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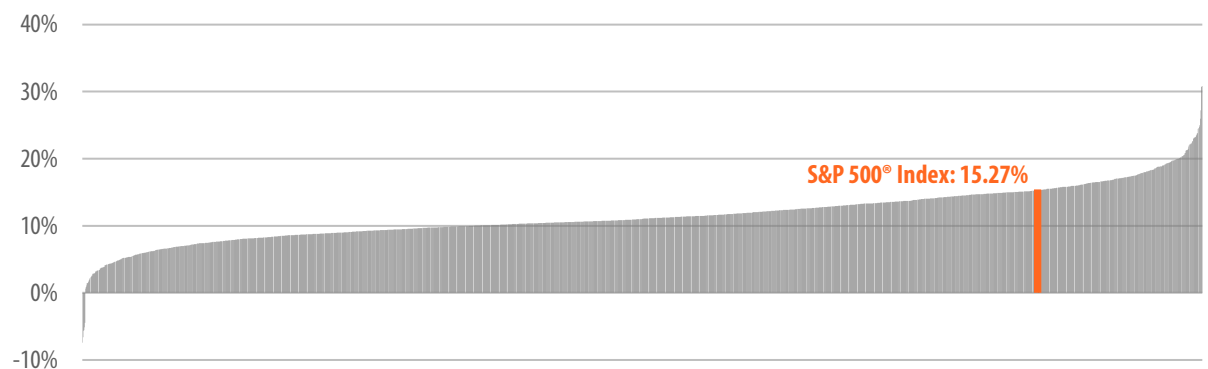
The Rise of Thematic ETFs

Thematic investing has emerged as a vital tool for investment professionals seeking to capitalize on the long-term growth potential of transformative, secular trends. Over the past decade, assets in thematic exchange-traded funds (ETFs) have increased nearly tenfold from \$23 billion to \$226 billion (30/9/15-30/9/25), according to Morningstar data. Below, we highlight some of the forces driving this adoption by financial professionals and portfolio managers, alongside practical considerations for integrating thematic investments into client portfolios.

In Pursuit of a Formidable Benchmark

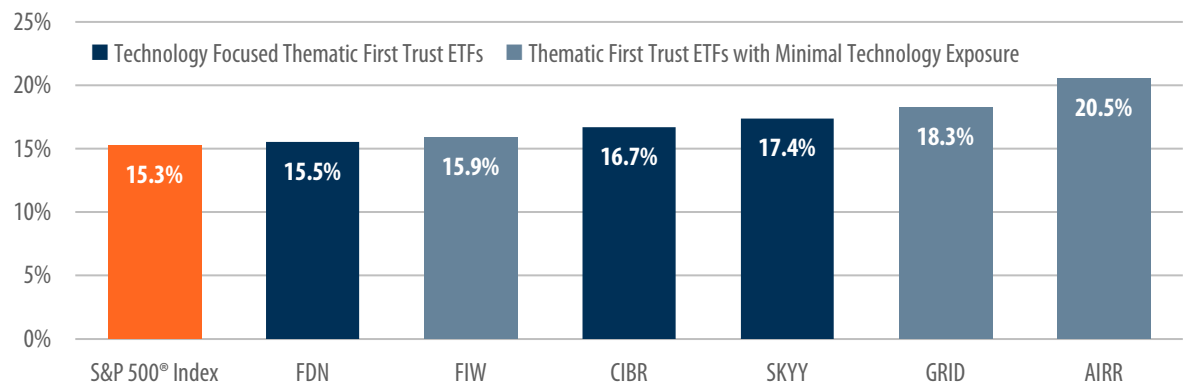
For the last several years, outperforming the S&P 500® Index has been a daunting challenge for investment professionals. According to Morningstar data, just 15% of U.S. equity and sector mutual funds and ETFs accomplished this feat over the decade ending 30/9/25 (Chart 1). Hence, the pursuit of outperformance underscores a key reason for the growing popularity of thematic ETFs, in our view. While there were certainly thematic ETFs that lagged over the past decade, there were also some notable outperformers. As one might expect, the latter group included several technology-focused themes, however, it also included a variety of thematic ETFs with minimal exposure to the technology sector (Chart 2).

Chart 1: U.S. Equity and Sector Mutual Funds and ETFs Annualized 10 Year Total Returns (30/9/25)



Source: Morningstar. Data as of 30/9/2025. **Past performance is no guarantee of future results.** Please see index definitions on the last page.

Chart 2: Annualized 10-Year Total Returns (30/9/25)



Performance data quoted represents past performance. Past performance is not a guarantee of future results and current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and shares when sold or redeemed, may be worth more or less than their original cost. You can obtain performance information which is current through the most recent month-end by visiting www.ftportfolios.jp.

You should consider the fund's investment objectives, risks, and charges and expenses carefully before investing. Contact First Trust Japan at www.ftportfolios.jp to obtain a prospectus which contains this and other information about the fund. The prospectus should be read carefully before investing.

References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

Technology-focused thematic First Trust ETFs that outperformed the S&P 500® Index over the past decade included:

- **First Trust Dow Jones Internet Index Fund (FDN)** is one of the oldest thematic ETFs in the industry (inception on 19/6/2006), tracking a portfolio of stocks classified as either “Internet Service” or “Internet Commerce.” FDN provides exposure to well-known incumbents like Amazon, Meta, Netflix, and Alphabet, as well as newer companies like Roblox and DoorDash.
- **First Trust Cloud Computing ETF (SKYY)** targets companies providing Infrastructure-as-a-Service (IaaS), Platform-as-a-Service (PaaS), and Software-as-a-Service (SaaS). SKYY includes allocations to several large technology stocks, such as IBM and Oracle, alongside newer companies like CoreWeave and AppLovin.
- **First Trust Nasdaq Cybersecurity ETF (CIBR)** provides exposure to companies providing cybersecurity hardware, software, and services, a critical need for today’s digital landscape. CIBR holds “pure play” cybersecurity companies that derive most of their revenue from cybersecurity products and services, such as Cloudflare and Okta, as well as a few large technology companies with significant cybersecurity solutions, such as Broadcom and Cisco.

Thematic First Trust ETFs with minimal technology exposure that outperformed the S&P 500® Index over the past decade:

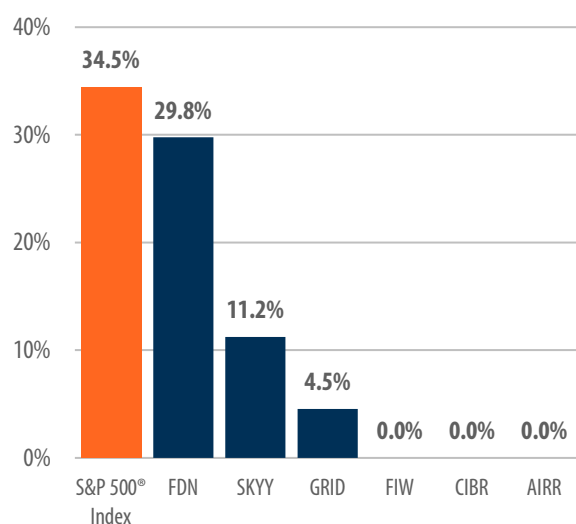
- **First Trust RBA American Industrial Renaissance® ETF (AIRR)** focuses on the reindustrialization of the U.S. economy, allocating to profitable small- and mid-cap US industrial stocks that generate at least 75% of sales domestically, as well as a small allocation to US regional banks (capped at 10%). Several holdings have benefitted from a surge in the construction of new factories and data centers in the US over the past few years.
- **First Trust NASDAQ® Clean Edge® Smart Grid Infrastructure Index Fund (GRID)** invests in companies involved in the modernization and expansion of power grids around the world. According to Bloomberg estimates, cumulative spending on power grids may total \$15.8 trillion globally from 2025-2050.
- **First Trust Water ETF (FIW)** targets companies that generate significant revenue from the potable and wastewater industry, ranging from water quality testing equipment to meters, valves, pumps, and pipes. In addition to residential water infrastructure, industrial demand for water has become an important driver of growth in recent years.

Expanding Growth Exposure (Beyond the Magnificent 7)

Another attractive feature of thematic ETFs, in our view, is the differentiated exposure many provide compared to traditional benchmark indices. For example, as of 30/9/25, the S&P 500® Index allocated 34.5% to the so-called “Magnificent 7” (Mag 7) stocks, while these same stocks accounted for an even higher 47.8% weighting in the S&P 500 Growth® Index.¹ Many investors concerned about doubling down on these stocks have found thematic ETFs with little or no Mag 7 exposure—including CIBR, AIRR, GRID, and FIW—to be compelling options (Chart 3).

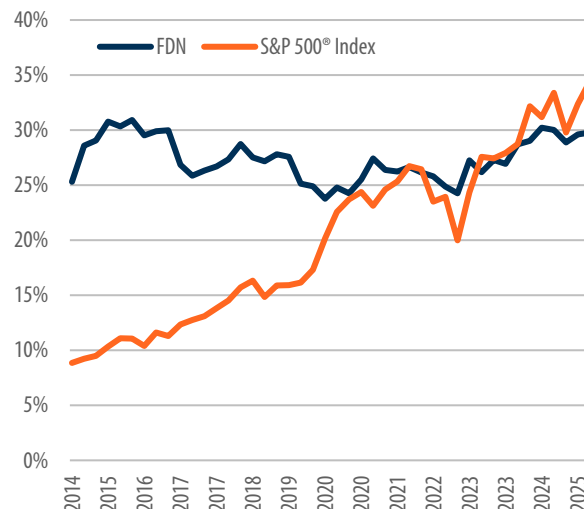
One thematic ETF from the list above that does have significant Mag 7 exposure is FDN, with roughly 30% allocated to three of these stocks, as of 30/9/25. FDN provides a historical illustration of the benefits of gaining exposure to certain secular growth stocks before they become well-represented in broad market indices. At the end of 2014, when the Mag 7 stocks constituted around 9% of the S&P 500, FDN already had over 25% of its portfolio allocated to some of these stocks. Since then, it has maintained a significant weight as these names have grown more prominent in the S&P 500® Index (Chart 4).

Chart 3: Weight to the Magnificent 7 (30/9/2025)



Source: Bloomberg. Data as of 30/9/2025.

Chart 4: Weight to the Magnificent 7: FDN vs. S&P 500® Index



Source: Bloomberg. Data as of 30/9/2025.

¹Magnificent 7 companies include Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla.

First Trust ETF holdings data is as of 30/9/25 and subject to change.

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Principles of Thematic Investing

In our opinion, human behavior often sabotages the potential of thematic investing. Common pitfalls include attempting to time the market, misunderstanding the role of thematic ETFs within broader portfolios, excessive (or insufficient) risk taking, and concentrating too much on highly correlated themes. Below, we offer practical considerations for thematic investors to help avoid these costly mistakes.

- **Clarify Investment Thesis and Time Horizon** – In our view, a well-defined investment thesis and time horizon forms the bedrock of successful thematic investing, guiding decisions and limiting behavioral errors. Shifting market forces and new technological developments may also require periodic reassessments of a theme's growth drivers and outlook. Investors chasing quick gains from long-term themes may face disappointment if performance is slow to materialize. By establishing clear entry and exit points that are aligned with a theme's timeline, investors may avoid behavioral traps like impulsive market timing or premature exits.
- **Analyze Sector Biases and Other Tilts** – Thematic ETFs can sometimes introduce unexpected sector or regional biases that may undermine an investor's overall asset allocation if not carefully evaluated. By analyzing ETFs' underlying holdings, and considering their impact on portfolio allocations, financial professionals may avoid over-concentration or misaligned asset allocation.
- **Balance Risk and Return** – Thematic ETFs that are designed to capture dynamic, high-growth opportunities often call for careful risk management. One strategy for balancing potentially riskier thematic ETFs within an asset allocation is to pair them with lower-beta funds, such as First Trust's Target Outcome ETFs®, which provide reduced market risk and some downside protection. This balanced approach may help investors pursue growth while maintaining a level of risk that is aligned with portfolio objectives.
- **Diversify Excess Returns** – While innovations in information technology, such as artificial intelligence (AI), cloud computing, and cybersecurity, drive many secular growth trends, the potential for above-average returns also exists for other themes like water infrastructure and biotechnology. Broad market factors, like economic slowdowns or rising interest rates, may impact all themes, but distinct drivers shape various themes differently. For example, AI and robotics may thrive on productivity gains, water infrastructure on aging pipes and rising industrial water demand, and biotechnology on scientific breakthroughs, regulatory decisions, and M&A activity—each with varying correlations to broader markets. By diversifying across themes with uncorrelated drivers, investors can potentially enhance returns while avoiding over-concentration in one sector.

In our view, the U.S. equity market's strong performance over the past several years has largely come from the flourishing of powerful themes, such as the internet, cloud computing, and more recently, artificial intelligence. As a result, the winners of the past decade comprise a large allocation in broad market benchmarks. But a key question for forward-thinking investors is: which themes and stocks will drive growth over the next decade, yet currently have minimal exposure in broad indices? Time will tell, but we believe thematic ETFs are useful tools for investors seeking to gain exposure to some of tomorrow's market leaders.

References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

Performance Summary (%) as of 30/9/25

AIRR Performance*	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	SFI
Net Asset Value (NAV)	18.84	25.84	30.04	36.63	30.60	20.51	14.89
Market Price	18.84	25.84	29.91	36.58	30.60	20.53	14.89
Index Performance**							
Richard Bernstein Advisors American Industrial Renaissance® Index	19.07	26.57	31.05	37.67	31.58	21.39	15.76
S&P 500® Industrials Index	5.02	18.38	15.69	25.12	16.82	13.79	11.68
Russell 2500™ Index	9.00	9.48	10.16	15.65	12.09	10.52	8.77
S&P 500® Index	8.12	14.83	17.60	24.94	16.47	15.30	13.64

AIRR Inception Date: 10/3/2014. Total Expense Ratio: 0.70%. The Investment Advisor has implemented fee breakpoints, which reduce the fund's investment management fee at certain assets levels. Please see the fund's Statement of Additional Information for full details.

Performance data quoted represents past performance. Past performance is not a guarantee of future results and current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and shares when sold or redeemed, may be worth more or less than their original cost. You can obtain performance information which is current through the most recent month-end by visiting www.ftportfolios.jp.

SFI = Since Fund Inception

*NAV returns are based on the fund's net asset value which represents the fund's net assets (assets less liabilities) divided by the fund's outstanding shares. **Market Price** returns are determined by using the midpoint of the national best bid offer price ("NBBO") as of the time that the fund's NAV is calculated. Returns are average annualized total returns, except those for periods of less than one year, which are cumulative.

**Performance information for each listed index is for illustrative purposes only and does not represent actual fund performance. Indexes do not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Indexes are unmanaged and an investor cannot invest directly in an index.

Performance Summary (%) as of 30/9/25

CIBR Performance*	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	SFI
Net Asset Value (NAV)	0.60	19.99	28.49	25.84	17.35	16.70	14.55
Market Price	0.61	19.96	28.66	25.89	17.35	16.71	14.56
Index Performance**							
Nasdaq CTA Cybersecurity™ Index	0.76	20.55	29.30	26.65	18.12	17.52	15.35
S&P Composite 1500® Information Technology Index	13.18	21.92	27.70	39.62	23.07	24.76	23.57
S&P 500® Index	8.12	14.83	17.60	24.94	16.47	15.30	14.15

CIBR Inception Date: 6/7/2015. Total Expense Ratio: 0.59%. The Investment Advisor has implemented fee breakpoints, which reduce the fund's investment management fee at certain assets levels. Please see the fund's Statement of Additional Information for full details.

FDN Performance*	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	SFI
Net Asset Value (NAV)	3.93	14.97	32.07	30.41	8.25	15.52	14.69
Market Price	3.93	14.92	32.02	30.40	8.25	15.53	14.69
Index Performance**							
Dow Jones Internet Composite Index SM	4.06	15.41	32.76	31.04	8.79	16.14	15.30
S&P Composite 1500® Information Technology Index	13.18	21.92	27.70	39.62	23.07	24.76	17.31
S&P 500® Index	8.12	14.83	17.60	24.94	16.47	15.30	11.27

FDN Inception Date: 19/6/06. Total Expense Ratio: 0.49%. Net Expense Ratio: 0.49%. Expenses are capped contractually at 0.60% per year, at least through April 30, 2026. The Investment Advisor has implemented fee breakpoints, which reduce the fund's investment management fee at certain assets levels. Please see the fund's Statement of Additional Information for full details

FIW Performance*	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	SFI
Net Asset Value (NAV)	4.06	10.58	3.56	16.96	13.93	15.88	10.66
Market Price	4.07	10.54	3.57	16.92	13.94	15.88	10.66
Index Performance**							
ISE Clean Edge Water™ Index	4.22	11.03	4.12	17.62	14.69	16.57	11.36
Russell 3000® Index	8.18	14.40	17.41	24.12	15.74	14.71	10.31

FIW Inception Date: 8/5/2007. Total Expense Ratio: 0.51%. Net Expense Ratio: 0.51%. Expenses are capped contractually at 0.60% per year, at least through April 30, 2026.

GRID Performance*	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	SFI
Net Asset Value (NAV)	8.90	27.34	20.08	27.51	20.41	18.27	11.92
Market Price	8.85	27.79	20.04	27.67	20.44	18.36	11.93
Index Performance**							
Nasdaq Clean Edge Smart Grid Infrastructure™ Index	9.33	28.08	20.84	28.11	21.26	19.18	12.80
MSCI World Industrials Index	4.70	23.11	17.64	26.45	14.89	12.31	10.77
Russell 3000® Index	8.18	14.40	17.41	24.12	15.74	14.71	13.83
S&P Composite 1500® Industrials Index	5.62	17.13	14.84	24.91	17.11	14.00	13.58

GRID Inception Date: 16/11/2009. Total Expense Ratio: 0.56%. Net Expense Ratio: 0.56%. Expenses are capped contractually at 0.70% per year, at least through January 31, 2026.

SKYY Performance*	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	SFI
Net Asset Value (NAV)	10.49	12.87	31.34	30.62	11.58	17.36	14.57
Market Price	10.52	12.86	31.37	30.61	11.59	17.37	14.57
Index Performance**							
ISE CTA Cloud Computing™ Index	10.68	13.41	32.18	31.44	12.25	18.01	15.23
S&P Composite 1500® Information Technology Index	13.18	21.92	27.70	39.62	23.07	24.76	21.02
S&P 500® Index	8.12	14.83	17.60	24.94	16.47	15.30	14.08

SKYY Inception Date: 5/7/11. Total Expense Ratio: 0.60%. The Investment Advisor has implemented fee breakpoints, which reduce the fund's investment management fee at certain assets levels. Please see the fund's Statement of Additional Information for full details.

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**Performance information for each listed index is for illustrative purposes only and does not represent actual fund performance. Indexes do not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Indexes are unmanaged and an investor cannot invest directly in an index.

Risk Considerations

You could lose money by investing in a fund. An investment in a fund is not a deposit of a bank and is not insured or guaranteed. There can be no assurance that a fund's objective(s) will be achieved. Investors buying or selling shares on the secondary market may incur customary brokerage commissions. Please refer to each fund's prospectus for additional details on a fund's risks. The order of the below risk factors does not indicate the significance of any particular risk factor.

Unlike mutual funds, shares of the fund may only be redeemed directly from a fund by authorized participants in very large creation/redemption units. If a fund's authorized participants are unable to proceed with creation/redemption orders and no other authorized participant is able to step forward to create or redeem, fund shares may trade at a premium or discount to a fund's net asset value and possibly face delisting and the bid/ask spread may widen.

The risks related to investing in cloud computing companies include interruptions or delays in service, security breaches involving sensitive, proprietary and confidential information, privacy concerns and laws, and other regulations that may limit or otherwise affect the operations of such companies.

Communication services companies are subject to certain risks, which may include rapidly changing technologies, short product life cycles, fierce competition, aggressive pricing and reduced profit margins, loss of patent, copyright and trademark protections, cyclical market patterns, evolving industry standards, often unpredictable changes in consumer tastes and frequent new product introductions. Such companies are particularly vulnerable to domestic and international government regulation, rely heavily on intellectual property rights, and may be adversely affected by the loss or impairment of those rights.

Community banks were significantly impacted by the decline in the subprime mortgage lending market in the U.S. which brought about legislative and regulatory changes, changes in short-term and long-term interest rates, inflation and changes in government monetary and fiscal policies. Unlike larger national or other regional banks that are more geographically diversified, a community bank's financial performance may be highly dependent upon the business environment in certain geographic regions of the U.S. and may be adversely impacted by any downturn or unfavorable economic or employment developments in its local market and the U.S. as a whole.

The success of consumer discretionary companies is tied closely to the performance of the overall U.S. and international economies, interest rates, competition, consumer confidence, disposable household income and consumer spending. Changes in demographics and consumer tastes can also affect the demand for consumer discretionary products.

Changes in currency exchange rates and the relative value of non-US currencies may affect the value of a fund's investments and the value of a fund's shares.

Current market conditions risk is the risk that a particular investment, or shares of the fund in general, may fall in value due to current market conditions. For example, changes in governmental fiscal and regulatory policies, disruptions to banking and real estate markets, actual and threatened international armed conflicts and hostilities, and public health crises, among other significant events, could have a material impact on the value of the fund's investments.

A fund is susceptible to operational risks through breaches in cyber security. Such events could cause a fund to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures and/or financial loss.

Information technology companies and cyber security companies are generally subject to the risks of rapidly changing technologies, short product life cycles, fierce competition, aggressive pricing and reduced profit margins, loss of patent, copyright and trademark protections, cyclical market patterns, evolving industry standards and frequent new product introductions. Cyber security companies may also be smaller and less experienced companies, with limited product lines, markets, qualified personnel or financial resources.

Depository receipts may be less liquid than the underlying shares in their primary trading market and distributions may be subject to a fee. Holders may have limited voting rights, and investment restrictions in certain countries may adversely impact their value.

Equity securities may decline significantly in price over short or extended periods of time, and such declines may occur in the equity market as a whole, or they may occur in only a particular country, company, industry or sector of the market.

Political or economic disruptions in European countries, even in countries in which a fund is not invested, may adversely affect security values and thus the fund's holdings. A significant number of countries in Europe are member states in the European Union, and the member states no longer control their own monetary policies. In these member states, the authority to direct monetary policies, including money supply and official interest rates for the Euro, is exercised by the European Central Bank. The implications of the United Kingdom's withdrawal from the European Union are difficult to gauge and cannot yet be fully known.

An index fund will be concentrated in an industry or a group of industries to the extent that the index is so concentrated. A fund with significant exposure to a single asset class, or the securities of issuers within the same country, state, region, industry, or sector may have its value more affected by an adverse economic, business or political development than a broadly diversified fund.

A fund may be a constituent of one or more indices or models which could greatly affect a fund's trading activity, size and volatility.

There is no assurance that the index provider or its agents will compile or maintain the index accurately. Losses or costs associated with any index provider errors generally will be borne by a fund and its shareholders.

Industrials and producer durables companies are subject to certain risks, including the general state of the economy, intense competition, consolidation, domestic and international politics, excess capacity and consumer demand and spending trends. They may also be significantly affected by overall capital spending levels, economic cycles, technical obsolescence, delays in modernization, labor relations, and government regulations.

Information technology companies are subject to certain risks, including rapidly changing technologies, short product life cycles, fierce competition, aggressive pricing and reduced profit margins, loss of patent, copyright and trademark protections, cyclical market patterns, evolving industry standards and regulation and frequent new product introductions.

Many internet companies have incurred large losses since their inception and may continue to incur large losses in the hope of capturing market share and generating future revenues. Accordingly, many such companies expect to incur significant operating losses for the foreseeable future, and may never be profitable.

Large capitalization companies may grow at a slower rate than the overall market.

Market risk is the risk that a particular security, or shares of a fund in general may fall in value. Securities are subject to market fluctuations caused by such factors as general economic conditions, political events, regulatory or market developments, changes in interest rates and perceived trends in securities prices. Shares of a fund could decline in value or underperform other investments as a result. In addition, local, regional or global events such as war, acts of terrorism, spread of infectious disease or other public health issues, recessions, natural disasters or other events could have significant negative impact on a fund.

A fund faces numerous market trading risks, including the potential lack of an active market for fund shares due to a limited number of market makers. Decisions by market makers or authorized participants to reduce their role or step away in times of market stress could inhibit the effectiveness of the arbitrage process in maintaining the relationship between the underlying values of a fund's portfolio securities and a fund's market price.

An index fund's return may not match the return of the index for a number of reasons including operating expenses, costs of buying and selling securities to reflect changes in the index, and the fact that a fund's portfolio holdings may not exactly replicate the index.

A fund classified as "non-diversified" may invest a relatively high percentage of its assets in a limited number of issuers. As a result, a fund may be more susceptible to a single adverse economic or regulatory occurrence affecting one or more of these issuers, experience increased volatility and be highly concentrated in certain issuers.

Securities of non-U.S. issuers are subject to additional risks, including currency fluctuations, political risks, withholding, lack of liquidity, lack of adequate financial information, and exchange control restrictions impacting non-U.S. issuers.

A fund and a fund's advisor may seek to reduce various operational risks through controls and procedures, but it is not possible to completely protect against such risks. The fund also relies on third parties for a range of services, including custody, and any delay or failure related to those services may affect the fund's ability to meet its objective.

A fund that invests in securities included in or representative of an index will hold those securities regardless of investment merit and the fund generally will not take defensive positions in declining markets.

High portfolio turnover may result in higher levels of transaction costs and may generate greater tax liabilities for shareholders.

The market price of a fund's shares will generally fluctuate in accordance with changes in the fund's net asset value ("NAV") as well as the relative supply of and demand for shares on the exchange, and a fund's investment advisor cannot predict whether shares will trade below, at or above their NAV.

Securities of small- and mid-capitalization companies may experience greater price volatility and be less liquid than larger, more established companies.

Smart grid companies can be negatively affected by high costs of research and development, high capital requirements for implementation, government regulations, limited ability of industrial and utility companies to implement new technologies and uncertainty of the ability of new products to penetrate established industries.

Trading on an exchange may be halted due to market conditions or other reasons. There can be no assurance that a fund's requirements to maintain the exchange listing will continue to be met or be unchanged.

In China, direct ownership of companies in certain sectors by foreign individuals and entities is prohibited. In order to allow for foreign investment in these businesses, many Chinese companies have created variable interest entities ("VIEs") structures to enable indirect foreign ownership. VIEs are not formally recognized under Chinese law. Intervention by the Chinese government with respect to VIEs could significantly affect the Chinese company's performance and the enforceability of the VIE's contractual arrangements that establish the links between the Chinese company and the shell company in which the Fund invests. VIEs are also subject to the investment risks associated with the underlying Chinese issuer or operating company. Chinese companies are not subject to the same degree of regulatory requirements or accounting standards and oversight as companies in more developed countries. As a result, information about the Chinese securities and VIEs in which the Fund invests may be less reliable and incomplete.

Risks continue on the following page

Risk Considerations (continued)

Water companies can be significantly affected by the availability of water, the level of rainfall and the occurrence of other climatic and environmental events, changes in water consumption and water conservation. Water companies may also be negatively affected by changes in governmental regulation and spending, technological advances and increases in inflation, interest rates or the cost of raw materials. Water companies may be subject to liability for environmental damage, depletion of resources, conflicts with local communities over water rights and mandated expenditures for safety and pollution control.

First Trust Advisors L.P. is the adviser to the fund. First Trust Advisors L.P. is an affiliate of First Trust Portfolios L.P., the fund's distributor. First Trust Japan is the fund's sub-distributor.

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Definitions

The **MSCI World Industrials Index** is a free float-adjusted market capitalization-weighted index that is designed to measure the industrials sector performance of 23 developed markets around the world.

The **Russell 2500™ Index** is an unmanaged market-cap weighted index that includes the smallest 2,500 companies from the Russell 3000 Index.

The **Russell 3000® Index** is comprised of the 3000 largest and most liquid stocks based and traded in the U.S.

The **S&P 500® Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance.

The **S&P 500® Growth Index** contains those securities with growth characteristics from the S&P 500 Index.

The **S&P 500® Industrials Index** is an unmanaged index which includes the stocks in the industrials sector of the S&P 500 Index.

The **S&P Composite 1500® Industrials Index** is a capitalization-weighted index of companies classified by GICS as industrials within the S&P Composite 1500 Index.

The **S&P Composite 1500® Information Technology Index** is a capitalization-weighted index of companies classified by GICS as information technology within the S&P Composite 1500 Index.