

# FIRST TRUST ACTIVE FACTOR ETFs

The **First Trust Active Factor ETFs** (the “funds”) are exchange-traded funds (ETFs) that seek to provide capital appreciation by investing at least 80% of their net assets (including investment borrowings) in equity securities. The funds will principally invest in the common stocks of U.S. companies that are listed and traded on a U.S. national securities exchange.

## AFLG

First Trust Active Factor Large Cap ETF

## AFMC

First Trust Active Factor Mid Cap ETF

## AFSM

First Trust Active Factor Small Cap ETF

### WHAT IS A FACTOR?

A factor is a similar investment characteristic across a broad group of stocks that offers a persistent source of return. This strategy selects securities based on those factors which are associated with historically higher absolute returns, higher risk-adjusted returns or higher Sharpe ratios than the benchmark, also known as “rewarded factors”.<sup>1</sup> The multifactor quantitative methodology currently used by the funds may take into account the following factors:

#### Low Volatility

A measure of the magnitude of a security’s price fluctuations over time

#### Momentum

A measure of the price performance of a security versus a market average, another security or universe of securities

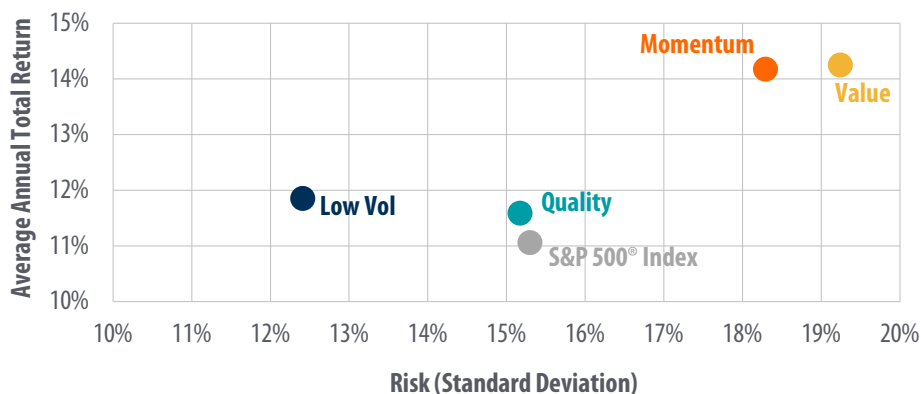
#### Value

A measure of a security’s price relative to the fundamental value of that security

#### Quality

A measure of the strength of a security’s fundamentals

### FACTOR TOTAL RETURNS (JANUARY 1970 - SEPTEMBER 2025)



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

Source: Kenneth R. French Data Library. Value is the top 20% based on book-to-market, momentum is the top 20% by the prior return, low volatility is the lowest 20% based on daily variance and quality is the best 20% based on a combination of operating profit and net issuance of stock. Returns are monthly from January 1970 to September 2025 (latest data available).

**Past performance is not a guarantee of future results.**

This example is for illustrative purposes only and not indicative of any fund. The returns were the results of certain market factors that may not be repeated in the future.

### WHY CONSIDER THE FIRST TRUST ACTIVE FACTOR ETFs?

The funds are designed for investors who seek attractive returns while managing risks, including drawdowns.<sup>2</sup> Using a disciplined quantitative stock selection methodology combined with an active risk management overlay allows the portfolio managers to seek to achieve portfolio objectives, while responding to changing market conditions. The flexibility to alter the investing factors allows them to gain exposure to the desired factors while attempting to control risks. The active risk management overlay seeks to reduce the tracking error of the portfolio by diversifying across the rewarded factors mentioned above, while limiting sector and industry concentrations, controlling market exposure and reducing single stock risk.<sup>3</sup>

### POTENTIAL BENEFITS



Quantitative Approach



Actively Managed



Managed Risk Exposure



Diversified Across Multiple Factors\*

\*Diversification does not guarantee a profit or protect against loss.

# Methodology

## FIRST TRUST ACTIVE FACTOR ETF SELECTION METHODOLOGY – AN ALTERNATIVE TO SMART BETA INVESTING

Smart beta indexes apply rules-based methodologies attempting to provide a better overall risk/return profile than traditional cap-weighted indexes though still in a passive form. First Trust Active Factor ETFs take this a step further by incorporating an active risk overlay to manage certain risk exposures. The portfolios combine both a multi-factor quantitative methodology to identify attractive stocks and an active risk overlay to manage factor and risk exposures to construct a portfolio of securities exhibiting exposure to one or more investing factors.

**Target Rewarded Factors** | Historically, an investor could have earned higher absolute or higher risk-adjusted returns by investing individually in either the value, momentum, quality and low volatility factors relative to the same asset class.

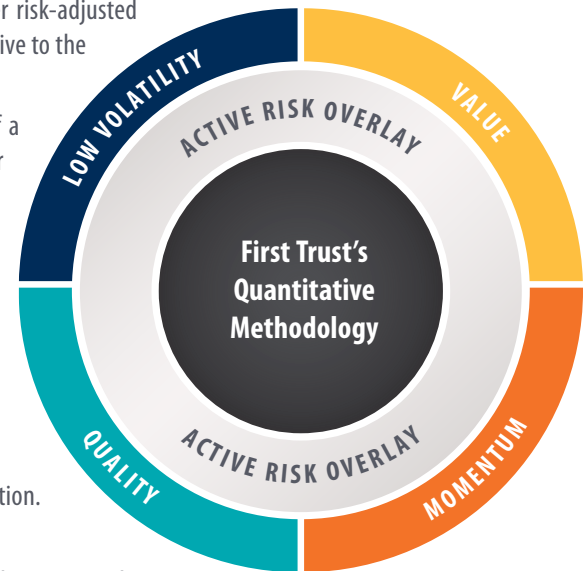
**Enhanced Factors** | Factors are based on a composite score, meaning more than one measure of a factor is used to get a more robust representation of the factor. For example, rather than using a singular measure of value (price-to-book for example), a composite score uses two or more measures (price-to-book and price-to-cash flow for example) to measure value. Factors are also adjusted for sector biases or accounting adjustments to further refine the factor signal.

**Combine Factors** | One or more of the rewarded factors are combined together in order to:

- Seek to efficiently gain high exposures across factors, which we believe will drive returns.
- Capture beneficial interactions between factors by maintaining exposure to factors that rank highly when combined; for example, value stocks that are also quality.
- Diversify, or reduce risk. Negative correlations between factors may occur, providing further diversification. For example, the value and momentum factors are typically negatively correlated.

Factor exposures are actively adjusted, as necessary, due to changes in market conditions, emergent academic research or other considerations.

**Reduce Uncompensated Risks** | Targeting specific factors may produce unintended sources of risk, such as single-stock risk, and sector and industry bets. The portfolio managers seek to reduce tracking-error, or active risk, by monitoring and constraining exposure to sectors, industries, individual securities and the market.



## ANNUAL FACTOR TOTAL RETURN

Although individual factors may either outperform or underperform the broad market in any given year, factor performance has tended to be cyclical over the long-term, even in the case of rewarded factors. The value factor has historically performed better in a risk-taking environment, while the low volatility factor has historically performed best in a risk averse environment. The momentum factor has historically performed best when trends persist in a market. The quality factor is more of a risk-adjusted return factor and has historically provided more stable absolute performance over a market cycle relative to other factors. The example below illustrates how factor performance may vary throughout changing market cycles.

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
18.3%	5.1%	25.8%	22.1%	-3.2%	32.4%	34.5%	33.4%	-6.3%	22.6%	23.4%	14.5%	<b>Momentum:</b> Highest 12-month price change
13.0%	3.0%	15.0%	20.2%	-5.6%	27.7%	19.6%	25.6%	-6.7%	13.5%	16.7%	10.8%	<b>Value:</b> Lowest price-to-book
9.4%	-3.3%	12.5%	18.6%	-8.8%	27.5%	4.2%	23.7%	-13.6%	12.6%	16.4%	9.4%	<b>Quality:</b> Highest return-on-equity
8.1%	-6.7%	7.1%	12.7%	-13.9%	24.6%	-3.0%	13.0%	-15.5%	5.4%	12.5%	4.6%	<b>Low Volatility:</b> Lowest 1-year price variability

Source: Capital IQ. As of 9/30/25. Returns are total returns. **Past performance is no guarantee of future results.** Universe: largest 1,000 U.S. firms with \$1 million in average daily volume over the last 3 months and 12 months of trading history. Top 30% of stocks by factor are selected. Stocks are then equally weighted. This example is for illustrative purposes and does not represent any actual investment.

The funds are managed by First Trust Advisors L.P., with selection and portfolio decisions made by an Investment Committee. The securities included in the portfolio are chosen using a disciplined approach. The Investment Committee manages the selection of the securities by leveraging the knowledge of First Trust's research and portfolio management teams who understand the factors that drive risk-adjusted returns.

## INDEX CONSTRUCTION PROCESS

**Universe\*** | Each fund will principally invest in the common stocks of U.S. companies that are listed and traded on a U.S. national securities exchange

**Security Selection** | A rules-based, quantitative stock selection methodology using enhanced factors

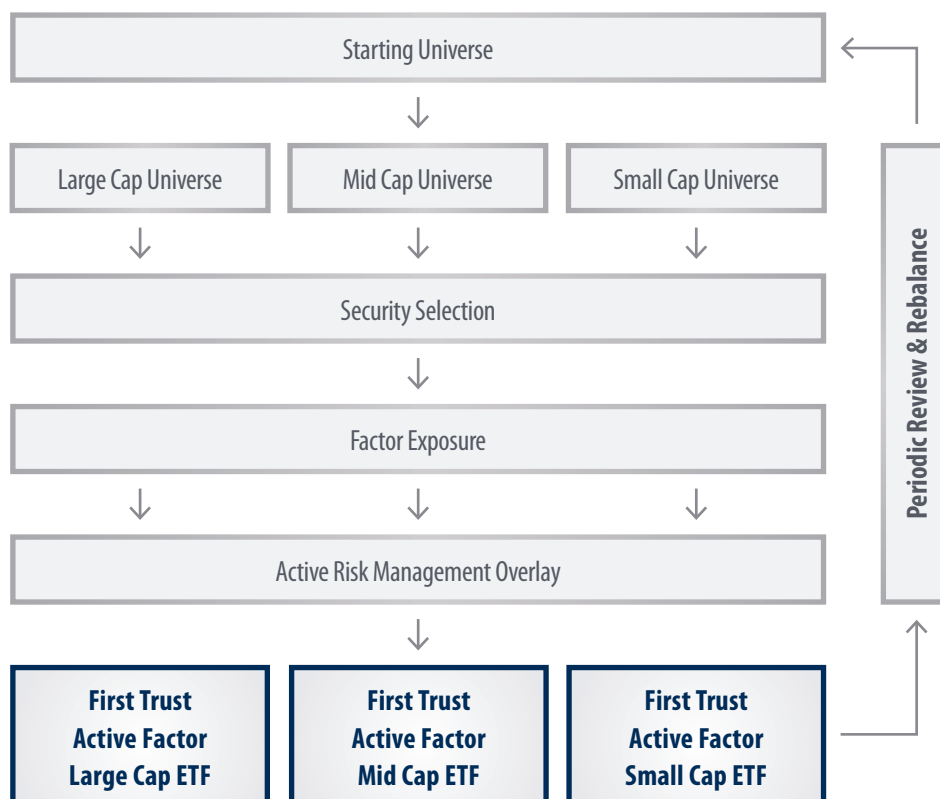
### Factor Exposure

- Allocate to rewarded factors efficiently
- Diversify across factor exposures
- Analyze interactions between factors

### Risk Overlay

- Seek to limit stock-specific, sector, industry and style risks
- Frequent monitoring of portfolio risk

\*As of November 30, 2024, the funds define large cap companies as those with a minimum market cap of \$3.05 billion, mid cap companies as those with a market cap between \$362.89 million and \$57.83 billion, and small cap companies as those with a market cap between \$250 million and \$33.47 billion. The funds are not required to sell a security if its market cap falls outside of a fund's maximum or minimum market cap ranges at any time after its acquisition by a fund.



### Fund Facts

Inception Date	12/3/19
Investment Advisor	First Trust Advisors L.P.
Primary Listing	NYSE Arca

### Ticker

**AFLG**  
**AFMC**  
**AFSM**

### Intraday NAV

AFLGIV  
AFMCIV  
AFSMIV

### CUSIP

33740F821  
33740F813  
33740F797

***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](http://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.***

## Risk Considerations

**You could lose money by investing in a fund. An investment in a fund is not a deposit of a bank and is not insured or guaranteed. There can be no assurance that a fund's objective(s) will be achieved. Investors buying or selling shares on the secondary market may incur customary brokerage commissions. Please refer to each fund's prospectus and Statement of Additional Information for additional details on a fund's risks. The order of the below risk factors does not indicate the significance of any particular risk factor.**

Unlike mutual funds, shares of the fund 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 premium or discount to a fund's net asset value and possibly face delisting and the bid/ask spread may widen.

Current market conditions risk is the risk that a particular investment, or shares of the fund in general, may fall in value due to current market conditions. For example, changes in governmental fiscal and regulatory policies, disruptions to banking and real estate markets, actual and threatened international armed conflicts and hostilities, and public health crises, among other significant events, could have a material impact on the value of the fund's investments.

A fund is susceptible to operational risks through breaches in cyber security. Such events could cause a fund to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures and/or financial loss.

Equity securities may decline significantly in price over short or extended periods of time, and such declines may occur in the equity market as a whole, or they may occur in only a particular country, company, industry or sector of the market.

A fund may be a constituent of one or more indices or models which could greatly affect a fund's trading activity, size and volatility.

Industrials and producer durables 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.

Information technology companies are subject to certain risks, including rapidly changing technologies, short product life cycles, fierce competition, aggressive pricing and reduced profit margins, loss of patent, copyright and trademark protections, cyclical market patterns, evolving industry standards and regulation and frequent new product introductions.

Large capitalization companies may grow at a slower rate than the overall market.

A portfolio comprised of low volatility stocks may not produce investment exposure that has lower variability to changes in such stocks' price levels. Low volatility stocks are likely to underperform the broader market during periods of rapidly rising stock prices.

The portfolio managers of an actively managed portfolio will apply investment techniques and risk analyses that may not have the desired result.

Market risk is the risk that a particular security, or shares of a fund in general may fall in value. Securities are subject to market fluctuations caused by such factors as general economic conditions, political events, regulatory or market developments, changes in interest rates and perceived trends in securities prices. Shares of a fund could decline in value or underperform other investments as a result. In addition, local, regional or global events such as war, acts of terrorism, spread of infectious disease or other public health issues, recessions, natural disasters or other events could have significant negative impact on a fund.

There can be no assurance that the securities held by a fund will stay within a fund's intended market capitalization range.

A fund faces numerous market trading risks, including the potential lack of an active market for fund shares due to a limited number of market makers. Decisions by market makers or authorized participants to reduce their role or step away in times of market stress could inhibit the effectiveness of the arbitrage process in maintaining the relationship between the underlying values of a fund's portfolio securities and a fund's market price.

Mid capitalization companies may experience greater price volatility than larger, more established companies.

The utilization of quantitative models entails the risks that a model may be limited or incorrect, the data on which a model relies may be incorrect or incomplete and the portfolio managers may not be successful in selecting companies for investment or determining the weighting of particular stocks in a fund's portfolio. Any of these factors could cause a fund to underperform funds that do not rely on models.

A "momentum" style of investing emphasizes selecting stocks that have had higher recent price performance compared to other stocks. Momentum can turn quickly and cause significant variation from other types of investments.

A fund and a fund's advisor may seek to reduce various operational risks through controls and procedures, but it is not possible to completely protect against such risks. The fund also relies on third parties for a range of services, including custody, and any delay or failure related to those services may affect the fund's ability to meet its objective.

The market price of a fund's shares will generally fluctuate in accordance with changes in the fund's net asset value ("NAV") as well as the relative supply of and demand for shares on the exchange, and a fund's investment advisor cannot predict whether shares will trade below, at or above their NAV.

A quality stocks investment fund may not correctly identify companies with strong fundamentals and selected companies may not maintain strong fundamentals. In addition, returns on quality securities may be less than returns on other styles of investing or the overall stock market.

A fund with significant exposure to a single asset class, country, region, industry, or sector may be more affected by an adverse economic or political development than a broadly diversified fund.

Securities of small capitalization companies may experience greater price volatility and be less liquid than larger, more established companies.

Trading on an exchange may be halted due to market conditions or other reasons. There can be no assurance that a fund's requirements to maintain the exchange listing will continue to be met or be unchanged.

Value characteristics of a stock may not be fully recognized for a long time or a stock judged to be undervalued may actually be appropriately priced at a low level.

First Trust Advisors L.P. (FTA) is the adviser to the First Trust fund(s). FTA is an affiliate of First Trust Portfolios L.P., the distributor of the fund(s).

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.

## Benchmark Definitions

The **S&P 500® Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance.

The **Russell 3000® Index** is comprised of the 3000 largest and most liquid stocks based and traded in the U.S.

The **S&P MidCap 400® Index** is an unmanaged index of 400 stocks used to measure mid cap U.S. stock market performance.

The **Russell 2000® Index** is comprised of the smallest 2000 companies in the Russell 3000® Index.

## Definitions

<sup>1</sup>**Sharpe Ratio** is the average return earned in excess of the risk-free rate per unit of volatility. A higher value is desired.

<sup>2</sup>**Drawdown** is the measure of decline in an investment from an assets peak value to its lowest point over a period of time.

<sup>3</sup>**Tracking Error**, or active risk, is a measure of how closely a portfolio's return matches that of its benchmark.