

ETF Deathwatch List Revisited

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On a fairly regular basis, we hear grumbling about the rapid growth of the ETF industry. One of the concerns that's often raised is that there are simply "too many" ETFs. This is generally followed by a dire prediction of massive industry consolidation and ETF liquidations, referencing a handful of recent ETF closures, and citing the "ETF Deathwatch" list which is published by Ron Rowland. Together, these fears are often presented as evidence that investors should avoid "smaller" ETFs, and stick with funds that meet a certain threshold for Assets Under Management (AUM) or trading volume.

But for those concerned about ETF closures, perhaps there is an equally important criterion that should be considered, namely, which fund company sponsors the ETF in question.

While some sponsors have freely closed down ETFs that seemed to struggle gaining traction in the near term, First Trust hasn't closed down a single ETF. In fact, many of the funds that ETF industry commentators expressed the greatest concerns about a few years ago have turned into great success stories.

As an illustration of this point, I thought it might be helpful to look back at how accurate the "ETF Deathwatch" have been regarding First Trust ETFs. The table below lists the 19 First Trust ETFs that were included on the "ETF Deathwatch" list three years ago (February 2009).

A Look at First Trust ETFs on the "ETF Deathwatch" List 3 Years Later

Fund	AUM (in 1000s) 1/31/09	AUM (in 1000s) 1/31/12	90 Day ADV (# of shares) 1/31/09	90 Day ADV (# of shares) 1/31/12	3 Year Excess Return vs. Benchmark 1/31/12	Benchmark Index	Morningstar Rating™ 1/31/12
First Trust Consumer Discretionary AlphaDEX® Fund	\$3,441	\$542,016	6,143	307,073	3.64%	S&P 500 Consumer Discretionary	★★★
First Trust Consumer Staples AlphaDEX Fund	\$7,685	\$217,719	7,458	172,155	3.49%	S&P 500 Consumer Staples	★★★
First Trust Financials AlphaDEX® Fund	\$4,533	\$117,183	12,400	100,707	7.99%	S&P 500 Financials	★★★★★
First Trust Health Care AlphaDEX® Fund	\$12,464	\$535,279	8,210	274,753	11.89%	S&P 500 Health Care	★★★★★
First Trust Industrials/Producer Durables AlphaDEX Fund	\$3,454	\$64,148	3,880	39,826	1.26%	S&P 500 Industrials	★★★
First Trust Technology AlphaDEX® Fund	\$4,737	\$228,768	6,508	169,577	1.98%	S&P 500 Information Technology	★★★
First Trust Large Cap Core AlphaDEX® Fund	\$10,174	\$295,405	7,652	85,288	3.98%	S&P 500	★★★★★
First Trust Large Cap Growth AlphaDEX® Fund	\$12,791	\$125,886	6,288	40,613	-1.13%	S&P 500 Growth	★★★
First Trust Mid Cap Core AlphaDEX Fund	\$6,598	\$264,669	2,786	82,751	3.53%	S&P MidCap 400	★★★★★
First Trust Multi Cap Growth AlphaDEX Fund	\$5,187	\$26,326	2,150	6,693	0.83%	S&P 1500 Composite Growth	★★★
First Trust Multi Cap Value AlphaDEX® Fund	\$4,360	\$42,450	6,391	15,169	10.57%	S&P 1500 Composite Value	★★★★★
First Trust Small Cap Core AlphaDEX® Fund	\$4,509	\$139,744	4,138	44,876	4.16%	S&P SmallCap 600	★★★★★
First Trust Dow Jones Global Select Dividend Index Fund	\$3,572	\$147,857	4,336	85,934	13.29%	MSCI World	★★★★★
First Trust NASDAQ-100 Equal Weighted Index SM Fund	\$14,237	\$91,754	14,167	63,677	0.07%	NASDAQ-100	★★★★
First Trust NASDAQ-100 Ex-Technology Sector Index SM Fund	\$5,717	\$34,122	6,209	13,919	6.38%	Russell 1000®	★★★★★
First Trust NASDAQ-100-Technology Sector Index SM Fund	\$9,175	\$162,418	6,777	65,102	5.87%	S&P 500 Information Technology	★★★
First Trust STOXX® European Select Dividend Index Fund	\$3,798	\$8,310	4,375	13,277	-1.00%	MSCI Europe	★★★
First Trust US IPO Index Fund	\$7,861	\$15,309	5,601	3,525	6.20%	Russell 3000®	★★★★
First Trust Value Line® Equity Allocation Index Fund	\$5,467	\$6,571	6,323	5,901	-3.15%	Russell 3000®	★★★
Average	\$6,829	\$161,365	6,410	83,727	4.20%		
Total AUM	\$129,760	\$3,065,934					
% Growth in AUM		2263%					

Three years ago, the 19 First Trust ETFs included on the list averaged about \$6.8 million in AUM for a total of approximately \$130 million. On average, these funds traded less than 6,500 shares per day (over the previous 90 days). Based on the metrics of fund AUM and trading volume, and in a terrible environment for equities, how could these funds possibly survive?

Three years later, these 19 ETFs averaged approximately \$161 million in AUM (for a total of approximately \$3.1 billion), representing 2263% growth. Over the last 90 days, they traded an average of nearly 84,000 shares per day.

Furthermore, 16 of these 19 "unloved" First Trust ETFs outperformed their respective

benchmarks. As a group, they delivered an average of 4.2% excess return per year. Eight of these funds received a Morningstar Rating™ of 5 stars (the remaining eleven funds received a Morningstar Rating™ of 3 or 4 stars).

Those investors who listened to the "conventional wisdom," choosing to limit their potential ETF inventory to the largest and most well-known ETFs, likely avoided fund closures. However, in the process, they may have also missed out on significant opportunities for outperformance.

Interestingly enough, as of February 2012, there are 17 First Trust ETFs on the "ETF Deathwatch" list.

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.

Fund Performance

	Average Annual Returns as of 12/31/11										
	Fund Information			NAV Total Returns				Market Price Total Returns			
	Ticker	Net Exp. Ratio	Gross Exp. Ratio	1 Yr.	3 Yr.	5 Yr.	Since Inception	1 Yr.	3 Yr.	5 Yr.	Since Inception
First Trust Consumer Discretionary AlphaDEX Fund	FXD	0.70%	0.73%	0.98%	27.92%	N/A	0.41%	0.87%	27.96%	N/A	0.43%
Russell 1000® Consumer Discretionary & Services Index				5.39%	23.02%	N/A	11.61%	5.39%	23.02%	N/A	11.61%
S&P 500 Consumer Discretionary Index				6.13%	24.17%	N/A	1.54%	6.13%	24.17%	N/A	1.54%
Russell 1000® Index				1.50%	14.81%	N/A	-1.54%	1.50%	14.81%	N/A	-1.54%
First Trust Consumer Staples AlphaDEX Fund	FXG	0.70%	0.79%	13.15%	19.90%	N/A	4.84%	13.10%	19.84%	N/A	4.84%
Russell 1000® Consumer Staples Index				14.49%	16.01%	N/A	9.56%	14.49%	16.01%	N/A	9.56%
S&P 500 Consumer Staples Index				13.99%	14.33%	N/A	7.02%	13.99%	14.33%	N/A	7.02%
Russell 1000® Index				1.50%	14.81%	N/A	-1.54%	1.50%	14.81%	N/A	-1.54%
First Trust Financials AlphaDEX® Fund	FXO	0.70%	0.74%	-7.35%	13.26%	N/A	-6.92%	-7.54%	13.30%	N/A	-6.92%
Russell 1000® Financial Services Index				-12.95%	5.33%	N/A	-7.69%	-12.95%	5.33%	N/A	-7.69%
S&P 500 Financials Index				-17.06%	2.92%	N/A	-18.56%	-17.06%	2.92%	N/A	-18.56%
Russell 1000® Index				1.50%	14.81%	N/A	-1.54%	1.50%	14.81%	N/A	-1.54%
First Trust Health Care AlphaDEX® Fund	FXH	0.70%	0.75%	5.76%	23.94%	N/A	6.81%	5.60%	24.19%	N/A	6.80%
Russell 1000® Health Care Index				11.78%	12.39%	N/A	6.78%	11.78%	12.39%	N/A	6.78%
S&P 500 Health Care Index				12.73%	11.56%	N/A	0.92%	12.73%	11.56%	N/A	0.92%
Russell 1000® Index				1.50%	14.81%	N/A	-1.54%	1.50%	14.81%	N/A	-1.54%
First Trust Industrials/Producer Durables AlphaDEX Fund	FXR	0.70%	0.79%	-5.95%	18.86%	N/A	-2.62%	-6.32%	19.07%	N/A	-2.66%
Russell 1000® Producer Durables Index				-1.95%	14.94%	N/A	4.37%	-1.95%	14.94%	N/A	4.37%
S&P 500 Industrials Index				-0.59%	15.07%	N/A	-1.07%	-0.59%	15.07%	N/A	-1.07%
Russell 1000® Index				1.50%	14.81%	N/A	-1.54%	1.50%	14.81%	N/A	-1.54%
First Trust Technology AlphaDEX Fund	FXL	0.70%	0.74%	-11.65%	23.08%	N/A	0.03%	-11.72%	23.37%	N/A	0.04%
Russell 1000® Technology Index				0.28%	22.66%	N/A	10.30%	0.28%	22.66%	N/A	10.30%
S&P 500 Information Technology Index				2.41%	22.20%	N/A	2.60%	2.41%	22.20%	N/A	2.60%
Russell 1000® Index				1.50%	14.81%	N/A	-1.54%	1.50%	14.81%	N/A	-1.54%
First Trust Large Cap Core AlphaDEX® Fund	FEX	0.70%	0.70%	-0.22%	17.90%	N/A	-1.02%	-0.44%	18.64%	N/A	-1.03%
S&P 500® Index				2.11%	14.11%	N/A	-1.70%	2.11%	14.11%	N/A	-1.70%
First Trust Large Cap Growth AlphaDEX® Fund	FTC	0.70%	0.72%	-2.65%	15.90%	N/A	-1.31%	-2.86%	15.85%	N/A	-1.33%
S&P 500 Growth Index				4.65%	16.57%	N/A	1.24%	4.65%	16.57%	N/A	1.24%
S&P 500® Index				2.11%	14.11%	N/A	-1.70%	2.11%	14.11%	N/A	-1.70%
First Trust Mid Cap Core AlphaDEX Fund	FNX	0.70%	0.70%	0.83%	23.59%	N/A	2.47%	0.37%	23.72%	N/A	2.43%
S&P MidCap 400 Index				-1.73%	19.57%	N/A	1.19%	-1.73%	19.57%	N/A	1.19%
First Trust Small Cap Core AlphaDEX Fund	FYX	0.70%	0.74%	-0.10%	20.24%	N/A	0.27%	-0.47%	20.73%	N/A	0.23%
S&P SmallCap 600 Index				1.02%	17.01%	N/A	0.39%	1.02%	17.01%	N/A	0.39%
First Trust Multi Cap Growth AlphaDEX Fund	FAD	0.70%	0.95%	-0.59%	17.59%	N/A	0.14%	-0.66%	17.68%	N/A	0.15%
S&P Composite 1500 Growth Index				4.17%	17.13%	N/A	1.44%	4.17%	17.13%	N/A	1.44%
S&P Composite 1500 Index				1.75%	14.65%	N/A	-1.39%	1.75%	14.65%	N/A	-1.39%
First Trust Multi Cap Value AlphaDEX® Fund	FAB	0.70%	0.87%	0.57%	21.93%	N/A	0.24%	0.43%	21.94%	N/A	0.24%
S&P 1500 Composite Value Index				-0.69%	12.10%	N/A	-4.25%	-0.69%	12.10%	N/A	-4.25%
S&P Composite 1500 Index				1.75%	14.65%	N/A	-1.39%	1.75%	14.65%	N/A	-1.39%

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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. A fund's performance reflects fee waivers and expense reimbursements, absent which performance would have been lower.

Performance information for the indexes are for illustrative purposes only and does not represent the performance of any actual investment or fund. 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.

Fund Performance

	Average Annual Returns as of 12/31/11										
	Fund Information			NAV Total Returns				Market Price Total Returns			
	Ticker	Net Exp. Ratio	Gross Exp. Ratio	1 Yr.	3 Yr.	5 Yr.	Since Inception	1 Yr.	3 Yr.	5 Yr.	Since Inception
First Trust NASDAQ-100 Equal Weighted Index SM Fund	QQEW	0.60%	0.66%	-2.77%	23.44%	2.96%	2.69%	-2.82%	23.45%	2.97%	2.69%
NASDAQ-100 Index [®]				3.68%	24.42%	6.06%	5.60%	3.68%	24.42%	6.06%	5.60%
S&P 500 Index				2.07%	14.10%	-0.26%	1.42%	2.07%	14.10%	-0.26%	1.42%
First Trust NASDAQ-100-Technology Sector Index SM Fund	QTEC	0.60%	0.62%	-5.75%	27.39%	4.03%	3.50%	-5.90%	27.84%	4.04%	3.49%
S&P 500 Information Technology Index				2.41%	22.20%	3.83%	3.88%	2.41%	22.20%	3.83%	3.88%
S&P 500 Index				2.07%	14.10%	-0.26%	1.42%	2.07%	14.10%	-0.26%	1.42%
First Trust NASDAQ-100 Ex-Technology Sector Index SM Fund	QQXT	0.60%	0.77%	-1.08%	20.53%	N/A	1.12%	-1.18%	20.82%	N/A	1.11%
Russell 1000 [®] Index				1.50%	14.81%	N/A	-0.60%	1.50%	14.81%	N/A	-0.60%
First Trust Value Line [®] Equity Allocation Index Fund	FVI	0.70%	1.30%	-9.56%	13.29%	-0.36%	-0.57%	-9.65%	14.05%	-0.37%	-0.56%
Russell 3000 [®] Index				1.03%	14.88%	-0.01%	0.00%	1.03%	14.88%	-0.01%	0.00%
First Trust US IPO Index Fund	FPX	0.60%	0.98%	3.11%	20.91%	2.58%	4.14%	2.98%	20.92%	2.59%	4.13%
Russell 3000 [®] Index				1.03%	14.88%	-0.01%	1.77%	1.03%	14.88%	-0.01%	1.77%
First Trust Dow Jones Global Select Dividend Index Fund	FGD	0.60%	0.74%	-2.17%	21.74%	N/A	-2.65%	-2.66%	20.34%	N/A	-2.63%
MSCI World Index				-5.54%	11.13%	N/A	-4.18%	-5.54%	11.13%	N/A	-4.18%
Dow Jones World Developed Markets Index SM				-5.89%	12.07%	N/A	-3.54%	-5.89%	12.07%	N/A	-3.54%
First Trust STOXX [®] European Select Dividend Index Fund	FDD	0.60%	1.93%	-10.22%	7.48%	N/A	-15.49%	-10.13%	6.56%	N/A	-15.35%
MSCI Europe Index				-11.06%	7.86%	N/A	-7.52%	-11.06%	7.86%	N/A	-7.52%
STOXX [®] Europe 600 Index				-11.57%	8.04%	N/A	-7.50%	-11.57%	8.04%	N/A	-7.50%

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Risks and Important Considerations

A fund's shares will change in value, and you could lose money by investing in a fund. An investment in a fund involves risks similar to those of investing in any fund of equity securities traded on exchanges. Investors buying or selling fund shares on the secondary market may incur brokerage commissions. In addition, investors who sell fund shares may receive less than the share's net asset value.

A fund may be concentrated in a particular industry, sector or country. A investment in a concentrated portfolio involves additional risks, including limited diversification. A fund may invest in small capitalization and mid capitalization companies. Such companies may experience greater price volatility than larger, more established companies.

An investment in a fund containing equity securities of foreign issuers is subject to additional risks, including currency fluctuations, political risks, withholding, the lack of adequate financial information, and exchange control restrictions impacting foreign issuers.

With the exception of FVI, the funds are classified as "non-diversified." A non-diversified fund generally may invest a larger percentage of its assets in the securities of a smaller number of issuers. As a result, these funds may be more susceptible to the risks associated with these particular companies, or to a single economic, political or regulatory occurrence affecting these companies.

The gross expense ratio for each fund listed on the previous pages was calculated on June 30, 2011 for FVI, QQEW, QQXT, QTEC, and FPX; on September 30, 2011 for FDD, and, FGD; on July 31, 2011 for FEX, FNX, FYX, FTC, FAB, FAD, FXD, FXG, FXH, FXL, FXO and FXR. Pursuant to contract, First Trust has agreed to waive fees and/or pay fund expenses to prevent the net expense ratio of the fund from exceeding the net expense ratio listed, at least until December 6, 2012 for QQEW, QTEC, FVI, and QQXT; at least until December 20, 2012 for FGD and FDD; at least until January 3, 2013 for FPX; at least until December 6, 2012 for FEX, FNX, FYX, FTC, FXD, FXG, FXH, FXL, FXO and FXR; at least until December 20, 2012 for FAB and FAD.

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.

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.

Morningstar Rating™

ETFs are rated from one to five stars, with the best performers receiving five stars and the worst performers receiving a single star. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Morningstar Ratings are as of 1/31/2012.

Fund Name	Ticker	Morningstar Ratings			Fund Category	Number of funds in Category	
		Overall Rating	3 yr. Rating	5 yr. Rating		3 yr.	5 yr.
First Trust Consumer Discretionary AlphaDEX® Fund	FXD	★★★★	★★★★	N/A	Consumer Cyclical	30	29
First Trust Consumer Staples AlphaDEX® Fund	FXG	★★★★	★★★★	N/A	Consumer Defensive	23	16
First Trust Health Care AlphaDEX® Fund	FXH	★★★★★★	★★★★★★	N/A	Health	127	122
First Trust Financials AlphaDEX® Fund	FXO	★★★★★★	★★★★★★	N/A	Financial	99	84
First Trust Industrials/Producer Durables AlphaDEX® Fund	FXR	★★★★	★★★★	N/A	Industrials	27	20
First Trust Technology AlphaDEX® Fund	FXL	★★★★	★★★★	N/A	Technology	186	170
First Trust Large Cap Core AlphaDEX® Fund	FEX	★★★★★★	★★★★★★	N/A	Large Blend	1576	1385
First Trust Large Cap Growth AlphaDEX® Fund	FTC	★★★★	★★★★	N/A	Large Growth	1472	1275
First Trust Mid Cap Core AlphaDEX® Fund	FNX	★★★★★★	★★★★★★	N/A	Mid-Cap Blend	377	314
First Trust Small Cap Core AlphaDEX® Fund	FYX	★★★★★★	★★★★★★	N/A	Small Blend	580	486
First Trust Multi Cap Value AlphaDEX® Fund	FAB	★★★★★★	★★★★★★	N/A	Mid-Cap Value	355	307
First Trust Multi Cap Growth AlphaDEX® Fund	FAD	★★★★	★★★★	N/A	Mid-Cap Growth	659	595
First Trust NASDAQ-100 Equal Weighted Index SM Fund	QQEW	★★★★	★★★★★★	★★★★★★	Large Growth	1472	1275
First Trust NASDAQ-100-Technology Sector Index SM Fund	QTEC	★★★★	★★★★	★★★★	Technology	186	170
First Trust NASDAQ-100 Ex-Technology Sector Index SM Fund	QQXT	★★★★★★	★★★★★★	N/A	Large Growth	1472	1275
First Trust Value Line® Equity Allocation Index Fund	FVI	★★★★	★★	★★★★	Mid-Cap Blend	377	314
First Trust US IPO Index Fund	FPX	★★★★	★★★★★★	★★★★	Large Growth	1472	1275
First Trust Dow Jones Global Select Dividend Index Fund	FGD	★★★★★★	★★★★★★	N/A	World Stock	696	491
First Trust STOXX® European Select Dividend Index Fund	FDD	★★★★	★★★★	N/A	Europe Stock	103	93

Certain of the funds have experienced negative performance over various periods including the most recent quarter. You can obtain performance information which is current through the most recent month-end by visiting www.ftportfolios.com.

Ranking Criteria: The Morningstar Rating™ is provided for exchange-traded funds (“ETFs”) with at least a three-year history. Ratings are based on the ETF’s Morningstar Risk-Adjusted Return measure which accounts for variation in monthly performance, placing more emphasis on downward variations and rewarding consistent performance. An ETF’s risk-adjusted return includes a brokerage commission estimate. PLEASE NOTE, this estimate is subject to change and the actual brokerage commission an investor pays may be higher or lower than this estimate. Morningstar compares each ETF’s risk-adjusted return to the open-end mutual fund rating breakpoints for that category. Consistent with the open-end mutual fund ratings, the top 10% of ETFs in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The overall rating for an ETF is based on a weighted average of the ETF’s 3, 5, and 10 year rating. The determination of an ETF’s rating does not affect the retail open end mutual fund data published by Morningstar. **Past performance is no guarantee of future results.**

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A patent with respect to the IPOX® index methodology has been issued (U.S. Pat. No. 7,698,197). IPOX® is a registered international trademark of IPOX® Schuster LLC (www.ipoxschuster.com).

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First Trust Portfolios L.P. has obtained a patent for the AlphaDEX® stock selection methodology from the United States Patent and Trademark Office.