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Two Trillion Dollars and Counting...

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2014 was a record-setting year for US-listed ETFs, with assets exceeding $2 trillion by year end, according to Morningstar. This increase of approximately 18% versus the end of 2013 was fueled by record net inflows, which totaled an estimated $241.9 billion.[1] As usual, ETF net flows were not equally distributed among major asset categories. Results for the fourth quarter were generally in line with the full year, as 3 of the top 4 categories for inflows were equity-related (US Equity, Sector Equity, International Equity), while the Taxable Bond category received the second most inflows during the fourth quarter and the full year. Also following the trend established during most of 2014, the Commodities ETF category had the largest net outflows. (See Table 1 below)

Table 1

ETF Asset Category	Net Asset Flows - Q4 2014	Net Asset Flows - Full Year 2014
US Equity	$70,870,121,761	$96,791,173,905
Taxable Bond	$23,742,925,716	$50,070,805,438
Sector Equity	$19,896,179,607	$42,923,186,639
International Equity	$4,630,614,373	$43,198,858,122
Municipal Bond	$1,112,513,610	$3,012,220,554
Allocation	$696,144,115	$2,811,979,860
Alternative	$407,002,005	$4,154,564,464
Commodities	($649,392,165)	($1,505,731,075)

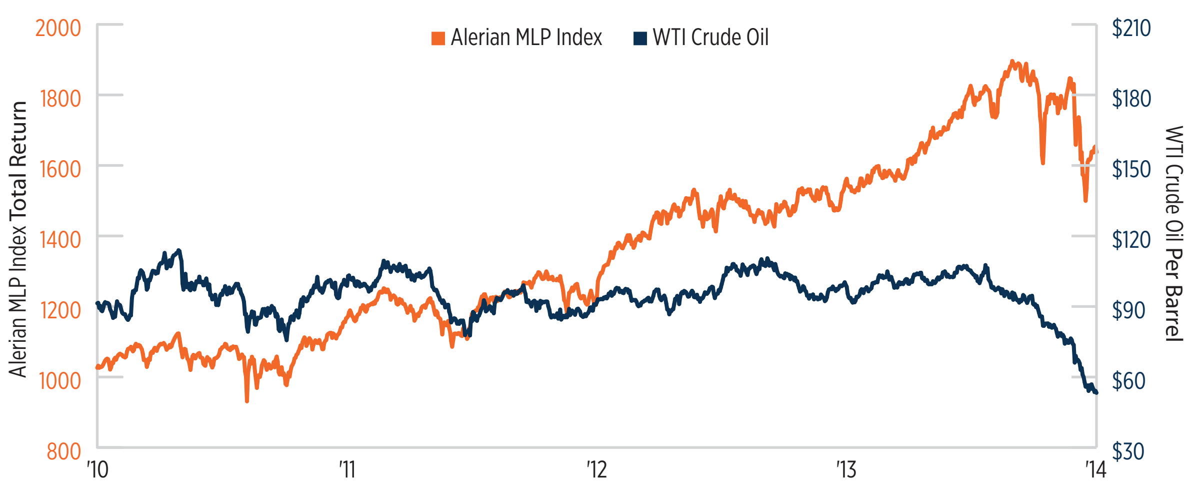
The First Trust family of ETFs also reached a number of notable milestones in 2014.

» Supported by net inflows totaling $11.7 billion, First Trust grew to become the 6th largest sponsor of US-listed ETFs.
» The firm's ETF assets under management had the highest percentage gain among the 15 largest ETF sponsors for the second consecutive year, increasing by 68.4%.
» Assets under management for the AlphaDEX family of ETFs reached $17.5 billion.
» The First Trust Dorsey Wright Focus 5 ETF (FV) was the ETF industry's most successful launch in 2014, growing to $1.3 billion in less than 10 months.
» The First Trust North American Energy Infrastructure Fund (EMLP) became the first actively managed equity ETF to exceed $1 billion in assets under management.

Investing in Energy Infrastructure with ETFs (in light of volatile energy prices)

Energy infrastructure has been an exceptionally popular investment theme in recent years, drawing on investors' interest in the North American energy production boom, along with their desire to generate income. For many investors, master limited partnership (MLP) index ETFs have been the vehicle of choice to gain exposure to this theme. According to Morningstar, Energy MLP ETFs gathered an estimated $326 million per month in net inflows between 2011 and 2014. During most of this stretch, crude oil prices were relatively stable, and many MLP indexes performed quite well. (See Chart 1 below)

Chart 1: Alerian MLP Index and WTI Crude Oil Spot Price (2011-2014)



Source: Bloomberg. An index cannot be purchased directly by investors. Past performance is no guarantee of future results. This chart is for illustrative purposes only and not indicative of any actual investment.

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However, a nearly 50% decline in the spot price of WTI crude oil during the second half of 2014 exposed the riskiness of certain MLP index constituents, while also reinforcing what we believe are three important principles for investing in energy infrastructure, which are taken into account by the First Trust North American Energy Infrastructure Fund (EMLP).

First, a company is not necessarily an attractive energy infrastructure investment simply because it's formed as an MLP. Second, there are a variety of publically traded companies that do make attractive energy infrastructure investments, which are not structured as MLPs. And lastly, "pure play" exposure to MLPs may be disadvantageous within an ETF, since these funds are subject to an additional layer of taxation that may substantially reduce investor returns over time.

Not All MLPs Are Attractive Energy Infrastructure Investments

Master limited partnerships are generally required by their partnership agreements to distribute all available cash flows to investors. For some MLPs, cash flows come primarily from operating fee-based businesses, such as midstream pipeline assets. Since the construction of pipeline infrastructure is time-consuming, as well as quite capital intensive, the barriers to entry for potential competitors are high. As a result, users of these pipelines are often willing to sign long-term contracts, with fees indexed to inflation, in order to lock in prices. For such MLPs, cash flows depend more on the quantity of crude oil transported (for example), than its price. It's this type of MLP that fits well into the strategy employed by EMLP.

Not all MLPs, however, operate non-cyclical businesses, such as midstream pipelines. For example, some MLPs generate most of their cash flows from exploration & production (E&P) of oil and natural gas. As one might expect, returns for these MLPs tend to be much more sensitive to oil and natural gas price fluctuations, subjecting investors to a greater risk that future distributions might be cut as a result of declining prices. This risk was reflected in the performance of a composite of E&P MLPs from the Alerian MLP Index, which declined by 58.8% during the second half of 2014, compared to the broad Alerian MLP index, which declined 9.9%.[2]

Not All Attractive Energy Infrastructure Investments are Formed as MLPs

We believe that the universe of attractive, publically traded, energy infrastructure investments is not limited to companies that have chosen to operate as MLPs. The actively managed strategy employed by EMLP seeks companies that operate natural or regulated monopolies, with steady allowed rates of return, which are typically non-cyclical. Moreover, the strategy favors companies with relatively high payout ratios. For mature businesses with relatively low growth opportunities, this is intended to force capital discipline. In addition to MLPs, these characteristics can be found among certain utilities, pipeline C-corporations, Canadian infrastructure corporations, and even a few real estate investment trusts (REITs). Such "non-MLP" stocks are included in the universe in which EMLP invests.

The Additional Tax Burden of "Pure Play" MLP ETFs May Substantially Reduce Investor Returns

An unusual attribute of "pure-play" MLP ETFs (which invest solely in MLPs) is that, unlike the vast majority of ETFs, these funds are subject to an additional layer of corporate income taxes. Ironically, this effectively cancels out one of the features of MLPs that investors find most attractive: namely, that MLP cash flows typically flow through to investors without the MLP paying corporate income taxes. Assuming a 35% federal corporate income tax rate, a hypothetical 10% total return for the underlying holdings of a "pure play" MLP ETF would result in a roughly 6.5% return for fund investors (before fund expenses since the fund itself will have an expense for income taxes). This additional layer of taxation is avoided by ETFs that limit MLP allocations to 25%, including EMLP.

What's Next?

2014 provided a good reminder of how difficult it is to accurately forecast crude oil prices. Like any commodity, prices are ultimately determined by supply and demand; but, more so than most other commodities, free market forces are heavily influenced by both geopolitics and government regulations. As global oil markets seek equilibrium in the months ahead, we believe investors should be prepared for continued volatility. Moreover, ETF investors should evaluate the extent to which certain funds may be exposed to future volatility in the price of oil and natural gas. For those seeking exposure to non-cyclical energy infrastructure investments, we believe EMLP may be a valuable alternative to MLP index ETFs.

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.

ETF Characteristics

An index fund's return may not match the return of its underlying index. The ETFs held by FV will generally not be bought or sold in response to market fluctuations.

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

[1] Morningstar Direct. Includes all US-listed exchange-traded funds, exchange-traded notes and other exchange-traded products.

[2] Bloomberg, Energy Income Partners. Components of E&P MLP Index (Oil & Gas) Ticker symbols: LINE, BBEP, VNR, EVEP, LGCY, ARP, MEMP, QRE, DMLP, LRE, MCEP, and NSLP. The composite is capitalization weighted. The Alerian MLP Index is a float-adjusted, capitalization-weighted composite of the 50 most prominent energy Master Limited Partnerships (MLPs). Indexes are unmanaged and an investor cannot invest directly in an index. This example is for illustrative purposes only and is not indicative of the fund. Past performance is no guarantee of future results.

Past performance is not a guarantee of future results and there is no assurance that the events or improvements mentioned herein will continue.

redeemed directly from the 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 the fund. One of the principal risks of investing in the fund is market risk. Market risk is the risk that a particular stock or ETF owned by a fund, fund shares or stocks in general may fall in value. There can be no assurance that a fund's investment objective will be achieved.

A fund may invest in small capitalization and mid capitalization companies. Such companies may experience greater price volatility than larger, more established companies. EMLP may use derivatives which can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, which may be magnified by certain features of the derivatives.

The ETFs in which the FV invests are likely to be concentrated in a single industry or sector. An ETF concentrated in a single industry or sector presents more risks than a fund that is broadly diversified over several industries or sectors.

The ETFs in which FV invests and EMLP may invest in securities of non-U.S. issuers which are subject to additional risks, including currency fluctuations, political risks, withholding, the lack of adequate financial information, and exchange control restrictions impacting non-U.S. issuers. These risks may be heightened for securities of companies located in, or with significant operations in, emerging market countries. A fund may invest in depositary receipts which may be less liquid than the underlying shares in their primary trading market.

EMLP invests primarily in securities of companies headquartered or incorporated in the U.S. and Canada. Accordingly, an investment in the fund may be more volatile than an investment diversified across several geographic regions.

EMLP is concentrated in securities of companies in the energy sector which involves additional risks, including limited diversification. The companies engaged in the energy sector, which includes MLPs and utilities companies, are subject to certain risks, including price and supply fluctuations caused by international politics, energy conservation, taxes, price controls, and other regulatory policies of various governments.

Energy infrastructure companies may be directly affected by energy commodity prices, especially those companies which own the underlying energy commodity. A decrease in the production or availability of commodities or a decrease in the volume of such commodities available for transportation, processing, storage or distribution may adversely impact the financial performance of energy infrastructure companies.

An investment in MLP units involves risks which differ from an investment in common stock of a corporation. Holders of MLP units have limited control and voting rights. In addition, there is the risk that a MLP could be taxed as a corporation, resulting in decreased returns from such MLP. Rising interest rates could adversely impact the financial performance of MLPs, MLP-related entities and energy companies. The fund may be subject to additional risks pertaining to currency, interest rates and derivatives.

FV invests in securities of affiliated ETFs, which involves additional expenses that would not be present in a direct investment in such affiliated ETFs.

The funds are classified as "non-diversified" and may invest a relatively high percentage of its 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.

EMLP is subject to management risk because it is an actively managed portfolio. In managing EMLP's investment portfolio, the sub-advisor will apply investment techniques and risk analyses that may not have the desired result.

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.

This material is not intended to be relied upon as investment advice or recommendations.