Income ETFs: Beyond Traditional Dividend Strategies

Ryan O. Issakainen, CFA | Senior Vice President | ETF Strategist **Andrew Hull** | Vice President | ETF Strategist

As we highlighted in our *Inside First Trust ETFs* newsletter earlier this year, dividend exchange-traded funds (ETFs) have seen significant net inflows lately, which we attribute to investors seeking exposure to higher quality stocks, alternative sources of income, and dividend growth to seek to hedge against higher inflation. For those looking for income strategies across asset classes or from specific sectors and industries, this report provides a brief overview of four First Trust ETFs focused on income.

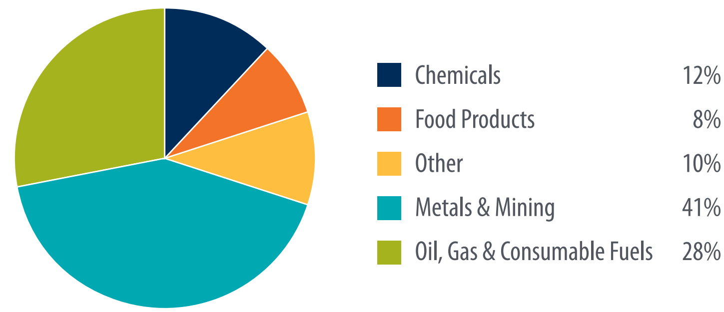
Thematic Dividends – Seek Inflation Protection with Income

First Trust Indxx Global Natural Resources Income ETF (FTRI)

FTRI is a global portfolio of the 50 highest dividend yielding companies involved in five upstream natural resource categories–energy, materials, agriculture, water, and timber. On a quarterly basis, the underlying index is rebalanced so that no single category accounts for more than 30% of the index. To avoid high-yielding stocks that may be unable to sustain their dividends, FTRI includes screens for positive earnings-per-share (EPS), two consecutive years of dividends, and rising dividend payments.

FTRI provides indirect commodity exposure by holding common stock of companies involved in natural resource exploration and production. In addition to potentially benefitting from cash dividends and stock buybacks, equity investors may avoid some of the risks of investing in futures-based commodity strategies, such as negative roll yield, higher volatility, and potentially greater exposure to macroeconomic and geopolitical factors. Through the first nine months of 2022, FTRI outperformed the S&P 500 Index by 18.7% on a net asset value (NAV) total return basis.

FTRI Industry Exposure



Source: Bloomberg. Data as of 9/30/22.

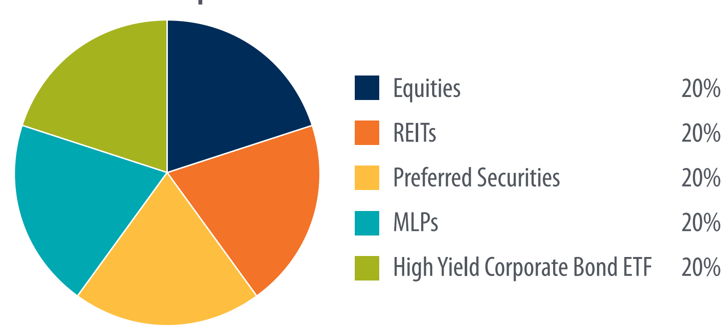
Low Volatility Income – Diversified Income across Asset Classes

Multi-Asset Diversified Income Index Fund (MDIV)

MDIV provides a 20% allocation to five separate asset classes to seek to generate a high level of current income. Each quarter, MDIV is rebalanced between equities, real estate investment trusts (REITs), preferred securities, master limited partnerships (MLPs), and a high-yield corporate bond ETF. Securities are selected for each category based on distinct eligibility rules, but each excludes securities with annual volatility more than 15 percentage points higher than their respective benchmarks (with the exception of the high-yield corporate bond ETF).

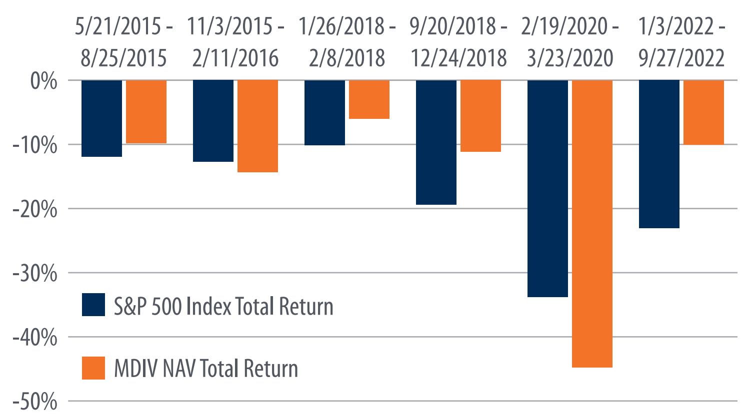
By diversifying across five different asset classes, MDIV seeks to reduce price volatility and achieve a more stable yield, particularly during equity market drawdowns. Since MDIV's inception, the S&P 500 Index has experienced six corrections (declines of greater than 10%). On average, MDIV outperformed the S&P 500 Index by 2.5% during these drawdowns.

MDIV Asset Class Exposure



MDIV vs. S&P 500 Index

Returns during S&P 500 drawdowns >10%



Source: Yardeni Research, Inc., Bloomberg. Data from 5/21/15 - 9/27/22.

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 information for each listed index is for illustrative purposes only and does not represent actual fund performance. 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.

Ryan O. Issakainen, CFA | Senior Vice President | ETF Strategist **Andrew Hull** | Vice President | ETF Strategist

Derivative Income – Monetizing Volatility by Writing Calls

First Trust BuyWrite Income ETF (FTHI)

FTHI is an actively-managed equity ETF that generates income by writing S&P 500 Index call options. The notional value of these options may range between 25% and 75% of the overall fund. Stocks are selected to favor dividend-payers, and the portfolio can generally be expected to provide broad equity market exposure across sectors.

While on one hand, call premiums may limit upside participation in bull markets, on the other hand, they may improve total returns in sideways or declining markets. Additionally, because options premiums generally increase during periods of heightened volatility, FTHI may be able to generate more income during "risk-off" periods. Lastly, by relying on call premiums to boost income, FTHI may avoid making concentrated bets in higher dividend yielding sectors, such as utilities or financials.

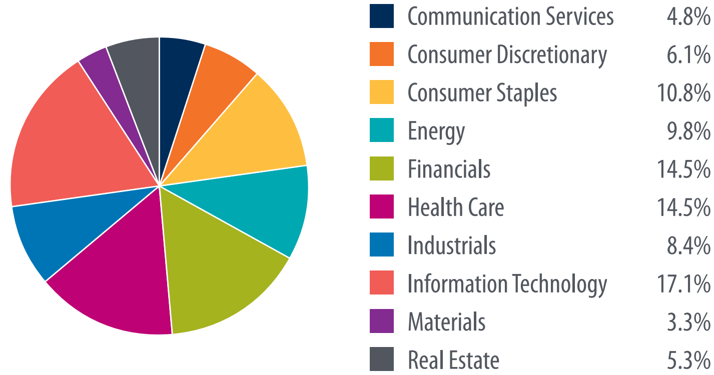
Tech Dividends – Exposure to Growth and Income

First Trust NASDAQ Technology Dividend Index Fund (TDIV)

TDIV invests in dividend-paying stocks that are classified as either technology or telecommunications companies. The underlying index selects up to 100 stocks with a yield of at least 0.5%, based on dividends paid over the prior 12 months, and excludes stocks that decreased dividend payments during that time. On a quarterly basis, technology stocks are rebalanced to an 80% weight, and telecommunications stocks are assigned a 20% weight. Individual stock allocations are determined primarily by the dollar value of dividends paid over the prior 12 months.

The technology sector is often overlooked as a source of dividends and is generally underweight in dividend ETFs, even though technology companies accounted for 17.1% of the S&P 500 index's total dividend payments last quarter – the most of any sector (as of 9/30/22)[1]. Information technology has also had the strongest dividend growth rate of any GICS sector over the past 5- (12.8% annualized growth) and 10-year (15.4% annualized growth) periods.[2] In our opinion, TDIV may complement dividend strategies that are underweight in the technology sector.

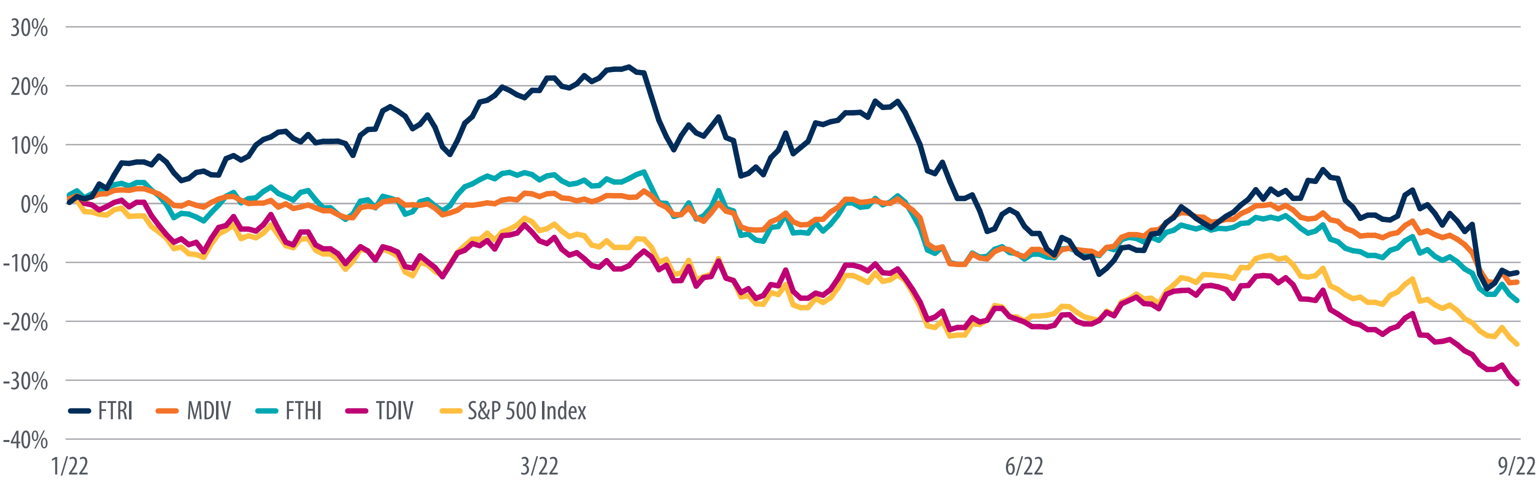
S&P 500 Dividend Contribution By Sector



[1]Source: S&P Dow Jones Indices. Data as of 6/30/22-9/30/22.

[2]Source: Bloomberg. Data as of 9/30/22.

First Trust Income ETF Total Returns (NAV) YTD through 9/30/22



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 information for each listed index is for illustrative purposes only and does not represent actual fund performance. 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.

Income ETFs: Beyond Traditional Dividend Strategies

Ryan O. Issakainen, CFA | Senior Vice President | ETF Strategist **Andrew Hull** | Vice President | ETF Strategist

Performance Summary (%) as of 9/30/22

FTHI Performance*	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since Fund Inception
Net Asset Value (NAV)	-5.68	-10.97	-7.60	-1.05	1.07	N/A	3.97
Market Price	-5.56	-10.74	-7.40	-1.06	1.11	N/A	4.01
Index Performance**							
CBOE S&P 500 BuyWrite Monthly Index	-7.59	-17.01	-11.21	0.48	1.94	N/A	4.28
S&P 500 Index	-4.88	-23.87	-15.47	8.16	9.24	N/A	10.12

FTRI Performance*	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since Fund Inception
Net Asset Value (NAV)	-4.76	-5.22	3.27	9.18	6.69	-4.16	-3.22
Market Price	-4.90	-5.50	2.78	9.28	6.64	-4.13	-3.23
Index Performance**							
Indxx Global Natural Resources Income Index	-4.62	-4.62	4.08	10.33	7.81	N/A	N/A
MSCI ACWI Materials Index	-7.64	-23.93	-18.50	4.91	2.83	3.29	2.66
MSCI ACWI Index	-6.82	-25.63	-20.66	3.75	4.44	7.28	7.03

MDIV Performance*	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since Fund Inception
Net Asset Value (NAV)	-3.11	-9.24	-6.31	-2.26	0.30	2.71	2.79
Market Price	-3.17	-9.12	-6.25	-2.25	0.35	2.71	2.80
Index Performance**							
Nasdaq US Multi-Asset Diversified Income Index℠	-3.02	-8.91	-5.80	-1.76	0.84	3.34	3.43
Dow Jones U.S. Select Dividend™ Index	-7.71	-10.07	-3.10	5.88	6.89	10.53	10.53
S&P 500 Index	-4.88	-23.87	-15.47	8.16	9.24	11.70	11.86

TDIV Performance*	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since Fund Inception
Net Asset Value (NAV)	-12.57	-29.49	-20.93	5.12	8.61	10.97	10.74
Market Price	-12.62	-29.49	-20.90	5.12	8.63	10.97	10.74
Index Performance**							
Nasdaq Technology Dividend Index™	-12.49	-29.27	-20.54	5.76	9.30	11.68	11.45
S&P 500 Information Technology Index	-6.21	-31.44	-20.00	14.93	16.74	17.09	17.13
S&P 500 Index	-4.88	-23.87	-15.47	8.16	9.24	11.70	11.86

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.

FTHI Fund Inception: 1/6/14. Expense Ratio: 0.85%.

FTRI Fund Inception: 3/11/10. Expense Ratio: 0.70%.

MDIV Fund Inception: 8/13/12. Gross Expense Ratio: 0.81%; Net Expense Ratio: 0.69%. First Trust has contractually agreed to reduce management fees earned by the fund for management fees due to be paid to the underlying investment companies advised by First Trust. The agreement is expected to remain in place until at least January 31, 2023, or until its termination at the direction of the Trust's Board of Trustees, or the termination of the Investment Management Agreement. Please see the Fees and Expenses of the Fund section in the fund's prospectus for more details.

TDIV Fund Inception: 8/13/12. Expense Ratio: 0.50%.

*****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 determined by using the midpoint of the national best bid offer price ("NBBO") as of the time that the fund's NAV is calculated. MDIV's performance reflects fee waivers and expense reimbursements, absent which performance would have been lower. Returns are average annualized total returns.

**Performance information for each listed index is for illustrative purposes only and does not represent actual fund performance. 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.

Income ETFs: Beyond Traditional Dividend Strategies

Ryan O. Issakainen, CFA | Senior Vice President | ETF Strategist **Andrew Hull** | Vice President | ETF Strategist

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.

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 SAI 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.

Companies involved in the agriculture business and farming-related activities may be affected by certain legislative or regulatory developments related to food safety, the environment, taxes and other governmental policies.

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.

During periods of falling interest rates if an issuer calls higher-yielding debt instruments, a fund may be forced to invest the proceeds at lower interest rates, likely resulting in a decline in the fund's income.

An issuer or other obligated party of a debt security may be unable or unwilling to make dividend, interest and/or principal payments when due and the value of a security may decline as a result.

A fund may be subject to the risk that a counterparty will not fulfill its obligations which may result in significant financial loss to a fund.

The writer of a covered call option foregoes any profit from increases in the market value of the underlying security covering the call option above the sum of the premium and the strike price of the call, but retains the risk of loss if the underlying security declines in value. The Fund will have no control over the exercise of the option by the option holder and may lose the benefit from any capital appreciation on the underlying security.

Changes in currency exchange rates and the relative value of non-US currencies may affect the value of a fund's investments and the value of a fund's shares.

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.

Investments in debt securities subject the holder to the credit risk of the issuer and the value of debt securities will generally change inversely with changes in interest rates. In addition, debt securities generally do not trade on a securities exchange making them less liquid and more difficult to value.

Depositary receipts may be less liquid than the underlying shares in their primary trading market and distributions may be subject to a fee. Holders may have limited voting rights, and investment restrictions in certain countries may adversely impact their value.

The use of derivatives instruments involves different and possibly greater risks than investing directly in securities including counterparty risk, valuation risk, volatility risk, and liquidity risk. Further, losses because of adverse movements in the price or value of the underlying asset, index or rate may be magnified by certain features of the derivatives.

Companies that issue dividend-paying securities are not required to continue to pay dividends on such securities. Therefore, there is a possibility that such companies could reduce or eliminate the payment of dividends in the future.

Investments in emerging market securities are generally considered speculative and involve additional risks relating to political, economic and regulatory conditions.

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 invest in the shares of other ETFs, which involves additional expenses that would not be present in a direct investment in the underlying funds. In addition, a fund's investment performance and risks may be related to the investment performance and risks of the underlying funds.

Political or economic disruptions in European countries, even in countries in which a fund is not invested, may adversely affect security values and thus the fund's holdings. A significant number of countries in Europe are member states in the European Union, and the member states no longer control their own monetary policies. In these member states, the authority to direct monetary policies, including money supply and official interest rates for the Euro, is exercised by the European Central Bank. The implications of the United Kingdom's withdrawal from the European Union are difficult to gauge and cannot yet be fully known.

Extension risk is the risk that, when interest rates rise, certain obligations will be paid off by the issuer (or other obligated party) more slowly than anticipated, causing the value of these debt securities to fall. Rising interest rates tend to extend the duration of debt securities, making their market value more sensitive to changes in interest rates.

Financial services companies are subject to the adverse effects of economic recession, currency exchange rates, government regulation, decreases in the availability of capital, volatile interest rates, portfolio concentration in geographic markets, industries or products, and competition from new entrants in their fields of business.

Floating rate securities are structured so that the security's coupon rate fluctuates based upon the level of a reference rate. As a result, the coupon on floating rate securities will generally decline in a falling interest rate environment, causing a fund to experience a reduction in the income it receives from the security. A floating rate security's coupon rate resets periodically according to the terms of the security. Consequently, in a rising interest rate environment, floating rate securities with coupon rates that reset infrequently may lag behind the changes in market interest rates.

The natural resources sector can be significantly affected by events relating to U.S. and foreign political and economic developments and environmental and other government regulations, as well as additional factors including, but not limited to commodity price volatility, technological developments and natural or man made disaster.

High yield securities, or "junk" bonds, are less liquid and are subject to greater market fluctuations and risk of loss than securities with higher ratings, and therefore, are considered to be highly speculative.

A fund's income may decline when interest rates fall or if there are defaults in its portfolio.

An index fund will be concentrated in an industry or a group of industries to the extent that the index is so concentrated. A fund with significant exposure to a single asset class, or the securities of issuers within the same country, state, region, industry, or sector may have its value more affected by an adverse economic, business or political development than a broadly diversified fund.

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.

There is no assurance that the index provider or its agents will compile or maintain the index accurately. Losses or costs associated with any index provider errors generally will be borne by a fund and its shareholders.

A fund may own a significant portion of the First Trust ETFs included in a fund. Any such ETF may be removed from the Index if it does not comply with the Index's eligibility requirements. A fund may be forced to sell shares of certain First Trust ETFs at inopportune times or for prices other than at current market values or may elect not to sell such shares on the day that they are removed from the Index, due to market conditions or otherwise. Due to these factors, the variation between a fund's annual return and the return of the Index may increase significantly.

As inflation increases, the present value of a fund's assets and distributions may decline.

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.

Interest rate risk is the risk that the value of the debt securities in a fund's portfolio will decline because of rising interest rates. Interest rate risk is generally lower for shorter term debt securities and higher for longer-term debt securities.

To the extent a fund invests in floating or variable rate obligations that use the London Interbank Offered Rate ("LIBOR") as a reference interest rate, it is subject to LIBOR Risk. The United Kingdom's Financial Conduct Authority, which regulates LIBOR, has ceased making LIBOR available as a reference rate over a phase-out period that began December 31, 2021. There is no assurance that any alternative reference rate, including the Secured Overnight Financing Rate ("SOFR") will be similar to or produce the same value or economic equivalence as LIBOR or that instruments using an alternative rate will have the same volume or liquidity. The unavailability or replacement of LIBOR may affect the value, liquidity or return on certain fund investments and may result in costs incurred in connection with closing out positions and entering into new trades. Any potential effects of the transition away from LIBOR on a fund or on certain instruments in which a fund invests can be difficult to ascertain, and they may vary depending on a variety of factors, and they could result in losses to a fund.

Certain fund investments may be subject to restrictions on resale, trade over-the-counter or in limited volume, or lack an active trading market. Illiquid securities may trade at a discount and may be subject to wide fluctuations in market value.

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, or other events could have significant negative impact on a fund. In February 2022, Russia invaded Ukraine which has caused and could continue to cause significant market disruptions and volatility within the markets in Russia, Europe, and the United States. The hostilities and sanctions resulting from those hostilities could have a significant impact on certain fund investments as well as fund performance. The COVID-19 global pandemic and the ensuing policies enacted by governments and central banks have caused and may continue to cause significant volatility and uncertainty in global financial markets. While the U.S. has resumed "reasonably" normal business activity, many countries continue to impose lockdown measures. Additionally, there is no guarantee that vaccines will be effective against emerging variants of the disease.

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.

Materials and processing companies are subject to certain risks, including the general state of the economy, consolidation, domestic and international politics and excess capacity. Materials companies may also be significantly affected by volatility of commodity prices, import controls, worldwide competition, liability for environmental damage, depletion of resources and mandated expenditures for safety and pollution control devices.

Master limited partnerships ("MLPs") are subject to certain risks, including price and supply fluctuations caused by international politics, energy conservation, taxes, price controls, and other regulatory policies of various governments. In addition, there is the risk that MLPs could be taxed as corporations, resulting in decreased returns from such MLPs.

The benefit a fund derives from its investment in MLPs is largely dependent on their being treated as partnerships for U.S. federal income tax purposes. A change in current tax law or a change in the underlying business mix of a given MLP could result in an MLP being treated as a corporation for income tax purposes which would result in the MLP being required to pay income tax at the applicable corporate tax rate.

An index fund's return may not match the return of the index for a number of reasons including operating expenses, costs of buying and selling securities to reflect changes in the index, and the fact that a fund's portfolio holdings may not exactly replicate the index.

A fund classified as "non-diversified" may invest a relatively high percentage of its assets in a limited number of issuers. As a result, a 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.

Securities of non-U.S. issuers are subject to additional risks, including currency fluctuations, political risks, withholding, lack of liquidity, lack of adequate financial information, and exchange control restrictions impacting non-U.S. issuers.

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 prices of options are volatile and the effective use of options depends on a fund's ability to terminate option positions at times deemed desirable to do so. There is no assurance that a fund will be able to effect closing transactions at any particular time or at an acceptable price.

A fund that invests in securities included in or representative of an index will hold those securities regardless of investment merit and the fund generally will not take defensive positions in declining markets.

High portfolio turnover may result in higher levels of transaction costs and may generate greater tax liabilities for shareholders.

Preferred securities combine some of the characteristics of both common stocks and bonds. Preferred stocks are typically subordinated to other debt instruments in terms of priority to corporate income, and therefore will be subject to greater credit risk than those debt instruments.

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.

Prepayment risk is the risk that the issuer of a debt security will repay principal prior to the scheduled maturity date. Debt securities allowing prepayment may offer less potential for gains during a period of declining interest rates, as a fund may be required to reinvest the proceeds of any prepayment at lower interest rates.

Real Estate Investment Trusts ("REITs") are subject to risks the risks of investing in real estate, including, but not limited to, changes in the real estate market, vacancy rates and competition, volatile interest rates and economic recession. Increases in interest rates typically lower the present value of a REIT's future earnings stream and may make financing property purchases and improvements more costly. The value of a fund will generally decline when investors in REIT stocks anticipate or experience rising interest rates.

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- and mid-capitalization companies may experience greater price volatility and be less liquid than larger, more established companies.

If a fund does not qualify as a RIC for any taxable year and certain relief provisions were not available, a fund's taxable income would be subject to tax at the fund level and to a further tax at the shareholder level when such income is distributed. Further, there may be other tax implications to a fund based on the type of investments in a fund.

Timber companies may be affected by numerous factors, including events occurring in nature, international politics, federal, state and local environmental and health and safety laws and regulations, and general economic conditions.

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.

A fund may hold securities or other assets that may be valued on the basis of factors other than market quotations. This may occur because the asset or security does not trade on a centralized exchange, or in times of market turmoil or reduced liquidity. Portfolio holdings that are valued using techniques other than market quotations, including "fair valued" assets or securities, may be subject to greater fluctuation in their valuations from one day to the next than if market quotations were used. There is no assurance that a fund could sell or close out a portfolio position for the value established for it at any time.

Water companies can be significantly affected by the availability of water, the level of rainfall and the occurrence of other climatic and environmental events, changes in water consumption and water conservation. Water companies may also be negatively affected by changes in governmental regulation and spending, technological advances and increases in inflation, interest rates or the cost of raw materials. Water companies may be subject to liability for environmental damage, depletion of resources, conflicts with local communities over water rights and mandated expenditures for safety and pollution control.

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.

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.