

EQUITYCOMPASS RISK MANAGER ETF (ERM) | EQUITYCOMPASS TACTICAL RISK MANAGER ETF (TERM)

The EquityCompass Risk Manager ETFs are actively managed exchange-traded funds (ETFs) that seek to provide long-term capital appreciation with capital preservation as a secondary objective. The funds' portfolio managers, EquityCompass Strategies, employ an investment strategy which seeks to adjust equity exposure to potentially avoid large, prolonged market losses and reduce volatility. During periods when the equity market is deemed unfavorable by EquityCompass, the funds may have all or a portion of their assets invested in cash, cash equivalents, money market funds and/or short-term fixed income ETFs, including in a single ETF, the First Trust Enhanced Short Maturity ETF (FTSM). TERM may also invest in inverse ETFs designed to provide short exposure to broad U.S. market indexes.

BENEFITS OF AVOIDING OUTSIZED LOSSES

EquityCompass believes avoiding the market's worst down days is meaningfully more beneficial than the penalty that comes from missing the best up days, because severe losses reduce future earnings power due to a smaller capital base. Gains required to fully recover from a loss need to be greater than the original loss. For example, a 20% loss requires a 25% gain for a full recovery, and a 10% loss requires an 11.1% gain to recover. Outsized losses can add years to the time it takes to recover capital.

THE MATHEMATICS OF MARKET LOSS

% Market Loss	% Gain to Recover Loss	Years to Recover Loss ¹
10%	11.1%	1.1
20%	25%	2.3
30%	43%	3.8
40%	67%	5.4
50%	100%	7.3

¹Assumes 10% annual return.

IS IT NECESSARY TO MANAGE EQUITY RISK?

EquityCompass believes the implications of proper risk management, or lack thereof, are often underappreciated, poorly understood, or ignored entirely. All investments carry some risk but steps can be taken within an investment strategy that have the potential to protect against market stress and volatility, while participating in market gains.

The table below shows the hypothetical annual returns and volatility of the S&P 500 Index under three scenarios using all available performance history, beginning with the first full year of performance for the index. The Buy-and-Hold scenario, which assumes an investor stayed in the market every day throughout the period, was the most volatile (as measured by standard deviation) and had the greatest drawdown. Drawdown is the peak-to-trough decline in monthly value. The second and third scenarios assume investors missed 5% and 10%, respectively, of the best and worst months — which EquityCompass believes are more realistic assumptions when implementing a risk management strategy. Not only were the historical returns higher than the Buy-and-Hold scenario, both scenarios that were out of the market for a portion of the period covered also generated lower volatility and less drawdown. The point to this analysis is to show that historically, Buy-and-Hold would have resulted in taking on greater risk than missing the best and worst months. EquityCompass believes the ability to get out of the market during unfavorable times may help to mitigate risk over the long-term.

S&P 500 Index (12/31/57-12/29/17)	Compound Annual Total Return	Annual Volatility (Standard Deviation)	Risk/Return (Sharpe Ratio)	Maximum Drawdown
Buy-and-Hold S&P 500 Index	10.56%	14.43%	0.73	-50.88%
Missing 5% of the best and worst months overall	12.15%	10.40%	1.17	-19.29%
Missing 10% of the best and worst months overall	13.16%	8.45%	1.56	-15.15%

Data source: Bloomberg. Past performance is no guarantee of future results. The example is for illustrative purposes only and is not indicative of the fund. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. These returns were the result of certain market factors and events which may not be repeated in the future.

INVESTMENT STRATEGY FOCUS

- Increase equity exposure in favorable conditions
- Decrease equity exposure in unfavorable conditions
- Seeks to avoid large market losses
- Rules-based investment process

PORTFOLIO MANAGEMENT TEAM

- Timothy M. McCann, Senior Portfolio Manager
- Bernard J. Kavanagh, III, Portfolio Manager

EquityCompass Risk Manager Strategy

INVESTMENT PHILOSOPHY

EquityCompass believes the key to achieving consistent performance that is both explainable and repeatable is the disciplined application of a rules-based investment process that merges traditional investment theory with quantitative techniques. The EquityCompass Risk Manager Strategy analyzes technical and fundamental indicators to assess current market conditions and recommends the appropriate tactical allocation. EquityCompass asserts that in the lead-up to the major bear markets of recent history, technical and fundamental indicators of significant downturn were present and detectable. The strategy screens the market seeking to stay ahead of these trends.

- EquityCompass uses a systematic approach to managing equity exposure and seeks to reduce risk while maintaining upside potential.
- The strategy seeks to reduce portfolio volatility and provide protection from extended market declines to potentially prevent ill-timed investment decisions, and help investors stay invested during market turbulence.
- The strategy provides potential risk control during periods of significant systemic stress when the traditional risk management approach of asset allocation and diversification alone is not sufficient.
- The strategy incorporates the insights of EquityCompass developed by analyzing fundamental data and technical data back to 1916 and covering all bear markets since The Great Depression.

PORTFOLIO ALLOCATION EXAMPLE

The EquityCompass Risk Management Strategy (ERMS) carves out a portion of an equity portfolio for tactical allocation (which could range from one-third to a maximum of 50% of the portfolio):

- When conditions are favorable, the strategy will be fully invested in equity securities.
- When conditions are deemed unfavorable, the strategy will shift to a tactical allocation that may invest in cash, cash equivalents, money market funds, short-term fixed income ETFs, and/or inverse ETFs.



This example assumes a 60% stock / 40% bond allocation with 33% of the equity allocation invested in the EquityCompass Risk Management Strategy.

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

ETF CHARACTERISTICS

The funds list and principally trade their shares on the NYSE Arca, Inc.

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.

INVESTMENT PROCESS

Portfolio of U.S. Equity Securities

Under normal conditions, the funds will primarily invest in equity securities of U.S. companies. EquityCompass uses an approach that is focused on bottom-up stock selection, diversified by sector, assets, and risk levels. The positions are periodically rebalanced.

Fundamental Screen

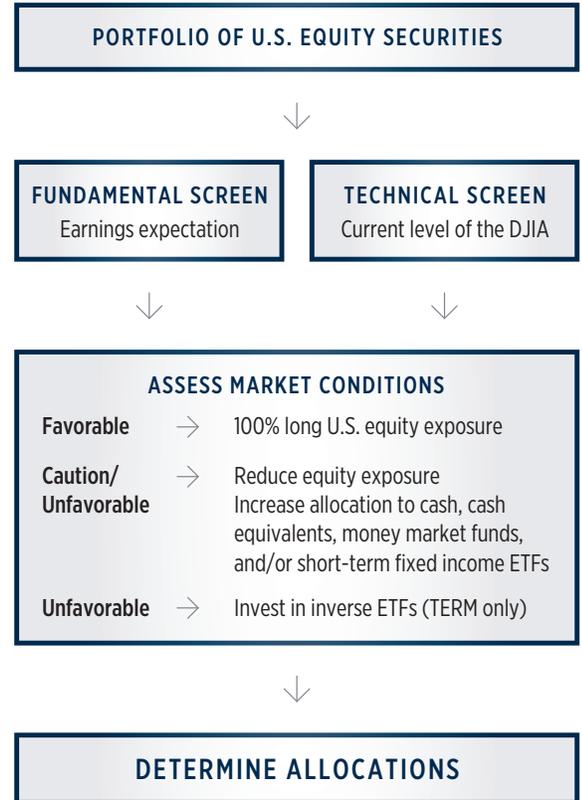
EquityCompass considers two or more consecutive months of declining earnings expectations for the S&P 500 Index to be unfavorable and increases the risk of large market losses, while two or more consecutive months of increasing expectations is considered favorable.

Technical Screen

Market favorability is determined based on the current level of the Dow Jones Industrial Average (DJIA).

Assess Market Conditions

If market conditions are unfavorable, ERM and TERM may have all or a portion of their assets invested in cash, cash equivalents, money market funds and/or short-term fixed income ETFs, including FTSM. TERM may also have a significant portion of its assets invested in inverse ETFs designed to provide short exposure to broad U.S. market indexes.



EQUITYCOMPASS STRATEGIES

EquityCompass Strategies is a Baltimore based equity investment management firm and a wholly owned subsidiary of Stifel Financial Corp. EquityCompass offers a broad range of portfolio strategies based on their systematic, research-driven investment process to institutional investors, financial advisors and individual investors. EquityCompass was founded in January 1998 as Portfolio Strategy Group at Legg Mason Wood Walker to provide quantitative equity research. The empirical research they developed underpins their investment and market insights, analysis and recommendations, and their investment portfolios and products. Today, EquityCompass offers investment strategies across the entire risk-reward spectrum to investors globally in a variety of vehicles (including separately managed accounts, mutual funds, UCITS funds and equity-linked notes).

EquityCompass seeks to combine quantitative discipline and qualitative focus to provide value-added stock selection to pursue portfolio objectives. Quantitative models help determine the relative attractiveness of a stock as well as calculate risk characteristics. Portfolio managers then consider qualitative research and use their expertise in making the final investment selections for a portfolio.

DEFINITIONS

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq Stock Market.

Long/short are investment terms used to describe ownership of securities. To buy securities is to "go long." The opposite of going long is "selling short." Short selling is an advanced trading strategy that involves selling a borrowed security. Short sellers make a profit if the price of the security goes down and they are able to buy the security at a lower amount than the price at which they sold the security short.

Standard Deviation is a measure of price variability (risk).

Sharpe Ratio is a measure of excess reward per unit of volatility.

Inverse ETFs are ETFs, traded on a public stock market, which are designed to perform as the inverse of whatever index or benchmark they are designed to track.

Risk Considerations

A fund's shares will change in value and you could lose money by investing in a fund. The funds are subject to management risk because they are actively managed portfolios. In managing a fund's investment portfolio, the sub-advisor will apply investment techniques and risk analyses that may not have the desired result. There can be no assurance that a fund's investment objectives will be achieved.

The funds are subject to market risk. Market risk is the risk that a particular security owned by a fund or shares of the fund in general may fall in value.

The funds may invest in small or mid capitalization companies. Such companies may experience greater price volatility than larger, more established companies.

The funds may invest in ETFs that are subject to credit risk, income risk, interest rate risk and call risk. Credit risk is the risk that an issuer of a security will be unable or unwilling to make dividend, interest and/or principal payments when due and that the value of a security may decline as a result. Income risk is the risk that income from an ETF's fixed-income investments could decline during periods of falling interest rates. Interest rate risk is the risk that the value of the fixed-income securities in an ETF's portfolio will decline because of rising market interest rates. Call risk is the risk that if an issuer calls higher-yielding debt instruments held by an ETF, performance could be adversely impacted.

To the extent that a fund or an underlying ETF engages in derivatives transactions, the funds bear the risk that the counterparty to the derivative or other contract with a third-party may default on its obligations or otherwise fail to honor its obligations. If a counterparty defaults on its payment obligations a fund will lose money and the value of a fund's shares may decrease.

The risks of owning an ETF generally reflect the risks of owning the underlying securities, although lack of liquidity in an ETF could result in it being more volatile and ETFs have management fees that increase their costs.

As the use of Internet technology has become more prevalent in the course of business, the funds have become more susceptible to potential operational risks through breaches in cyber security.

The funds' investment in ETFs is restricted by the Investment Company Act of 1940, as amended (the "1940 Act"), and the funds' associated exemptive relief which limits the amount of any single ETF that can be owned by a fund, individually and in the aggregate with all other registered investment companies and private investment pools advised by First Trust and its affiliates. This limitation may prevent the funds from purchasing shares of an ETF that it may have otherwise purchased pursuant to its investment objectives and principal investment strategy.

The funds may invest in ETFs that are subject to the risk of investing in mortgage-related and other asset-backed securities, including interest rate risk, extension risk and prepayment risk. Generally, rising interest rates tend to extend the duration of fixed rate mortgage-related securities, making them more sensitive to changes in interest rates. Extension risk is prevalent when in a period of rising interest rates, an ETF holds mortgage-related securities and such securities exhibit additional volatility. Prepayments can reduce the returns of an ETF because the ETF may have to reinvest that money at the lower prevailing interest rates. An ETF's investments in asset-backed securities are subject to risks similar to those associated with mortgage-related securities, as well as additional risks associated with the nature of the assets and the servicing of those assets.

Certain of the fixed-income securities in an underlying ETF may not have the benefit of covenants which could reduce the ability of the issuer to meet its payment obligations and might result in increased credit risk.

Senior floating-rate loans are usually rated below investment grade but may also be unrated. As a result, the risks associated with these loans are similar to the risks of high-yield fixed-income instruments. Credit risk may be heightened for senior loans because companies that issue loans tend to be highly leveraged and thus are more susceptible to the risks of interest deferral, default and/or bankruptcy.

High-yield securities, or "junk" bonds, are subject to greater market fluctuations and risk of loss than securities with higher ratings, and therefore, may be highly speculative. These securities are issued by companies that may have limited operating history, narrowly focused operations, and/or other impediments to the timely payment of periodic interest and principal at maturity.

The funds may invest in the shares of other investment companies, and therefore, the funds' investment performance and risks may be related to the investment performance and risks of the underlying funds.

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.

The funds may invest in ETFs that invest in sovereign debt. Investments in sovereign bonds involve special risks because the governmental authority that controls the repayment of the debt may be unwilling or unable to repay the principal and/or interest when due. In times of economic uncertainty, the prices of these securities may be more volatile than those of corporate debt obligations or of other government debt obligations.

TERM may invest in inverse ETFs which would subject the fund to the risks of a short sale. The underlying ETF will incur a loss as a result of a short sale if the price of the security sold short increases in value between the date of the short sale and the date on which a fund purchases the security to replace the borrowed security. In a rising stock market, the underlying ETF's short positions may significantly impact the ETF's overall performance or cause it to sustain losses, particularly in a sharply rising market. The use of short sales may also cause the underlying ETF to have higher expenses than other funds.

The funds currently have fewer assets than larger funds, and like other relatively new funds, large inflows and outflows may impact a fund's market exposure for limited periods of time.

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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