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## First Trust Canadian Capital Strength ETF

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Interim Management Report of Fund Performance  
June 30, 2017

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# **INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE**

## **June 30, 2017**

### **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 3001, 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 period ended June 30, 2017

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## Investment Objective and Strategy

The fundamental investment objective of the **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.

There are two classes of units offered by the First Trust ETF:

- Common Class (TSX symbol: FST)
- Advisor Class (TSX symbol: FST.A)

The inception date of the strategy was November 30, 2001. The fund became an ETF on November 14, 2016.

## Risk

The First Trust ETF held 25 equity positions for the reporting period ending, June 30, 2017 and made no net change to the number of positions from the beginning of the period. Portfolio changes were made in March 2017 (3 positions added, 3 positions eliminated). The top ten equity holdings of the First Trust ETF at June 30, 2017 accounted for 43.27% of total NAV and the top ten equity holdings of the First Trust ETF at December 31, 2016 accounted for 41.30% of total NAV. Financials, Consumer Discretionary and Information Technology (in order) were the top three sector weightings at the end of the period, whereas Financials, Industrials and Information Technology (in order) were the top three weightings at the beginning of the period. Relative to its benchmark over the period, the First Trust ETF was overweight the Information Technology, Consumer Discretionary, and Industrials sectors and underweight the Energy, Utilities and Real Estate sectors. The sector positioning 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.

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# First Trust Canadian Capital Strength ETF Management Report of Fund Performance For the period ended June 30, 2017

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## **Results of Operations**

The First Trust ETF's total net asset value as of June 30, 2017 was \$43,909,072 or \$31.41 per Common Class unit and \$26.53 per Advisor Class unit. The First Trust ETF's total net asset value as of December 31, 2016 was \$41,833,415 or \$29.12 per Common Class unit and \$24.68 per Advisor Class unit.

For the period ended June 30, 2017, the First Trust ETF paid quarterly cash distributions per unit of \$0.0550 for FST and \$0.0220 FST.A on April 7, 2017.

For the period ended June 30, 2017, the First Trust ETF declared cash distributions per unit of \$0.0550 for FST and \$0.0217 for FST.A with payment date of July 10, 2017.

## **Investment Performance**

For the six months ended June 30, 2017, the First Trust ETF's Common Class securities returned 8.25% and Advisor Class securities returned 7.66% (before deducting fees and expenses paid by the First Trust ETF). These compare with the S&P/TSX Composite Index return of 0.74%. All index and series returns are calculated on a total return basis. Investors cannot invest in the index without incurring fees, expenses and commissions, which are not reflected in the index returns. The First Trust ETF's Advisor Class outperformed the benchmark for the period. Positive contribution to relative performance included an underweight allocation in the Energy sector versus the benchmark, stock selection within the Materials sector, and both stock selection and an overweight allocation with respect to the Information Technology sector. Negative contributions to relative performance came predominantly from stock selections within the Consumer Staples, Consumer Discretionary, and Financials sectors.

The top-performing stocks by contribution for the period were Kirkland Lake Gold Ltd., Kinaxis, Inc., CCL Industries Inc. Class B, and CAE Inc. These stocks returned +74.93%, +29.18%, +24.81%, and +19.97% respectively, in CAD, including dividends. The bottom-performing stocks by contribution for the period were Saputo Inc., Sun Life Financial Inc., and Great Canadian Gaming Corporation. These stocks returned -12.59%, -8.40% and -2.33% respectively, in CAD, including dividends.

Portfolio changes were made in March of 2017. There was no net change to the total number of portfolio positions over the period. In March, two positions, Gildan Activewear and Intact Financial, were eliminated failing to meet the initial screening criteria and Great-West Lifeco Inc. was removed at the portfolio manager's discretion. Three positions in Great Canadian Gaming Corp., Industrial Alliance Insurance and Financial Services Inc., and Winpak Ltd. were established to replace them.

## **Recent Developments**

The Canadian economy improved through the first half of 2017. A rise in major components of domestic demand has fueled GDP increases of 2.7%, 4.2% and 3.7% percent annualized Q3 2016, Q4 2016 and Q1 2017 GDP growth respectively. This is the strongest three-quarter stretch since 2010. The Bank of Canada has been able to achieve its inflation target of 1%-3% as monthly inflation rates remained between 1% and 2% each month since October of 2016. As a result of this, on July 12, 2017 the Central Bank of Canada raised its key rate for the first time in over 6 years.

Canada's equity market surged in the second half of 2016 before plateauing in the first half of 2017 with the S&P/TSX Composite Index barely positive on a total return basis for the covered period (January 1, 2017 – June 30, 2017). The S&P/TSX Financial Sector returned nearly 21%, on a trailing 12 month total return basis, most of which came in the 2nd half of 2016. The housing market was a key catalyst to success within financial sector over the past year as Canada's home price index reached an all-time high in June of 2017. The performance within Canadian financials overcame a May 2017 Moody's downgrade of the credit ratings of the big six Canadian banks. Moody's cited increased private sector debt and elevated home prices as reasons for the downgrade. We note current ratings are broadly equal to or higher than most global banks and market reaction to the downgrade was modest, with little impact on long-term funding costs and mortgage rates. The riskiness of Canadian home loans is slightly concerning as household debt-to-disposable income is at near-record levels. However, early 2017 data shows home loans have become more conservative after recent legislation and resulting more conservative lending practices. Despite these risks, the financial sector is positioned for future success as the Bank of Canada is expected to encourage higher

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## First Trust Canadian Capital Strength ETF Management Report of Fund Performance For the period ended June 30, 2017

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interest rates over the next year, which could provide for Canada's banks increasing their net interest margins in the upcoming year. The S&P/TSX Composite Energy Sector was negative over the covered period. Over the past year energy has been volatile as the sector rose more than 13% in the second half of 2016 before falling over -13% in the first half of 2017. Increased global supply has weighed on global crude energy prices and OPEC's agreement to curtail supply has not been enough to counter the resurgence of American shale production. We do recognize global demand for crude is strong and any potential supply disruption or sustained production declines could be a positive catalyst for crude oil prices.

In spite of the positive equity returns over the covered period concerns still loom. High household indebtedness, low oil prices, fear that the housing boom has become overextended, weak currency, and concerns of US tax and trade policies are potential headwinds for continued GDP growth in Canada. With household indebtedness near an aforementioned all-time high a decline in employment or wages could have a negative impact on consumers. The Canadian dollar was the second worst performing major currency in 2016 versus the US dollar, behind only Brazil, which is in the midst of political crisis. Concerns over US tax and trade policy are pertinent as the United States constitutes Canada's largest trade partner, making up 75% of exports, and any renegotiation of NAFTA could have negative implications for the Canadian economy.

We believe Canada has many positive attributes meriting investment and perceive potential upcoming catalysts for the Canadian economy to be continued low unemployment, increased consumption spending, and residential investment. The unemployment rate continues a consistent, downward trajectory, reaching 6.5% in June 2017 after beginning at 6.9% last July. Household consumption rose 4.3%, on an annualized basis in Q1 2017, representing the highest quarterly mark since 2010. Housing booms, largely in Toronto and Vancouver, have fueled residential investment and increased investment by business have helped expand the Canadian economy.

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 worlds most developed nations, but with less overall concentration in the three leading sectors (Financials, Energy and Materials represented roughly 70% of the sector weights for the S&P/TSX Composite Index over the period versus roughly 45% within the FST portfolio). It bears consideration that as of the end of the period there is no energy exposure within the portfolio primarily as a result of low returns on equity (RoE) being exhibited by companies.

### **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 period ended June 30, 2017

## 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 Fund was originally launched as an open-ended mutual fund on November 30, 2001, and converted into a TSX-listed ETF on November 18, 2016. The information is derived from the First Trust ETF's unaudited interim financial statements for the period ended June 30, 2017, for the period from July 1, 2016 to December 31, 2016, and annual financial statements for the fiscal years ending June 30.

### Net Asset Value per Unit – FST.A

	June 30, 2017	Dec. 31, 2016	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Net assets, beginning of period/ year <sup>(1)</sup>	\$24.68	\$21.74	\$23.67	\$23.01	\$17.85	\$15.86
Increase (Decrease) from operations:						
Total revenue	0.26	0.28	0.66	0.53	0.51	0.46
Total expenses	(0.23)	(0.29)	(0.60)	(0.64)	(0.56)	(0.47)
Realized gains (losses) for the period/year	0.94	1.05	(0.23)	1.70	2.20	0.05
Unrealized gains (losses) for the period/year	0.97	1.97	(1.90)	(0.82)	2.96	1.68
Total increase (decrease) from operations <sup>(2)</sup>	\$ 1.94	\$ 3.01	\$ (2.07)	\$ 0.77	\$ 5.11	\$ 1.72
Distributions:						
From income (excluding dividends)	-	-	-	-	-	-
From dividends	(0.04)	-	-	-	-	-
From capital gains	-	-	-	-	-	-
Return of capital	-	-	-	-	-	-
Total annual distributions <sup>(3)</sup>	\$(0.04)	\$ -	\$ -	\$ -	\$ -	\$ -
Net assets, end of period/year <sup>(4), (5)</sup>	\$26.53	\$24.68	\$21.74	\$23.67	\$23.01	\$17.82

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

(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 A units received 1 Advisor Class unit for each Series A unit held.

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

### Ratios and Supplemental Data – FST.A

	June 30, 2017	Dec. 31, 2016	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Net asset value (000's)	\$35,564	\$34,626	\$35,433	\$49,650	\$58,322	\$49,839
Number of units outstanding	1,302,854	1,402,854	1,630,111	2,097,763	2,534,908	2,791,651
Management expense ratio <sup>(1)</sup>	1.76%	2.41%	2.67%	2.66%	2.65%	2.58%
Management expense ratio before waivers or absorption	1.78%	2.41%	2.67%	2.66%	2.65%	2.58%
Trading expense ratio <sup>(2)</sup>	0.01%	0.04%	0.04%	0.03%	0.12%	0.12%
Portfolio turnover rate <sup>(3)</sup>	22.32%	26.70%	52.71%	62.79%	108.36%	106.14%
Net asset value per unit	\$26.53	\$24.68	\$21.74	\$23.67	\$23.01	\$17.85

(1) Management expense ratio is based on total expenses for the stated period 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.

# First Trust Canadian Capital Strength ETF Management Report of Fund Performance For the period ended June 30, 2017

## Net Asset Value per Unit – FST

	June 30, 2017	Dec. 31, 2016	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Net assets, beginning of period/year <sup>(1)</sup>	\$29.12	\$25.50	\$27.46	\$26.39	\$20.25	\$17.79
Increase (Decrease) from operations:						
Total revenue	0.31	0.34	0.77	0.61	0.59	0.52
Total expenses	(0.10)	(0.19)	(0.42)	(0.43)	(0.38)	(0.31)
Realized gains (losses) for the period/year	1.18	1.27	(0.26)	1.96	2.51	0.11
Unrealized gains (losses) for the period/year	0.93	2.20	(2.15)	(0.95)	3.37	1.71
Total increase (decrease) from operations <sup>(2)</sup>	\$ 2.32	\$ 3.62	\$ (2.06)	\$ 1.19	\$ 6.09	\$ 2.03
Distributions:						
From income (excluding dividends)	-	-	-	-	-	-
From dividends	(0.11)	-	-	-	-	-
From capital gains	-	-	-	-	-	-
Return of capital	-	-	-	-	-	-
Total annual distributions <sup>(3)</sup>	\$(0.11)	\$ -	\$ -	\$ -	\$ -	\$ -
Net assets, end of period/year <sup>(4),(5)</sup>	\$31.41	\$29.12	\$25.50	\$27.46	\$26.39	\$20.22

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

(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.

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

## Ratios and Supplemental Data – FST

	June 30, 2017	Dec. 31, 2016	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Net asset value (000's)	\$9,345	\$7,207	\$6,644	\$8,258	\$9,800	\$7,955
Number of units outstanding	297,534	247,534	260,571	300,783	371,308	392,808
Management expense ratio <sup>(1)</sup>	0.66%	1.29%	1.56%	1.54%	1.53%	1.45%
Management expense ratio before waivers or absorption	0.68%	1.29%	1.56%	1.54%	1.53%	1.45%
Trading expense ratio <sup>(2)</sup>	0.01%	0.04%	0.04%	0.03%	0.12%	0.12%
Portfolio turnover rate <sup>(3)</sup>	22.32%	26.70%	52.71%	62.79%	108.36%	106.14%
Net asset value per unit	\$31.41	\$29.12	\$25.50	\$27.46	\$26.39	\$20.25

(1) Management expense ratio is based on total expenses for the stated period 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.



# First Trust Canadian Capital Strength ETF Management Report of Fund Performance For the period ended June 30, 2017

## Management Fees

The First Trust ETF will pay the Manager a management fee equal to 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.

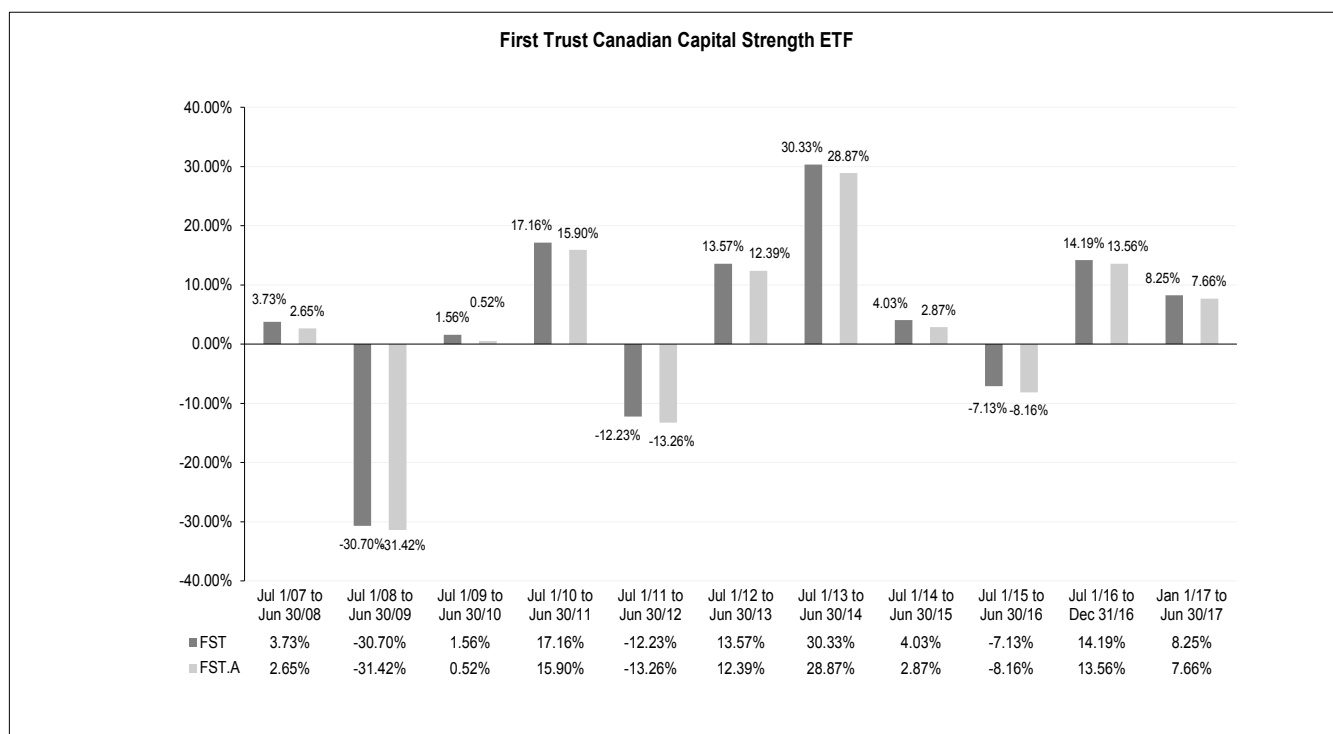
## Past Performance

### 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 six-month period ended June 30, 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.



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**First Trust Canadian Capital Strength ETF  
Management Report of Fund Performance  
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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, 2017. 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.	5.12%
CCL Industries Inc., Class 'B'	4.42%
CAE Inc.	4.38%
Kinaxis Inc.	4.34%
Winpak Ltd.	4.28%
Canadian National Railway Co.	4.23%
Canadian Pacific Railway Ltd.	4.17%
Linamar Corp.	4.12%
CGI Group Inc., Class 'A'	4.12%
Magna International Inc.	4.10%
Alimentation Couche-Tard Inc., Class 'B'	4.07%
Bank of Nova Scotia	3.90%
Toronto-Dominion Bank (The)	3.90%
Industrial Alliance Insurance and Financial Services Inc.	3.89%
BCE Inc.	3.86%
Great Canadian Gaming Corp.	3.80%
Royal Bank of Canada	3.80%
National Bank of Canada	3.79%
Canadian Tire Corp. Ltd., Class 'A'	3.76%
Bank of Montreal	3.73%
Sun Life Financial Inc.	3.73%
Celestica Inc.	3.58%
Canadian Imperial Bank of Commerce	3.53%
Open Text Corp.	3.50%
Saputo Inc.	3.50%
Cash	0.41%

**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, 2017.

Sector Weightings	% of ETF Net Asset Value
Financials	30.27%
Consumer Discretionary	15.78%
Information Technology	15.54%
Materials	13.82%
Industrials	12.78%
Consumer Staples	7.57%
Telecommunication Services	3.86%
Cash and Cash Equivalents	0.41%

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