First Trust Green Energy ETF Primer

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As fossil fuels continue to lose market share to renewable energy for power generation, investors have grown more interested in green and renewable energy exchange-traded funds (ETFs). For additional commentary on renewable energy, see our recent newsletter titled, *What's Fueling the Rise in Green Energy ETFs?* Below, we provide a brief overview of the methodologies and exposures of three First Trust ETFs focused on the green energy investment theme.

First Trust NASDAQ® Clean Edge® Green Energy Index Fund (QCLN)

The First Trust NASDAQ® Clean Edge® Green Energy Index Fund (QCLN) tracks US-listed companies that derive the majority of their revenue from clean energy and low carbon activities. Companies must be involved in at least one of four clean energy categories: advanced materials (such as silicon, lithium and bio-based materials that enable clean-energy technologies), energy intelligence (including energy conservation, efficiency, and smart metering), energy storage and conversion (such as advanced batteries and electric vehicle development), and renewable electricity generation & renewable fuels (such as solar, wind, geothermal and hydropower). The ETF is market cap weighted, with the largest security capped at 8% of the overall portfolio at each quarterly rebalance.

QCLN's methodology delivers a broad, diversified approach to the theme, and has captured several clean energy trends as the industry has grown and evolved. For example, at the beginning of 2011, consumer discretionary and materials stocks combined accounted for less than 4% of the portfolio. As the electric vehicle and advanced battery market has grown, the combined weight of the two sectors has increased to 24.5% as of 9/30/2020. QCLN also had 11.24% exposure to the semiconductor industry as of 9/30/2020. Semiconductors play a key role in clean energy by enabling clean, renewable energy sources and improving energy efficiency. Semiconductor materials are the basis for solar electric energy systems.[1] Solar power companies, which are also classified as semiconductor stocks, made up most of QCLN's exposure to the industry as of 9/30/20. In our opinion, QCLN provides investors with exposure to these technologies and innovations behind the clean energy transition.

First Trust Global Wind Energy ETF (FAN)

The First Trust Global Wind Energy ETF (FAN) is a targeted approach to companies involved in the wind energy industry. In addition to electricity producers that incorporate wind production, the ETF offers exposure to various elements of the wind power value chain, including wind farm developers and producers of machinery and materials designed specifically for the industry. Pure play companies (companies that provide goods and services exclusively to the wind energy industry) are given a 66.7% aggregate weight, and diversified companies that are significant participants in the wind energy industry, such as large industrial conglomerates involved in the industry, are given a 33.3% aggregate weight.

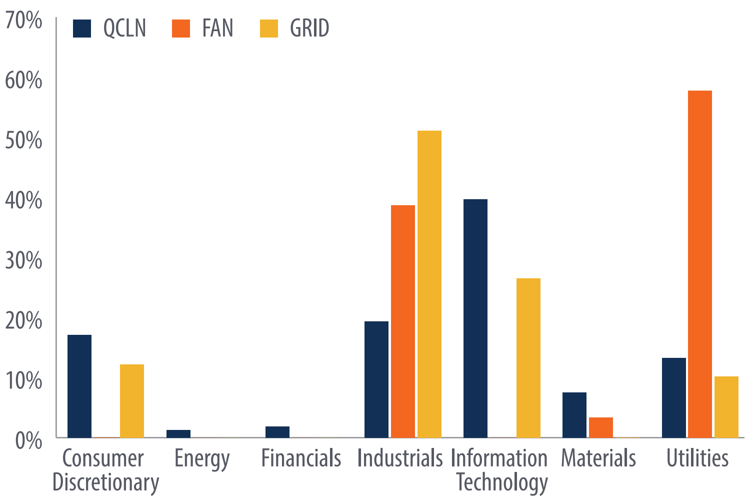
With the majority of installed wind power capacity located outside the United States[2], FAN is a decidedly international portfolio (88.5% non-U.S. exposure as of 9/30/2020). It also strikes a balance between companies that generate wind power and those involved in manufacturing and developing wind turbines. As of 9/30/2020, FAN had 57.9% allocated to the utilities sector and 41.9% allocated to the industrials and materials sectors combined. As installed wind power capacity expands around the world, FAN delivers targeted exposure to this rapidly growing area of the renewable energy market.

First Trust NASDAQ® Clean Edge® Smart Grid Infrastructure Index Fund (GRID)

The First Trust NASDAQ® Clean Edge® Smart Grid Infrastructure Index Fund (GRID) is made up of companies in the grid and electric energy infrastructure sector, including companies that are primarily engaged and involved in electric grid, electric meters and devices, networks, energy storage and management, and enabling software used by the smart grid infrastructure sector. The ETF includes international stocks and weights pure play securities (which derive the majority of their revenue from smart grid, electric infrastructure, and/or other grid-related activities) higher than those with only a portion of their revenue from the theme.

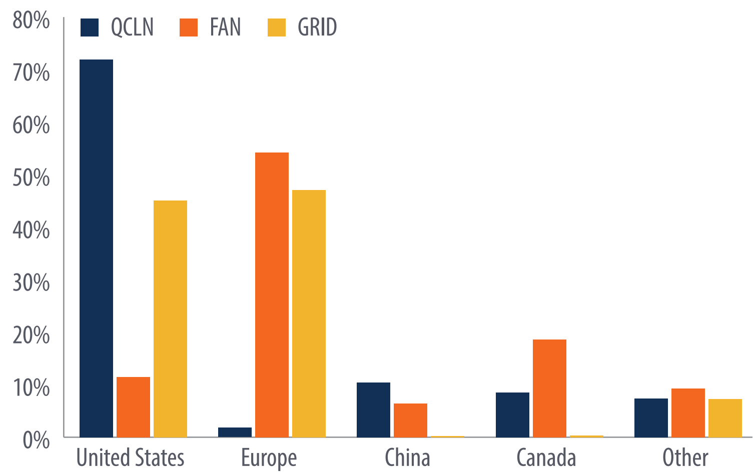
We believe GRID captures the growing digitalization of the electric grid and the intersection of other connectivity themes with infrastructure development. Many of the companies held by GRID harness the power of enabling technologies such as cloud computing, 5G networking, and the Internet of Things to improve electric infrastructure and more efficiently deliver power. As of 9/30/2020, the ETF had an allocation of 51.1% to the industrials sector and 26.5% to the information technology sector. As the world becomes more digitally connected, we believe companies bringing innovative solutions and new technologies to the power grid are likely to benefit.

First Trust Green and Renewable Energy ETFs Sector Comparison as of 9/30/20



Source: Bloomberg

First Trust Green and Renewable Energy ETFs Geographical Comparison as of 9/30/20



Source: Bloomberg

[1] ATI Clean Energy Incubator – The University of Texas at Austin, *CleanTX Analysis on Semiconductors*
[2] IRENA

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You should consider the funds' 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 the funds. The prospectus or summary prospectus should be read carefully before investing.

ETF Characteristics

An index fund's return may not match the return of the applicable index. Securities held by an index 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 a fund by authorized participants, in very large creation/redemption units. If a fund's authorized participants are unable to proceed with creation/redemption orders and no other authorized participant is able to step forward to create or redeem, fund shares may trade at a discount to a fund's net asset value and possibly face delisting.

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. The outbreak of the respiratory disease designated as COVID-19 in December 2019 has caused significant volatility and declines in global financial markets, which have caused losses for investors. The COVID-19 pandemic may last for an extended period of time and will continue to impact the economy for the foreseeable future.

A fund may invest in securities issued by companies concentrated in a particular industry, sector or country which 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 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. A fund may invest in depositary receipts which may be less liquid than the underlying shares in their primary trading market.

Smart grid companies can be negatively affected by high costs of research and development, high capital requirements for implementation, government regulations, limited ability of industrial and utility companies to implement new technologies and uncertainty of the ability of new products to penetrate established industries.

FAN contains the securities of companies in the wind energy, utility and industrial sectors, among others. Wind energy companies can be significantly affected by obsolescence of existing technology, short product cycles, falling prices and profits, competition from new market entrants and general economic conditions. This can be significantly affected by fluctuations in energy prices and supply and demand of alternative energy fuels, energy conservation, and government regulations.

Industrials companies are subject to certain risks, including the general state of the economy, intense competition, consolidation, domestic and international politics, excess capacity and consumer demand and spending trends. They may also be significantly affected by overall capital spending levels, economic cycles, technical obsolescence, delays in modernization, labor relations, and government regulations.

Utilities companies are subject to imposition of rate caps, increased competition, difficulty in obtaining an adequate return on invested capital or in financing large construction projects, limitations on operations and increased costs attributable to environmental considerations and the capital market's ability to absorb utility debt. Utilities companies may also be affected by taxes, government regulation, international politics, price and supply fluctuations, volatile interest rates and energy conservation.

Changes in currency exchange rates and the relative value of non-US currencies may affect the value of a fund's investments and the value of a fund's shares.

Renewable and alternative energy companies can be significantly affected by obsolescence of existing technology, short product cycles, legislation resulting in more strict government regulations and enforcement policies, fluctuations in energy prices and supply and demand of alternative energy fuels, energy conservation, the success of exploration projects, the supply of and demand for oil and gas, world events and economic conditions. Shares of clean energy companies have been significantly more volatile than shares of companies operating in other more established industries. This industry is relatively nascent and under-researched in comparison to more established and mature sectors.

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.

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