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First Trust AlphaDEX™ European Dividend Index ETF  
(CAD-Hedged)

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Annual Management Report of Fund Performance  
December 31, 2017

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# **ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

## **December 31, 2017**

### **First Trust AlphaDEX™ European Dividend Index ETF (CAD-Hedged)** **(the “First Trust ETF”)**

This annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the First Trust ETF. All references to dollars contained herein are to Canadian dollars.

Securityholders may also contact us to request a copy of the First Trust ETF's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosures relating to the First Trust ETF by calling 1-877-622-5552, by writing to us at FT Portfolios Canada Co., 40 King Street West, Suite 5102, Scotia Plaza, Box 312, Toronto, Ontario M5H 3Y2 or by visiting our web site at [www.firsttrust.ca](http://www.firsttrust.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward Looking Statements**

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent beliefs regarding future events. By their nature, forward-looking statements are based on assumptions and are subject to inherent risks and uncertainties. There is significant risk that forward-looking statements will not prove to be accurate. Readers of this document should not place undue reliance on forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the expectations, estimates or intentions expressed or implied in the forward-looking statements. These factors include but are not limited to market and general economic conditions, interest rates, foreign currency exchange rates, the extent of industry sector exposure, the performance of the securities of the issuers held in the portfolio and regulatory developments and the risks detailed in the First Trust ETF's prospectus. The Manager does not undertake and specifically disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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# First Trust AlphaDEX™ European Dividend Index ETF (CAD-Hedged)

## Management Report of Fund Performance

### For the year ended December 31, 2017

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

The fundamental investment objective of **First Trust AlphaDEX™ European Dividend Index ETF (CAD-Hedged)** (the “First Trust ETF”) is to replicate, to the extent possible, the performance of the AlphaDEX™ European Dividend Index (the “Index”), net of expenses. The AlphaDEX™ European Dividend Index results from applying the AlphaDEX™ methodology to a universe of ADRs of European companies that are listed on the NYSE, NYSE Market and NASDAQ exchanges.

The investment strategy of the First Trust ETF is to invest in and hold a proportionate share of the constituent securities of the Index, or other securities, to seek to replicate the performance of the Index. The Index seeks to provide a risk managed, global income portfolio which generates a high yield for the risk taken and consists of liquid income-bearing exchange traded funds and other exchange traded products across various asset classes. The First Trust ETF may also hold cash and cash equivalents or other money market instruments to fund current liabilities.

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.

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

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

The inception date of the First Trust ETF was February 4, 2014.

#### **Risk**

The portfolio held 42 equity securities at the end of the reporting period. The top ten equity holdings accounted for 39.79% of the portfolio. Financials, Information Technology, and Energy were the top three sector weightings at the beginning of the reporting period. At the end of the period, the top sector weightings remained the same. The AlphaDEX™ stock selection process is a rules-based process and can result in sector weightings that differ from that of the benchmark. The First Trust ETF uses a base universe of stocks that pay dividends. The ability of the company to pay a dividend in the future is dependent on factors that are not controlled by fund management. A company held in the First Trust ETF may, at any time, decide to cut or eliminate its dividend payment. During the year the fund added 6 holdings and removed 5. At the end of the period Energy, Information Technology, and Telecommunication Services holdings were the most overweight positions relative to the benchmark. Industrials, Consumer Staples, and Consumer Discretionary were the most underweight sectors relative to the benchmark at the end of the period. At the beginning of the period, the top three overweight sectors were Information Technology, Energy, and Telecommunication Services. The most underweight sectors at the beginning of the period were Consumer Staples, Consumer Discretionary, and Industrials. Given the First Trust ETF employs a currency hedging strategy (GBP/CAD, EUR/CAD, CHF/CAD) to minimize the impact of changes in the exchange rates of hedged currencies, and considering that the portfolio continues to seek to replicate the AlphaDEX™ European Dividend Index, we conclude there was no material change to the risk profile of the First Trust ETF.

#### **Results of Operations**

The First Trust ETF's total net asset value as of December 31, 2017 was \$26,827,167 or \$23.33 per Common Class unit and \$23.34 per Advisor Class unit. The First Trust ETF's total net asset value as of December 31, 2016 was \$28,106,584 or \$21.62 per Common Class unit and \$21.63 per Advisor Class unit.

For the year ended December 31, 2017, the First Trust ETF paid total cash distributions per unit of 0.7429 for EUR and \$0.4875 for EUR.A.

For the year ended December 31, 2017, the First Trust ETF declared cash distributions per unit of \$0.0700 for EUR and \$0.0485 for EUR.A with payment date of January 8, 2018.

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# First Trust AlphaDEX™ European Dividend Index ETF (CAD-Hedged)

## Management Report of Fund Performance

### For the year ended December 31, 2017

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#### **Investment Performance**

The First Trust ETF's Common Class units returned 11.45% and the Advisor Class units returned 10.24% for the year ended December 31, 2017. This compares with the MSCI Europe Index in local currency (the "benchmark") return of 13.06%. Unlike the benchmark, the First Trust ETF's returns are net of fees and expenses.

Stock selection and an overweight position in the Information Technology sector was the largest positive contributor to relative performance. Materials and Consumer Staples also contributed to relative return versus the benchmark during the period. Stock selection and an overweight position in Telecommunication Services holdings were a drag on relative performance versus the benchmark. An overweight position in Energy holdings also hurt relative performance. Financials and Industrials stocks were also a drag on relative performance due to selection and allocation, respectively.

The top five stocks by contribution to return were STMicroelectronics NV ADR RegS, NICE Ltd Sponsored ADR, CRH Plc Sponsored ADR, Logitech International S.A., Carnival plc Sponsored ADR. The bottom five stocks by contribution to return were Nokia Oyj Sponsored ADR, Credit Suisse Group AG Sponsored ADR, Telefonica SA Sponsored ADR, Teva Pharmaceutical Industries Limited Sponsored ADR, and Unilever NV ADR

The currency hedging strategy was unfavorable to the First Trust ETF. Only the US Dollar hedge was positive during the period. The Euro, Swiss Franc, British Pound, all appreciated versus the Canadian dollar.

#### **Recent Developments**

During the year, the First Trust ETF added 6 positions and removed 5 positions. The changes were made by applying the quantitative AlphaDEX™ selection methodology to a universe of European market dividend paying stocks.

The dividend yield on the MSCI Europe, the broad benchmark, decreased slightly during the first half of the year, while the First Trust ETF dividend yield increased after the rebalance in June. The fund yield was higher after the December rebalance as well. The yield of the fund was higher than the MSCI Europe Index throughout the reporting period. The MSCI Europe Index is made up of European stocks that may or may not pay a dividend, while the First Trust ETF only includes stocks that pay a dividend. European equities had positive momentum month-to-month in the first five months of the year, retracted during the summer, and finished higher at the end of the year. The dividend focus of the fund results in a value tilt versus the benchmark. Growth stocks outperformed value stocks during the year causing the underperformance of the fund versus the benchmark during the period.

#### **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 AlphaDEX™ European Dividend Index ETF (CAD-Hedged)**  
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**For the year ended December 31, 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 four years. The date of inception of the First Trust ETF was February 4, 2014. The information are derived from the First Trust ETF's audited annual financial statements for the years ended December 31 and for the period from since inception to December 31, 2014.

**Net Asset Value per Unit – EUR**

	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014 <sup>(a)</sup>
Net asset value, beginning of period/year <sup>(1)</sup>	\$21.62	\$19.63	\$19.82	\$20.00 <sup>(b)</sup>
Increase (Decrease) from operations:				
Total revenue	0.92	0.74	0.82	0.88
Total expenses	(0.27)	(0.25)	(0.23)	(0.22)
Realized gains (losses) for the period/year	1.17	0.61	(2.24)	0.58
Unrealized gains (losses) for the period/year	0.62	0.87	0.96	(2.02)
Total increase (decrease) from operations <sup>(2)</sup>	\$2.44	\$1.97	\$(0.69)	\$(0.78)
Distributions:				
From income (excluding dividends)	(0.64)	(0.59)	(0.50)	(0.50)
From dividends	-	-	-	-
From capital gains	-	-	-	(0.80)
Return of capital	(0.10)	-	(0.05)	(0.01)
Total annual distributions <sup>(3)</sup>	\$(0.74)	\$(0.59)	\$(0.55)	\$(1.31)
Net asset value, end of period/year <sup>(4)</sup>	\$23.33	\$21.62	\$19.63	\$19.82

(a) December 31, 2014 does not relate to the full year as the date of inception of the First Trust ETF was February 4, 2014.

(b) Initial offering price

(1) This information is provided as at December 31 of the years/period 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 either paid in cash or reinvested in additional units of the First Trust ETF.

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

**Ratios and Supplemental Data – EUR**

	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
Net asset value (000's)	\$23,886	\$26,463	\$34,740	\$24,182
Number of units outstanding	1,024,022	1,224,001	1,770,000	1,220,000
Management expense ratio <sup>(1)</sup>	0.67%	0.67%	0.68%	0.66%
Management expense ratio before waivers or absorption	0.89%	0.89%	0.90%	0.69%
Trading expense ratio <sup>(2)</sup>	0.09%	0.12%	0.08%	0.07%
Portfolio turnover rate <sup>(3)</sup>	95.06%	94.41%	112.62%	117.14%
Net asset value per unit	\$23.33	\$21.62	\$19.63	\$19.82

(1) Management expense ratio is based on total expenses 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.

**First Trust AlphaDEX™ European Dividend Index ETF (CAD-Hedged)**  
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**Net Asset Value per Unit – EUR.A**

	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014 <sup>(a)</sup>
Net asset value, beginning of period/year <sup>(1)</sup>	\$21.63	\$19.63	\$19.82	\$20.00 <sup>(b)</sup>
Increase (Decrease) from operations:				
Total revenue	0.93	0.74	0.92	0.95
Total expenses	(0.53)	(0.47)	(0.47)	(0.44)
Realized gains (losses) for the period/year	1.23	0.78	(2.26)	0.58
Unrealized gains (losses) for the period/year	0.50	1.28	1.93	(1.39)
Total increase (decrease) from operations <sup>(2)</sup>	\$2.13	\$2.33	\$0.12	\$(0.30)
Distributions:				
From income (excluding dividends)	(0.37)	(0.37)	(0.27)	(0.30)
From dividends	-	-	-	-
From capital gains	-	-	-	(0.80)
Return of capital	(0.12)	-	(0.03)	-
Total annual distributions <sup>(3)</sup>	\$(0.49)	\$(0.37)	\$(0.30)	\$(1.10)
Net asset value, end of period/year <sup>(4)</sup>	\$23.34	\$21.63	\$19.63	\$19.82

(a) December 31, 2014 does not relate to the full year as the date of inception of the First Trust ETF was February 4, 2014.

(b) Initial offering price

(1) This information is provided as at December 31 of the years/period 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 either paid in cash or reinvested in additional units of the First Trust ETF.

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

**Ratios and Supplemental Data – EUR.A**

	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
Net asset value (000's)	\$2,941	\$1,644	\$1,571	\$1,586
Number of units outstanding	125,979	76,000	80,000	80,000
Management expense ratio <sup>(1)</sup>	1.77%	1.78%	1.81%	1.80%
Management expense ratio before waivers or absorption	1.99%	2.00%	2.03%	1.82%
Trading expense ratio <sup>(2)</sup>	0.09%	0.12%	0.08%	0.07%
Portfolio turnover rate <sup>(3)</sup>	95.06%	94.41%	112.62%	117.14%
Net asset value per unit	\$23.34	\$21.63	\$19.63	\$19.82

(1) Management expense ratio is based on total expenses for the stated period/year and is expressed as an annualized percentage of daily average net asset value during the period/year.

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(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 AlphaDEX™ European Dividend Index ETF (CAD-Hedged)

## Management Report of Fund Performance

### For the year ended December 31, 2017

#### Management Fees

The First Trust ETF will pay the Manager a management fee up to 0.80% and, in respect of the EUR.A, an additional amount for a service fee (see “EUR.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.

The First Trust ETF currently pays the Manager a management fee equal to 0.60%.

#### EUR.A Service Fee

The Manager pays registered dealers a service fee equal to 1.00% per annum of the NAV of the 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.

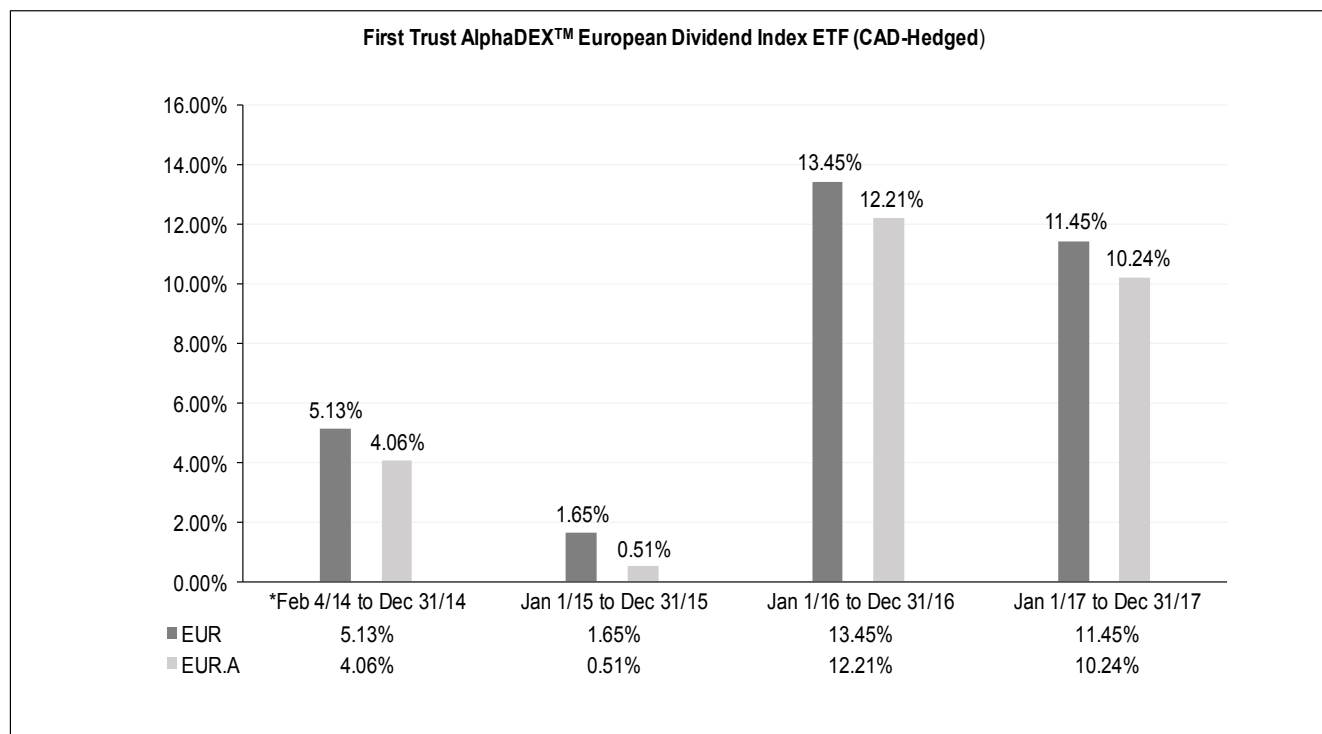
#### Past Performance

##### General

The past performance information shown assumes that all distributions made by the First Trust ETF in the periods 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 years ended December 31 and for the period from since inception to December 31, 2014 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.



\*Date of Inception



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#### Annual Compound Returns

The First Trust ETF Common Class units underperformed its benchmark, over the period. Stock selection in Information Technology stocks boosted relative performance for the year. Stock selection combined with an overweight position in Telecommunication and Financials stocks led to relative underperformance in 2017.

	1-year	3-year	Since Inception
First Trust AlphaDEX™ European Dividend Index ETF (CAD-Hedged) - EUR	11.45%	8.73%	8.01%
First Trust AlphaDEX™ European Dividend Index ETF (CAD-Hedged) - EUR.A	10.24%	7.53%	6.82%
MSCI Europe Index (Local Currency)	13.06%	8.34%	8.57%

*\*Broad Benchmark: MSCI Europe Index (Local Currency) - The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the UK). With 448 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.*

#### Summary of Investment Portfolio

The table sets out the percentage (based on total net asset value) of the First Trust ETF's top 25 holdings as at December 31, 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).

Top 25 Holdings	% of ETF Total Net Asset Value
BHP Billiton PLC, ADR	4.43%
Royal Dutch Shell PLC, Class 'A', ADR	4.19%
Prudential PLC, ADR	4.14%
Mobile TeleSystems PJSC, ADR	4.10%
ASML Holding NV, Registered	4.06%
Eni SPA, ADR	4.05%
STMicroelectronics NV	3.96%
Total SA, ADR	3.94%
Rio Tinto PLC, ADR	3.53%
NICE Ltd., ADR	3.39%
BP PLC, ADR	3.39%
Credit Suisse Group AG, ADR	3.36%
AEGON NV	3.31%
WPP PLC, ADR	3.30%
Deutsche Bank AG, Registered	3.23%
Banco Santander SA, ADR	3.20%
Barclays PLC, ADR	2.28%
Statoil ASA, ADR	2.27%
Lloyds Banking Group PLC, ADR	2.27%
Fresenius Medical Care AG & Co. KGaA, ADR	2.27%
BT Group PLC, ADR	2.24%
Novo Nordisk AS, ADR	2.22%
Banco Bilbao Vizcaya Argentaria SA, ADR	2.15%
Smith & Nephew PLC, ADR	2.10%
Telefónica SA, ADR	2.03%
<b>Total</b>	<b>79.41%</b>

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**Portfolio Breakdown**

The table sets out the percentage (based on total net asset value) of the First Trust ETF's portfolio as at December 31, 2017.

Sector Weightings	% of ETF Total Net Asset Value
Financials	24.70%
Energy	18.60%
Information Technology	14.47%
Telecommunication Services	11.59%
Materials	9.63%
Healthcare	9.01%
Industrials	4.08%
Consumer Discretionary	4.07%
Consumer Staples	2.40%
Utilities	0.70%
Cash	0.71%
Other assets, less liabilities	0.04%
<b>Total</b>	<b>100.00%</b>

The table 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, 2017.

Country Weightings	% of ETF Total Net Asset Value
United Kingdom	32.51%
Netherlands	20.10%
Spain	8.12%
Germany	7.12%
Switzerland	5.56%
Russia	4.10%
Italy	4.05%
France	3.94%
Israel	3.39%
Norway	2.27%
Denmark	2.22%
Jersey, Channel Islands	1.74%
United States	1.69%
Ireland	1.67%
Luxembourg	0.77%
<b>Total</b>	<b>99.25%</b>

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