

# First Trust Canada's **U.S. Sector ETFs**



Consumer Discretionary



Consumer Staples



Energy



Financials



Health Care



Industrials



Materials



Technology



Utilities

 **First Trust**  
Portfolios Canada®

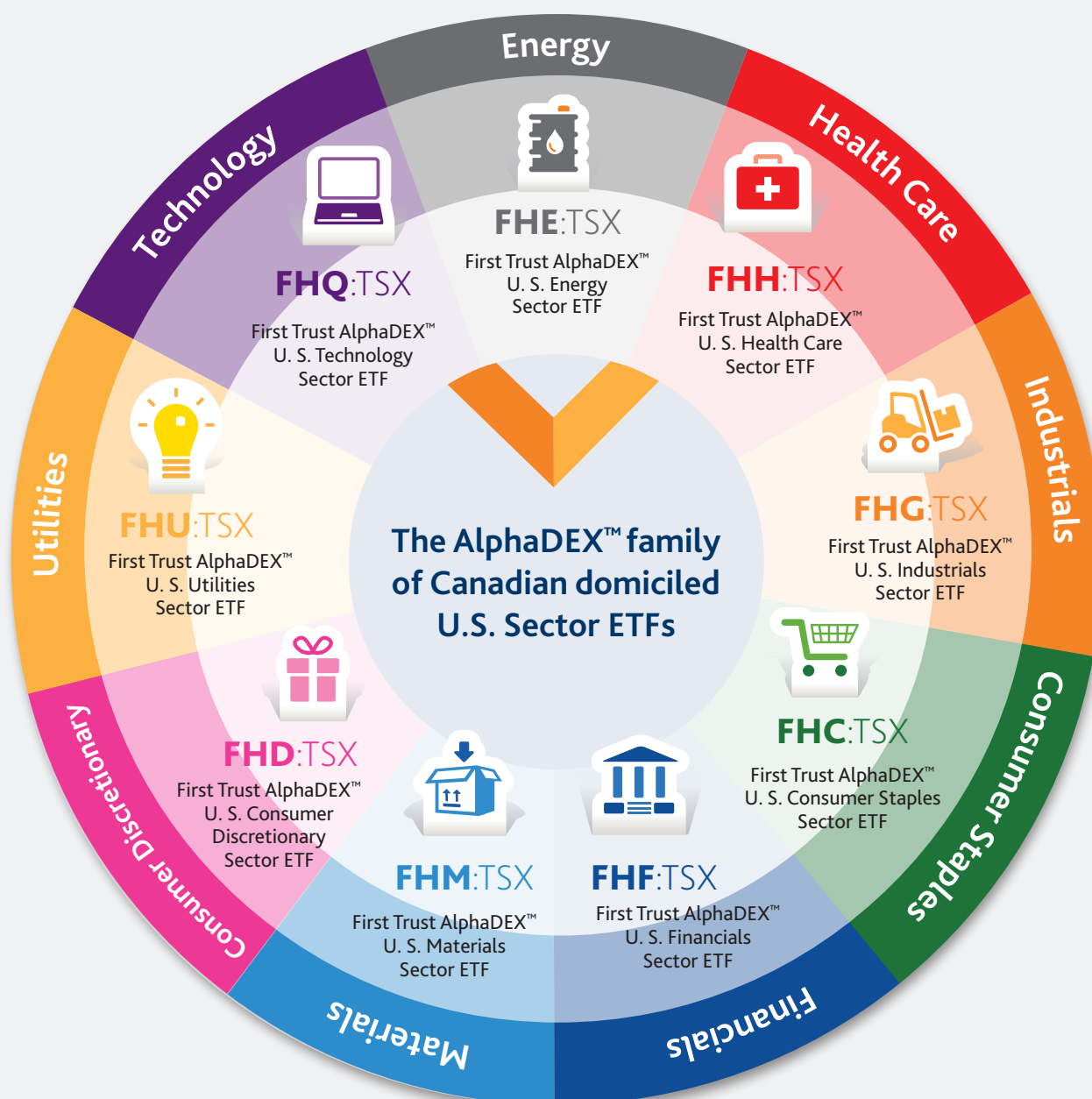
1.877.622.5552  
[www.firsttrust.ca](http://www.firsttrust.ca)



# The AlphaDEX™ family of Canadian domiciled U.S. Sector ETFs

## AlphaDEX™ ETFs offer 9 major U.S. Sectors

The First Trust AlphaDEX™ exchange-traded funds employ a proprietary, rules-based AlphaDEX™ fundamental stock selection methodology.



# Introduction to sector investing

Sectors are a segment of the economy in which businesses share a similar product, service or function. For example, the energy sector consists of all industries involved in producing and distributing energy, including oil companies and the coal industry. Examples of energy corporations include Exxon Mobil and Chevron.

With sector ETFs, you own a diversified basket of similar companies targeting different segments of the economy which reduces the risk of owning an individual stock. Sector ETFs can also help investors pursue a variety of strategic and tactical investment goals such as sector rotation strategies or thematic investing.

## The importance of sector diversification

Shifts in market leadership are not restricted to asset classes. Sectors will also perform differently from one another given the economic outlook. We believe

it is important to build a well-balanced portfolio with investments across many asset classes and sectors to help meet long-term financial goals.

## Sectors and the business cycle

There is historic evidence that certain sectors outperform at different times in the business cycle while

others underperform. By understanding how certain sectors react to the business cycle, investors may

## Annual returns of the S&P 500 Sector Indices

Ranked in order of Performance

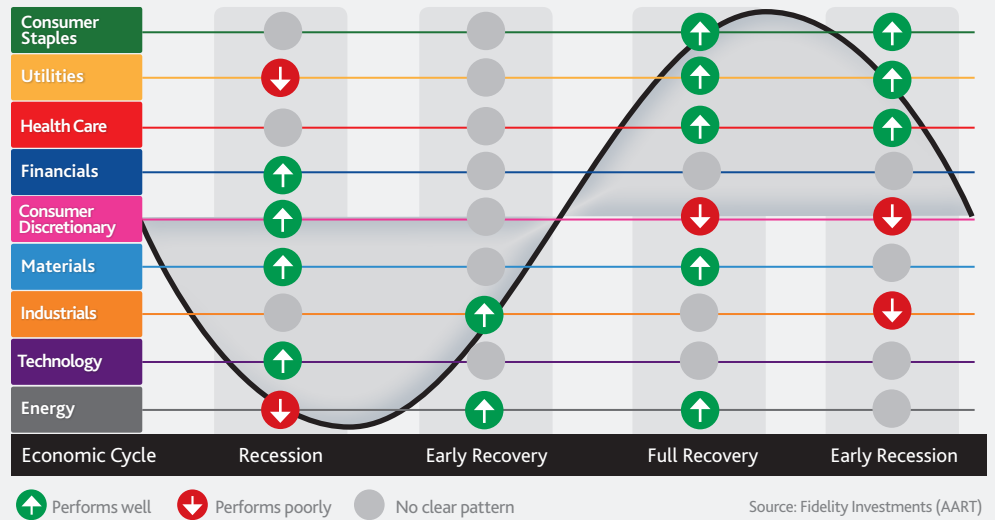
2008	2009	2010	2011	2012	2013	2014 YTD <sup>1</sup>
Consumer Staples -15.4%	Technology 61.7%	Consumer Discretionary 27.9%	Utilities 20.0%	Financials 28.9%	Consumer Discretionary 43.1%	Health Care 16.6%
Health Care -22.8%	Materials 48.6%	Industrials 26.7%	Consumer Staples 14.0%	Consumer Discretionary 24.1%	Health Care 41.5%	Technology 14.1%
Utilities -29.0%	Consumer Discretionary 41.3%	Materials 22.3%	Health Care 12.8%	Health Care 17.9%	Industrials 40.7%	Utilities 13.9%
Consumer Discretionary -33.5%	Industrials 20.9%	Energy 20.5%	Consumer Discretionary 6.2%	Industrials 15.4%	Financials 35.6%	Materials 8.9%
Energy -34.9%	Health Care 19.7%	Consumer Staples 14.1%	Energy 4.7%	Materials 15.2%	Technology 28.4%	Financials 7.4%
Industrials -39.9%	Financials 17.2%	Financials 12.2%	Technology 2.4%	Technology 14.8%	Consumer Staples 26.1%	Consumer Staples 7.2%
Technology -43.1%	Consumer Staples 14.9%	Technology 10.2%	Industrials -0.6%	Consumer Staples 11.1%	Materials 25.6%	Energy 3.2%
Materials -45.6%	Energy 13.9%	Utilities 5.5%	Materials -9.7%	Energy 4.6%	Energy 25.1%	Industrials 2.9%
Financials -55.2%	Utilities 11.9%	Health Care 2.9%	Financials -17.1%	Utilities 1.3%	Utilities 13.2%	Consumer Discretionary 0.9%

Source: Bloomberg. <sup>1</sup>YTD Sept. 30, 2014. All of the indices are unmanaged, statistical composites that cannot be purchased directly by investors. The historical performance of the indices shown is for illustrative purposes only and it is not intended to imply or guarantee the future performance of any First Trust investment. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. In addition to the risks of investing in common stocks which includes the possible loss of principal, investing in individual sectors is subject to non-diversification risk, which generally will result in greater price fluctuations than the overall market.

## Economic Cycles

Sector performance at various stages of the business cycle

be able to position their portfolio with securities or funds that have the potential to outperform the rest of the market. For example, an investor may assume that both technology and industrials will shine during the mid-part of the economic cycle, whereas utilities and energy would do well during the end.



## Why invest in U.S. sectors with AlphaDEX™ ETFs

The chart below compares an investor's exposure to company specific risk under the AlphaDEX™ model versus

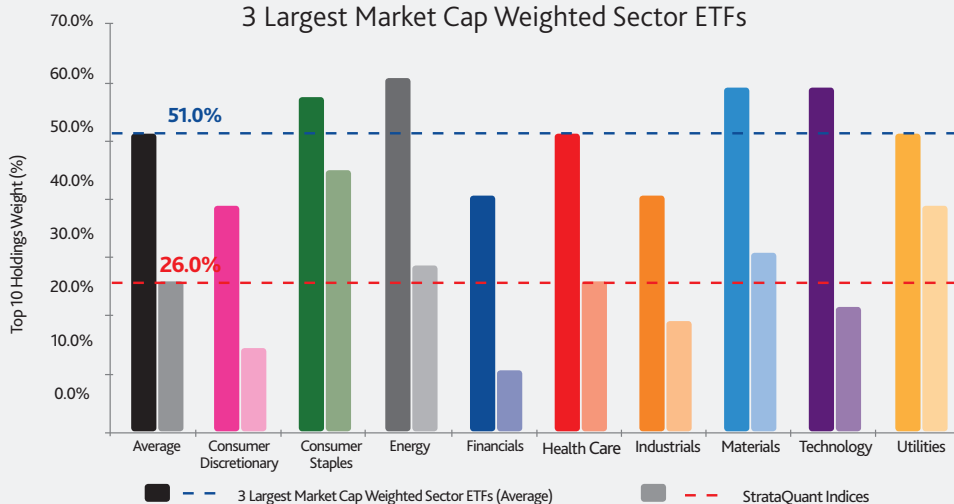
market capitalization weighted sector portfolios (such as the S&P 500 sector indices). In particular, the top 10 index holdings for the AlphaDEX™ U.S. sector index ETFs represent an average of

26% of the portfolio, while the top 10 index holdings represent an average of 51% of the overall market capitalization indices. As illustrated, the AlphaDEX™ model reduces concentration risk by creating more balanced portfolios. In comparison, market capitalization weighted sector portfolios tend to overweight larger, potentially overvalued companies and underweight smaller potentially undervalued companies. Therefore, fluctuations from a handful of overweighted companies could heavily influence overall performance.

### Top 10 Holdings Concentration

StrataQuant indices vs.

3 Largest Market Cap Weighted Sector ETFs



# Why invest in U.S. sectors with Canadian domiciled AlphaDEX™ ETFs

At First Trust, we believe that sector investing provides strategic advantages for investors seeking to pursue growth, balance their portfolios, and/or follow industry trends. More specifically, First Trust Canada's U.S. Sector ETFs provide the following key benefits:

## Diversification

Diversification may provide the potential to improve returns at a specific level of risk. However, maintaining a truly diversified stock portfolio may be cost prohibitive for many investors. First Trust Canada's U.S. sectors ETFs reduce the risk that any single stock can have on an entire portfolio while maintaining the diversification benefits of mutual funds.

## Performance

First Trust Canada's U.S. Sector ETFs follow "enhanced" indices developed, maintained and sponsored by the NYSE Group, Inc. which employs the AlphaDEX™ stock selection methodology. The AlphaDEX™ methodology combines:

- (1) the traditional benefits of ETFs:** intraday liquidity, generally lower expenses and daily transparency; and
- (2) the added advantages of strategy-based investing:** the potential to outperform a benchmark and the selection and weighting of stocks based on investment merit.

Through this hybrid process, the enhanced indices the First Trust Canada's U.S. sector ETFs intend to track, have generated excess returns on average

over their respective market capitalization benchmarks over the past 5 years<sup>1</sup>.

## Tax Considerations

As part of Canada's 2013 federal budget, the Canada Revenue Agency (CRA) made changes to the Foreign Income Verification Statement (Form T1135) requiring Canadian residents, individuals, corporations and certain trusts to report their ownership interest in 'specified foreign property' if the cumulative cost of all specified foreign property exceeds C\$100,000 at any time during the taxation year. Specified foreign property may include units of foreign mutual funds (including U.S. domiciled ETFs). Excluded from reporting requirements are Canadian domiciled ETFs that invest in foreign securities such as U.S. equities. By investing in the First Trust AlphaDEX U.S. Sector ETFs listed on the Toronto Stock Exchange, versus comparable U.S. listed ETFs, Canadian residents, individuals, corporations and certain trusts may be able to reduce their reporting obligations under these new foreign reporting requirements.

## Tradability

The First Trust AlphaDEX sector ETFs are listed on the Toronto Stock Exchange where investors can easily purchase or sell shares throughout the trading day. As a result, investors can react promptly to intraday market fluctuations. In comparison, mutual funds can only be bought and sold at the end of the day net asset value.



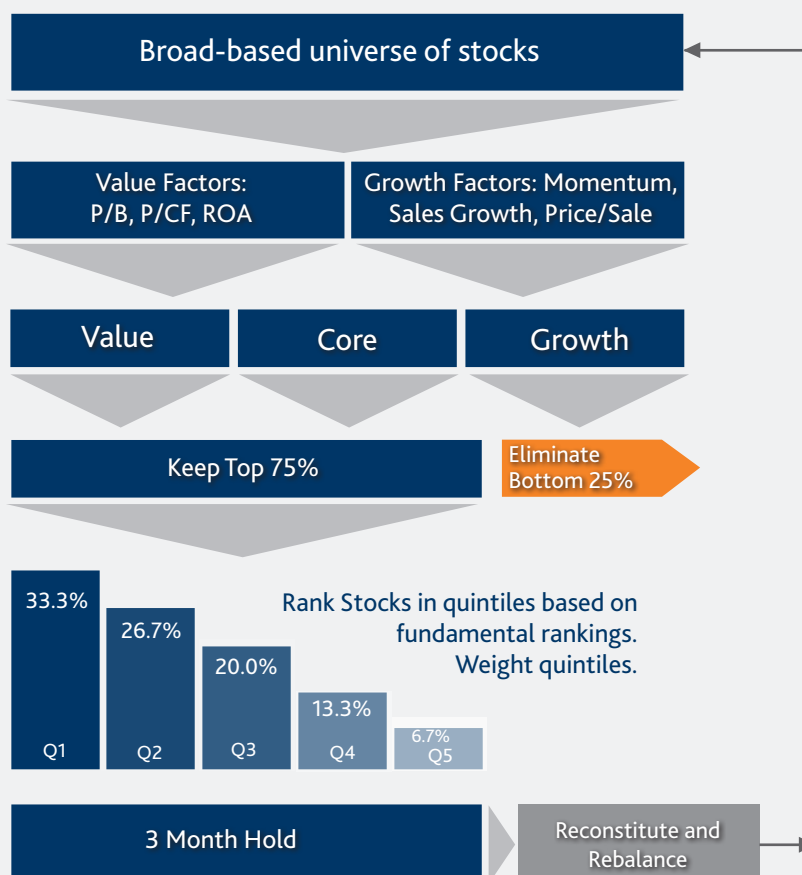
<sup>1</sup>Source: First Trust, 5 year performance through 9/30/2014

# The AlphaDEX™ Methodology

## Providing the potential for better than market-cap returns.

The indexes which provide the basis for the AlphaDEX™ exchange-traded funds start with a broad-based universe of stocks and are enhanced through the use of the proprietary AlphaDEX™ stock selection methodology. This methodology is designed to use fundamental valuation factors to select and weight stocks based on their investment merit. The methodology used to select the stocks is described in the chart below.

- 1** Begin with the constituents of a broad-based index and rank all stocks on growth and value factors to determine a growth and value score.
- 2** Based on style designations, determine each stock's selection score. Stocks designated as core or blend receive the better of their growth or value score.
- 3** Rank all stocks by their final selection score and eliminate from consideration the lowest 25%.
- 4** Place the remaining stocks into quintiles based on their selection score rank. The top quintile stocks get a total weight of 5/15ths, the second quintile stocks get a total weight of 4/15ths, etc. Each stock is equally-weighted within its quintile.
- 5** Repeat the process quarterly, rebalancing and reconstituting the index.



*The funds' offerings are only made by prospectus. You should consider the funds' investment objectives, risks, and charges and expenses carefully before investing. Contact FT Portfolios Canada Co. at 1-877-622-5552 or visit [www.firsttrust.ca](http://www.firsttrust.ca) to obtain a prospectus which contains this and other important information about the funds and the securities being offered. The prospectus should be read carefully before investing.*



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Commissions, trailing commissions, management fees and expenses all may be associated with ETF investments. The indicated rates of return are historical total returns including changes to unit values and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes by any securityholder that would have reduced returns. Please read the prospectus before investing. ETFs are not guaranteed, their values change frequently and past performance may not be repeated.

AlphaDEX™ is a registered trademark of First Trust Portfolios L.P. in the United States and is the subject of a pending trademark registration application in Canada. First Trust Portfolios L.P. has obtained a patent for the AlphaDEX™ stock selection methodology from the United States Patent and Trademark Office. A patent application for the AlphaDEX™ stock selection methodology is pending in Canada.