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First Trust Morningstar Dividend Leaders ETF (CAD-Hedged) • FDL  
*(formerly, First Trust Dorsey Wright U.S. Sector Rotation Index ETF  
(CAD-Hedged) • FSR)\**

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Annual Management Report of Fund Performance  
December 31, 2020

\*Effective date of name change is February 12, 2021

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# **ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

## **December 31, 2020**

### **First Trust Dorsey Wright U.S. Sector Rotation Index ETF (CAD-Hedged) (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 Dorsey Wright U.S. Sector Rotation Index ETF (CAD-Hedged)

## Management Report of Fund Performance

### For the year ended December 31, 2020

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

The fundamental investment objective of **First Trust Dorsey Wright U.S. Sector Rotation Index ETF (CAD-Hedged)** (the “First Trust ETF”) is to replicate, to the extent possible, the performance of Dorsey Wright® U.S. Sector Focus Five Index, (the “Index”), net of expenses.

The investment strategy of the First Trust ETF is to invest in and hold the constituent securities of the Index in the same proportion as they are reflected in the Index or securities intended to replicate the performance of such Index. The First Trust ETF may also hold cash and cash equivalents or other money market instruments to fund current liabilities.

The Index seeks to construct an equal weighted basket of TSX-listed ETFs that provide exposure to a variety of industry sectors in the U.S. equity markets and may provide exposure to U.S. cash equivalents, represented by U.S. treasury-bills ranging from 30 to 91 days in duration included in the NASDAQ U.S. T-Bill Index (the “US Cash Allocation”).

The Manager may use a sampling methodology in selecting investments for the First Trust ETF. As an alternative or in conjunction with investing in and holding constituent securities, the First Trust ETF may also invest in other securities to obtain exposure to the constituent securities of the applicable Index in a manner that is consistent with the investment objective and investment strategy of the First Trust ETF.

#### **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 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, 2020 was \$2,443,172 or \$24.43 per unit. The First Trust ETF’s net asset value as of December 31, 2019 was \$2,504,273 or \$25.04 per unit.

For the year ended December 31, 2020, the First Trust ETF did not pay cash distributions, however, the First Trust ETF declared cash distributions per unit of \$0.5480 for record date of December 31, 2020 with payment date of January 8, 2021. In addition, the First Trust ETF made a notional distribution of \$0.0710 for record date of December 31, 2020. This amount was reinvested in the First Trust ETF and not paid in cash to unitholders.

##### **Investment Performance**

For the year ended December 31, 2020, the First Trust ETF returned -0.25% compared to S&P 500 Index (CAD-Hedged) (the “Benchmark”) return of 17.16% and to the Index return of 0.66%. Unlike the Benchmark and the Index, the First Trust ETF’s return is net of fees and expenses.

The Index and the First Trust ETF returned a flat total return in 2020, and underperformed the S&P 500 CAD-Hedged Index in terms of annual excess return.

The Index and the First Trust ETF trailed the S&P 500 CAD-Hedged Index in the first three quarters. It finally caught up in the last quarter, with the Index and the First Trust ETF outperforming the S&P 500 CAD-Hedged Index.

The portfolio’s underperformance in the first three quarters was caused by different reasons. For example, the Index’s early year sector picks, such as Industrials, Financial and Consumer Discretionary, all suffered by the quick sell-offs triggered by the sudden outbreak of the pandemic.

The Index’s protection mechanism kicked in and allocated most of the positions to Cash in April. But just as how surprising was the way the pandemic impacted the world and the financial markets, the sharp V-shaped recovery path

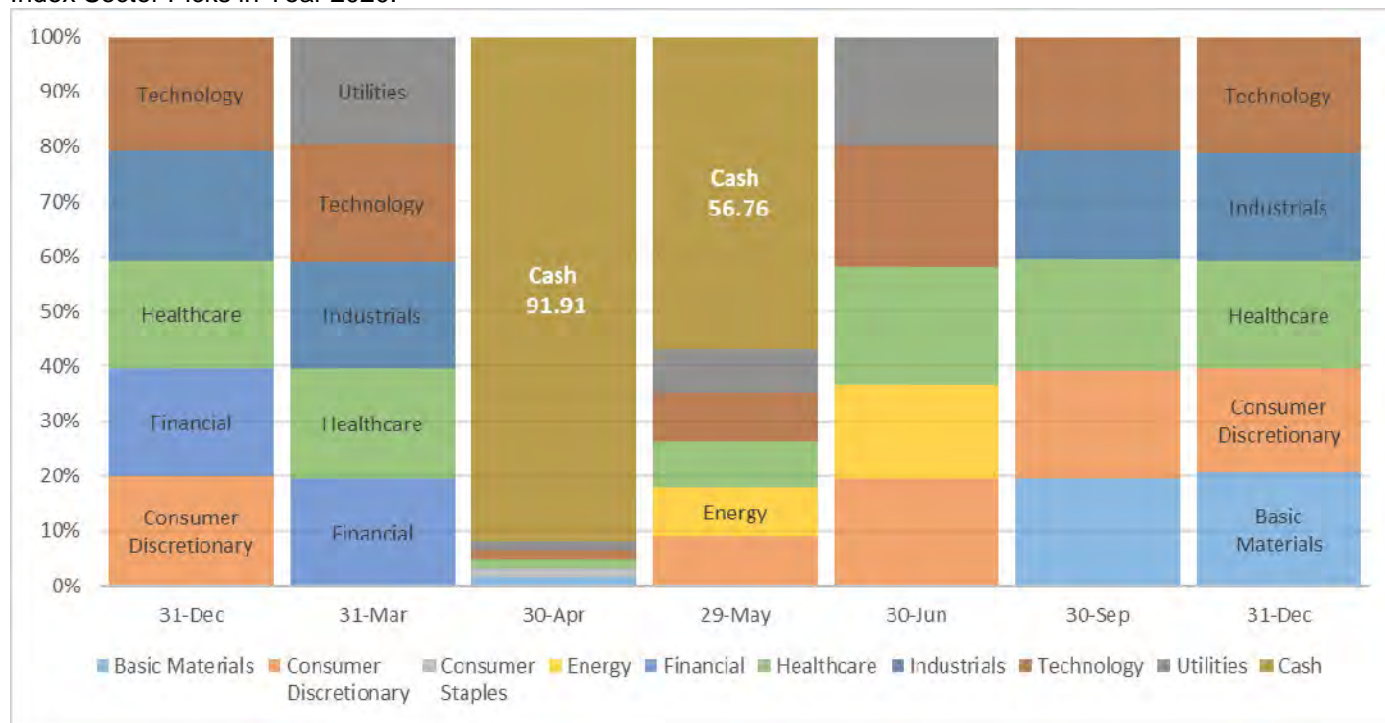
# First Trust Dorsey Wright U.S. Sector Rotation Index ETF (CAD-Hedged)

## Management Report of Fund Performance

### For the year ended December 31, 2020

of the financial markets was equally surprising to many investors. Holding too much Cash caused The Index to continue underperforming the S&P 500 CAD-Hedged Index in April and May.

Index Sector Picks in Year 2020:



Index Performance Year-to-Date 2020 in USD:

Macro Sector	Symbol	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2020
Basic Materials	FHM	-5.2%	-11.4%	-19.2%	17.2%	4.9%	4.2%	0.0%	6.4%	2.8%	2.6%	17.6%	6.1%	21.9%
Consumer Discretionary	FHD	-4.2%	-10.1%	-26.5%	3.6%	23.9%	1.9%	6.1%	11.0%	-2.9%	-1.1%	14.5%	5.7%	13.1%
Consumer Staples	FHC	-0.1%	-13.5%	-9.1%	15.2%	3.7%	-1.8%	1.9%	7.5%	-3.7%	2.9%	3.0%	0.7%	3.8%
Energy	FHE	-6.1%	-28.4%	-40.7%	59.9%	9.4%	-4.1%	-0.5%	5.6%	-8.4%	-9.5%	37.1%	5.2%	-15.9%
Financial	FHF	-0.7%	-13.3%	-24.5%	10.3%	5.3%	1.3%	3.4%	5.5%	-3.1%	-0.1%	23.7%	2.9%	2.8%
Healthcare	FHH	1.6%	-7.9%	-6.7%	14.4%	6.8%	-0.4%	5.4%	-1.5%	2.1%	-0.7%	7.6%	5.0%	26.4%
Industrials	FHG	-1.7%	-12.3%	-20.2%	1.9%	17.4%	-0.6%	5.5%	8.3%	-1.3%	-0.4%	17.0%	4.0%	11.6%
Technology	FHQ	-0.6%	-8.4%	-12.2%	17.6%	12.4%	6.5%	7.2%	4.8%	-1.9%	-2.3%	16.1%	7.0%	50.6%
Utilities	FHU	1.8%	-6.2%	-11.6%	6.2%	-0.4%	1.0%	5.8%	-2.2%	-1.5%	8.6%	1.0%	-1.0%	-0.1%
Benchmark	SPXT	0.0%	-8.2%	-12.4%	12.8%	4.8%	2.0%	5.6%	7.2%	-3.8%	-2.7%	10.9%	3.8%	18.4%
FX CADUSD		-1.9%	-1.2%	-4.8%	0.9%	1.2%	1.5%	1.2%	2.8%	-2.0%	0.0%	2.4%	2.2%	2.0%

The Index's year-end allocation targets a few growth and cyclical sectors such as Technology, Industrials, Healthcare, Consumer Discretionary and Basic Materials. We think that it is appropriately positioned to follow the current enhancing trends of post-pandemic recovery and rising inflation.

### Recent Developments

A lot of market's attention has moved to focus on the vaccine deployment and post-pandemic growth. On the other hand, the already rich valuation and the worry of Fed's too-early-ending of monetary support will all add great uncertainties to the year 2021. As a pure U.S. equity focused strategy, the Index couldn't enjoy the benefit of asset

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## First Trust Dorsey Wright U.S. Sector Rotation Index ETF (CAD-Hedged) Management Report of Fund Performance For the year ended December 31, 2020

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class diversification. However, we believe that The Index's unique Relative Strength and Matrix Tally mechanism should still be able to provide investors with effective alpha capture and risk mitigation in the long-term.

In February 2021, the First Trust ETF changed its investment objectives to seek to replicate, to the extent possible, the performance of an index of U.S. companies that have shown dividend consistency and dividend sustainability, initially the Morningstar® Dividend Leaders Index<sup>SM</sup>. In connection with the change of investment objectives, the name of the First Trust ETF was changed to First Trust Morningstar Dividend Leaders ETF (CAD-Hedged). The First Trust ETF provides exposure to its new index by investing all or substantially all of its assets in an underlying U.S. index fund known as First Trust Morningstar Dividend Leaders Index Fund, which is managed by the First Trust ETF's portfolio advisor.

### **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 Dorsey Wright U.S. Sector Rotation Index ETF (CAD-Hedged)

## Management Report of Fund Performance

### For the year ended December 31, 2020

#### 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 four years. This information is derived from the First Trust ETF's current unaudited interim financial statements and audited annual financial statements.

#### Net Asset Value per Unit

FSR	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016 <sup>(a)</sup>
Net asset value, beginning of period/year <sup>(1)</sup>	\$25.04	\$20.29	\$22.60	\$20.12	\$20.00 <sup>(b)</sup>
Increase (Decrease) from operations:					
Total revenue	0.52	0.11	0.12	0.07	0.08
Total expenses	(0.11)	(0.08)	(0.10)	(0.08)	(0.03)
Realized gains (losses) for the period/year	(1.61)	3.03	(0.59)	1.24	(0.31)
Unrealized gains (losses) for the period/year	3.50	2.65	(2.44)	1.41	0.50
Total increase (decrease) from operations <sup>(2)</sup>	\$2.30	\$5.71	\$(3.01)	\$2.64	\$0.24
Distributions:					
From income (excluding dividends)	(0.57)	-	-	-	(0.85)
From dividends	(0.05)	-	-	-	-
From capital gains	-	(2.20)	(0.62)	(1.13)	-
Return of capital	-	(0.01)	-	(0.09)	(0.02)
Total annual distributions <sup>(3)</sup>	\$(0.62)	\$(2.21)	\$(0.62)	\$(1.22)	\$(0.87)
Net asset value, end of period/year <sup>(4)</sup>	\$24.43	\$25.04	\$20.29	\$22.60	\$20.12

(a) December 31, 2016 does not relate to the full year as First Trust ETF commenced operations on September 29, 2016.

(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

FSR	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Net asset value (000's)	\$2,443	\$2,504	\$4,059	\$2,260	\$1,006
Number of units outstanding	100,000	100,000	200,000	100,000	50,000
Management expense ratio <sup>(1)</sup>	1.02%	1.09%	1.10%	1.04%	1.11%
Management expense ratio before waivers or absorption	1.04%	1.11%	1.11%	1.05%	1.12%
Trading expense ratio <sup>(2)</sup>	0.23%	0.06%	0.12%	0.12%	0.28%
Portfolio turnover rate <sup>(3)</sup>	280.86%	23.29%	144.42%	175.90%	67.67%
Net asset value per unit	\$24.43	\$25.04	\$20.29	\$22.60	\$20.12

(1) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period/year, including the First Trust ETF's proportionate share of the MER of any underlying fund in which the First Trust ETF has invested, and is expressed as an annualized percentage of daily average net asset value during the 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. This includes the First Trust ETF's proportionate share of the commissions of any underlying fund in which the First Trust ETF has invested.

(3) The First Trust ETF's portfolio turnover rate indicates how actively the First Trust ETF's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the First Trust ETF buying and selling all of the securities in its portfolio once in the course of the 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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# First Trust Dorsey Wright U.S. Sector Rotation Index ETF (CAD-Hedged)

## Management Report of Fund Performance

### For the year ended December 31, 2020

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#### Management Fees

The First Trust ETF will pay the Manager a management fee of 0.30% 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.

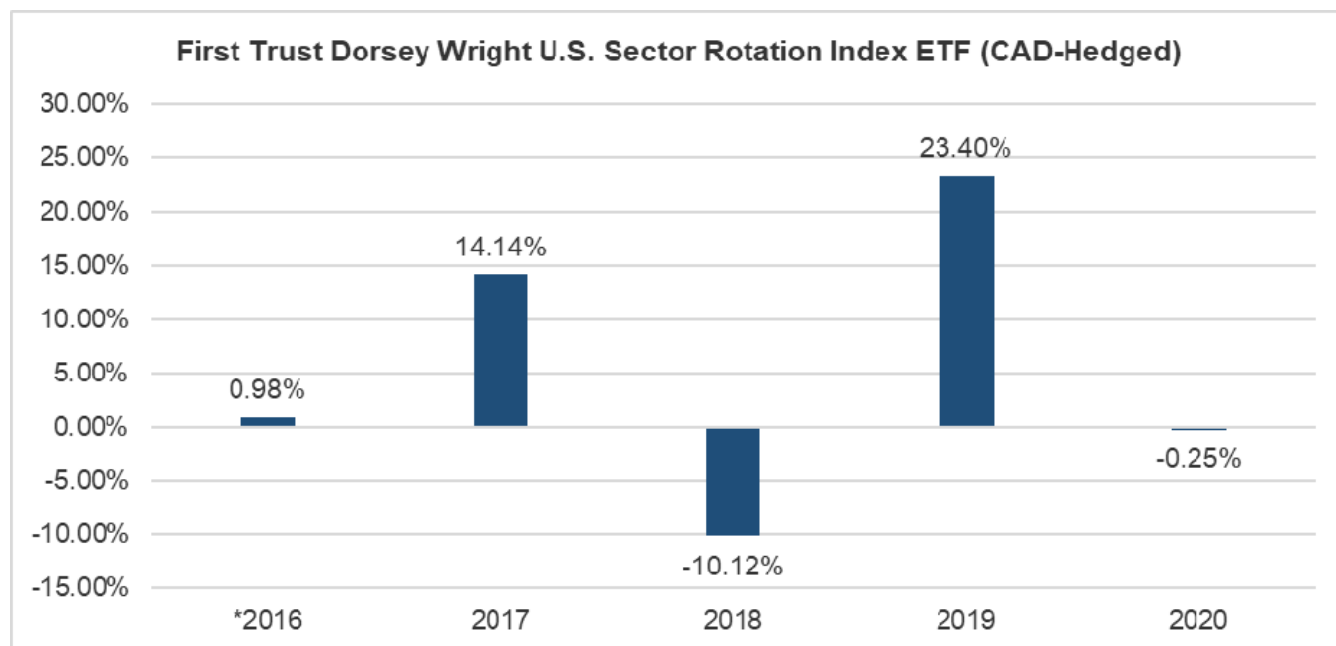
#### Past Performance

##### General

The past performance information shown assumes that all distributions made by the First Trust ETF in the period/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 for the years ended December 31, and for the period from commencement of operations to December 31, 2016 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: September 29, 2016



# First Trust Dorsey Wright U.S. Sector Rotation Index ETF (CAD-Hedged)

## Management Report of Fund Performance

### For the year ended December 31, 2020

#### 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, 2020. The annual compound return is compared to the returns of the relevant benchmark or reference index; however, the First Trust ETF's return is net of fees and expenses. See Results of Operations section of this report for further information regarding the current year performance of the First Trust ETF relative to the benchmark/index.

	1-year	3-year	Since Inception
First Trust Dorsey Wright U.S. Sector Rotation Index ETF (CAD-Hedged)	-0.25%	3.43%	5.88%
S&P 500® Index (CAD-Hedged)*	17.16%	12.99%	14.94%
Dorsey Wright® U.S. Sector Focus Five Index USD**	0.66%	4.69%	7.76%

\*Benchmark: S&P 500® Currency Hedged Indices are designed to represent the returns of index strategies that involve hedging currency risk while accepting underlying equity market risk. By employing such a strategy, the index seeks to reduce the risk of downward currency fluctuations while also sacrificing potential currency gains.

\*\*Reference Index: The Dorsey Wright® U.S. Sector Focus Five Index USD selects five exchange-traded funds from the First Trust Portfolios Canada product line that represent the highest ranked U.S. equity sectors based on Dorsey Wright's Relative Strength Tally Rankings. In instances where Relative Strength diminishes across sectors, the Index can gain varying amounts of exposure to the Nasdaq US T-Bill Index.

#### Summary of Investment Portfolio

The table below sets out the percentage (based on total net asset value) of the First Trust ETF's holdings as at December 31, 2020. This summary of portfolio holdings may change due to ongoing portfolio transactions of the First Trust ETF. Daily and quarterly updates are available at [www.firsttrust.ca](http://www.firsttrust.ca).

Holdings	% of ETF Total Net Asset Value
First Trust AlphaDEX™ U.S. Technology Sector Index ETF	20.46%
First Trust AlphaDEX™ U.S. Materials Sector Index ETF	20.17%
First Trust AlphaDEX™ U.S. Industrials Sector Index ETF	19.27%
First Trust AlphaDEX™ U.S. Health Care Sector Index ETF	18.97%
First Trust AlphaDEX™ U.S. Consumer Discretionary Sector Index ETF	18.89%
Cash and Cash Equivalents	2.32%
Other Assets, Less Liabilities	-0.08%
<b>Total</b>	<b>100.00%</b>

#### 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, 2020.

Sector Weightings	% of ETF Total Net Asset Value
Exchange-Traded Funds	97.76%
Cash and Cash Equivalents	2.32%
Other Assets, Less Liabilities	-0.08%
<b>Total</b>	<b>100.00%</b>

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[www.firsttrust.ca](http://www.firsttrust.ca)