Diversify Your Short Duration Income Portfolio

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As financial advisors prepare for the Federal Reserve (the "Fed") to begin raising interest rates for the first time since 2006, it may be a prudent time to consider shortening the duration of their clients' fixed-income portfolios.[1] Considering the relatively low yields offered by long-term bonds, an interest rate increase of 1 or 2 percentage points could result in a price decline equivalent to multiple years of income. For example, as of 8/31/15, the yield-to-maturity for the Barclays US Aggregate Bond Index was 2.4%, with a modified duration of 5.6 years.[2] This implies that for every 1% increase in interest rates, the price of the index could decline by roughly 5.6%.

The difficulty with shortening duration, however, is that short-term yields for investment grade bonds are currently too low to meet the income needs of many investors. As a result, financial advisors must determine whether lessening interest rate risk while accepting more credit risk is a worthwhile tradeoff, in order to attain a more desirable level of income. For example, while the First Trust Senior Loan Fund (FTSL) bears more credit risk than the Barclays US Aggregate Bond Index by investing in a portfolio of below-investment grade floating-rate senior bank loans, the fund has minimal interest rate risk with a weighted average effective duration of 0.84 years, while offering a 30-Day SEC Yield of 4.06%.[3,4]

In addition to adding credit risk, we believe financial advisors might consider utilizing securities with different attributes from below-investment grade credit funds, in order to further diversify their clients' short-duration fixed-income portfolios. One potential opportunity is the First Trust Low Duration Mortgage Opportunities ETF (LMBS), which is an actively managed exchange-traded fund ("ETF") that invests primarily in government and investment grade mortgage-backed securities. As of 8/31/15, the fund had a 30-Day SEC Yield of 2.73% — slightly higher than the Barclays US Aggregate Bond Index—and a weighted average effective duration of 2.07 years.

By constructing simple allocations between these two ETFs, financial advisors may create portfolios with several attributes that investors may find attractive, including a higher yield and less interest rate risk (but more credit risk) than the Barclays US Aggregate Bond Index, as well as significantly better average credit quality than the S&P/LSTA U.S. Leveraged Loan 100 Index.

While the timing of the Fed's first rate hike since 2006 is uncertain, we believe financial advisors hoping to stay ahead of the Fed should be proactive in managing the risks in their clients' fixed-income portfolios. As conditions evolve, a diversified approach, combining securities with many different attributes, may help to smooth out volatility and improve risk-adjusted returns.

Diversification does not guarantee a profit or protect against loss.

1 Duration/Interest rate risk is a measure of a security's sensitivity to interest rate changes that reflects the change in a security's price given a change in yield.

2 Yield-to-maturity is the total return anticipated on a bond if the bond is held until the end of its lifetime.

3 As of 8/31/15. Weighted average effective duration is a measure of a bond's sensitivity to interest rate changes that reflects the change in a bond's price given a change in yield. Given that senior loans typically pay a floating rate of interest, they tend to have an effective duration of almost zero. As such, we estimate the duration for senior loans to be approximately 0.25 years.

4 As of 8/31/15. The 30-day SEC yield is calculated by dividing the net investment income per share earned during the most recent 30-day period by the maximum offering price per share on the last day of the period and includes the effects of fee waivers and expense reimbursements.

You should consider a fund's investment objectives, risks, and charges and expenses carefully before investing. Contact First Trust Portfolios L.P. at 1-800-621-1675 or visit www.ftportfolios.com to obtain a prospectus or summary prospectus which contains this and other information about a fund. The prospectus or summary prospectus should be read carefully before investing.

Performance Summary (%)			NAV Returns as of 8/31/15			NAV Returns as of 6/30/15		Market Price Returns as of 6/30/15	
	Fund Inception	Expense Ratio	3 Mos.	1 Year	Since Inception	1 Year	Since Inception	1 Year	Since Inception
Fund Performance									
First Trust Senior Loan Fund (FTSL)	5/1/2013	0.85%	-0.12	2.32	2.68	2.18	2.78	2.07	2.80
First Trust Low Duration Mortgage Opportunities ETF (LMBS)	11/4/2014	0.65%	0.32	—	2.75	—	2.43	—	2.53

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.com.

Market Price returns are based on the midpoint of the bid/ask spread. Returns are average annualized total returns, except those for periods of less than one year, which are cumulative.

The **S&P/LSTA U.S. Leveraged Loan 100 Index** is a market value-weighted index designed to measure the performance of the largest segment of the U.S. syndicated leveraged loan market. The **Barclays U.S. Aggregate Bond Index** covers the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass throughs), ABS, and CMBS.

Please see the back for additional risk considerations of an investment in the funds.

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ETF Characteristics

The funds list and principally trade their shares on the NASDAQ Stock Market LLC.

Investors buying or selling fund shares on the secondary market may incur customary brokerage commissions. Market prices may differ to some degree from the net asset value of the shares. Investors who sell fund shares may receive less than the share's net asset value. Shares may be sold throughout the day on the exchange through any brokerage account. However, unlike mutual funds, shares may only be redeemed directly from a fund by authorized participants, in very large creation/redemption units.

Risk Considerations

A fund's shares will change in value, and you could lose money by investing in a fund. One of the principal risks of investing in a fund is market risk. Market risk is the risk that a particular security owned by a fund, fund shares or securities in general may fall in value. The funds are subject to management risk because they are actively managed portfolios. In managing a fund’s investment portfolio, the advisor will apply investment techniques and risk analyses that may not have the desired result. There can be no guarantee that a fund will meet its investment objective.

A fund may be subject to numerous risks, including credit risk, interest rate risk, income risk and prepayment risk. Credit risk is the risk that an issuer of a security will be unable or unwilling to make dividend, interest and/or principal payments when due and that the value of a security may decline as a result. Credit risk may be heightened for senior loans because companies that issue loans tend to be highly leveraged and thus are more susceptible to the risks of interest deferral, default and/or bankruptcy. Interest rate risk is the risk that if interest rates rise, the prices of the fixed-rate instruments held by a fund may fall. Income risk is the risk that if interest rates fall, the income from a fund's portfolio will decline as the fund intends to hold floating-rate debt that will adjust lower with falling interest rates. Loans are subject to pre-payment risk. The degree to which borrowers prepay loans may be affected by general business conditions, the financial condition of the borrower and competitive conditions among loan investors, among others. A fund may not be able to reinvest the proceeds received on terms as favorable as the prepaid loan.

Mortgage-related securities, including mortgage-backed securities, are more susceptible to adverse economic, political or regulatory events that affect the value of real estate. Mortgage-related securities are subject to the risk that the rate of mortgage prepayments decreases, which extends the average life of a security and increases the interest rate exposure. Securities issued or guaranteed by federal agencies and U.S. government sponsored instrumentalities may or may not be backed by the full faith and credit of the U.S. government.

Senior floating-rate loans are usually rated below investment grade but may also be unrated. As a result, the risks associated with these loans are similar to the risks of high-yield fixed income instruments. High-yield securities, or "junk" bonds, are subject to greater market fluctuations and risk of loss than securities with higher ratings, and therefore, may be highly speculative. These securities are issued by companies that may have limited operating history, narrowly focused operations, and/or other impediments to the timely payment of periodic interest and principal at maturity. The market for high-yield securities is smaller and less liquid than that for investment grade securities.

If a counterparty defaults on its payment obligations, a fund will lose money and the value of fund shares may decrease. A fund's investment in repurchase agreements may be subject to market and credit risk with respect to the collateral securing the agreements.

Illiquid securities involve the risk that the securities will not be able to be sold at the time desired by a fund or at prices approximately the value at which a fund is carrying the securities on its books.

A fund may effect a portion of creations and redemptions for cash rather than in-kind securities. As a result, a fund may be less tax-efficient.

LMBS currently has fewer assets than larger funds, and like other relatively new funds, large inflows and outflows may impact the fund's market exposure for limited periods of time. Shorting may result in greater gains or greater losses. Short selling creates special risks which could result in increased volatility of returns. Because losses on short sales arise from increases in the value of the security sold short, such losses are theoretically unlimited.

FTSL invests in securities of non-U.S. issuers which are subject to higher volatility than securities of U.S. issuers. Because the fund's NAV is determined on the basis of U.S. dollars and the fund invests in non-U.S. securities, you may lose money if the local currency of a non-U.S. market depreciates against the U.S. dollar.

The funds are classified as "non-diversified" and may invest a relatively high percentage of their assets in a limited number of issuers. As a result, the funds 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.

First Trust Advisors L.P. is the adviser to the funds. First Trust Advisors L.P. is an affiliate of First Trust Portfolios L.P., the funds’ distributor.