

First Trust Industrial and Infrastructure ETF Primer

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As the global economy prepares for life after the COVID-19 pandemic, we find that many investors' attention has begun to shift towards industries and themes that may benefit. We view industrial, manufacturing, and infrastructure stocks as potential beneficiaries of a cyclical rebound in earnings in the months ahead, but also believe many of these stocks may benefit from several longer-term trends, such as the growing likelihood of large-scale public infrastructure spending and the desire of many companies to bolster their supply chains. Moreover, we believe valuations for many of these companies seem relatively attractive. In this report, we provide a brief overview of the methodologies of four First Trust ETFs that provide exposure to industrial, infrastructure and manufacturing stocks.

First Trust Industrials/Producer Durables AlphaDEX® Fund (FXR)

The First Trust Industrials/Producer Durables AlphaDEX® Fund (FXR) utilizes the AlphaDEX® stock selection methodology to construct a portfolio selected from the Russell 1000 industrials/producer durable sector. This strategy ranks potential holdings based on growth factors—including three-, six-, and twelve-month price appreciation, sales to price ratio, and one-year sales growth—as well as value factors—including book value to price ratio, cash flow to price ratio, and return on assets. After eliminating the bottom scoring 25%, the remaining stocks are divided into quintiles, with larger weights assigned to higher scoring stocks. This process is applied quarterly.

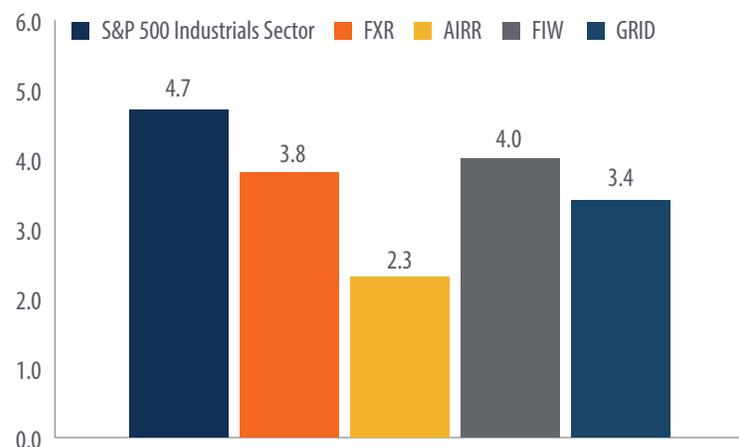
Due to its unique methodology, FXR tends to have less top-heavy concentration than the market cap-weighted S&P 500 Industrials sector (“industrials sector”) with just 15.3% allocated to its top 10 holdings, compared to 41.8% for the industrials sector (as of 2/28/21). Conversely, FXR provides more exposure to smaller stocks, with a weighted-average market capitalization \$24.8 billion, compared to \$71.0 billion for the industrials sector, as of 2/28/21. FXR also favors stocks with cheaper valuations than its benchmark. As of 2/28/21, FXR’s price to book ratio was 3.8, compared to 4.7 for the industrials sector; FXR’s price to forward 12-month earnings ratio was 19.2, compared to 22.4 for the industrials sector. (see charts below).

First Trust RBA American Industrial Renaissance® ETF (AIRR)

The Richard Bernstein Advisors American Industrial Renaissance® Index is designed to measure the performance of small and mid-cap US companies in the industrials sector (with a small allocation to community banks located in traditional manufacturing hubs). Manufacturing and related infrastructure stocks are selected from the Russell 2500 Index. To be eligible for inclusion in the index, companies must generate more than 75% of their sales domestically and have positive forward-looking 12-month earnings estimates. Individual constituents are capped at a maximum weight of 4% of the total index and the index is rebalanced quarterly.

This methodology provides decidedly domestic exposure to the manufacturing industry. Not only are the companies in the portfolio domiciled in the US, they also generate approximately 91% of their revenue domestically, according to FactSet. We believe many of AIRR’s holdings may be well positioned to benefit if companies shift more of their supply chains back to the US in the wake of the COVID-19 pandemic in order to mitigate the risk of future supply disruptions.

Price to Book as of 2/28/21



Source: FactSet

¹ASCE, 2021 Infrastructure Report Card

²ASCE. “The Economic Benefits of Investing in Water Infrastructure”

³United Nations. “Water, Sanitation and Hygiene”

⁴Smart Cities World. “Smart Sewers: Smart cities ‘start eight feet below the ground’”

AIRR’s weighted average market capitalization is the smallest among the four ETFs included in this report, at just \$3.5 billion, as of 2/28/21. Given its focus on smaller stocks, AIRR tends to have very little overlap with the industrials sector. It also has a significantly higher allocation to construction and engineering (34.9% vs. 0.4%), machinery (30.8% vs. 21.1%), and electrical equipment (16.9% vs. 5.9%) than the industrials sector. From a valuation standpoint, AIRR has a lower price to book ratio (2.3 vs. 4.7) and price to forward 12-month earnings ratio (20.6 vs. 22.4) than the industrials sector, as of 2/28/21.

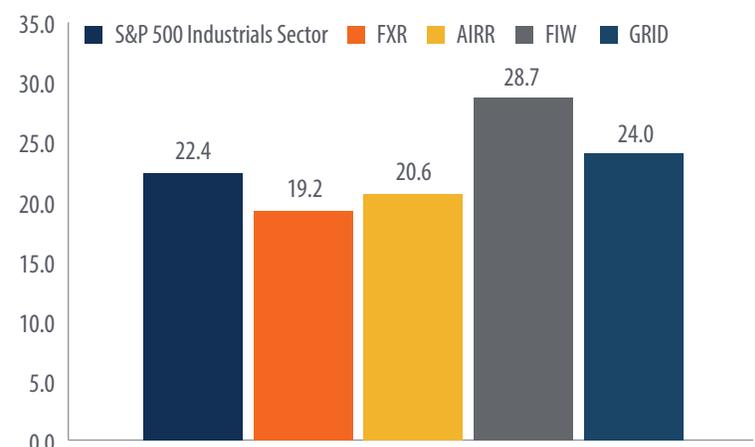
First Trust Water ETF (FIW)

The First Trust Water ETF (FIW) is comprised of companies active in the drinking water and wastewater industries. These companies must derive a substantial portion of their revenues from water distribution, infrastructure, purification and filtration, or ancillary services such as consulting, construction, and metering. The portfolio is limited to 36 companies, which are weighted using a modified market capitalization approach, and the index is rebalanced semi-annually.

Because water infrastructure in the US is mostly below ground, it’s often taken for granted until problems arise. However, as some of the oldest pipes in the US were laid in the 19th century, and many of those laid after World War II are expected to last between 75 and 100 years¹, failures are expected to increase without necessary investments. According to a report by the American Society of Civil Engineers, capital investments totaling \$3.3 trillion over the next 20 years will be required to bring US water infrastructure to a “B” letter grade, from its current “D+” for drinking water infrastructure and “D” for wastewater infrastructure². In many other parts of the world, the need for reliable water infrastructure is even more acute. According to a report from WHO and UNICEF, 2.2 billion people worldwide lack safe drinking water and 4.2 billion people lack safe sanitation³.

Given FIW’s thematic mandate, the portfolio has exposure to multiple sectors, with the industrials sector accounting for its largest allocation at 56.6% (see chart on the next page). Many of FIW’s holdings are involved in developing new technologies for water infrastructure, such as smart metering, data collection and remotely connected sensors. Large municipal water systems have begun implementing many of these new technologies to bring greater efficiency to water systems^{4,5}. According to some estimates, the smart water technology market could grow to \$31.6 billion in the next few years⁶, providing a potential significant opportunity for companies involved in the water industry.

Price to Forward 12-Month Earnings as of 2/28/21



Source: FactSet

⁵Microsoft Industry Blog. “How smart cities are putting people first in the urban world”

⁶American City and County. “Smart water tech: The future of smart cities”

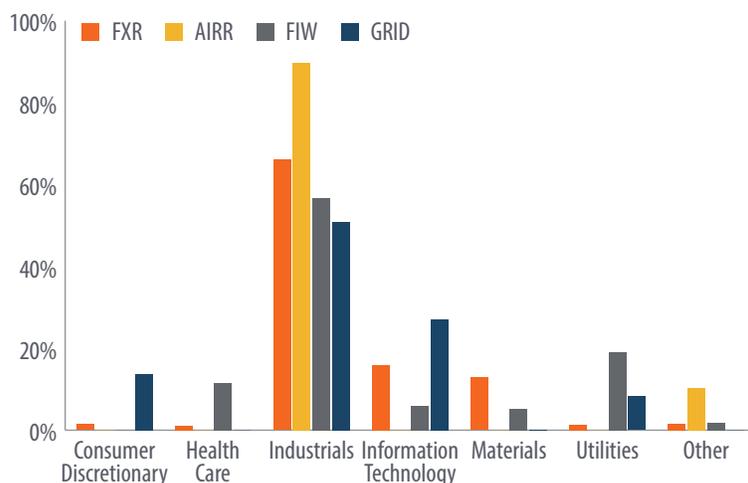
⁷BloombergNEF. “Power Grid Long-Term Outlook 2021”

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Although industrials represent FIW's largest sector allocation, the ETF has relatively low overlap with the broad S&P 500 Industrials Index, representing just 3.5% of this benchmark. Drilling down to an GICS industry level, machinery (31.5%), water utilities (15.5%), and construction & engineering (10.1%) represented FIW's largest allocations, as of 2/28/21. From a valuation perspective, FIW has a lower price to book ratio than the S&P 500 Industrials sector (4.0 vs. 4.7), but a higher price to forward 12-month earnings ratio (28.7 vs. 22.4), as of 2/28/21.

First Trust Industrial & Infrastructure ETF Sector Comparison as of 2/28/21



Source: Bloomberg

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.

Risk Considerations

Investors buying or selling fund shares on the secondary market may incur customary brokerage commissions. 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.

A fund's shares will change in value, and you could lose money by investing in a fund. 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.

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.

A fund may invest in a concentrated portfolio 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 companies.

A fund containing securities of non-U.S. issuers is subject to additional risks as non-U.S. issuers are subject to higher volatility than securities of U.S. issuers. Risks may be heightened for securities of companies located in, or with significant operations in, emerging market countries. Non-U.S. dollar denominated securities may lose money if the local currency depreciates against the U.S. dollar.

Certain 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. (FTA) is the adviser to the funds. FTA is an affiliate of First Trust Portfolios L.P., the funds' distributor.

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

The First Trust NASDAQ® Clean Edge® Smart Grid Infrastructure Index Fund (GRID) includes companies involved in grid infrastructure, smart meters, energy management, connected mobility, and related activities. The ETF includes domestic and international stocks and allocates 80% of its portfolio to "pure plays" (companies that derive the majority of their revenue from smart grid, electric infrastructure, and/or other grid-related activities), and 20% to more diversified contributors to the grid modernization and smart grid market.

In our view, a paradigm shift in electrical power generation and distribution may be under way due to the advent of affordable wind and solar power, new energy storage technology, and the proliferation of microgrids, among other trends. For this transition to occur, massive capital investments to upgrade electrical infrastructure around the world will be needed. According to Bloomberg New Energy Finance, global spending on the power grid could reach \$14 trillion from 2020-2050 in this scenario⁷.

In our view, many of GRID's holdings are well positioned to benefit from these trends. As of 2/28/21, GRID's portfolio was allocated primarily to stocks domiciled in the US (66.3%) and European Union (29.7%). From a sector standpoint, GRID favors stocks in the industrials (51.0%) and information technology (27.1%) sectors. Compared to the other three ETFs mentioned above, GRID tends to have more exposure to larger stocks, with a weighted average market capitalization of \$61.8 billion, as of 2/28/21. From a valuation standpoint, GRID has a lower price to book ratio than the S&P 500 Industrials sector (3.4 vs. 4.7), but a higher price to forward 12-month earnings ratio (24.0 vs. 22.4), as of 2/28/21.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

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Performance Summary (%)

As of 12/31/20	Inception Date	Net Expense Ratio	Gross Expense Ratio	1 Year	5 Year	10 Year	Since Fund Inception
AIRR Performance*							
Net Asset Value (NAV)	3/10/2014	0.70%	0.70%	16.62	15.70	N/A	8.36
Market Price				16.90	15.85	N/A	8.40
Index Performance**							
Richard Bernstein Advisors American Industrial Renaissance® Index				17.55	16.53	N/A	9.19
S&P 500 Industrials Index				11.06	12.38	N/A	9.94
Russell 2500® Index				19.99	13.64	N/A	9.91
S&P 500 Index				18.40	15.22	N/A	12.97
FIW Performance*							
Net Asset Value (NAV)	5/8/2007	0.55%	0.55%	21.20	19.99	13.44	10.72
Market Price				21.21	20.01	13.42	10.72
Index Performance**							
ISE Clean Edge Water Index				22.17	20.63	14.13	11.41
Russell 3000® Index				20.89	15.43	13.79	9.28
FXR Performance*							
Net Asset Value (NAV)	5/8/2007	0.64%	0.64%	12.63	14.98	11.58	7.87
Market Price				12.68	14.99	11.56	7.87
Index Performance**							
StrataQuant® Industrials Index				13.37	15.78	12.36	8.64
Russell 1000® Industrials Index				11.83	13.43	12.53	N/A
Russell 1000® Index				20.96	15.60	14.01	9.38
S&P 500 Industrials Index				11.06	12.38	11.96	8.28
GRID Performance*							
Net Asset Value (NAV)	11/16/2009	0.70%	0.75%	48.25	21.22	11.04	10.48
Market Price				47.94	21.21	11.12	10.48
Index Performance**							
NASDAQ OMX Clean Edge® Smart Grid Infrastructure Index SM				49.84	22.13	11.95	11.40
MSCI World Industrials Index				11.68	11.50	9.08	10.11
S&P Composite 1500 Industrials Index				11.69	12.85	12.15	13.27
Russell 3000® Index				20.89	15.43	13.79	14.04

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.

*NAV returns are based on the fund's net asset value which represents the fund's net assets (assets less liabilities) divided by the fund's outstanding shares. Market Price returns are determined by using the midpoint of the national best bid offer price ("NBBO") as of the time that the fund's NAV is calculated. Returns are average annualized total returns, except those for periods of less than one year. The fund's performance reflects fee waivers and expense reimbursements, absent which performance would have been lower.

Performance information for the indexes is for illustrative purposes only and does not represent actual fund performance.

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. The **MSCI World Industrials Index is a free float-adjusted market capitalization weighted index that is designed to measure the industrials sector performance of 23 developed markets around the world. The **S&P Composite 1500 Industrials Index** is a capitalization-weighted index of companies classified by GICS as industrials within the S&P Composite 1500 Index. The **Russell 3000® Index** is comprised of the 3000 largest and most liquid stocks based and traded in the U.S. The **S&P 500 Industrials Index** is an unmanaged index which includes the stocks in the industrials sector of the S&P 500 Index. The **S&P 500 Index** is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. The **Russell 2500® Index** is an unmanaged market-cap weighted index that includes the smallest 2,500 companies from the Russell 3000 Index. The **Russell 1000® Index** is an unmanaged index used to measure the large-cap U.S. equity universe. The **Russell 1000® Industrials Index** is an unmanaged index which includes the stocks in the producer durables sector of the Russell 1000® Index.