Infrastructure Spending, a Factory Construction Boom, and New Highs for AIRR

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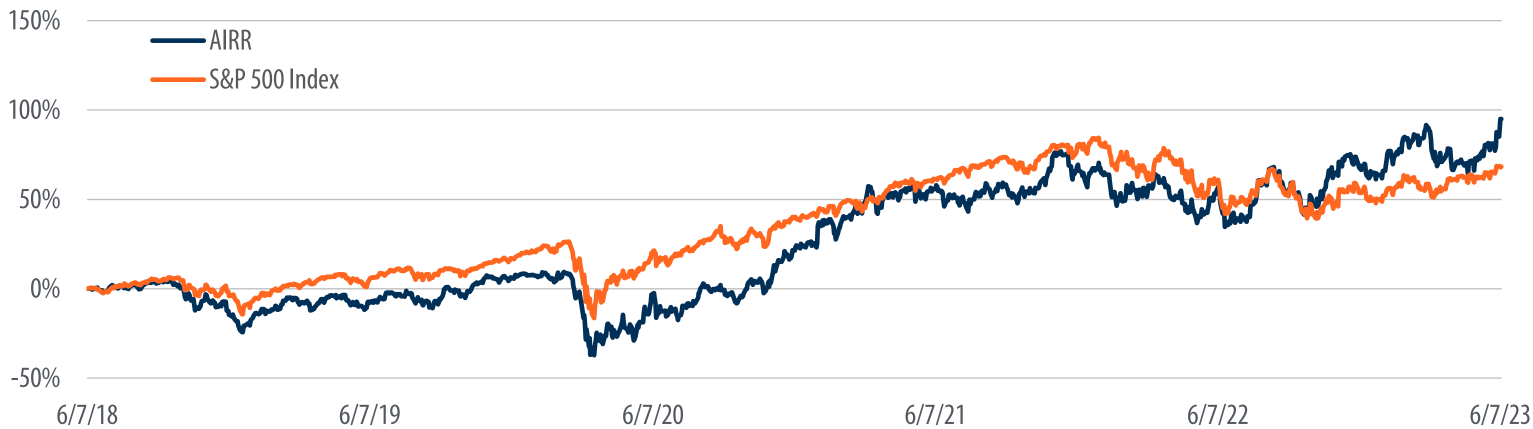
For much of 2023, U.S. equity market performance has been driven by a relatively small group of mega-cap growth stocks. As of 6/7/23, Apple, Microsoft, NVIDIA, Amazon, and Meta contributed over 8 percentage points to the S&P 500 Index's 12% total return.[1] Meanwhile, returns for small- and mid-cap stocks have faltered, along with cyclical sectors, such as industrials, financials, and energy. Against this backdrop, one surprising outlier has been the First Trust RBA American Industrial Renaissance ETF (AIRR), which reached a new all-time high on 6/7/23 (see Chart 1). Year-to-date, AIRR's 19.2% total return has outperformed the S&P 500 Index by over 7 percentage points (as of 6/7/23). AIRR seeks investment results that correspond generally to the price and yield of an index called the Richard Bernstein Advisors American Industrial Renaissance® Index, which is designed to measure the performance of small and mid-cap U.S. companies in the industrial and community banking sectors.

What makes AIRR's outperformance this year so remarkable is that, at a high level, none of these categories have performed particularly well this year, yet many of AIRR's holdings have bucked the trend. In our opinion, there are two key factors helping to drive AIRR's performance this year: increased spending on infrastructure and a building boom for manufacturing.

Chart 1: AIRR vs. S&P 500 Index Total Return



Source: Bloomberg. As of 6/7/23. **Past performance is no guarantee of future results.** 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.

Infrastructure Spending

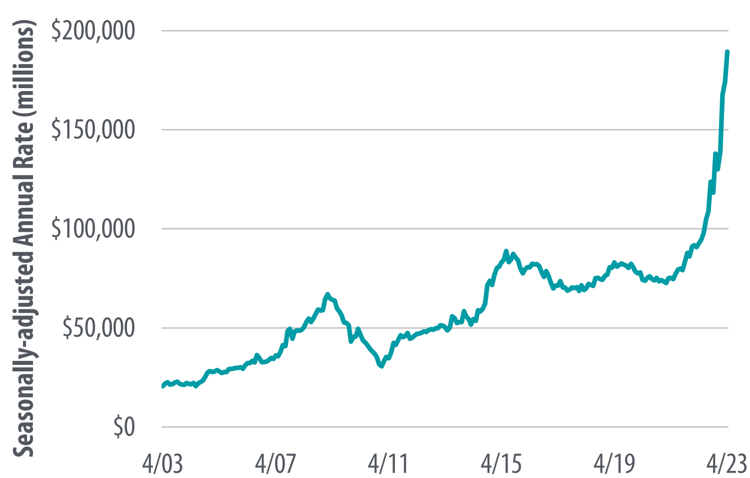
Several AIRR holdings are focused on providing goods and services for infrastructure (i.e., water systems, power grids, roads, etc.). Remember the Infrastructure Investment and Jobs Act (IIJA) that was signed into law in November of 2021? It takes time to dole out $1.2 trillion, but 18 months later, the cash is flowing. According to the Biden administration, over $220 billion has been awarded so far.[2] Now that an agreement to suspend the debt limit has been enacted, spending is full speed ahead.[3] On Monday, another $570 million was awarded for projects to improve railroad crossings.[4] In our opinion, IIJA-funded spending on infrastructure is likely to continue for the next several years.

Factory Building Boom

Over the past 12 months, the rate of factory construction spending in the U.S. reached an all-time high of $189 billion, a 105% year-over-year increase, as of 4/30/23 (see Chart 2).[5] Over $114 billion of this total came from the "computer/electronic/electrical" category (think semiconductor plants), which increased by 270% and the "transportation equipment" category (think electric vehicle factories), which increased by 130%.[6] Disruptions to global supply chains during the pandemic and rising geopolitical instability help to explain these outlays, but we suspect government largesse found in major spending laws, especially the CHIPS Act and the Inflation Reduction Act, may also be accelerating these investments. Time will tell how sustainable this level of spending will be if a recession materializes but building new semiconductor foundries and electric vehicle factories are typically multi-year commitments.

References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

Chart 2: US Construction Spending on Manufacturing



Source: U.S. Census Bureau, Construction Spending. April 2003-April 2023. There is no guarantee that past trends will continue.

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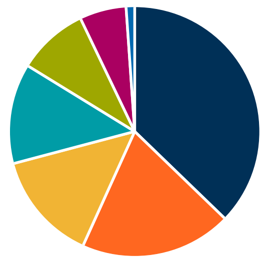
In our opinion, AIRR is well-positioned to benefit from these trends as they continue to unfold, with significant allocations to key sub-industries (see Chart 3). A potential recession is generally not good for cyclical stocks, but we believe spending on infrastructure and new factories may be supported by laws enacted over the last few years, especially the CHIPS Act ($280 billion),[7] the Infrastructure Investment and Jobs Act ($1.2 trillion),[8] and the Inflation Reduction Act ($400 billion to $1.2 trillion).[9] Additionally, despite its relatively strong recent performance, AIRR currently trades at 16.5x forward 12-month earnings estimates, representing a 15% discount to the S&P 500 Index.[10]

Chart 3: AIRR Sub-Industries



Source: Bloomberg. As of 6/7/23.

Performance Summary (%) as of 3/31/23

AIRR Performance*	3 Month	YTD	1 Year	3 Year	5 Year	Since Fund Inception
Net Asset Value (NAV)	9.11	9.11	13.79	33.95	13.27	10.43
Market Price	9.03	9.03	13.80	34.02	13.30	10.43
Index Performance**						
Richard Bernstein Advisors American Industrial Renaissance® Index	9.31	9.31	14.63	34.98	14.08	11.27
S&P 500® Industrials Index	3.47	3.47	0.17	21.72	8.43	9.41
Russell 2500® Index	3.39	3.39	-10.39	19.42	6.65	7.33
S&P 500® Index	7.50	7.50	-7.73	18.60	11.19	11.13

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.

Inception Date: 3/10/2014. Expense Ratio: 0.70%. The Investment Advisor has implemented fee breakpoints, which reduce the fund's investment management fee at certain assets levels. Please see the fund's SAI for full details.

*__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. Returns are average annualized total returns, except for periods of less than one year, which are cumulative.

****Performance information for each index listed 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.

[1]FactSet, 6/7/23.
[2]The White House, 5/12/23.
[3]*The New York Times*, 6/3/23.
[4]*The American Independent*, 6/7/23.
[5]U.S. Census Bureau, Construction Spending, 6/1/23.
[6]U.S. Census Bureau, Construction Spending, 6/1/23.
[7]McKinsey & Company, 10/4/22.
[8]EY. The IIJA allocated $1.2 trillion for infrastructure spending, including a $550 billion increase in expenditures.
[9]McKinsey & Company 10/24/22, *The Wall Street Journal* 3/24/23. Initial estimates from the Congressional Budget Office for IRA outlays were roughly $394 billion. However, new analysis suggests that IRA subsidies may be closer to $1.2 trillion.
[10]FactSet, 6/7/23.

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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.

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.

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.

Community banks were significantly impacted by the decline in the subprime mortgage lending market in the U.S. which brought about legislative and regulatory changes, changes in short-term and long-term interest rates, inflation and changes in government monetary and fiscal policies. Unlike larger national or other regional banks that are more geographically diversified, a community bank's financial performance may be highly dependent upon the business environment in certain geographic regions of the U.S. and may be adversely impacted by any downturn or unfavorable economic or employment developments in its local market and the U.S. as a whole.

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.

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.

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.

Industrials and producer durables companies are subject to certain risks, including the general state of the economy, intense competition, consolidation, domestic and international politics, excess capacity and consumer demand and spending trends. They may also be significantly affected by overall capital spending levels, economic cycles, technical obsolescence, delays in modernization, labor relations, and government regulations.

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, natural disasters 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 vaccines have been developed, there is no guarantee that vaccines will be effective against future variants of the disease. Recent and potential future bank failures could result in disruption to the broader banking industry or markets generally and reduce confidence in financial institutions and the economy as a whole, which may also heighten market volatility and reduce liquidity.

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.

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 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.

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.

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.

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

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.

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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DEFINITIONS

The **Richard Bernstein Advisors American Industrial Renaissance® Index** is designed to measure the performance of small and mid-cap U.S. companies in the industrial and community banking sectors.

The **Russell 2500® Index** is an unmanaged market-cap weighted index that includes the smallest 2,500 companies from the Russell 3000 Index.

The **S&P 500® Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance.

The **S&P 500® Industrials Index** is an unmanaged index which includes the stocks in the industrials sector of the S&P 500® Index.