

A STRATEGY FOR RISING DIVIDENDS FROM SMALL AND MID CAPITALIZATION COMPANIES

High quality dividends are often associated with larger, well-established companies, yet smaller companies with strong balance sheets and financial flexibility may also provide a good source of income as well as capital appreciation and dividend growth potential. Many rising dividend strategies screen strictly for historical dividend growth. However, a history of dividend growth does not guarantee that a company will sustain them. We believe a more sensible approach includes both historical and forward looking factors to screen for high quality dividend-growers. SDVY is an exchange-traded fund (ETF) that seeks investment results that correspond generally to the price and yield, before fees and expenses, of the Nasdaq US Small Mid Cap Rising Dividend Achievers™ Index. The index selection process results in a portfolio of 100 small and mid capitalization (cap) companies with a history of raising their dividends and the capacity to continue to increase their dividends over time.

- **Dividend growth:** Every company must have paid a dividend in the trailing twelve-month (TTM) period greater than the dividend paid in the TTM period three and five years prior. A company's ability to reliably increase its dividend can be an indication of its financial strength and discipline.
- **Earnings per share (EPS):** Every company must have positive EPS in the most recent fiscal year greater than the earnings per share three fiscal years prior. EPS is very important to dividend growth because without growth in EPS, there cannot be sustainable growth in the dividend.
- **Cash to debt ratio:** Every company must have a cash to debt ratio greater than 25%. Cash to debt ratio compares a company's operating cash flow to its total debt to provide an indication of the company's ability to cover total debt with its yearly cash flow from operations. The higher the percentage ratio, the better the company's ability to carry its total debt.
- **Payout ratio:** Every company must have a TTM payout ratio no greater than 65%. Dividend payout ratio is calculated as annual dividend per share divided by earnings per share and provides an idea of how well a company's earnings support its dividend payments.

REASONS TO CONSIDER DIVIDEND-PAYING STOCKS

- History shows that, over the long-term, dividends provide a key component of total return. As interest rates remain low, investors are focusing their attention toward dividend paying stocks.
- Historically, dividends have made up a significant portion of stock market total return. According to Ibbotson Associates, dividends have provided approximately 41% of the 10.16% average annual total return on the S&P 500 Index from January 1926 through December 2017.
- Due to the fact that corporations are not obligated to share their earnings with stockholders, dividends may be viewed as a sign of a company's profitability as well as management's assessment of the future, in our opinion.

Fund Details

Fund Ticker	SDVY
CUSIP	33741X102
Intraday NAV	SDVYIV
Fund Inception Date	11/1/17
Expense Ratio	0.60%
Primary Listing	Nasdaq
Rebalance Frequency	Quarterly

STRONG DIVIDEND GROWTH POTENTIAL

We believe small and mid cap companies are well positioned for continued dividend growth. As of December 29, 2017, the free cash flow yield for the Nasdaq US Small Mid Cap Rising Dividend Achievers™ Index was 3.59%, significantly higher than its dividend yield of 1.96%.¹ This implies that index constituents generally may have plenty of room to increase dividends without necessarily reducing current investments in future growth opportunities or drawing cash from their balance sheets.

As shown in the table below, the companies that were included in the Nasdaq US Small Mid Cap Rising Dividend Achievers™ Index as of 12/29/17 have shown strong dividend growth rates, on average, over the past 3 and 5 year periods.

Annualized Average Dividend Growth of the Companies Included in the Nasdaq US Small Mid Cap Rising Dividend Achievers™ Index

3-Years	17.96%
5-Years	21.19%

Sources: Bloomberg and Compustat. All data as of 12/29/17. Data is for illustrative purposes only and is not indicative of any actual investment. Dividend growth among the companies included in the fund may not necessarily correlate with the overall performance of the fund. There is no guarantee that companies will declare dividends in the future or that, if declared, they will either remain at current levels or increase over time. **Past performance is no guarantee of future results.**

¹Free cash flow represents the cash generated by a company, net of its investments to maintain or grow its business

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 or visit www.ftportfolios.com 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.

NASDAQ US SMALL MID CAP RISING DIVIDEND ACHIEVERS™ INDEX CONSTRUCTION PROCESS

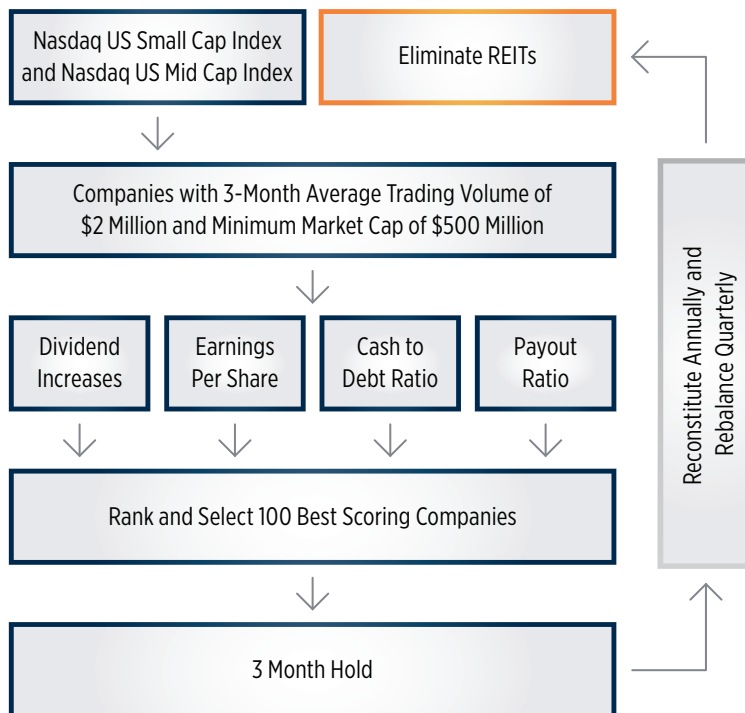
The Nasdaq US Small Mid Cap Rising Dividend Achievers™ Index is comprised of 100 companies with a history of raising their dividends. These companies also exhibit the characteristics to continue to do so in the future. The index construction process creates what we believe is an attractive blend of historical and forward looking screens intended to measure a company's ability to grow its dividend, along with its share price.

UNIVERSE | Begin with the Nasdaq US Mid Cap Index and the Nasdaq US Small Cap Index and eliminate those companies classified as a Real Estate Investment Trust (REIT) by the Industry Classification Benchmark. The companies with a minimum three-month average daily dollar trading volume of \$2 million are considered.

EXAMINE HISTORICAL FINANCIAL RESULTS | Every security must have a minimum market capitalization of \$500 million and must meet stringent eligibility criteria. Historical dividend increases, earnings per share, debt ratio and payout ratio are examined.

SELECT COMPANIES WITH LOWEST COMBINED SCORE | Eligible securities are ranked by a combined factor of dollar dividend increase over the previous five year period, current dividend yield, and payout ratio, subject to a maximum of 30% from any one sector and 75% from the mid cap or small cap size classification.

EQUALLY WEIGHT AND REPEAT QUARTERLY | The index is equally weighted on each rebalancing effective date. The index is reconstituted annually and rebalanced quarterly.



ETF Characteristics

The fund lists and principally trades its shares on The Nasdaq Stock Market LLC. The fund's return may not match the return of the Nasdaq Small Mid Cap US Rising Dividend Achievers™ Index. Securities held by the 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 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. One of the principal risks of investing in the fund is market risk. Market risk is the risk that a particular stock owned by the fund, fund shares or stocks in general may fall in value. There can be no assurance that the fund's investment objective will be achieved.

The prices of equity securities fluctuate for several reasons, including changes in investors' perceptions of the financial condition of an issuer or the general condition of the relevant stock market, such as market volatility, or when political or economic events affecting the issuers occur.

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 may invest in securities issued by companies concentrated in a particular industry. The fund may invest in small capitalization and mid capitalization companies. Such companies may experience greater price volatility than larger, more established companies.

There is no guarantee that the issuers of the securities in the portfolio will declare dividends in the future or that, if declared, they will either remain at current levels or increase over time.

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.

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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