

The **First Trust Municipal High Income ETF** is an actively managed exchange-traded fund (ETF) that seeks to provide federally tax-exempt income. Long-term capital appreciation is a secondary objective. Under normal market conditions, the fund seeks to achieve its investment objectives by investing at least 80% of its net assets (including investment borrowings) in municipal debt securities that pay interest exempt from regular federal income taxes. At least 50% of its net assets are allocated to below investment-grade and unrated municipal securities.

## WHY CONSIDER FMHI?

- The portfolio managers' distinctive investment process driven by fundamental research and informed by a quantitative overlay to seek bonds that may perform well on a total return basis in various interest rate environments.
- We believe our approach to seek income and capital appreciation is unique relative to many competitors who focus on income and capital preservation.
- The fund's intermediate duration focus seeks to provide some protection against interest rate movements while maintaining current income.
- Active management allows our experienced portfolio team to seek to take advantage of developing opportunities.

## INVESTMENT OVERVIEW

The fund is managed using a disciplined approach that focuses on a combination of quantitative analysis and fundamental research. We believe the key to investment success is an actively managed approach that focuses on individual bond selection. We seek to take advantage of the inefficiencies within the municipal market to find higher-yielding, undervalued bonds. The portfolio construction process currently focuses on bonds with the following attributes:

- **Average Maturity** | We may invest in municipal securities of any maturity, but are currently focusing on the 5 to 18 year maturity range which we believe can provide some protection against rising interest rates relative to longer term securities in the current environment.
- **Credit Rating** | The municipal securities selected are weighted toward securities rated below investment-grade and unrated securities determined by the fund's advisor to be of comparable quality (collectively referred to as "high yield" or "junk" bonds), with an allocation to investment-grade rated bonds.
- **Sector/Sub-Industry Profile** | The sector breakdown is centered on municipal securities that meet a basic infrastructure need or critical service within their communities and are necessary regardless of the economic cycle. Examples of the types of bonds we will seek for this fund include municipal infrastructure projects such as airports, continuing care retirement communities, education, housing, electric utilities, hospitals, special assessment districts, toll roads, universities and water and sewer systems.

## INVESTMENT STRATEGY FOCUS

- Federally tax-exempt monthly income potential
- Capital appreciation potential
- Lower investment grade rated bonds and high yield municipal bonds
- Potential to outperform relevant municipal securities indexes

### Fund Facts

Fund Ticker	FMHI
Investment Advisor	First Trust Advisors L.P.
Fund Inception Date	11/1/17
CUSIP	33739P301
Intraday NAV	FMHIIV
Primary Listing	Nasdaq

## FIRST TRUST MUNICIPAL SECURITIES TEAM

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# Tax-Advantaged Income

## MUNICIPAL BOND BASICS

A municipal bond is a debt obligation of a state or local government entity which is used to help build America's infrastructure by raising money to finance public projects such as airports, charter schools, toll roads, hospitals, senior living facilities, ports, universities, and water and sewer facilities. In return, investors in tax-exempt municipal bonds receive income which is free from federal income taxes and, in some cases, state and local income taxes as well.

In addition to their ability to provide tax-exempt income, municipal bonds have traditionally been considered a lower risk investment because of the essential nature of government entities and the security interests often offered to investors. Municipal bonds are typically classified according to purpose and security interests as either revenue bonds or general obligation bonds. Revenue bonds are typically used by an issuer to finance the cost of a revenue producing project such as a toll road, a hospital, a school, etc. Revenues derived from the project are then used to pay principal and interest on the bonds. Investors often receive a lien on the project (such as a mortgage or a tax lien) and the project's revenues are pledged to ensure repayment of the bonds. General obligation bonds, on the other hand, are backed by the full faith and credit of the issuing municipality, which has the ability to use its taxing power to increase revenues to ensure timely principal and interest payments.

## TAXABLE EQUIVALENT YIELD ADVANTAGE

Tax-exempt municipal bonds may provide investors with significant tax savings. For investors in higher tax brackets, municipals can offer greater after-tax yields than taxable debt securities of similar maturities and credit quality, including treasuries and corporate bonds. Taxable-equivalent yields represent the amount of pre-tax return an investor would need to earn in a taxable investment in order to equal that of a tax-exempt investment.

The chart to the right illustrates the taxable equivalent yield at five different federal income tax levels. As you can see, if an investor is in the 24% federal tax bracket, a 4.00% tax-free yield has a taxable equivalent yield of 5.26%. In other words, an investor would need to get a 5.26% yield from a taxable bond to equal the 4.00% payout of the tax-free municipal bond.

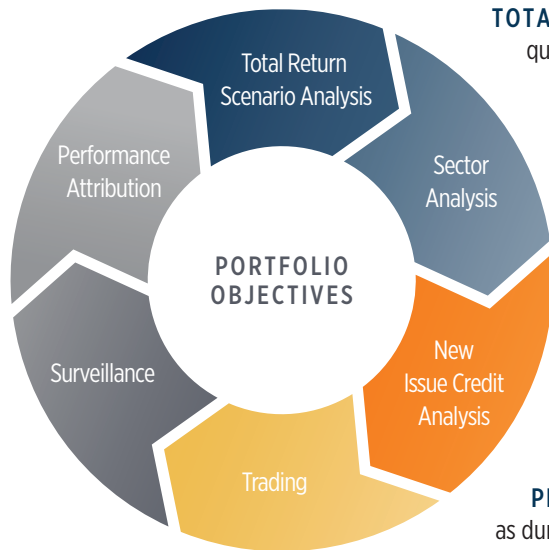
Tax-Free vs. Taxable Equivalent Yield

Federally Tax-Free Yield	2018 Federal Tax Rate				
	22%	24%	32%	35%	37%
	Taxable Equivalent Yield				
3.00%	3.85%	3.95%	4.41%	4.62%	4.76%
4.00%	5.13%	5.26%	5.88%	6.15%	6.35%
5.00%	6.41%	6.58%	7.35%	7.69%	7.94%
6.00%	7.69%	7.89%	8.82%	9.23%	9.52%

This example is for illustrative purposes only and should not be regarded as tax advice. This example should not be considered indicative of the yields of the bonds which may be included in the portfolio. Note that the Federal tax rates do not reflect any (i) federal limitations on the amount of allowable itemized deductions, phase-outs of personal or dependent exemption credits or any other credits, (ii) alternative minimum taxes or any taxes other than personal income taxes, or (iii) state or local taxes. Investors should consult their tax professional for more complete information with regard to their specific tax situation.

*You should consider the fund's investment objectives, risks, and charges and expenses carefully before investing. Contact First Trust Portfolios L.P. at 1-800-621-1675 to obtain a prospectus or summary prospectus which contains this and other information about the fund. The prospectus or summary prospectus should be read carefully before investing.*

The investment process practices rigorous credit analysis of individual issuers coupled with a thorough understanding of the major opportunities and risks within municipal sectors. The investment process focuses on each of the following elements:



**TOTAL RETURN SCENARIO ANALYSIS** | Evaluate individual bonds and portfolios of securities which are quantitatively exposed to interest rate, yield curve, and credit spread movements or “shocks”.

**SECTOR ANALYSIS** | Perform top-down review of core sectors based on bottom-up analysis of individual credits to determine which municipal sectors to overweight, neutral weight, and underweight.

**NEW ISSUE CREDIT ANALYSIS** | Evaluate new bond offerings to determine portfolio suitability based on the fundamental credit research on each borrower and individual bond security features.

**TRADING** | Analysis of how a bond might trade in the secondary market is reviewed including total bond issuance size, underwriter willingness to make secondary markets, along with bond structural features such as coupon, maturity dates, call dates, and sinking fund payments.

**SURVEILLANCE** | Analyze holdings on a systematic basis to monitor any changes in credit trends. Credit rating momentum is monitored for each bond.

**PERFORMANCE ATTRIBUTION** | Perform granular total return analysis of key portfolio attributes such as duration, credit rating, sector, and state.

## THE IMPORTANCE OF PROFESSIONAL PORTFOLIO MANAGEMENT

We believe the events of the past few years have underscored the importance of professional portfolio management that focuses on individual bond selection. The municipal market was once considered uniform and virtually risk free. In reality, the municipal market is complex. First Trust applies extensive research on each individual municipal bond we consider for the fund. We believe it is critical to understand an issuer’s ability to meet its financial obligations and not simply rely on its credit rating. Not only do we perform fundamental research, but we also apply quantitative total return analysis, at both the individual bond and portfolio level, in order to identify those bond structures that have the potential for better relative performance over multiple interest rate scenarios. Active portfolio management allows us to make portfolio adjustments, as necessary, when conditions change. We believe rigorous surveillance is an essential element of our investment process. Most investors do not have the time, experience or inclination, to provide in-depth credit research and analysis, or ongoing surveillance of bonds. We believe these are the keys to finding value and capturing opportunities in today’s credit-sensitive markets.

## ETF Characteristics

The fund lists and principally trades its shares on The Nasdaq Stock Market LLC.

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. If the 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 the fund’s net asset value and possibly face delisting.

# Risk Considerations

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

The fund is subject to market risk. Market risk is the risk that a particular security owned by the fund or shares of the fund in general may fall in value. The values of municipal securities held by the fund may be adversely affected by local political and economic conditions and developments.

Municipal bonds are subject to numerous additional risks, including credit risk, income risk, interest rate risk, call risk, zero coupon bond risk, and political and economic 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 the fund's fixed income investments could decline during periods of falling interest rates. Interest rate risk is the risk that the value of the securities in the fund will decline because of rising market interest rates. Call risk is the risk that performance could be adversely impacted if an issuer calls higher-yielding debt instruments held by the fund. Zero coupon bond risk is the risk that zero coupon bonds may be highly volatile as interest rates rise or fall because they do not pay interest on a current basis. Political and economic risk is the risk that the values of municipal securities held by the fund may be adversely affected by local political and economic conditions and developments. Adverse conditions in an industry significant to a local economy could have a correspondingly adverse effect on the financial condition of local issuers.

Income from municipal bonds held by the fund could be declared taxable because of, among other things, unfavorable changes in tax laws, adverse interpretations by the Internal Revenue Service or state tax authorities, or noncompliant conduct of a bond issuer. The fund has no limit as to the amount that can be invested in alternative minimum tax bonds. All or a portion of the fund's otherwise exempt-interest dividends may be taxable to those shareholders subject to the federal alternative minimum tax.

Inventories of municipal securities have decreased in recent years, lessening the ability to make a market in these securities. This reduction in market making capacity has the potential to decrease the fund's ability to buy or sell municipal securities, and increase price volatility and trading costs.

Custodial receipt trusts may issue inverse floater securities in which the fund may invest. Inverse floater securities may be leveraged and their market values may be more volatile than other types of fixed-income instruments.

As the use of Internet technology has become more prevalent in the course of business, the fund has become more susceptible to potential operational risks through breaches in cyber security. Such events could cause the funds to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures and/or financial loss.

If the fund has lower average daily trading volumes, it may rely on a small number of third-party market makers to provide a market for the purchase and sale of shares. Any trading halt or other problem relating to the trading activity of these market makers could result in a dramatic change in the spread between the fund's net asset value and the price at which the fund's shares are trading.

The fund is subject to industrial development bond risk which is the risk that to the extent that the industrial development sector continues to represent a significant portion of the fund, the fund will be sensitive to changes in, and its performance may depend to a greater extent on, the overall condition of the industrial development sector.

The payment of principal and interest of a pre-refunded bond is funded from securities held in a designated escrow account where such securities are obligations of and carry the full faith and credit of the U.S. Treasury. The securities held in the escrow fund do not guarantee the price of the bond.

Private activity bonds, issued by municipalities or other public authorities, can have a substantially different credit profile than the municipality or public authority and may be negatively impacted by conditions affecting either the general credit of the use of the private activity project or the project itself.

An investment in inverse floaters typically will involve greater risk than an investment in a fixed rate municipal bond. Investments in inverse floaters create effective leverage. In addition, distributions paid to the fund on its inverse floaters will be reduced or even eliminated as short-term municipal interest rates rise and will increase as short-term municipal interest rates fall.

The fund may invest in distressed municipal securities and many distressed securities are illiquid or trade in low volumes and thus may be more difficult to value.

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 market for high-yield securities is smaller and less liquid than that for investment-grade securities.

Participation interests in municipal leases pose special risks because many leases and contracts contain "non-appropriation" clauses that provide that the governmental issuer has no obligation to make future payments under the lease or contract unless money is appropriated for this purpose by the appropriate legislative body.

The fund will, under most circumstances, effect a portion of creations and redemptions for cash, rather than in-kind securities. As a result, the fund may be less tax-efficient.

The fund 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.

The 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, the 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.

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

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