

Navigating a Pandemic with Thematic ETFs

Author:

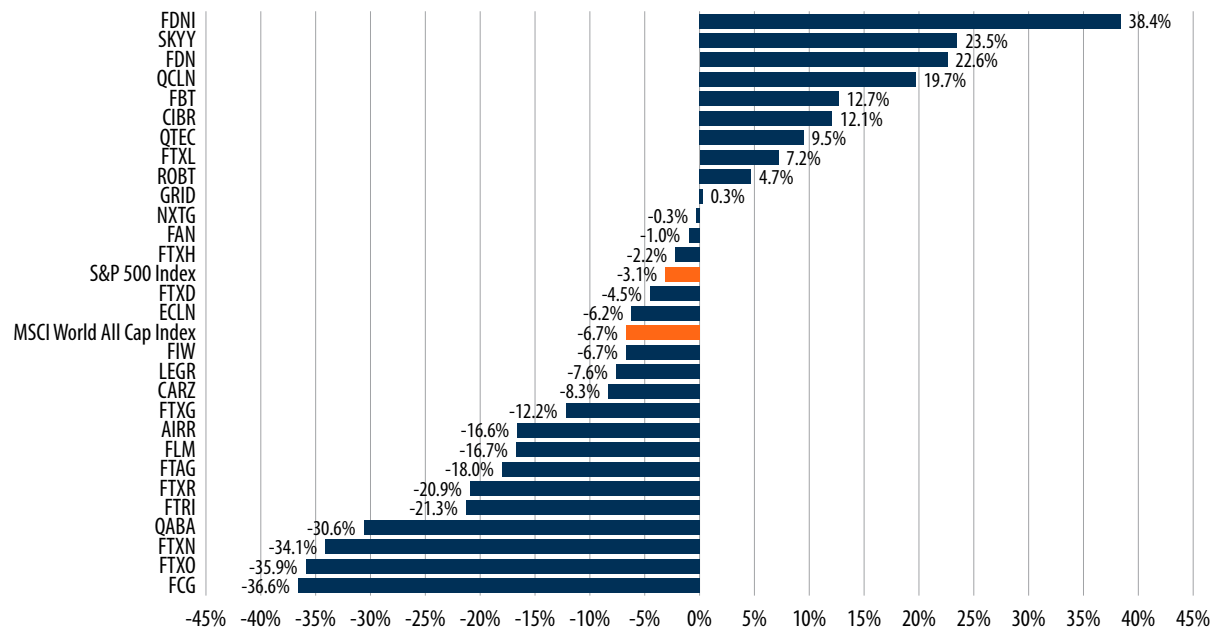


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During the first half of 2020, 13 thematic First Trust ETFs outperformed the S&P 500 index, which posted a total return of -3.1%. Ten of these ETFs had positive year-to-date returns (see chart 1). Many of these outperformers operate in industries less impacted—if not bolstered—by the COVID-19 pandemic and aggressive government response. For example, Internet (FDN and FDNI), Cloud Computing (SKYY), Biotechnology (FBT), and Cybersecurity (CIBR) have all been beneficiaries of the pandemic as their products and services have become integral in coping with the virus as well as helping companies and their employees remain productive while sheltering in place at home.

On the other hand, 15 thematic First Trust ETFs underperformed the S&P 500 during the first half of 2020. Many of the worst performing ETFs were focused on economically sensitive areas, such as Banks (FTXO and QABA), Energy (FCG and FTXN), and Transportation (FTXR).

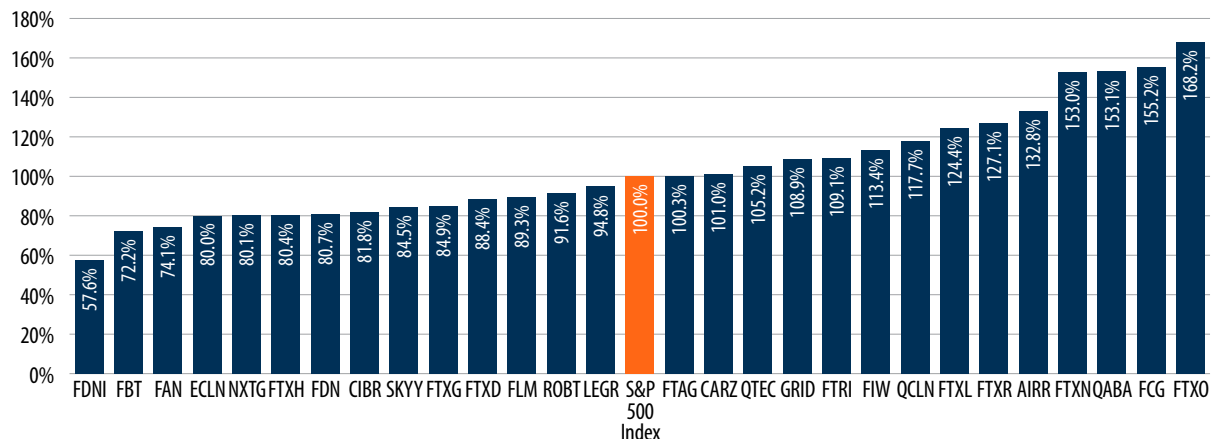
Chart 1: First Trust Thematic/Industry ETFs (Year-to-Date Total Returns, as of 6/30/20)



Thematic ETFs that Won by Losing Less

Several of the thematic ETFs that outperformed during the first half of 2020 did so by losing less on days that the S&P 500 index posted negative returns. Among the 13 outperformers, 9 had less downside capture than the S&P 500 (see chart 2). The outliers that outperformed despite having higher downside capture ratios were Semiconductors (FTXL), equal-weighted Technology (QTEC), Smart Grid Infrastructure (GRID), and Green Energy (QCLN).

Chart 2: First Trust Thematic ETFs Downside Capture Ratios (Year-to-Date, as of 6/30/20)



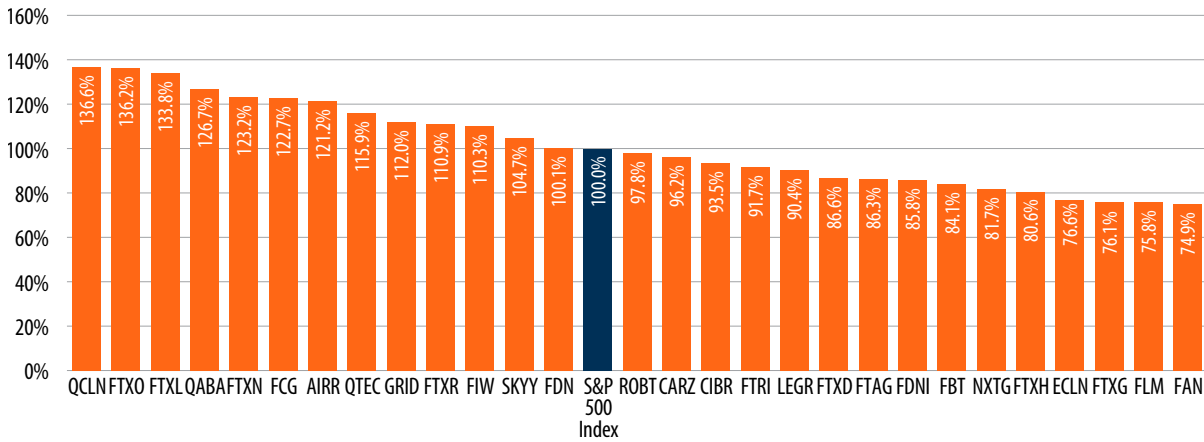
Source for Charts: Morningstar.

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

High Upside Capture Did Not Always Lead to Outperformance

While 13 thematic First Trust ETFs outperformed on days that the S&P 500 Index was positive, only 6 of these outperformed during the first half of 2020 (see chart 3). In fact, many ETFs with the highest upside capture ratios were focused on themes or industries that were hit hardest by the pandemic, and still have the worst year-to-date returns, including Banks (FTXO and QABA) and Energy (FTXN and FCG).

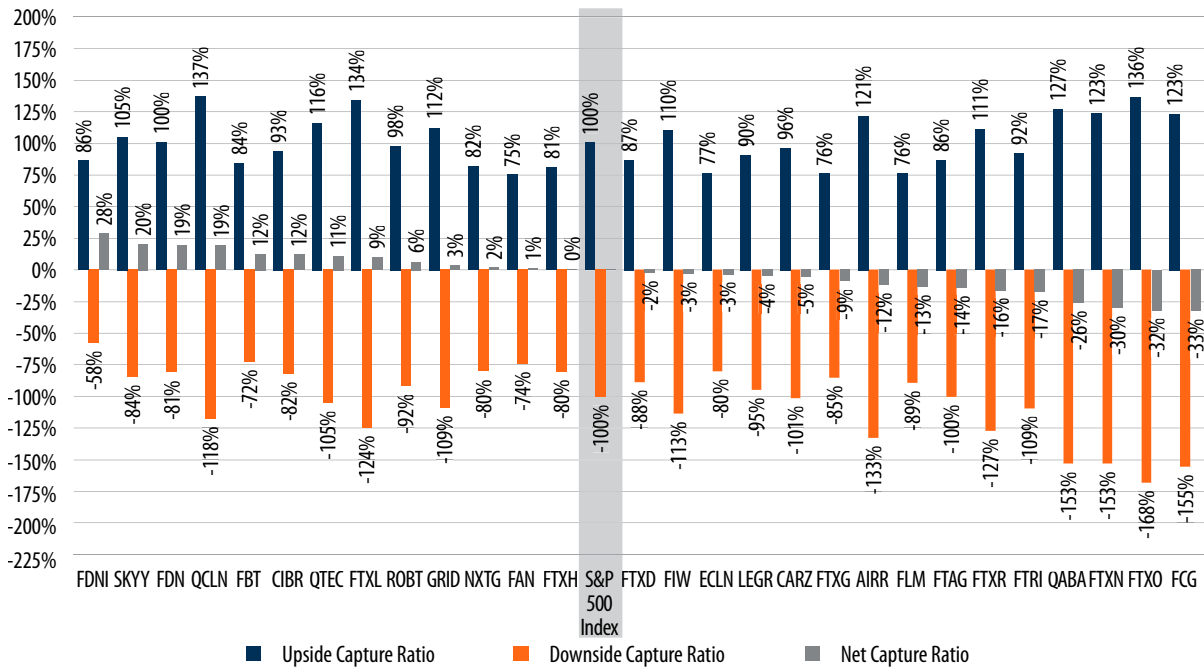
Chart 3: First Trust Thematic ETFs Upside Capture Ratios (Year-to-Date, as of 6/30/20)



Highest Net Capture Ratios for Thematic ETFs

During the first half of 2020, there were 13 ETFs that had positive net capture ratios, meaning each had a higher upside capture ratio than its downside capture ratio. Naturally, these were the same 13 ETFs that outperformed the S&P 500 during that period (see chart 4).

Chart 4: First Trust Thematic ETFs Upside/Downside/Net Capture Ratios (Year-to-Date, as of 6/30/20)



Implications for the Months Ahead—Positioning for Upside or Downside Scenarios with Thematic ETFs

Predicting the future is much more difficult than reviewing the past. This is especially true amid an unprecedented global pandemic and a variety of aggressive government responses. However, if the trends established during the first half of 2020 continue in the months ahead, we believe thematic ETFs may be useful tools in positioning portfolios. Under more optimistic scenarios, we believe economically sensitive ETFs with higher upside capture ratios, such as Banks (FTXO and QABA) and Energy (FTXN and FCG), are likely to outperform. Under more pessimistic scenarios, themes with the lowest downside capture ratios may help to limit losses. But we believe the sweet spot between optimism and pessimism may be found in ETFs with relatively low downside capture ratios, and positive net capture ratios. First Trust thematic ETFs with downside capture ratios under 85% and positive net capture ratios (year-to-date) include: FDN, SKYY, FDN, FBT, CIBR, NXTG, FAN, and FTXH.

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Source for Charts: Morningstar.

¹ Source: First Trust and FactSet.

² Net debt measures a company's total debt minus its cash and marketable securities.

³ Compared to the S&P 500.

Performance Summary (% , as of 6/30/20)

	Ticker	Inception Date	Expense Ratios ¹		1 Yr.	5 Yr.	10 Yr.	Since Fund Inception
			Net	Gross				
First Trust RBA American Industrial Renaissance® ETF (NAV)	AIRR	3/10/14	N/A	0.70%	-8.10	6.20	N/A	3.41
Market Price					-8.14	6.19	N/A	3.40
Richard Bernstein Advisors American Industrial Renaissance® Index					-7.41	7.00	N/A	4.20
S&P 500 Industrials Index					-9.02	6.73	N/A	6.25
S&P 500 Index					7.51	10.73	N/A	11.86
First Trust NASDAQ Global Auto Index Fund (NAV)	CARZ	5/9/11	N/A	0.70%	-4.38	-2.33	N/A	2.20
Market Price					-4.51	-2.40	N/A	2.17
NASDAQ OMX Global Automobile Index SM					-3.53	-1.45	N/A	3.17
MSCI World Index					2.84	6.90	N/A	7.60
S&P 500 Index					7.51	10.73	N/A	10.51
First Trust Nasdaq Cybersecurity ETF (NAV)	CIBR	7/6/15	N/A	0.65%	17.90	N/A	N/A	11.41
Market Price					17.59	N/A	N/A	11.39
Nasdaq CTA Cybersecurity Index SM					18.93	N/A	N/A	12.24
S&P Composite 1500 Information Technology Index					34.09	N/A	N/A	22.68
S&P 500 Index					7.51	N/A	N/A	10.70
First Trust EIP Carbon Impact ETF (NAV)	ECLN	8/19/19	N/A	0.96%	N/A	N/A	N/A	-1.05
Market Price					N/A	N/A	N/A	-1.10
PHLX Utility Sector Index					N/A	N/A	N/A	-4.43
S&P 500 Index					N/A	N/A	N/A	7.86
First Trust Global Wind Energy ETF (NAV)	FAN	6/16/08	0.60%	0.73%	9.55	7.97	6.16	-3.92
Market Price					9.63	8.03	6.22	-3.92
ISE Clean Edge Global Wind Energy Index					10.04	8.77	6.89	-3.17
MSCI World Index					2.84	6.90	9.95	5.56
S&P 500 Index					7.51	10.73	N/A	9.38
First Trust NYSE Arca Biotechnology Index Fund (NAV)	FBT	6/19/06	0.55%	0.55%	19.11	6.23	18.45	16.48
Market Price					19.11	6.24	18.45	16.48
NYSE Arca Biotechnology Index SM					19.75	6.78	19.04	17.10
NASDAQ Biotechnology Index					26.13	2.65	18.75	13.93
S&P Composite 1500 Health Care Index					10.80	8.43	15.97	11.39
S&P 500 Index					7.51	10.73	13.99	9.02
First Trust Natural Gas ETF (NAV)	FCG	5/8/07	0.60%	0.65%	-46.54	-29.31	-19.56	-16.89
Market Price					-46.57	-29.33	-19.57	-16.90
ISE-Revere Natural Gas SM Index					-48.53	-29.68	-19.63	-16.83
S&P Composite 1500 Energy Index					-37.49	-10.40	-0.66	-2.16
S&P 500 Index					7.51	10.73	N/A	7.89
First Trust Dow Jones Internet Index Fund (NAV)	FDN	6/19/06	0.52%	0.52%	18.67	20.48	21.73	16.54
Market Price					18.64	20.46	21.75	16.53
Dow Jones Internet Composite Index SM					19.38	21.16	22.43	17.18
S&P Composite 1500 Information Technology Index					34.09	22.66	20.09	14.76
S&P 500 Index					7.51	10.73	13.99	9.02
First Trust Dow Jones International Internet ETF (NAV)	FDNI	11/5/18	N/A	0.65%	59.11	N/A	N/A	41.71
Market Price					60.08	N/A	N/A	41.84
Dow Jones International Internet Index					60.09	N/A	N/A	42.69
MSCI ACWI ex USA Index					-4.80	N/A	N/A	N/A
MSCI ACWI ex USA Information Technology Index					21.33	N/A	N/A	21.05
S&P 500 Index					7.51	10.73	N/A	10.04
First Trust Water ETF (NAV)	FIW	5/8/07	0.55%	0.55%	2.31	13.08	13.14	8.96
Market Price					2.25	13.07	13.15	8.95
ISE Clean Edge Water Index					3.10	13.68	13.84	9.64
Russell 3000® Index					6.53	10.03	13.72	7.79
S&P 500 Index					7.51	10.73	N/A	7.89
First Trust Global Engineering and Construction ETF (NAV)	FLM	10/13/08	0.70%	1.21%	-14.54	-1.07	4.14	4.61
Market Price					-14.54	-1.08	4.15	4.59
ISE Global Engineering and Construction Index					-13.37	-0.12	5.17	6.11
MSCI World Industrials Index					-7.54	5.35	9.02	8.91
S&P 500 Index					7.51	10.73	N/A	12.47

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 www.ftportfolios.com.

Performance Summary Continued (% , as of 6/30/20)

	Ticker	Inception Date	Expense Ratios ¹		1 Yr.	5 Yr.	10 Yr.	Since Fund Inception
			Net	Gross				
First Trust Indxx Global Agriculture ETF (NAV)	FTAG ²	3/11/10	N/A	0.70%	-17.30	-12.53	-15.55	-16.82
Market Price					-17.59	-12.69	-15.61	-16.86
Indxx Global Agriculture Index					-16.86	-2.35	N/A	N/A
MSCI ACWI Materials Index					-4.62	4.22	3.30	1.82
S&P 500 Index					7.51	10.73	N/A	12.39
First Trust Indxx Global Natural Resources Income ETF (NAV)	FTRI ²	3/11/10	N/A	0.70%	-17.40	-6.68	-5.38	-7.62
Market Price					-16.22	-6.48	-5.28	-7.52
Indxx Global Natural Resources Income Index					-16.80	-0.17	N/A	N/A
MSCI ACWI Materials Index					-4.62	4.22	3.30	1.82
S&P 500 Index					7.51	10.73	N/A	12.39
First Trust Nasdaq Retail ETF (NAV)	FTXD	9/20/16	N/A	0.60%	6.85	N/A	N/A	5.84
Market Price					7.00	N/A	N/A	5.85
Nasdaq US Smart Retail Index					7.55	N/A	N/A	6.51
Nasdaq US Benchmark Retail Index					23.93	N/A	N/A	20.15
S&P 500 Index					7.51	10.73	N/A	12.54
First Trust Nasdaq Food & Beverage ETF (NAV)	FTXG	9/20/16	N/A	0.60%	-3.88	N/A	N/A	0.47
Market Price					-4.04	N/A	N/A	0.38
Nasdaq US Smart Food & Beverage Index					-3.24	N/A	N/A	1.11
Nasdaq US Benchmark Food & Beverage Index					-0.50	N/A	N/A	4.31
S&P 500 Index					7.51	10.73	N/A	12.54
First Trust Nasdaq Pharmaceuticals ETF (NAV)	FTXH	9/20/16	N/A	0.60%	9.04	N/A	N/A	4.70
Market Price					9.04	N/A	N/A	4.71
Nasdaq US Smart Pharmaceuticals Index					9.77	N/A	N/A	5.42
Nasdaq US Benchmark Pharma Index					7.12	N/A	N/A	9.30
S&P 500 Index					7.51	10.73	N/A	12.54
First Trust Nasdaq Semiconductor ETF (NAV)	FTXL	9/20/16	N/A	0.60%	37.45	N/A	N/A	24.31
Market Price					37.32	N/A	N/A	24.28
Nasdaq US Smart Semiconductor Index					38.35	N/A	N/A	25.12
Nasdaq US Benchmark Semiconductors Index					38.99	N/A	N/A	24.72
S&P 500 Index					7.51	10.73	N/A	12.54
First Trust Nasdaq Oil & Gas ETF (NAV)	FTXN	9/20/16	N/A	0.60%	-36.94	N/A	N/A	-13.14
Market Price					-36.84	N/A	N/A	-13.12
Nasdaq US Smart Oil & Gas Index					-36.63	N/A	N/A	-12.62
Nasdaq US Benchmark Oil & Gas Index					-36.17	N/A	N/A	-10.83
S&P 500 Index					7.51	10.73	N/A	12.54
First Trust Nasdaq Bank ETF (NAV)	FTXO	9/20/16	N/A	0.60%	-27.53	N/A	N/A	-0.75
Market Price					-27.50	N/A	N/A	-0.75
Nasdaq US Smart Banks Index					-27.08	N/A	N/A	-0.11
Nasdaq US Benchmark Banks Index					-22.73	N/A	N/A	3.95
S&P 500 Index					7.51	10.73	N/A	12.54
First Trust Nasdaq Transportation ETF (NAV)	FTXR	9/20/16	N/A	0.60%	-18.15	N/A	N/A	0.39
Market Price					-18.11	N/A	N/A	0.39
Nasdaq US Smart Transportation Index					-17.76	N/A	N/A	0.99
Nasdaq US Benchmark Ind Transportation Index					1.72	N/A	N/A	12.66
S&P 500 Index					7.51	10.73	N/A	12.54
First Trust NASDAQ® Clean Edge® Smart Grid Infrastructure Index Fund (NAV)	GRID	11/16/09	0.70%	0.82%	14.42	10.34	8.39	6.99
Market Price					14.71	10.24	8.40	7.00
NASDAQ Clean Edge® Smart Grid Infrastructure Index SM					15.29	11.19	9.20	7.85
S&P Composite 1500 Industrials Index					-8.85	6.81	11.99	11.10
S&P 500 Index					7.51	10.73	N/A	12.46
First Trust Indxx Innovative Transaction & Process ETF (NAV)	LEGR	1/24/18	N/A	0.65%	-0.47	N/A	N/A	0.85
Market Price					-0.74	N/A	N/A	0.67
Indxx Blockchain Index					0.25	N/A	N/A	1.66
S&P 500 Index					7.51	N/A	N/A	5.81

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Performance Summary Continued (% , as of 6/30/20)

	Ticker	Inception Date	Expense Ratios ¹		1 Yr.	5 Yr.	10 Yr.	Since Fund Inception
			Net	Gross				
First Trust Indxx NextG ETF (NAV)	NXTG ²	2/17/11	N/A	0.70%	12.47	8.37	N/A	7.75
Market Price					12.39	8.40	N/A	7.76
Indxx 5G & NextG Thematic Index					13.67	N/A	N/A	N/A
MSCI ACWI Information Technology Index					31.85	20.14	N/A	15.45
S&P 500 Index					7.51	10.73	N/A	11.66
First Trust NASDAQ[®] ABA Community Bank Index Fund (NAV)	QABA	6/29/09	0.60%	0.60%	-24.10	-0.47	6.33	7.03
Market Price					-24.11	-0.48	6.30	7.03
NASDAQ OMX ABA Community Bank Index SM					-23.60	0.15	7.01	7.72
S&P Composite 1500 Financials Index					-14.69	5.29	9.69	10.37
S&P 500 Index					7.51	10.73	N/A	13.92
First Trust NASDAQ[®] Clean Edge[®] Green Energy Index Fund (NAV)	QCLN	2/8/07	0.60%	0.63%	41.82	11.01	9.14	3.57
Market Price					41.71	11.01	9.13	3.56
NASDAQ Clean Edge [®] Green Energy Index					41.81	10.99	9.12	3.73
Russell 2000 [®] Index					-6.63	4.29	10.50	5.80
S&P 500 Index					7.51	10.73	N/A	8.10
First Trust NASDAQ-100-Technology Sector Index Fund (NAV)	QTEC	4/19/06	0.57%	0.57%	28.71	22.02	19.84	13.42
Market Price					28.63	22.00	19.84	13.41
NASDAQ-100 Technology Sector Index SM					29.55	22.80	20.60	14.14
S&P 500 Information Technology Index					35.90	23.41	20.49	13.90
S&P 500 Index					7.51	10.73	13.99	8.51
First Trust Nasdaq Artificial Intelligence and Robotics ETF (NAV)	ROBT	2/21/18	N/A	0.65%	9.07	N/A	N/A	8.53
Market Price					8.93	N/A	N/A	8.58
Nasdaq CTA Artificial Intelligence & Robotics Index					9.96	N/A	N/A	9.34
S&P 500 Index					7.51	N/A	N/A	8.16
First Trust Cloud Computing ETF (NAV)	SKYY	7/5/11	N/A	0.60%	29.23	21.00	N/A	16.02
Market Price					29.26	20.99	N/A	16.02
ISE CTA Cloud Computing [™] Index					29.98	21.61	N/A	16.67
S&P Composite 1500 Information Technology Index					34.09	22.66	N/A	19.07
S&P 500 Index					7.51	10.73	N/A	12.12

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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.

Important Notes

Complete details regarding charges and expenses can be found in each fund's prospectus on our website www.ftportfolios.com.

¹The net expense ratio is shown for these funds. The net expense ratio reflects the investment advisor's agreement to waive certain of its fees and/or pay fund expenses, if applicable. Pursuant to contract, First Trust has agreed to waive fees and/or pay fund expenses to prevent the net expense ratio of the fund from exceeding 0.60% per year, at least until April 30, 2021 for FBT, FCC, FDN, FIW, QABA, QCLN, and QTEC; from exceeding 0.70% per year, from exceeding 0.60% per year, at least until January 31, 2021 for FAN; from exceeding 0.70% per year, at least until January 31, 2021 for FLM and GRID.

²On the dates indicated below, each fund's underlying index changed. Therefore, each fund's performance and historical returns shown for the periods prior to the date indicated are not necessarily indicative of the performance that each fund, based on its current index, would have generated. The funds that changed underlying indexes and the dates of change are: FTRI and FTAG (December 18, 2015); NXTG (May 30, 2019). Please see each fund's prospectus for additional information.

NAV returns are based on the fund's net asset value which represents the fund's net assets (assets less liabilities) divided by the fund's outstanding shares. **Market Price** returns are based on the midpoint of the bid/ask spread on the stock exchange on which shares of the fund are listed for trading as of the time that the fund's NAV is calculated. 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. Indexes do 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.

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Investors buying or selling fund shares on the secondary market may incur customary brokerage commissions. 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 the fund's net asset value and possibly face delisting.

Risk Considerations

A fund's shares will change in value, and you could lose money by investing in a fund. There can be no assurance that a fund's investment objective will be achieved. The outbreak of the respiratory disease designated as COVID-19 in December 2019 has caused significant volatility and declines in global financial markets, which have caused losses for investors. The impact of this COVID-19 pandemic may be short term or may last for an extended period of time, and in either case could result in a substantial economic downturn or recession.

An index fund's return may not match the return of the applicable index. Securities held by an index fund will generally not be bought or sold in response to market fluctuations.

Actively managed funds are subject to management risk because the advisor or sub-advisor will apply investment techniques and risk analyses that may not have the desired result.

A fund may invest in a concentrated portfolio which involves additional risks including limited diversification.

A fund may invest in small capitalization and mid capitalization companies. Such companies may experience greater price volatility than larger companies.

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Certain 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.

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