



# FREQUENTLY ASKED QUESTIONS

## Q: What is a Target Outcome ETF®?

**A:** The First Trust Target Outcome ETFs® (the “ETFs”) are actively managed and seek to provide shareholders with returns that match the price return of an underlying reference asset, such as the SPDR® S&P 500® ETF Trust (“SPY”), up to a predetermined cap, while also providing a buffer against potential losses in the price return of the reference asset over a Target Outcome Period of approximately one year. The ETFs seek to achieve their investment objectives by investing primarily in FLEXible EXchange® Options (“FLEX Options”) that reflect the price return of the underlying reference asset.

## Q: How do these ETFs deliver Target Outcomes?

**A:** There are three components to the ETFs that seek to provide investors with a Target Outcome: the buffer, the cap and the Target Outcome Period. The buffer seeks to limit downside losses (for example, 10%, 15% or 25%), while providing upside participation in the return of the underlying reference asset up to a predetermined cap. The buffer and cap are provided if the funds are held for the Target Outcome Period of approximately one year. Once the Target Outcome Period expires, new FLEX Options will be purchased and the buffer, cap and Target Outcome Period will be reset. **The outcome may only be realized for an investor who holds shares on the first day of the Target Outcome Period and continues to hold them on the last day of the Target Outcome Period.**

## Q: What are FLEX Options?

**A:** FLEX Options allow for customized terms of an option, including strike prices, underlying reference assets and expiration dates. The Options Clearing Corporation (OCC) issues and guarantees settlement of the FLEX Options, becoming the “buyer for every seller and the seller for every buyer,” avoiding counterparty risk.

## Q: What are the underlying holdings in the ETFs?

**A:** Each fund will generally hold FLEX Options that reflect the price return of an underlying reference asset, such as SPY. The Target Outcome values will be set on the annual “roll date” using a bundle of FLEX Options outlined below. The FLEX Options are fully funded and covered by the bundle including purchased and written put and call options. The table below details the FLEX Options used to construct a sample portfolio with an upside cap of 15%, exposure to SPY and a buffer against the first 10% of losses.

Sample Portfolio	Option Position	Type	Strike Price	Expiration
<b>Set U.S. Equity Exposure</b>	Purchase	Call	(SPY Price at Close on Purchase Date) * low strike call (near 0%)	12 month expiration dates
<b>Set Buffer Limit</b>	Write	Put	(SPY Price at Close on Purchase Date) * (90%)	12 month expiration dates
	Purchase	Put	SPY Price at Close on Purchase Date	12 month expiration dates
<b>Set Upside Cap</b>	Write	Call	(SPY Price at Close on Purchase Date) * (115%)	12 month expiration dates

This example is for illustrative purposes only and not indicative of any actual investment.

## Q: How might the Target Outcome ETFs® fit in a portfolio?

**A: Equity Complement (Mitigate Risk):** A common way to reduce downside risk is to reduce an allocation to equities; however, this creates the risk of missing out on potential upside. The ETFs offer an alternative approach that seeks to deliver upside potential linked to equity market performance with reduced downside risk, allowing investors to stay fully invested.

**Hedged Equity Alternative:** The risk/return characteristics of the ETFs provide a limited downside buffer while capping some upside potential, similar to alternative investments such as structured investments. As a result, the ETFs may be used as daily liquid, potentially cost-competitive replacements to traditional structured investments while also eliminating counterparty risk.

**Fixed Income Complement:** With the predetermined downside buffer, the ETFs may provide non-correlated returns to equities as well as fixed income securities over a full outcome period. In addition, the ETFs may reduce interest rate risk associated with traditional fixed income securities due to their underlying exposure to the U.S. equity markets.

## Q: What happens if I buy an ETF in the middle of the Target Outcome Period?

**A:** The First Trust Target Outcome ETFs® can be purchased or sold on any day that they are traded on an exchange. Although the cap and buffer levels are fixed at the start of each Target Outcome Period, investors may make intra-period purchases after the start of a Target Outcome Period. Investors acquiring shares of a fund intra-period will likely have a different return potential (i.e. cap and buffer level) than an investor who purchased shares at the start of a Target Outcome Period (initial fund launch date or subsequent annual rebalance date). Potential Target Outcome values are updated daily and available on the First Trust website, which provides a tool that shows detailed information about each fund's current NAV and remaining cap and buffer levels in relation to the initial outcome period values and days remaining in the outcome period. This provides a convenient way to inform investors of their potential Target Outcome values before they invest.

## Q: Will I have credit or counterparty risk?

**A:** By owning FLEX Options rather than credit instruments, the ETFs do not carry the credit risk of an issuing bank like structured investments or annuities. In addition, FLEX Options are issued and guaranteed for settlement by the OCC. The OCC becomes the buyer for every seller and the seller for every buyer, thus avoiding counterparty risk and allowing the settlement of trades in the event a clearing member fails to meet its obligations. Founded in 1973, the OCC is the world's largest equity derivatives clearing organization. It is one of only eight institutions in the United States designated by the government as a Systemically Important Financial Market Utility (SIFMU). This designation requires the company to meet prescribed risk management standards and subjects it to heightened oversight by U.S. regulatory authorities including the SEC, CFTC and Federal Reserve.

## Q: Do these ETFs mature?

**A:** No, these ETFs do not mature. The ETFs reset annually on the first day of each new outcome period by investing in a new set of FLEX Options that provide the buffer and cap for the new outcome period. However, the funds may be held indefinitely, providing investors a buy and hold investment opportunity.

## Q: Will intra-period creations or redemptions impact an existing shareholder's outcome?

**A:** An existing shareholder's outcome will not be impacted by other investors since the strike price of each FLEX Option will remain the same throughout the life of the Target Outcome Period, regardless of the timing or size of creations or redemptions. Additionally, creations and redemptions occur at NAV, therefore not affecting the existing shareholders when intra-period trading occurs.

## Q: Are the ETFs liquid?

**A:** The ETFs offer the convenience and trading flexibility of a typical ETF, with daily liquidity.

## Q: What are some key terms I should know?

**A: Target Outcome Period** – Refers to the amount of time between when the FLEX Options were purchased and when they will expire. In the case of these ETFs, the Target Outcome Period is about one year.

**Reference Asset** – The underlying asset which the FLEX Option prices are based on. The reference asset can be a common stock, stock market index, or another ETF.

**Cap** – A limit on the possible return that an ETF can provide at the end of an outcome period. This is also referred to as the "maximum return potential". This means that if the performance of the reference asset is above the cap at the end of an outcome period, the return an ETF provides will not reflect this full performance. Instead, only the reference asset's performance up to the cap is used to determine an ETF's return.

**Buffer** – The buffer is like a cushion that, at the end of the outcome period, absorbs downside loss of the reference asset up to the buffer level (before fees and expenses).

**Remaining Cap** – Based on an ETF's current bid/ask spread midpoint, the best potential return if held until the end of the outcome period.

**Remaining Buffer** – The difference between the return of an ETF and the return of the reference asset, if shares are purchased at the current price and the reference asset value is at the lower buffer value at the end of the outcome period.

**Downside Before Buffer** – The amount of loss that can be incurred by an ETF prior to buffer taking effect.

**Remaining Outcome Period** – The remaining number of days until the end of the outcome period.

**Option** – An option is a contractual obligation between a buyer and a seller. There are two types of options known as "calls" and "puts." The buyer of a call option has the right, but not the obligation, to purchase an agreed upon quantity of an underlying asset from the writer (seller) of the option at a predetermined price (the strike price) within a certain window of time (until the option's expiration), creating a long position. "Long" is an investment term used to describe ownership of the securities. A put option is the opposite of a call option and gives the buyer the right to sell to the writer (seller) the underlying asset at the strike price until the option's expiration. If the strike price is reached, the buyer has the right to exercise the option. For this right, the buyer pays a fee to the seller, called a premium.

*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](http://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 Statement of Additional Information 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.**

ETF shares may only be redeemed directly from a fund by authorized participants in very large creation/redemption units. ETF shares may trade at a discount to net asset value and possibly face delisting.

A fund that effects all or a portion of its creations and redemptions for cash rather than in-kind may be less tax efficient.

Current market conditions risk is the risk that a particular investment, or shares of the Fund in general, may fall in value due to current market conditions. As a means to fight inflation, the Federal Reserve and certain foreign central banks have raised interest rates and expect to continue to do so, and the Federal Reserve has announced that it intends to reverse previously implemented quantitative easing. 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. 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 have and could continue to have a significant impact on certain Fund investments as well as Fund performance and liquidity. The COVID-19 global pandemic, or any future public health crisis, 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, negatively impacting global growth prospects.

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.

The use of listed and OTC derivatives, including futures, options, swap agreements and forward contracts, can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, which may be magnified by certain features of the derivatives.

Trading FLEX Options involves risks different than, and possibly greater than, investing directly in securities. A Target Outcome fund may experience substantial downside for FLEX Option positions and certain FLEX Option positions may expire worthless. There can be no guarantee that a liquid secondary market will exist for the FLEX Options and the FLEX Options may be less liquid than exchange-traded options.

In managing a fund's investment portfolio, the portfolio managers 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, natural disasters or other events could have significant negative impact on a fund.

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.

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. A fund also relies on third parties for a range of services, including custody, and any delay or failure related to those services may affect a fund's ability to achieve its objectives.

Certain funds have characteristics unlike many other traditional investment products and may not be appropriate for all investors.

With respect to a fund of Target Outcome funds, each Underlying ETF's strategy seeks to provide returns based on the price return of the reference asset for shares purchased on the first day of a Target Outcome Period and held for the entire Target Outcome Period, subject to a pre-determined upside cap. Because the funds will purchase shares of the Underlying ETFs in connection with creations of new shares of the funds and during each rebalance, the funds typically will not purchase Underlying ETF shares on the first day of a Target Outcome Period. Likewise, the funds will sell shares of the Underlying ETFs in connection with redemptions of shares of the funds and during each rebalance, and such sales typically will not occur on the last day of a Target Outcome Period. A fund of Target Outcome funds does not itself pursue a Target Outcome strategy. The buffer is only provided by the underlying ETFs and the fund itself does not provide any stated buffer against losses.

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.