

AlphaDEX® and “Smart Beta”

Author:



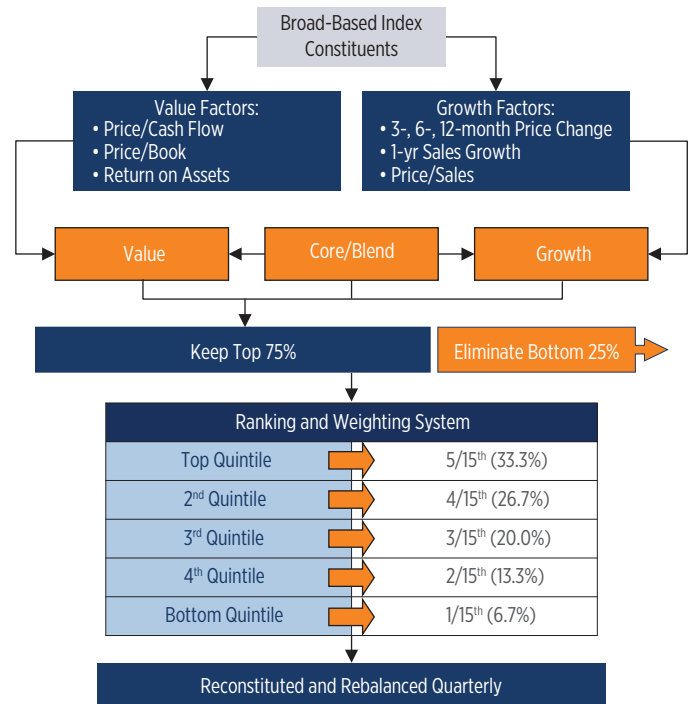
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The term “smart beta” has recently become a favorite buzzword among ETF pundits. Embedded in this term is a tacit recognition that alternative approaches to portfolio construction, beyond market cap-weighted benchmarks, may provide better, more intuitive ways to invest. One of the difficulties with a term like “smart beta,” however, is that the category has been broadly defined by some to include any index that does not follow a market cap-weighting methodology. This is problematic because it implies similarity among a variety of approaches that may be markedly different.

Nevertheless, rather than debating the merits of “smart beta” as a category, the purpose of this newsletter is to help investors understand what makes the AlphaDEX methodology (upon which the underlying indices of 39 First Trust AlphaDEX ETFs are based) distinct from market cap-weighted benchmarks, as well as other approaches that have been deemed “smart beta.” To that end, the following takes a closer look at the AlphaDEX methodology, highlighting the underlying logic upon which this model is based, as well as drawing performance and holdings comparisons with traditional market cap-weighted indices.¹

Overview of the AlphaDEX Methodology

In order to stay true to the mandate of each category to which the AlphaDEX methodology is applied, and to avoid style-drift, the universe from which potential holdings are selected is established from well-known benchmark indices. For example, the First Trust Large Cap Core AlphaDEX Fund (FEX) selects approximately 375 stocks from the S&P 500 Index. The candidates are scored based on a value model and a growth model (which are described in more detail below), in order to select portfolio holdings. “Value” and “growth” are scored separately based on the premise that there are different attributes that have tended to drive performance for value stocks versus growth stocks. Portfolio weightings are also determined by these scores so that stocks with more desirable attributes, as determined by the scoring methodology, may have a greater impact on performance than stocks with less desirable attributes. This model is reapplied quarterly for domestic AlphaDEX ETFs, and semi-annually for international AlphaDEX ETFs, at which time portfolio holdings are rebalanced (see chart to the right for domestic AlphaDEX ETFs).



The AlphaDEX “Value” Model

The AlphaDEX “value” model scores stocks on three separate factors: price-to-book ratio, price-to-cash flow ratio, and return on assets. The first two factors seek to identify whether a stock is cheap or expensive, relative to certain underlying fundamental measures (book value and cash flow), while the third factor provides an indication of balance sheet quality. Essentially, this model seeks to capitalize on the so-called “value” anomaly that has been well established by several academic studies, wherein a pattern of excess returns is associated with cheaper stocks versus more expensive stocks.

In seeking to understand the existence of a factor that predicts the relative outperformance of cheap stocks in the context of the “efficient market hypothesis,”² many have concluded that these stocks must be riskier than more expensive stocks. After all, they reason, there is no free lunch. However, a number of compelling alternative explanations for the value anomaly argue that excess returns associated with cheap stocks are primarily rooted in a pattern of behavioral mistakes made by investors.

For example, because investors are emotional beings, rational analysis is often supplemented with investor optimism and/or pessimism. On the one hand, expensive stocks tend to have high, optimistic expectations about future earnings growth, often extrapolated from previous periods of strength. However, investors may overlook potential challenges to future growth, which may arise from changes in the competitive environment, shifts in consumer preferences, or a variety of other unforeseen circumstances. As a result, when an expensive stock announces earnings results that fall short of analysts’ expectations, it may be punished more severely than a cheap stock that misses earnings estimates.

Past performance is not a guarantee of future results and there is no assurance that the above mentioned events or improvements will continue.

On the other hand, cheap stocks tend to have low, pessimistic expectations about future growth, which may be inferred from past weakness. In such instances, investors may overlook potential improvements, which may result from possible changes in leadership, restructuring, innovation, or even the inherent cyclicity of certain businesses. Hence, when a cheap stock announces earnings that exceed expectations, it may be rewarded more than an expensive stock.

The influence that these misjudgments may have on investor behavior helps to explain the persistence of the value anomaly, in our opinion.

The AlphaDEX “Growth” Model

The AlphaDEX growth model scores stocks based on five separate factors: three-month price appreciation, six-month price appreciation, twelve-month price appreciation, one-year sales growth, and price-to-sales ratio. The first three factors measure momentum over various time periods. The fourth factor provides a measure of fundamental growth. The fifth factor provides a measure of value. This model seeks to systematically profit from the so-called “momentum” anomaly, which is the tendency for stocks that have performed best in the recent past to continue outperforming over the next three to twelve months.

Although the success of momentum as a predictor of excess returns is well-supported by empirical evidence, risk-based explanations for this factor generally fall short in explaining why it actually works. However, one compelling behavioral explanation is related to investors’ hesitance to adjust their beliefs about the intrinsic value a stock to reflect recent fundamental improvements. As a result, if these improvements persist, investors end up chasing stock prices higher, resulting in a pattern of excess returns in the near future. The AlphaDEX growth model includes “one-year sales growth” in order to favor stocks whose superior market performance over the past 3, 6, and 12 months is supported by underlying fundamental growth. Finally, this model utilizes a value factor, price-to-sales, for many of the same reasons described in the above discussion of the value model.

AlphaDEX Versus Traditional Index ETFs

The application of the AlphaDEX methodology has resulted in significant differences between AlphaDEX ETFs and traditional market cap-weighted ETFs, in terms of both portfolio allocations as well as performance.

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 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.

ETF Characteristics

An index fund’s return may not match the return of the applicable index. A fund may not be fully invested at times. Securities held by an index 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.

Risk Considerations

The funds’ shares will change in value, and you could lose money by investing in the funds. One of the principal risks of investing in the funds is market risk. Market risk is the

As for portfolio allocations, one of the most notable differences has been the tendency for AlphaDEX ETFs to be less concentrated than market cap-weighted ETFs among top portfolio holdings. This is especially apparent among sectors and individual country ETFs. For example, as of 2/28/14, the top 10 holdings for the nine domestic sector AlphaDEX ETFs represented an average weight of 27%, versus an average weight of 51% for the three largest comparable market cap-weighted ETFs within each sector. While such allocations may arguably “bias” returns in favor of the smaller stocks within each fund, this is both a necessary and desirable trade-off for reducing the degree of stock-specific risk inherent to many top-heavy portfolios, in our opinion.

As for performance, there are currently 16 AlphaDEX ETFs (out of 39) that have accumulated track records longer than 5 years, including 7 domestic size/style ETFs and 9 domestic sector ETFs. During the five year period ending on 2/28/14, 15 of 16 of these funds produced positive excess returns relative to their benchmarks. Risk-adjusted returns were similarly impressive, as 11 of 16 produced positive alpha over the past 5 years. Moreover, as a group, these funds captured an average of 123% of the positive performance (upside capture) of their respective benchmarks, while capturing an average of 100% of the negative performance (downside capture) of their respective benchmarks. (Additional 5-year performance details for each ETF can be seen in the table on the following page and the standardized performance for each ETF can be seen in Appendix A). Of course, past performance is not a guarantee of future results.

The Growth of AlphaDEX ETFs

Since the launch of the original 16 AlphaDEX ETFs in the spring of 2007, this family of funds has expanded to 39 ETFs, including both domestic and international equity categories. As of 2/28/14, AlphaDEX ETF assets under management (AUM) totaled \$12.3 billion, compared to \$4.8 billion a year earlier. This growth was broadly distributed, with 13 ETFs increasing by more than \$250 million.

We believe this growth provides evidence that ETF strategists and portfolio managers have begun to look beyond the first generation of market cap-weighted ETFs. While various ETF sponsors have their own take on what constitutes a “better” way to construct an investment portfolio, the AlphaDEX methodology relies upon the insights of academic finance in seeking to provide a set of low-cost, tax-efficient tools, with which investors may implement a variety of investment strategies, ranging from sector rotation models to traditional strategic asset allocation portfolios.

risk that a particular stock owned by the funds, fund shares or stocks in general may fall in value. The funds may invest in securities issued by companies concentrated in a particular industry or country. The funds may invest in small capitalization and mid capitalization companies. Such companies may experience greater price volatility than larger, more established companies.

These funds are classified as “non-diversified.” A non-diversified fund generally may invest a larger percentage of its assets in the securities of a smaller number of issuers. As a result, the funds may be more susceptible to the risks associated with these particular companies, or to a single economic, political or regulatory occurrence affecting these companies.

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.

This material is not intended to be relied upon as investment advice or recommendations.

¹Due to the multiplicity of approaches employed by various “smart beta” ETFs, we will limit direct comparisons with AlphaDEX ETFs to traditional market cap-weighted indices.

²In its most basic form, the efficient market hypothesis is a theory which states that the price of a stock accurately reflects all known information about the stock.

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AlphaDEX® 5 Year Performance Statistics

For the Period 2/28/09 through 2/28/14

Fund	Benchmark Name	Total Return			Standard Deviation		Sharpe Ratio	
		Fund	Bench	Fund Excess Return	Fund	Bench	Fund	Bench
FEX	S&P 500 Index	26.2%	23.0%	3.2%	16.2%	14.3%	1.63	1.61
FTC	S&P 500 Growth Index	23.0%	23.1%	-0.2%	15.1%	13.7%	1.53	1.69
FTA	S&P 500 Value Index	28.6%	23.0%	5.6%	18.3%	15.5%	1.57	1.49
FNX	S&P MidCap 400 Index	28.6%	26.9%	1.7%	18.6%	17.3%	1.55	1.56
FAD	S&P Composite 1500 Growth Index	24.4%	23.7%	0.7%	16.0%	14.0%	1.53	1.70
FAB	S&P Composite 1500 Value Index	30.4%	23.4%	6.9%	19.9%	15.7%	1.54	1.50
FYX	S&P SmallCap 600 Index	30.2%	28.0%	2.2%	20.3%	18.6%	1.49	1.52
FXD	S&P 500 Consumer Disc. Index	33.9%	32.9%	1.0%	21.9%	17.7%	1.55	1.87
FXG	S&P 500 Consumer Staples Index	24.5%	19.0%	5.5%	13.2%	10.3%	1.86	1.86
FXN	S&P 500 Energy Index	22.9%	16.8%	6.1%	27.0%	18.8%	0.85	0.89
FXO	S&P 500 Financials Index	28.9%	25.7%	3.3%	19.5%	22.8%	1.49	1.13
FXH	S&P 500 Health Care Index	32.1%	23.5%	8.6%	13.9%	12.2%	2.32	1.94
FXR	S&P 500 Industrials Index	29.5%	27.7%	1.9%	19.9%	19.0%	1.49	1.46
FXZ	S&P 500 Materials Index	31.6%	23.2%	8.4%	23.9%	22.3%	1.33	1.05
FXL	S&P 500 Info. Technology Index	27.1%	24.2%	2.9%	20.9%	17.4%	1.30	1.39
FXU	S&P 500 Utilities Index	17.5%	14.7%	2.8%	11.5%	11.1%	1.52	1.33
Averages:		27.5%	23.7%	3.8%	18.5%	16.3%	1.54	1.50
# of Outperformers:					15			9

For the Period 2/28/09 through 2/28/14

Fund	Benchmark Name	Fund Performance Statistics								Max Gain		Max Drawdown	
		Tracking Error vs. Bench	Information Ratio	Beta	Alpha	Correlation to Bench	Upside Capture	Downside Capture	Upside/Downside Spread	Fund	Bench	Fund	Bench
FEX	S&P 500 Index	4.1%	0.78	1.09	0.8%	97.0%	123%	105%	18%	220.0%	181.6%	-19.1%	-16.3%
FTC	S&P 500 Growth Index	4.8%	-0.04	1.04	-0.8%	95.0%	111%	113%	-1%	181.0%	183.0%	-19.3%	-13.1%
FTA	S&P 500 Value Index	6.6%	0.85	1.11	2.6%	93.7%	125%	96%	29%	251.1%	182.3%	-19.1%	-19.6%
FNX	S&P MidCap 400 Index	3.0%	0.58	1.06	-0.1%	98.9%	111%	102%	9%	252.4%	229.7%	-21.9%	-22.6%
FAD	S&P Composite 1500 Growth Index	5.2%	0.13	1.08	-1.0%	94.8%	121%	116%	4%	197.4%	189.3%	-20.4%	-14.0%
FAB	S&P Composite 1500 Value Index	7.6%	0.92	1.19	2.1%	93.5%	140%	101%	39%	276.6%	186.6%	-20.6%	-20.1%
FYX	S&P SmallCap 600 Index	3.5%	0.61	1.08	-0.1%	98.7%	116%	104%	12%	276.5%	244.2%	-21.9%	-22.0%
FXD	S&P 500 Consumer Disc. Index	6.3%	0.16	1.21	-4.6%	97.3%	118%	112%	6%	329.8%	314.7%	-18.1%	-16.0%
FXG	S&P 500 Consumer Staples Index	8.9%	0.62	0.95	5.9%	74.1%	113%	71%	42%	199.0%	143.1%	-11.7%	-8.1%
FXN	S&P 500 Energy Index	11.9%	0.52	1.33	1.3%	92.7%	191%	117%	74%	180.5%	120.5%	-33.9%	-25.3%
FXO	S&P 500 Financials Index	6.3%	0.52	0.83	6.5%	96.8%	83%	80%	3%	259.7%	215.6%	-23.9%	-29.2%
FXH	S&P 500 Health Care Index	7.8%	1.11	0.95	8.5%	83.0%	142%	88%	54%	301.6%	187.2%	-15.6%	-11.9%
FXR	S&P 500 Industrials Index	5.1%	0.37	1.01	1.4%	96.7%	109%	100%	9%	264.8%	241.5%	-27.0%	-23.7%
FXZ	S&P 500 Materials Index	8.2%	1.03	1.01	7.1%	94.0%	137%	97%	40%	294.6%	184.1%	-29.2%	-26.8%
FXL	S&P 500 Info. Technology Index	9.4%	0.31	1.08	1.3%	89.6%	121%	104%	17%	231.5%	195.1%	-28.0%	-14.1%
FXU	S&P 500 Utilities Index	6.6%	0.43	0.87	4.5%	83.2%	106%	87%	19%	124.2%	98.6%	-8.5%	-9.1%
Averages:		6.6%	0.56	1.06	2.2%	92.4%	123%	100%	23%	240.0%	193.6%	-21.1%	-18.2%
# of Outperformers:				15			11			15			5

See Appendix A for complete standardized performance and inception dates.

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 ftportfolios.com.

Standard Deviation is a measure of price variability (risk). The higher the Standard Deviation, the greater has been the price variability. **Sharpe Ratio** is a measure of excess reward per unit of volatility. **Tracking Error vs Bench** is a measure of the amount by which the performance of the fund differed from that of the benchmark. **Information Ratio** is a ratio of portfolio returns above the returns of the benchmark to the volatility of those returns. The Information Ratio measures the consistency with which a portfolio beats a benchmark. The higher the Information Ratio the more consistent a portfolio has been in outperforming its bench. **Beta** is a measure of price variability relative to the market. The higher the Beta, the greater has been the price variability relative to the market. **Alpha** is an indication of how much an investment outperforms or underperforms on a risk-adjusted basis relative to its benchmark. The higher the Alpha, the better has been the risk-adjusted performance. **Correlation** is a measure of the similarity of performance. The higher the Correlation, the greater has been the similarity of performance. **Upside and Downside Capture** measure performance relative to an index during periods of market strength and weakness. An upside capture ratio over 100 indicates a fund has generally outperformed the benchmark during periods of positive returns for the benchmark. Meanwhile, a downside capture ratio of less than 100 indicates that a fund has lost less than its benchmark in periods when the benchmark has been negative. **Max Gain** is the percentage between the trough and the peak during a specific record period of the fund. **Max Drawdown** is the percentage between the peak and the trough during a specific record period of the fund.

AlphaDEX® Sector Performance

Appendix A		Average Annual Returns as of 12/31/13 (%)									
		NAV Total Returns as of 2/28/14 (%)				NAV Total Returns			Market Price Total Returns		
Sector Funds	Ticker	YTD	1 Yr.	3 Yr.	5 Yr.	1 Yr.	5 Yr.	Since Inception	1 Yr.	5 Yr.	Since Inception
First Trust Consumer Discretionary AlphaDEX® Fund	FXD	1.71	33.62	17.63	33.86	42.99	28.23	8.19	43.01	28.24	8.20
StrataQuant® Consumer Discretionary Index		1.81	34.61	18.48	34.89	44.25	29.22	9.02	44.25	29.22	9.02
Russell 1000 Consumer Discretionary and Services Index		0.48	33.29	21.48	31.74	41.63	27.01	N/A	41.63	27.01	N/A
S&P 500 Consumer Discretionary Index		-0.04	33.79	21.35	32.89	43.08	27.69	10.17	43.08	27.69	10.17
Russell 1000 Index		1.40	26.34	14.60	23.63	33.11	18.59	5.66	33.11	18.59	5.66
First Trust Consumer Staples AlphaDEX® Fund	FXG	1.85	30.71	19.02	24.49	41.94	21.76	10.43	42.09	21.73	10.43
StrataQuant® Consumer Staples Index		1.99	31.78	20.06	25.56	43.09	22.80	11.31	43.09	22.80	11.31
Russell 1000 Consumer Staples Index		-1.04	14.96	16.18	20.19	27.68	17.01	N/A	27.68	17.01	N/A
S&P 500 Consumer Staples Index		-1.75	13.46	15.75	19.02	26.14	15.86	10.27	26.14	15.86	10.27
Russell 1000 Index		1.40	26.34	14.60	23.63	33.11	18.59	5.66	33.11	18.59	5.66
First Trust Energy AlphaDEX® Fund	FXN	0.12	16.09	2.45	22.91	28.66	18.22	4.20	28.59	18.28	4.20
StrataQuant® Energy Index		0.26	16.90	3.20	23.82	29.46	19.10	4.93	29.46	19.10	4.93
Russell 1000 Energy Index		-1.03	14.70	5.24	17.23	25.45	13.88	N/A	25.45	13.88	N/A
S&P 500 Energy Index		-1.55	13.92	5.45	16.77	25.07	13.44	6.24	25.07	13.44	6.24
Russell 1000 Index		1.40	26.34	14.60	23.63	33.11	18.59	5.66	33.11	18.59	5.66
First Trust Financials AlphaDEX® Fund	FXO	-0.87	25.87	13.69	28.95	40.41	19.85	3.03	40.47	19.89	3.04
StrataQuant® Financials Index		-0.79	26.86	14.60	30.06	41.54	20.93	3.98	41.54	20.93	3.98
Russell 1000 Financial Services Index		-0.13	25.06	12.05	25.11	34.80	14.91	N/A	34.80	14.91	N/A
S&P 500 Financials Index		-0.59	25.65	10.84	25.69	35.63	13.75	-5.79	35.63	13.75	-5.79
Russell 1000 Index		1.40	26.34	14.60	23.63	33.11	18.59	5.66	33.11	18.59	5.66
First Trust Health Care AlphaDEX® Fund	FXH	9.78	47.20	24.65	32.06	47.46	27.67	14.22	47.55	27.85	14.23
StrataQuant® Health Care Index		9.89	48.28	25.54	33.04	48.60	28.62	15.11	48.60	28.62	15.11
Russell 1000 Health Care Index		7.75	40.62	25.21	24.45	42.30	19.27	N/A	42.30	19.27	N/A
S&P 500 Health Care Index		7.17	39.26	24.80	23.49	41.46	18.29	8.69	41.46	18.29	8.69
Russell 1000 Index		1.40	26.34	14.60	23.63	33.11	18.59	5.66	33.11	18.59	5.66
First Trust Industrials/Producer Durables AlphaDEX® Fund	FXR	2.82	38.23	16.03	29.54	46.46	23.21	6.23	46.61	23.42	6.25
StrataQuant® Industrials Index		2.94	39.29	16.92	30.55	47.59	24.17	7.04	47.59	24.17	7.04
Russell 1000 Producer Durables Index		-0.25	29.79	14.78	27.86	41.87	20.16	N/A	41.87	20.16	N/A
S&P 500 Industrials Index		-0.73	28.94	14.44	27.66	40.68	19.84	6.75	40.68	19.84	6.75
Russell 1000 Index		1.40	26.34	14.60	23.63	33.11	18.59	5.66	33.11	18.59	5.66
First Trust Materials AlphaDEX® Fund	FXZ	2.59	25.26	11.77	31.59	26.73	23.91	9.02	26.94	23.96	9.04
StrataQuant® Materials Index		2.72	26.23	12.71	32.65	27.70	24.93	9.88	27.70	24.93	9.88
Russell 1000 Materials and Processing Index		2.09	24.52	10.55	25.43	25.15	20.11	N/A	25.15	20.11	N/A
S&P 500 Materials Index		2.03	25.27	9.02	23.22	25.60	18.80	4.90	25.60	18.80	4.90
Russell 1000 Index		1.40	26.34	14.60	23.63	33.11	18.59	5.66	33.11	18.59	5.66
First Trust Technology AlphaDEX® Fund	FXL	6.10	37.47	8.56	27.08	37.73	22.85	6.32	37.82	23.03	6.33
StrataQuant® Technology Index		6.24	38.55	9.45	28.14	38.85	23.87	7.24	38.85	23.87	7.24
Russell 1000 Technology Index		2.71	29.09	11.79	23.80	27.60	21.51	N/A	27.60	21.51	N/A
S&P 500 Information Technology Index		2.00	28.37	13.18	24.17	28.43	21.90	7.93	28.43	21.90	7.93
Russell 1000 Index		1.40	26.34	14.60	23.63	33.11	18.59	5.66	33.11	18.59	5.66
First Trust Utilities AlphaDEX® Fund	FXU	4.98	19.25	10.68	17.53	17.51	12.72	3.49	17.50	12.80	3.50
StrataQuant® Utilities Index		5.10	20.80	11.75	18.61	19.06	13.76	4.44	19.06	13.76	4.44
Russell 1000 Utilities Index		1.85	9.57	11.81	15.22	14.94	11.58	N/A	14.94	11.58	N/A
S&P 500 Utilities Index		6.50	12.46	12.63	14.71	13.21	10.17	2.60	13.21	10.17	2.60
Russell 1000 Index		1.40	26.34	14.60	23.63	33.11	18.59	5.66	33.11	18.59	5.66

	FXD	FXG	FXN	FXO	FXH	FXR	FXZ	FXL	FXU
Net Expense Ratio	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%
Gross Expense Ratio	0.72%	0.71%	0.74%	0.72%	0.71%	0.74%	0.73%	0.72%	0.73%
Inception Date	5/8/07	5/8/07	5/8/07	5/8/07	5/8/07	5/8/07	5/8/07	5/8/07	5/8/07

Pursuant to contract, First Trust has agreed to waive fees and/or pay fund expenses to prevent the net expense ratio of the funds from exceeding 0.70% per year, at least until November 30, 2014.

The inception date of the Russell 1000® Sector Indexes was 9/18/08. As such, the year 2009 is the first full year of available index performance.

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AlphaDEX® Size/Style Performance

Appendix A		Average Annual Returns as of 12/31/13 (%)										
		NAV Total Returns as of 2/28/14 (%)				NAV Total Returns			Market Price Total Returns			
Size/Style Funds	Ticker	YTD	1 Yr.	3 Yr.	5 Yr.	1 Yr.	5 Yr.	Since Inception	1 Yr.	5 Yr.	Since Inception	
First Trust Large Cap Core AlphaDEX® Fund	FEX	1.99	28.65	14.05	26.19	35.77	20.54	6.08	35.91	21.03	6.10	
Defined Large Cap Core Index		2.13	29.57	14.90	27.15	36.73	21.45	6.88	36.73	21.45	6.88	
S&P 500 Index		0.96	25.37	14.35	23.00	32.39	17.94	5.39	32.39	17.94	5.39	
First Trust Large Cap Growth AlphaDEX® Fund	FTC	3.69	31.84	12.94	22.95	37.71	18.70	5.45	37.66	18.69	5.45	
Defined Large Cap Growth Index		3.81	32.82	13.79	23.90	38.73	19.61	6.24	38.73	19.61	6.24	
S&P 500 Growth Index		2.14	28.70	15.79	23.13	32.75	19.24	7.43	32.75	19.24	7.43	
S&P 500 Index		0.96	25.37	14.35	23.00	32.39	17.94	5.39	32.39	17.94	5.39	
First Trust Large Cap Value AlphaDEX® Fund	FTA	0.62	25.91	14.43	28.55	33.92	21.64	6.26	33.92	21.66	6.28	
Defined Large Cap Value Index		0.74	26.85	15.31	29.57	34.93	22.61	7.11	34.93	22.61	7.11	
S&P 500 Value Index		-0.31	21.88	12.91	22.99	31.99	16.61	3.31	31.99	16.61	3.31	
S&P 500 Index		0.96	25.37	14.35	23.00	32.39	17.94	5.39	32.39	17.94	5.39	
First Trust Mid Cap Core AlphaDEX® Fund	FNX	1.27	28.01	14.37	28.65	37.45	24.27	8.87	37.43	24.40	8.86	
Defined Mid Cap Core Index		1.39	28.85	15.20	29.64	38.37	25.23	9.67	38.37	25.23	9.67	
S&P MidCap 400 Index		2.66	26.58	14.14	26.95	33.50	21.89	7.94	33.50	21.89	7.94	
First Trust Small Cap Core AlphaDEX® Fund	FYX	-0.64	33.03	16.43	30.20	43.15	23.49	8.04	43.30	23.84	8.05	
Defined Small Cap Core Index		-0.51	34.02	17.30	31.22	44.22	24.47	8.93	44.22	24.47	8.93	
S&P SmallCap 600 Index		0.43	32.30	16.83	28.04	41.31	21.37	8.06	41.31	21.37	8.06	
First Trust Multi Cap Growth AlphaDEX® Fund	FAD	1.88	30.48	13.49	24.36	38.40	19.99	6.70	38.04	20.07	6.73	
Defined Multi Cap Growth Index		2.01	31.49	14.36	25.34	39.49	20.94	7.53	39.49	20.94	7.53	
S&P Composite 1500 Growth Index		2.10	28.71	15.71	23.67	33.10	19.68	7.66	33.10	19.68	7.66	
S&P Composite 1500 Index		1.08	25.72	14.43	23.50	32.80	18.38	5.69	32.80	18.38	5.69	
First Trust Multi Cap Value AlphaDEX® Fund	FAB	0.77	28.31	15.22	30.37	37.00	23.81	7.55	37.04	23.86	7.58	
Defined Multi Cap Value Index		0.90	29.34	16.14	31.43	38.10	24.83	8.43	38.10	24.83	8.43	
S&P Composite 1500 Value Index		-0.02	22.60	13.16	23.44	32.47	17.06	3.72	32.47	17.06	3.72	
S&P Composite 1500 Index		1.08	25.72	14.43	23.50	32.80	18.38	5.69	32.80	18.38	5.69	

	FEX	FTC	FTA	FNX	FYX	FAD	FAB
Net Expense Ratio	0.66%	0.70%	0.67%	0.66%	0.70%	0.70%	0.70%
Gross Expense Ratio	0.66%	0.70%	0.67%	0.66%	0.70%	0.85%	0.76%
Inception Date	5/8/07	5/8/07	5/8/07	5/8/07	5/8/07	5/8/07	5/8/07

Pursuant to contract, First Trust has agreed to waive fees and/or pay fund expenses to prevent the net expense ratio of the funds from exceeding 0.70% per year, at least until November 30, 2014.

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 ftportfolios.com.

Market Price Returns are based on the midpoint of the bid/ask spread. Returns are average annualized total returns, except those for periods of less than one year, which are cumulative. A fund's performance may reflect 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 the performance of any actual investment or fund. Actual performance of a fund may be lower or higher than the index. The index does 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. All index returns assume that dividends are reinvested when they are received.

Benchmark Index Definitions

The **S&P 500 Index** is an index of 500 stocks used to measure large-cap U.S. stock market performance. The **S&P 500 Growth Index** contains those stocks with growth characteristics, and the **S&P 500 Value Index** contains those stocks with value characteristics, from the S&P 500 Index. The **S&P Composite 1500 Index** is an index of stocks representing the large cap, mid cap and small cap segments of the U.S. equity market. The **S&P Composite 1500 Growth Index** contains those stocks with growth characteristics, and the **S&P Composite 1500 Value Index** contains those stocks with value characteristics, from the S&P Composite 1500 Index. The **S&P MidCap 400 Index** is an index of 400 stocks used to measure mid cap U.S. stock market performance. The **S&P SmallCap 600 Index** is an index of 600 stocks used to measure small cap U.S. stock market performance. The **S&P sector indexes** include the stocks contained in the S&P 500 Index which are members of their respective industries. The **Russell 1000® Index** includes the largest 1000 securities in the Russell 3000 Index. The **Russell sector indexes** include the stocks contained in the Russell 1000® Index which are members of their respective industries.

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