Ltd, ASML Holding NV, Logitech International SA, Haleon PLC, Euroapi SA, and Alleima AB, were removed at the portfolio manager's discretion. Ten positions, Capcom Co Ltd, Carlsberg AS, Diageo PLC, Reckitt Benckiser Group PLC, Tenaris SA, Woodside Energy Group Ltd, Deutsche Boerse AG, Genmab A/S, Novo Nordisk A/S, and ABB Ltd were established in place of them. In December, three positions, Shionogi & Co Ltd, ASM International NV, and Endesa SA, were eliminated for failing to meet the initial screening criteria, while three positions, Accelleron Industries AG, STMicroelectronics NV, and Trend Micro Inc/Japan, were removed at the portfolio manager's discretion. Five positions, Mercedes-Benz Group AG, TotalEnergies SE, Zurich Insurance Group AG, Infineon Technologies AG, and Glencore PLC, were establish in place of them.

### Recent Developments

The year 2022 proved to be challenging for policymakers around the globe. Rising inflation in almost all developed economies triggered rapid monetary tightening from central banks. While this has been necessary for price stability, it has brought the global economy to the brink of a recession. According to the World Bank, global growth is expected to decelerate sharply to 1.70% in 2023 - the third weakest pace of growth in nearly three decades. Asset prices declined, housing markets worsened, and investment growth has weakened in many countries. In response, many central banks are expected to either maintain elevated policy rates or continue to increase rates until inflation is under control and conditions stabilize. In February, the Bank of England Monetary Policy Committee voted to increase the Bank Rate by 0.25%, to 0.50%. This began a series of eight consecutive hikes throughout the year, bringing the Bank Rate to 3.50%, its highest point since 2008. At the December monetary policy meeting, the Bank of Japan ("the BOJ") agreed to maintain accommodative financial conditions by leaving the key short-term interest rate unchanged at -0.10%. However, the BOJ also expanded the range of 10-year government bond yield fluctuations from between around  $\pm 0.25\%$  to  $\pm 0.50\%$  - a move that opens the door for future rate increases. The European Central Bank ("the ECB") has also taken a more aggressive stance against inflation as well. At their latest meeting in December, the ECB decided to raise key interest rates by 0.50% and the Governing Council expects that interest rates will need to rise significantly to return inflation to the 2% target.

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## First Trust International Capital Strength ETF Management Report of Fund Performance For the year ended December 31, 2022

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For the year, the benchmark finished down 8.23%. Energy was the only sector that contributed positively to returns throughout the year. The largest negative contributors to total return were Industrials, Information Technology, and Consumer Discretionary, which account for approximately 35% of the benchmark. From a country standpoint, equities in Macao, and Portugal were the only positive contributors to total return for the year (less than 1% of the benchmark). On the other hand, equities in Japan, Switzerland, and the United Kingdom (about 48% of the benchmark) were significant negative contributors to total return for the year. Looking ahead to 2023, the global economy will need to navigate numerous challenges to avoid a recession. The ongoing war in Ukraine, the cost-of-living crisis, along with economic and geopolitical uncertainties surrounding China are being felt by connected economies across the globe. Ultimately, the extent of the slowdown will be determined by the effectiveness of the decisions made by policymakers and central banks.

We continue to find attractive long-term candidates from within our selection universe of “international capital strength” companies. The First Trust ETF is positioned to provide exposure to the world’s most developed nations excluding the United States and Canada.

### **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 International Capital Strength 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

FINT	2022	2021	2020	2019	2018 <sup>(a)</sup>
Net asset value, beginning of period/year <sup>(1)</sup>	\$27.08	\$24.09	\$20.71	\$16.79	\$20.00 <sup>(b)</sup>
Increase (Decrease) from operations:					
Total revenue	0.90	0.79	0.46	0.68	0.29
Total expenses	(0.28)	(0.32)	(0.27)	(0.26)	(0.16)
Realized gains (losses) for the period/year	(2.86)	2.38	0.81	(1.74)	(0.14)
Unrealized gains (losses) for the period/year	(2.17)	(0.02)	3.76	4.95	(3.77)
Total increase (decrease) from operations <sup>(2)</sup>	\$(4.41)	\$2.83	\$4.76	\$3.63	\$(3.78)
Distributions:					
From income (excluding dividends)	(0.29)	-	-	(0.19)	-
From dividends	-	-	-	-	-
From capital gains	-	-	(1.14)	-	-
Return of capital	-	-	(0.06)	(0.06)	-
Total annual distributions <sup>(3)</sup>	\$(0.29)	\$-	\$(1.20)	\$(0.25)	-
Net asset value, end of period/year <sup>(4)</sup>	\$22.76	\$27.08	\$24.09	\$20.71	\$16.79

(a) December 31, 2018 does not relate to the full year as the First Trust ETF commenced operations on May 17, 2018.

(b) Seed capital

(1) This information is provided as at December 31 of the period/years shown and is prepared under IFRS.

(2) Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the period/year.

(3) Distributions were paid in cash or reinvested in additional units of the First Trust ETF, or both. Non-cash distributions are reinvested in additional units of the First Trust ETF and subsequently consolidated. Neither the number of units held by the unitholder, nor the net asset per unit of the First Trust ETF change as a result of any non-cash distributions.

(4) This table is not intended to be a reconciliation of beginning to ending net asset value per unit.

### Ratios and Supplemental Data

FINT	2022	2021	2020	2019	2018
Net asset value (000's)	\$6,828	\$9,477	\$6,023	\$2,071	\$1,679
Number of units outstanding	300,000	350,000	250,000	100,000	100,000
Management expense ratio <sup>(1)</sup>	0.74%	0.74%	0.75%	0.77%	0.75%
Management expense ratio before waivers or absorption	0.76%	0.76%	0.78%	0.79%	0.76%
Trading expense ratio <sup>(2)</sup>	0.15%	0.21%	0.33%	0.30%	0.44%
Portfolio turnover rate <sup>(3)</sup>	61.18%	65.09%	55.67%	101.25%	8.99%

(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.

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#### Management Fees

The First Trust ETF will pay the Manager a management fee of 0.70% based on the average daily NAV of the First Trust ETF. The management fee, plus applicable taxes including HST, will be accrued daily and paid monthly in arrears. The Manager may, from time to time in its discretion, waive all or a portion of the management fee charged at any given time.

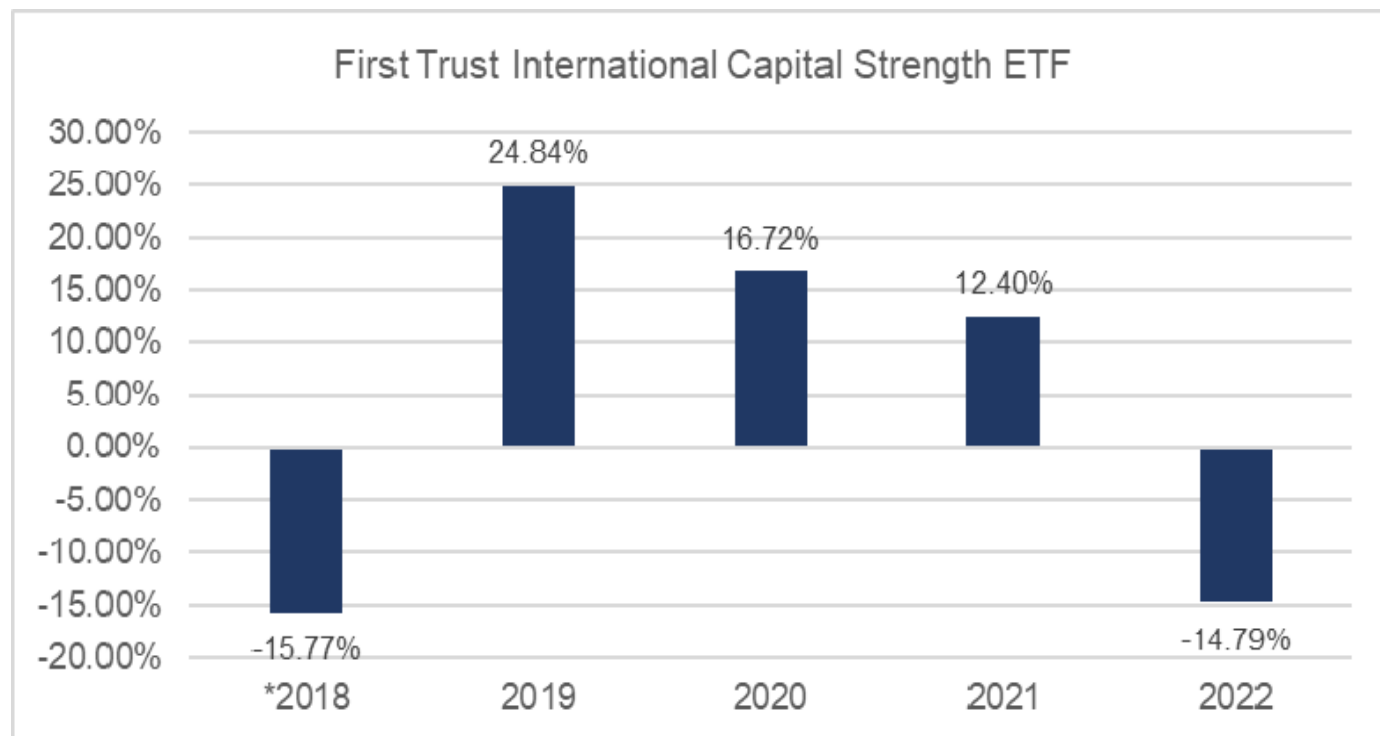
#### Past Performance

##### General

The past performance information shown assumes that all distributions made by the First Trust ETF in the period/year 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 for the years ended December 31, and for the period from commencement of operations to December 31, 2018 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.



\*First Trust ETF Commencement: May 17, 2018



# First Trust International Capital Strength ETF

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#### Annual Compound Returns

The table below shows the First Trust ETF's annual compound total return since inception and for the years ended December 31, 2022. 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.

Returns	1-Year	3-Year	5-Year	10-Year	Since Inception
First Trust International Capital Strength ETF	-14.79%	3.78%	-	-	3.56%
MSCI EAFE Index	-8.23%	2.35%	-	-	2.71%

*MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.*

#### 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, 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).

Top 25 Holdings	% of ETF Total Net Asset Value
Straumann Holding AG	2.58%
Novo Nordisk AS, Class 'B'	2.54%
Mercedes-Benz Group AG	2.54%
Anglo American PLC	2.54%
Reckitt Benckiser Group PLC	2.54%
Rio Tinto PLC	2.54%
CSL Ltd.	2.53%
Kering	2.53%
ABB Ltd., Registered	2.53%
Carlsberg AS, Series 'B', Class B	2.52%
ArcelorMittal SA	2.52%
Tenaris SA	2.52%
Sandvik AB	2.52%
Capgemini SE	2.51%
LVMH Moet Hennessy Louis Vuitton SE	2.51%
TotalEnergies SE	2.51%
Nintendo Co. Ltd.	2.51%
Volvo AB, Series 'B'	2.51%
Thales SA	2.50%
Deutsche Boerse AG	2.50%
SAP SE	2.50%
Sony Group Corp.	2.50%
Nestlé SA, Registered	2.50%
Zurich Insurance Group AG	2.50%
BAE Systems PLC	2.50%
Total	63.00%

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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, 2022.

Sector Weightings	% of ETF Total Net Asset Value
Health Care	17.59%
Industrials	12.56%
Consumer Staples	12.55%
Energy	12.43%
Information Technology	12.20%
Materials	10.09%
Consumer Discretionary	10.07%
Communication Services	7.46%
Financials	5.00%
Cash and Cash Equivalents	0.36%
Other Assets, Less Liabilities	-0.31%
<b>Total</b>	<b>100.00%</b>

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

Country Weightings	% of ETF Total Net Asset Value
United Kingdom	17.60%
Switzerland	15.08%
France	15.05%
Japan	12.31%
Germany	10.01%
Denmark	7.55%
Luxembourg	5.04%
Sweden	5.03%
Australia	5.02%
Finland	2.47%
Norway	2.43%
South Korea	2.36%
<b>Total</b>	<b>99.95%</b>

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