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A Snapshot of Q1 Flows and Trends

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US-listed exchange-traded fund (ETF) net inflows totaled $59.1 billion during the first quarter of 2015, according to Morningstar.[1] International Equity ETFs and Taxable Bond ETFs received the strongest net inflows, totaling $37.7 billion and $20.2 billion, respectively, while US Equity ETFs had the largest net outflows, totaling $12.6 billion. (See Table 1 below) Within the International Equity category, currency-hedged ETFs received $26.5 billion in net inflows, as US investors sought to avoid foreign currency risk. Within the Taxable Bond ETFs category, net inflows were strongest among High Yield Bond ETFs (+$4.8 billion), Corporate Bond ETFs (+$4.8 billion), Intermediate-Term Bond ETFs (+$3.5 billion), and Preferred Stock ETFs (+$1.9 billion). Interestingly, net outflows for the US Equity category may not be as bad as they seem, as outflows from a single ETF totaled nearly $31.3 billion. Apart from this ETF, the US Equity ETFs category received $18.8 billion in net inflows.

Table 1

ETF Asset Category	Net Asset Flows - Q1 2015	Net Asset Flows - Previous 4 Quarters (1/1/2014-12/31/2014)
Allocation	$235,951,746	$2,799,135,369
Alternative	$3,185,670,290	$4,134,216,753
Commodities	$3,214,607,397	($1,547,536,032)
International Equity	$37,713,968,156	$43,345,220,464
Municipal Bond	$1,326,109,639	$3,022,768,280
Sector Equity	$5,772,774,137	$43,057,508,846
Taxable Bond	$20,251,056,476	$50,592,299,064
US Equity	($12,586,252,499)	$96,481,384,353

The Case for European Equity ETFs Continues to Develop

Among international equity ETFs, funds focused on Europe received net inflows totaling over $19 billion during the first quarter. Notably, nearly $14 billion of net inflows came from currency-hedged European equity ETFs. There are several factors that may have contributed to investors' growing appetite for European stocks, many of which may continue to provide tailwinds in the months ahead.

Potential Impacts of European Monetary Policy

One significant factor supporting the case for European stocks is the commitment of the European Central Bank (ECB) to easy monetary policy. In addition to standard monetary policy measures holding key interest rates low, the ECB has implemented programs similar to the so-called "quantitative-easing" programs instituted in the US by the Federal Reserve. In March, the Eurosystem began a program of purchasing bonds issued by Euro-area central governments, and certain other Euro-area agencies and international institutions. Combined with two other asset-purchasing programs that were launched in the fourth quarter of 2014, this Expanded Asset Purchase Program (APP), is intended to total €60 billion per month, and to be carried out until September 2016.

According to the ECB, the purpose of these non-standard monetary policy measures is to "help businesses across Europe to enjoy better access to credit, boost investment, create jobs and thus support overall economic growth, which is a precondition for inflation to return to and stabilise at levels close to 2%." While there is general disagreement about how well such programs may achieve these objectives, the ECB has succeeded in signaling its commitment to holding interest rates low, as reflected in the remarkably low yields among euro-area government bonds. This environment of low yields provides incentive for investors to take more risk in order to achieve their return objectives, which may increase demand for European equities.

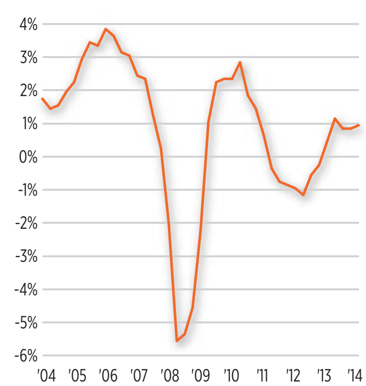
Corresponding with the ECB's discussion and implementation of the APP over the past year, the Euro has weakened significantly relative to other major currencies, especially the US Dollar. A weaker Euro may provide a lift for European companies that are significant exporters as favorable currency translation boosts revenues earned overseas, while also potentially enabling exporters to lower prices in foreign markets in order to compete more aggressively with foreign rivals. Of course, the true impact that currency translation provides for individual European companies and their foreign competitors will vary, depending largely on the degree to which both categories have undergone currency-hedging.

European Economic fundamentals show gradual improvement and better sentiment

Overall, economic fundamentals continue to improve in Europe, albeit gradually. Following seven straight quarters of year-over-year real gross domestic product (GDP) declines (Q1 2012—Q3 2013), the Euro area has produced positive real GDP growth for five consecutive quarters (Q4 2013—Q4 2014). (See Chart 1) The Euro-area's unemployment rate, which was most recently reported at 11.3% for February 2015, has gradually improved from its mid-summer 2013 peak of 12.1%. (See Chart 2 on the following page) While neither measure signals robust economic growth, both point to improving economic stability in the region.

As conditions have evolved in Europe, economic and investor sentiment has begun to improve, which may lead to greater investment in the future.

Chart 1*
Eurozone Real GDP (YoY%)



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In March, the European Commission Economic Sentiment Indicator for the Eurozone recorded its highest reading since July of 2011, at 103.9. (See Chart 3)[2] Also in March, the Sentix Economic Overall Index for the Euro Area, calculated from surveys of 4500 individual and institutional investors, recorded its highest reading since August of 2007. (See Chart 4)[3]

To hedge or not to hedge?

We believe one important factor US ETF investors seeking exposure to European equities must consider is whether or not to utilize currency-hedged ETFs. During the first quarter, approximately 7 of every 10 dollars of net inflows invested in US-listed European Equity ETFs went to funds that employ currency-hedging strategies. Currency-hedged ETFs seek to negate the return contribution that fluctuating currency exchange rates typically makes to an unhedged ETF's total return. Generally speaking, this is accomplished by entering into forward contracts, whose gains or losses roughly offset the currency exchange gains or losses of foreign currency-denominated investments.

Currency-hedging strategies are most beneficial when an investor's home currency is strengthening relative to the foreign currency in which an underlying investment is denominated. In such environments, relative outperformance versus unhedged ETFs with similar underlying portfolios may be expected. On the other hand, when an investor's home currency is weakening versus the foreign currency in which an underlying investment is denominated, exposure to currency exchange risk may be desirable since it increases total returns. In these environments, currency-hedged ETFs will likely suffer relative underperformance compared to unhedged ETFs with similar underlying portfolios.

With this contrast in mind, ETF investors seeking exposure to European equities are faced with an important choice between currency-hedged ETFs or non-currency-hedged ETFs. Predicting future currency exchange rates is difficult, and timing currency markets is even more so. But following the nearly 33% rally of the US Dollar versus the Euro from 3/18/14 to its most recent peak on 3/13/15, we believe investors may be better off choosing the latter for the current environment. While trends in currency exchange rates may sometimes last for multi-year periods, the previous three occasions that the US Dollar rallied more than 20% versus the Euro lasted just over 9 months (204 trading days) on average,[4] compared to the most recent rally, which has lasted just under 12 months from the previous trough to the most recent peak (258 trading days). Each of the previous three US Dollar rallies was followed by a double digit counter-rally for the Euro, which lasted over 14 months (310 trading days) on average,[5] resulting in an average decline of about 17% for the US Dollar versus the Euro. (See Chart 5) If this pattern repeats, and the Euro stages a new counter-rally versus the US Dollar, hedging Euro exposure may be counter-productive, resulting in underperformance relative to non-currency hedged ETFs.

The First Trust family of ETFs offers the following non-currency-hedged European equity ETFs:

» First Trust Eurozone AlphaDEX® ETF (FEUZ)

» First Trust Europe AlphaDEX® Fund (FEP)

» First Trust STOXX® European Select Dividend Index Fund (FDD)

Chart 2*
Eurozone Unemployment (SA)

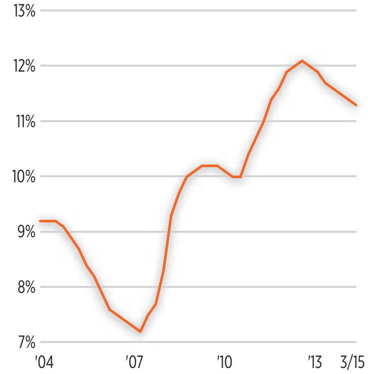


Chart 3*
European Commission Economic Sentiment Indicator- Eurozone

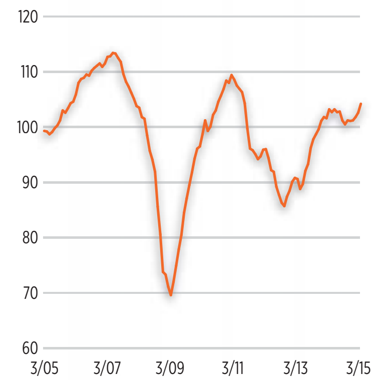


Chart 4*
Sentix Economic Overall Index- Euro area

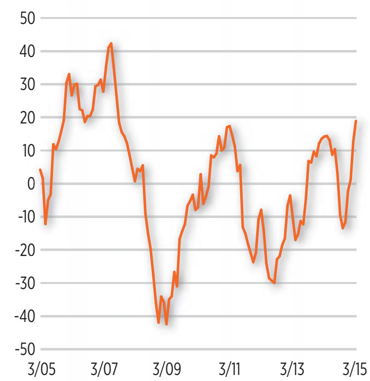
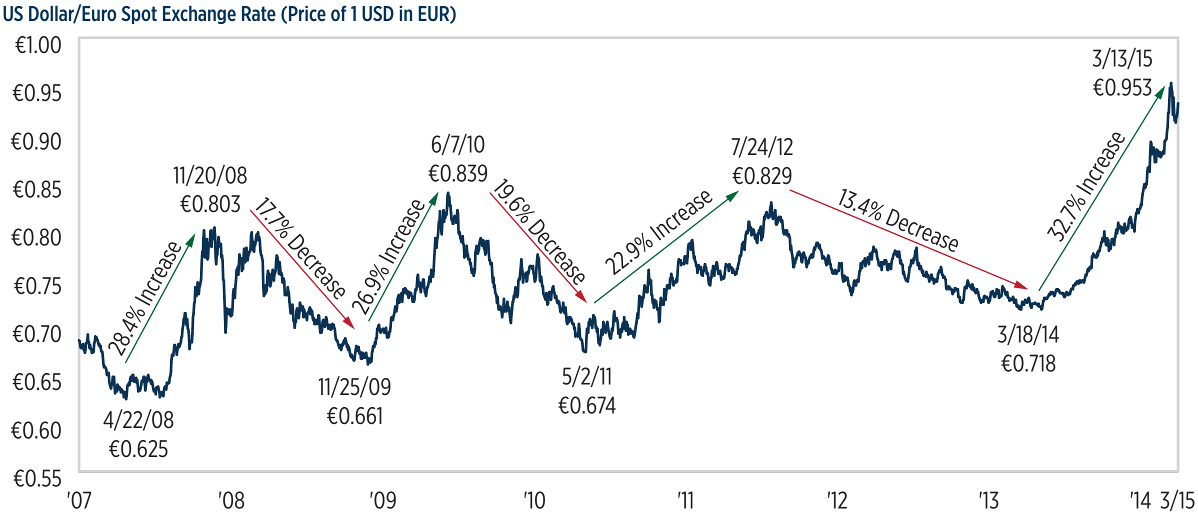


Chart 5*
US Dollar/Euro Spot Exchange Rate (Price of 1 USD in EUR)



*Data from Bloomberg.

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

[2]The European Commission Economic Sentiment Indicator is calculated from the European Commission's Business and Consumer Surveys, and is a weighted measure of confidence in 5 key areas including: industrial (40%), service (30%), consumer (20%), construction (5%), and retail trade (5%).

[3]The Sentix Economic Overall Index for the Euro Area is a measure of economic sentiment calculated from surveys of 4500 private and institutional investors.

[4]Including 4/22/08-11/20/08 (152 days), 11/25/09-6/7/10 (138 days), and 5/2/11-7/24/12 (321 days).

[5]Including 11/20/08-11/25/09 (264 days), 6/7/10-5/2/11 (235 days), and 7/24/12-3/18/14 (430 days).

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

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. Securities held by a fund 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 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 a fund. One of the principal risks of investing in a fund is market risk. Market risk is the risk that a particular stock 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 securities issued by companies concentrated in a particular industry or country. A fund may invest in small capitalization and/or mid capitalization companies. Such companies may experience greater price volatility than larger, more established companies.

An investment in a fund containing securities of non-U.S. issuers is 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.

Growth stocks tend to be more volatile than certain other types of stocks and their prices usually fluctuate more dramatically than the overall stock market. The intrinsic value of a stock with value characteristics may not be fully recognized by the market for a long time or a stock judged to be undervalued may actually be appropriately priced at a low level.

A fund is subject to greater risks of adverse events which occur in the European region and may experience greater volatility than a fund that is more broadly diversified geographically. A significant number of countries in Europe are member states in the European Union, and the member states no longer control their own monetary policies. In these member states, the authority to direct monetary policies, including money supply and official interest rates for the Euro, is exercised by the European Central Bank. Furthermore, the European sovereign debt crisis has had, and continues to have, a significant negative impact on the economies of certain European countries and their future economic outlooks.

Financial companies are especially subject to the adverse effects of economic recession, currency exchange rates, government regulation, decreases in the availability of capital, volatile interest rates, portfolio concentrations in geographic markets and in commercial and residential real estate loans, and competition from new entrants in their fields of business.

A fund may invest in depositary receipts which may be less liquid than the underlying shares in their primary trading market. FEP and FEUZ 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.

A fund is classified as "non-diversified" and may invest a relatively high percentage of its assets in a limited number of issuers. As a result, a fund 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.

FEUZ 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.

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.