

# Building Better Portfolios with the Next Generation of ETFs

**Presented by:**

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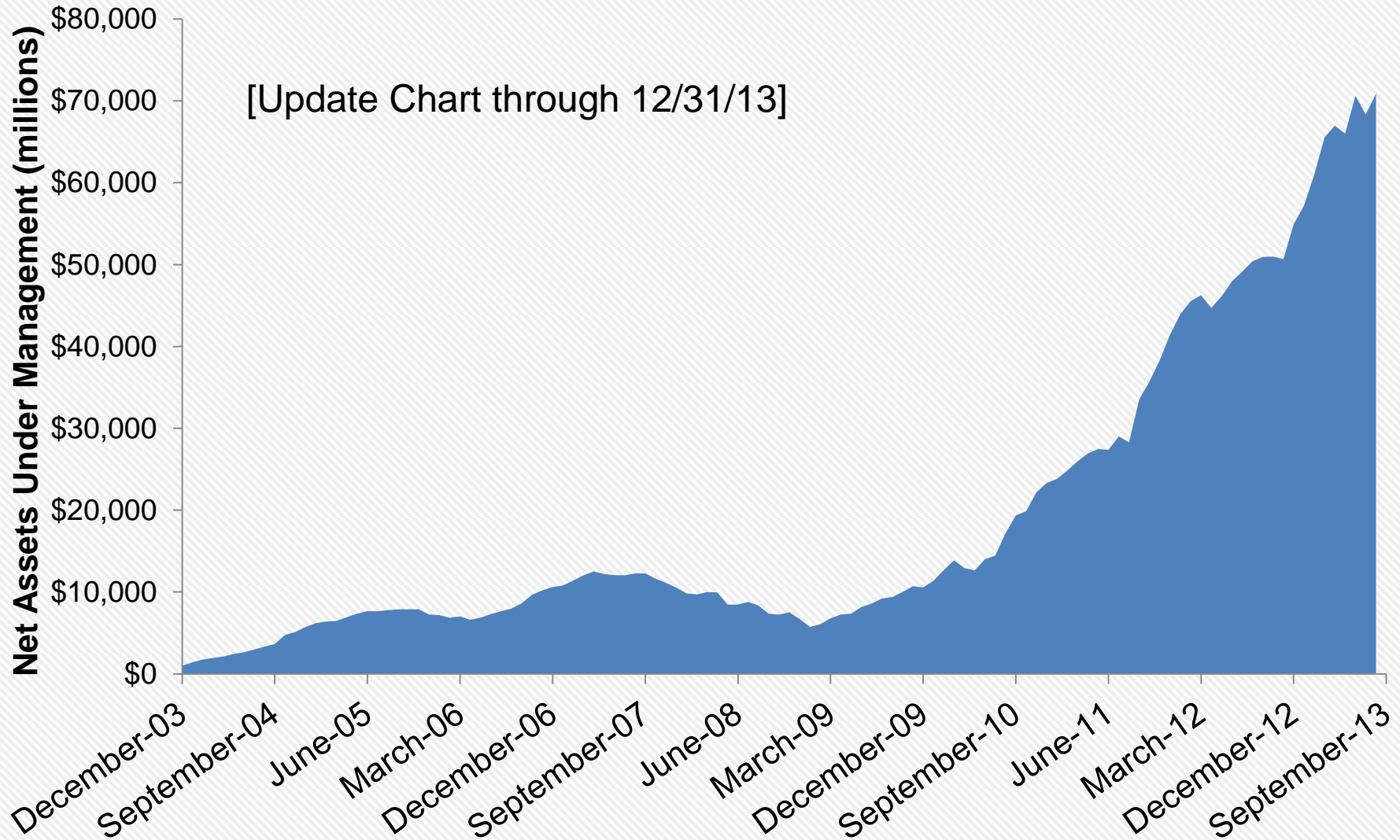
*Senior Vice President*

*Exchange-Traded Fund Strategist*

# The Paint Chip Conundrum



# Growth of Equity Income ETFs

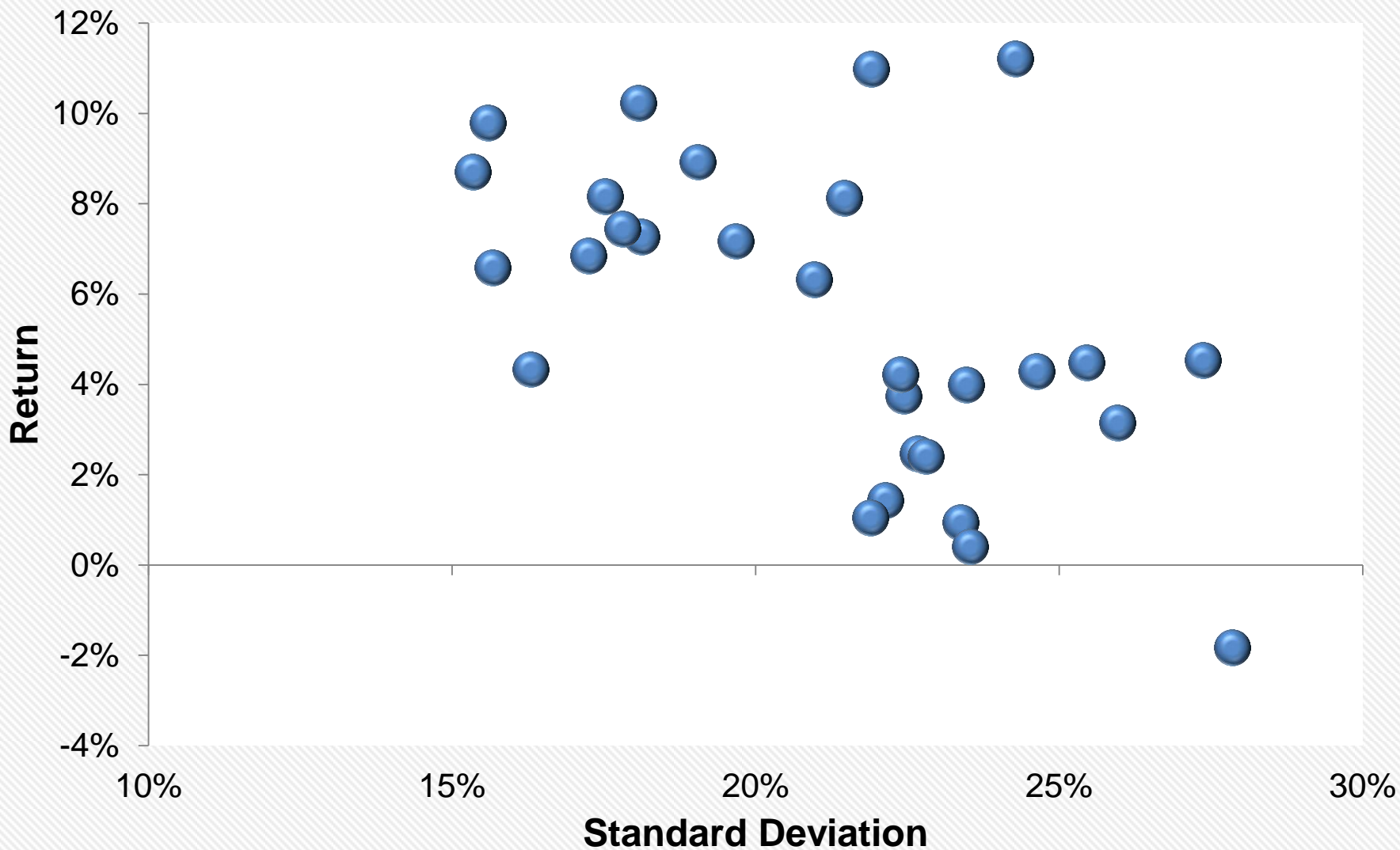


Data from Bloomberg. Includes US-listed dividend ETFs with >\$100 million AUM, as of 8/30/13

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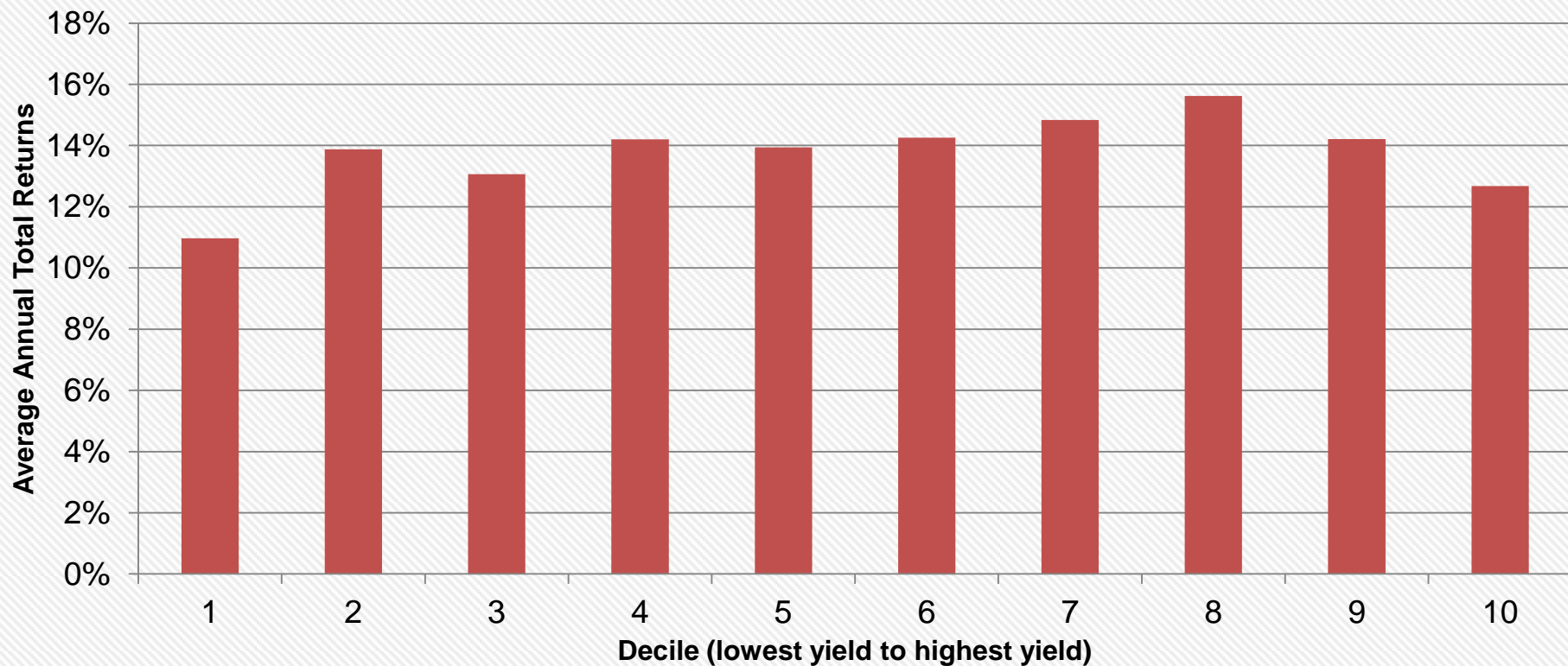
# 5 Year Risk/Return among "Equity Income" ETFs



Zephyr StyleAdvisor and Morningstar. Includes Dividend Focused ETFs with > \$100 million and > 5 years performance history as of 11/30/13

# Dividend Yield and Total Returns

## Dividend Paying Stocks Sorted by Yield (1983-2012)



	1	2	3	4	5	6	7	8	9	10
Average Dividend Yield*	0.39%	0.89%	1.27%	1.55%	1.82%	2.13%	2.48%	2.88%	3.61%	5.66%
Sharpe Ratio	0.27	0.47	0.45	0.51	0.51	0.55	0.62	0.70	0.61	0.45

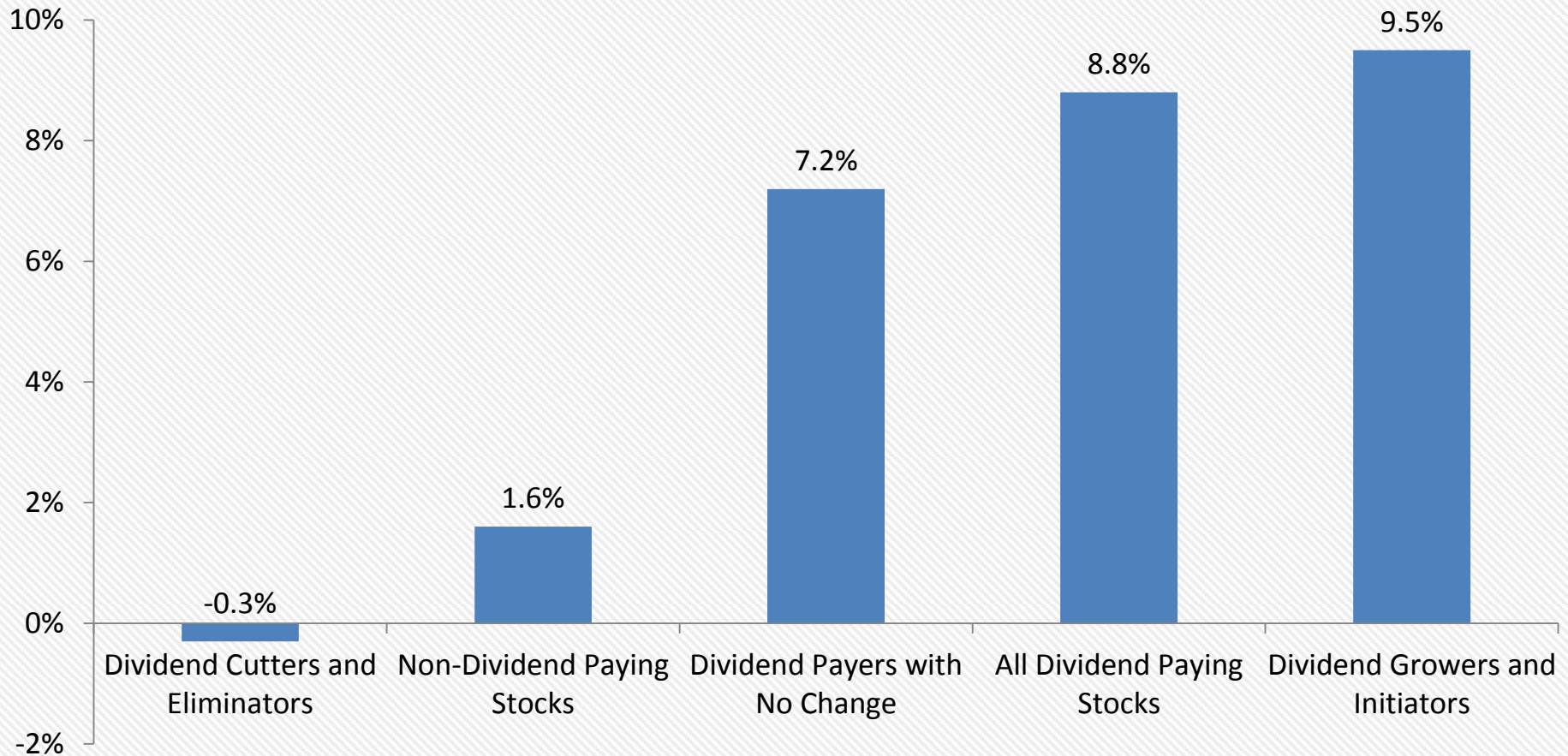
Data source: Kenneth R. French data library using the CRSP database. Universe includes all NYSE, AMEX & NASDAQ stocks. Stocks are equally weighted. Past performance is no guarantee of future results. This example is for illustrative purposes and does not represent any actual investment.

\*As of 10/23/13



# Impact of Dividend Policy on Total Returns

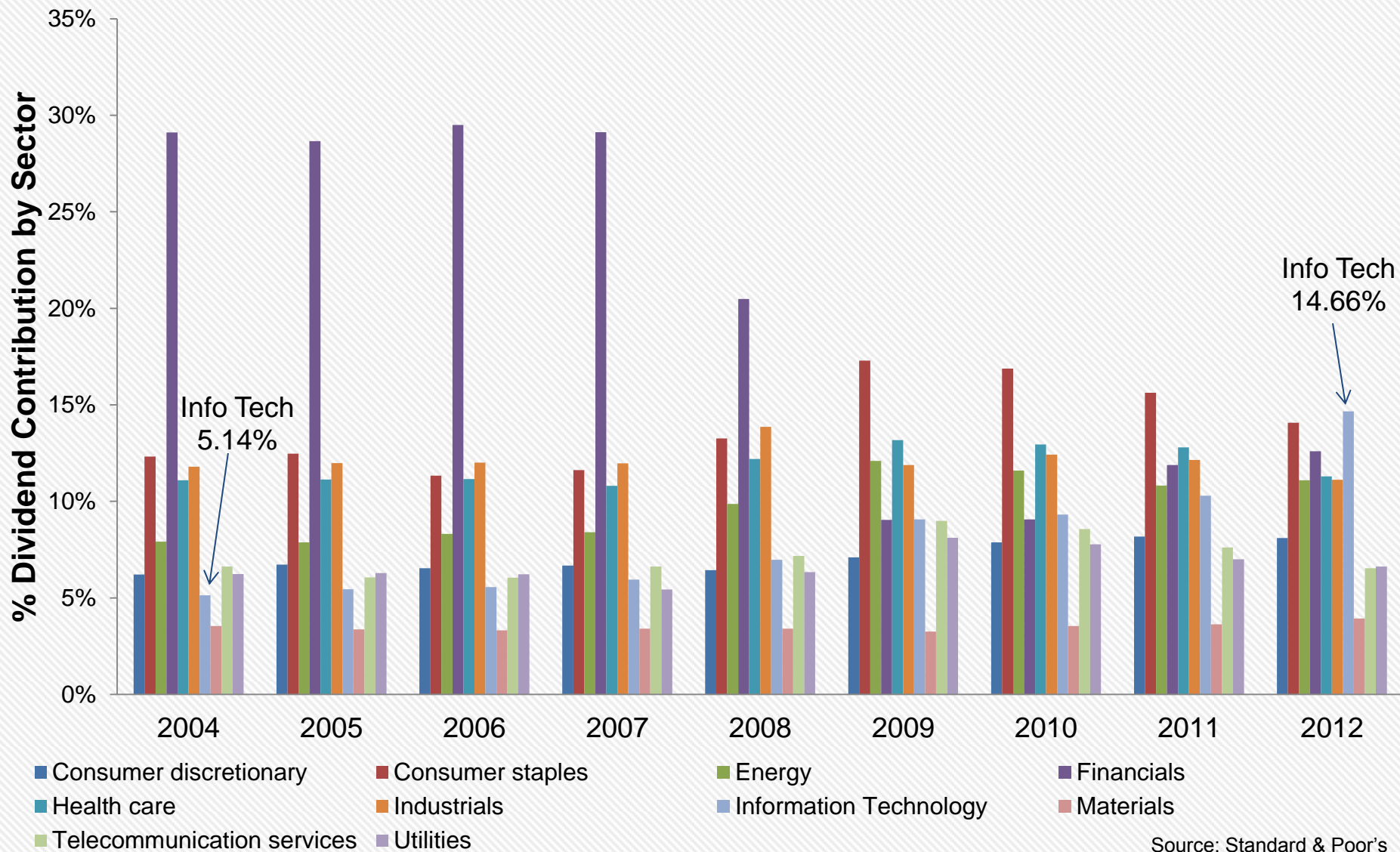
**Average Annual Total Returns of S&P 500 Stocks by Dividend Policy  
(30-Year Period Ended December 31, 2012)**



Source of chart data: Ned Davis Research. Based on equal-weighted geometric average of total return of dividend-paying and non-dividend-paying historical S&P 500 stocks, rebalanced annually. Uses actual annual dividends to identify dividend-paying stocks and changes on a calendar year basis. The performance shown is for illustrative purposes only. Past performance is no guarantee of future results.

# S&P 500: Dividend Contribution by Sector

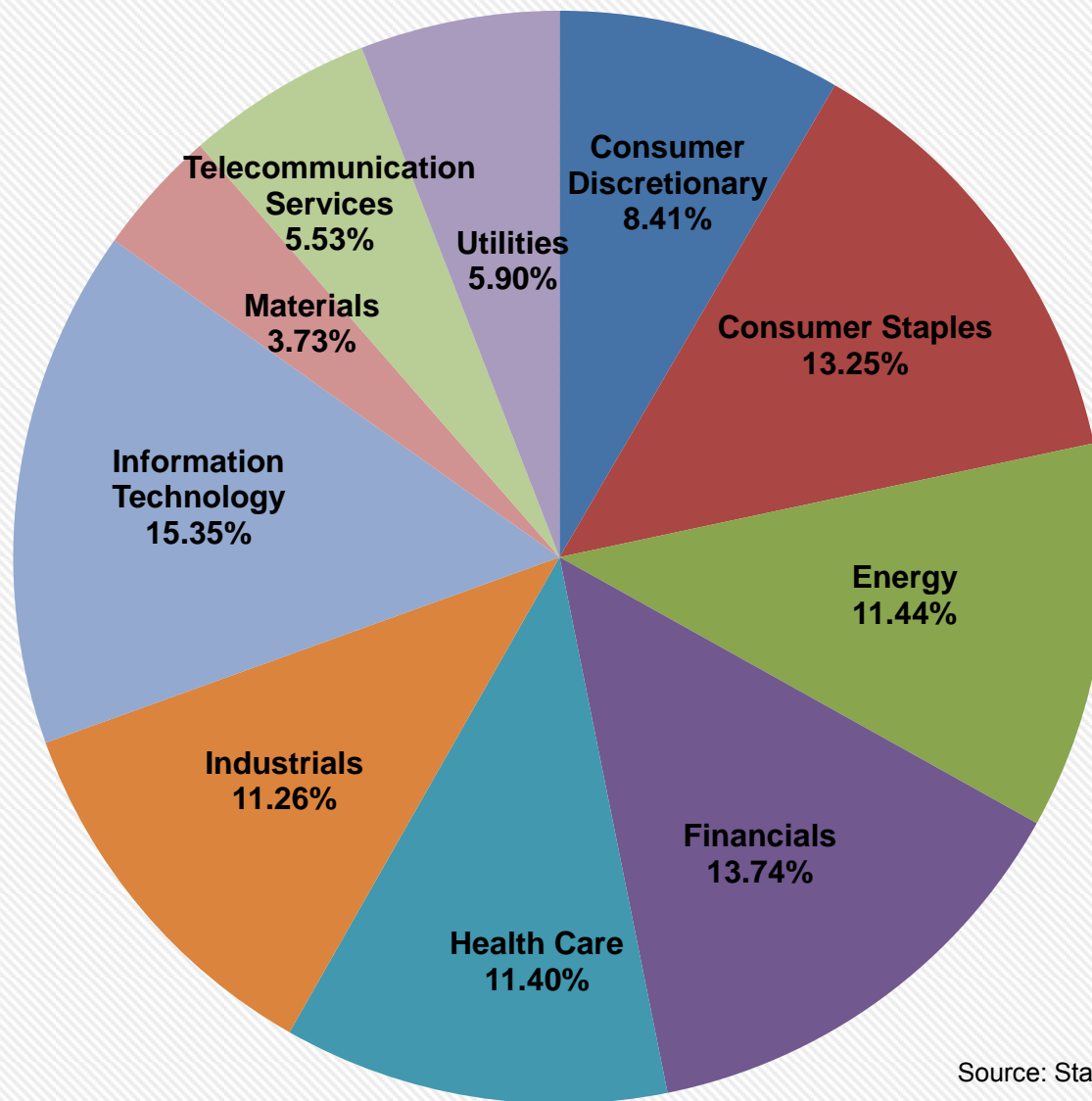
(Based on Indicated Dividend Rate)



Source: Standard & Poor's

# S&P 500: Dividend Contribution by Sector

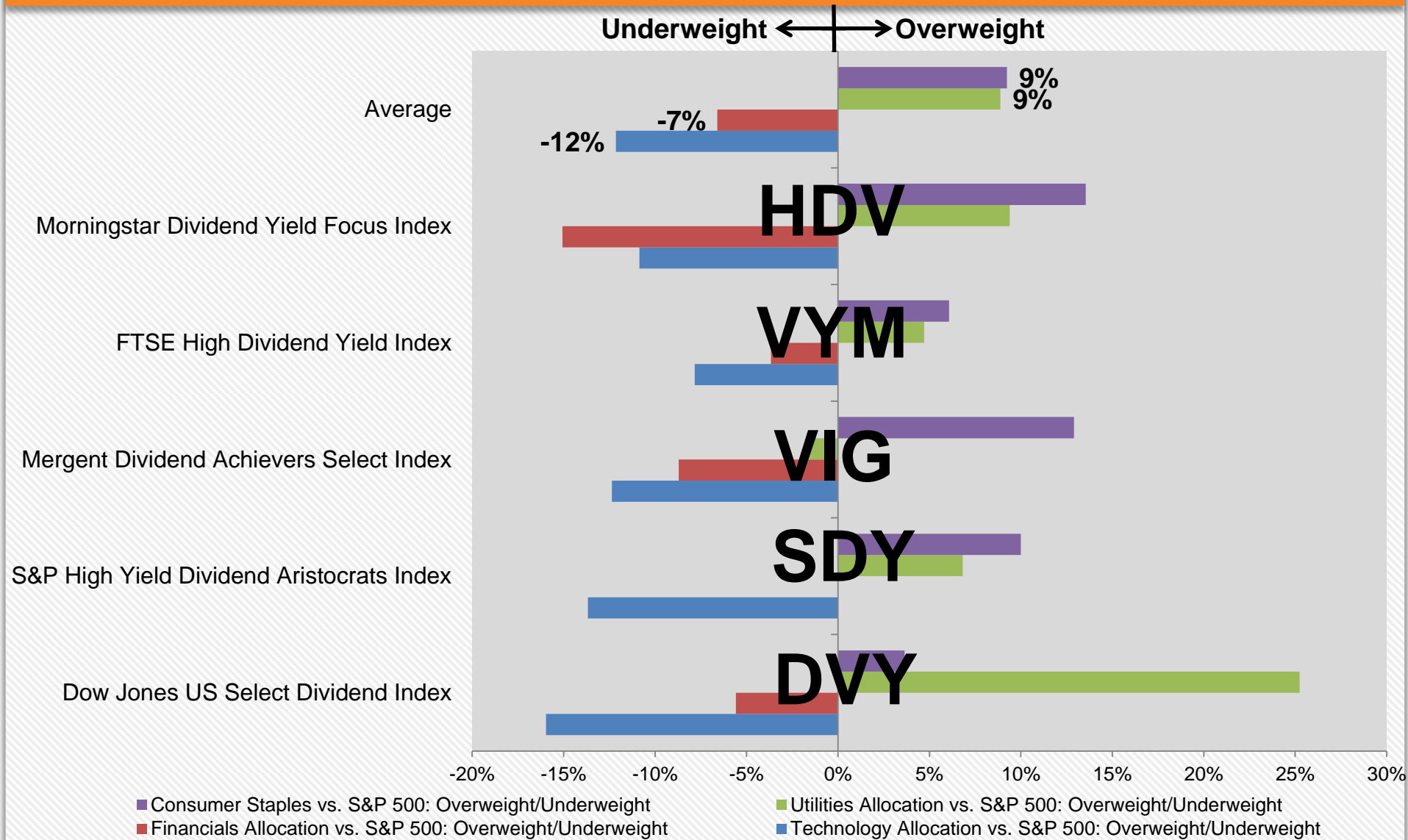
as of 12/17/2013 (Based on Indicated Dividend Rate)



Source: Standard & Poor's and Bloomberg

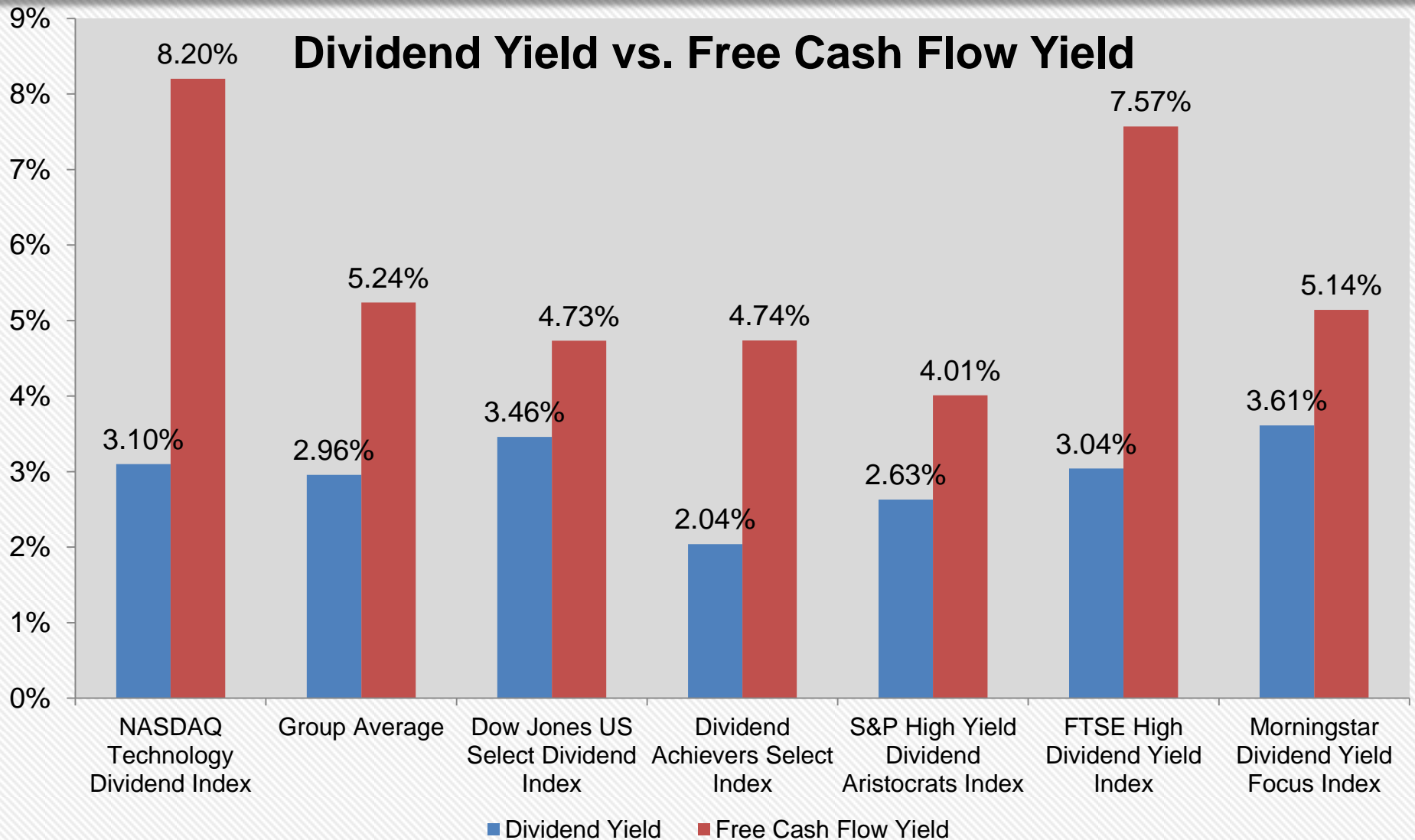


# Most "Dividend" Indexes are Underweight "Dividend Growth" Sectors



Source: Bloomberg, as of 12/19/13

# Room For Technology Sector to Increase Dividends

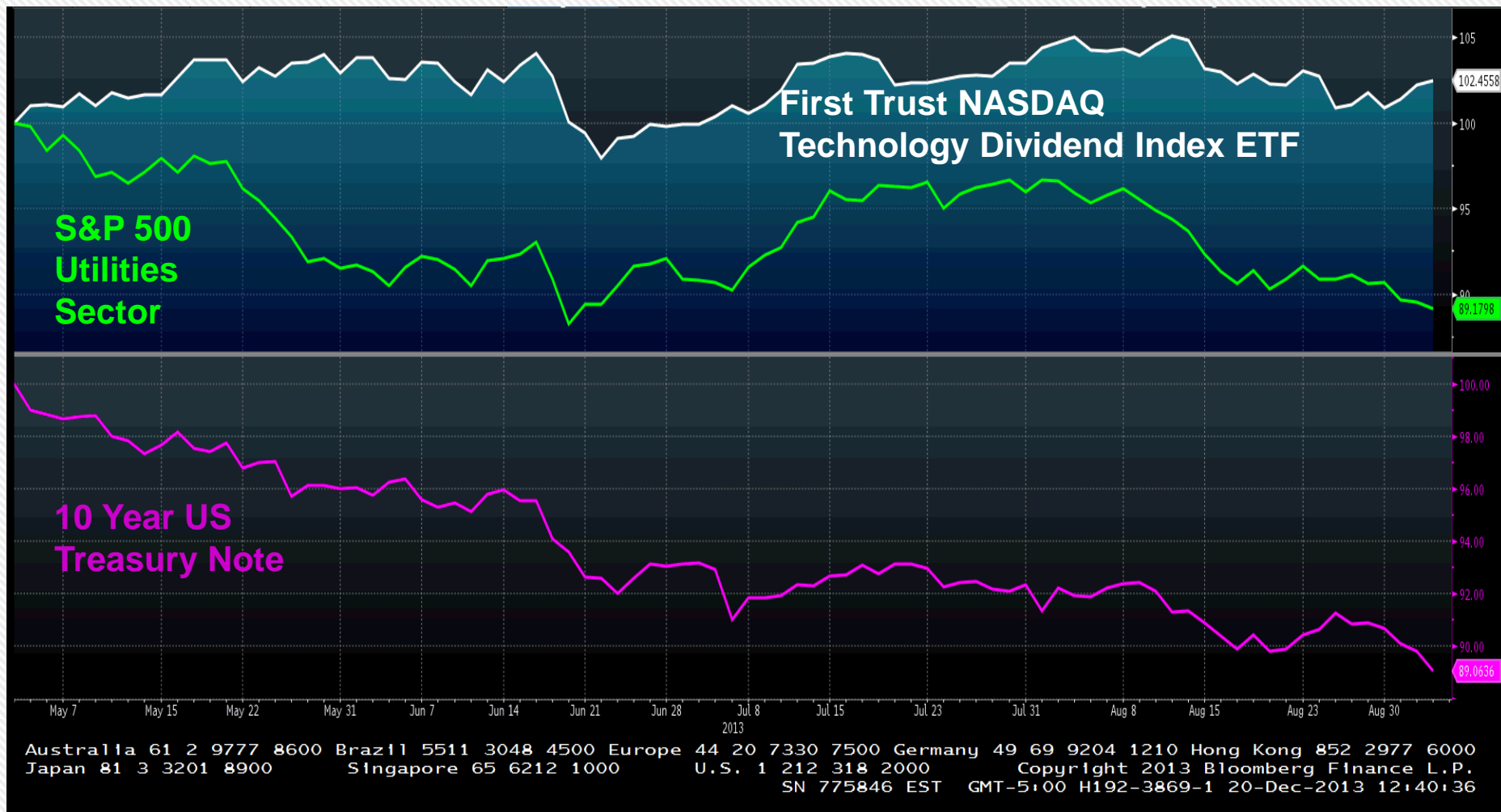


“Free Cash Flow” represents the cash generated by a company, net of its investments to maintain or grow its business. There is no guarantee dividends will be paid in the future or increase over time.

Bloomberg, as of 10/22/13

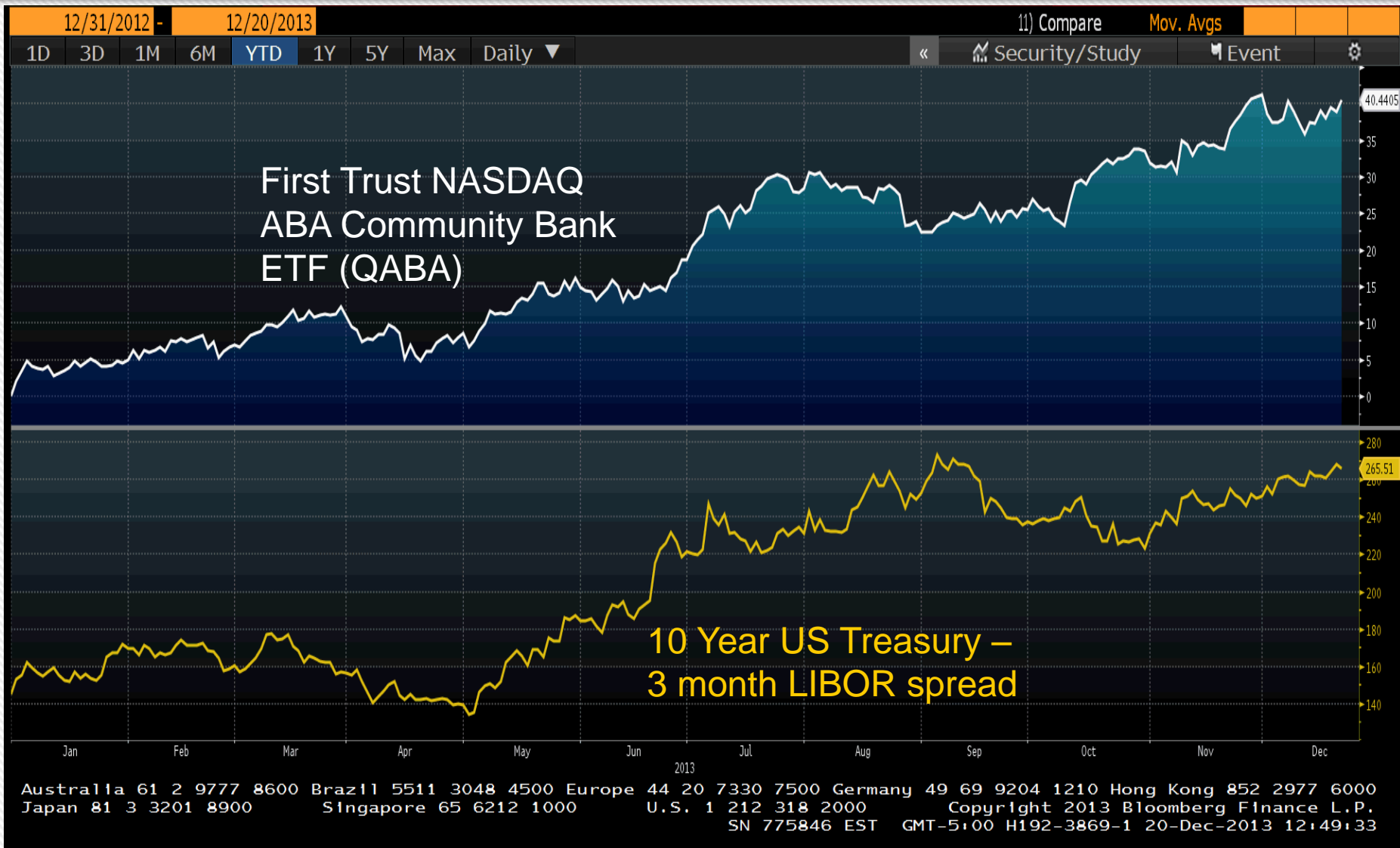
# TDIV vs. S&P 500 Utilities Sector: Plotted vs. 10-Year Treasury Note

**Price Performance 5/2/2013-9/5/2013 (10 Year US Treasury yield increased by 137 bps)**



Source: Bloomberg, Indexed to 100 on 5/2/13. The chart is for illustrative purposes only. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. The S&P 500 Utilities Index is an unmanaged index which includes the stocks in the information utilities sector of the S&P 500 Index. Investors cannot invest directly in an index. When comparing the performance of stocks and the 10-Year Treasury Note, it is important to remember that there are materially greater risks associated with investing in stocks than Treasury Notes. Comparisons to other fixed income products would produce different results. Past performance is no guarantee of future results.

# Steeper Yield Curve Benefits Banks



Source: Bloomberg, QABA percentage price appreciation (excluding dividends). The chart is for illustrative purposes only. Past performance is no guarantee of future results.

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# QABA vs. S&P 500 Financials (since 5/2/13)

Range	05/02/2013	-	12/19/2013	Period	Daily	No. of Period	231 Day(s)
Security	Currency	Price Change	Total Return	Difference	Annual Eq		
1. QABA US Equity	USD	28.73%	29.99%	13.21%	51.36%		
2. S5FINL Index	USD	15.44%	16.78%		27.78%		
3. SPX Index	USD	13.27%	14.88%	-1.90%	24.51%		



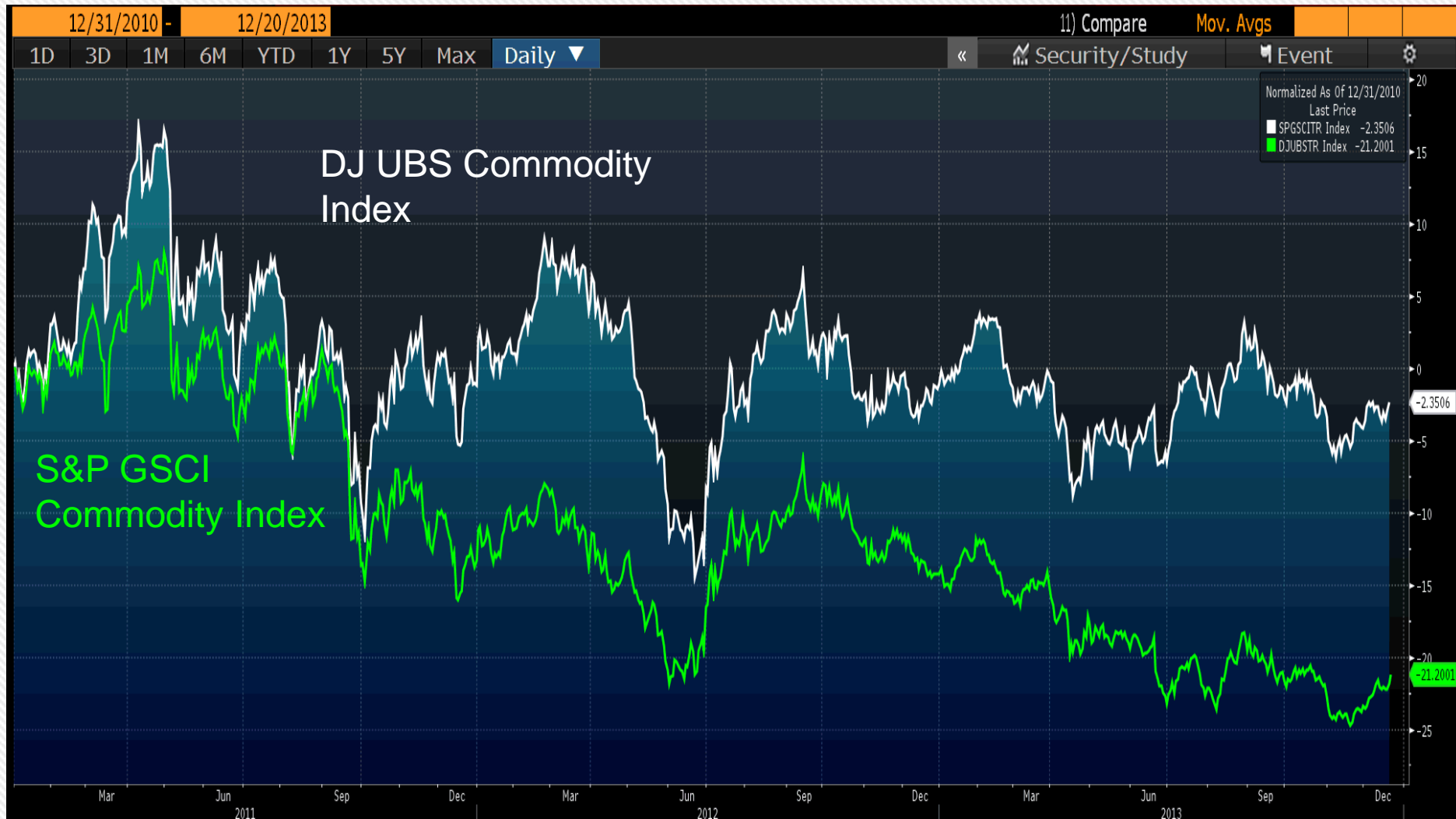
Source: Bloomberg

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# Why invest in commodities?

## 12/31/2010-12/20/2013 Total Return Commodity Indices



Source: Bloomberg

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# Asset Class Returns (2001-2013 YTD)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	YTD 2013*
13.7%	25.9%	55.8%	32.1%	34.0%	35.4%	39.4%	5.2%	78.5%	27.7%	7.8%	19.6%	26.9%
8.4%	10.3%	38.6%	25.6%	21.4%	32.1%	16.2%	-35.6%	31.8%	18.9%	7.5%	18.2%	18.9%
-2.6%	3.6%	36.7%	20.2%	13.5%	26.3%	11.2%	-37.6%	28.5%	16.8%	0.0%	17.3%	1.7%
-13.0%	-6.2%	26.4%	9.1%	11.9%	13.6%	7.0%	-38.5%	23.5%	12.8%	-12.1%	13.4%	-1.9%
-19.5%	-15.9%	23.9%	9.0%	3.0%	4.3%	3.5%	-43.4%	18.9%	7.8%	-13.3%	4.2%	-3.8%
-21.4%	-23.4%	4.1%	4.3%	2.4%	2.1%	-15.6%	-53.3%	5.9%	6.5%	-18.4%	-1.1%	-8.8%

Dow Jones UBS Commodity Index  
S&P 500 Index  
Barclays Aggregate Bond Index



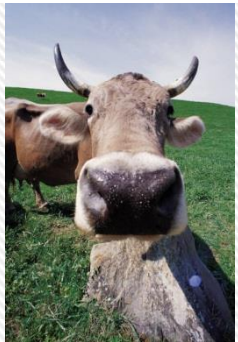
Dow Jones Equity REIT Index  
MSCI EAFE Index  
MSCI Emerging Markets Index



Source: Bloomberg  
\*YTD 2013 as of 12/19/13

# Why invest in commodities?

- Historically low correlation with stocks and bonds
- Potential inflation hedge
- Potential for attractive returns

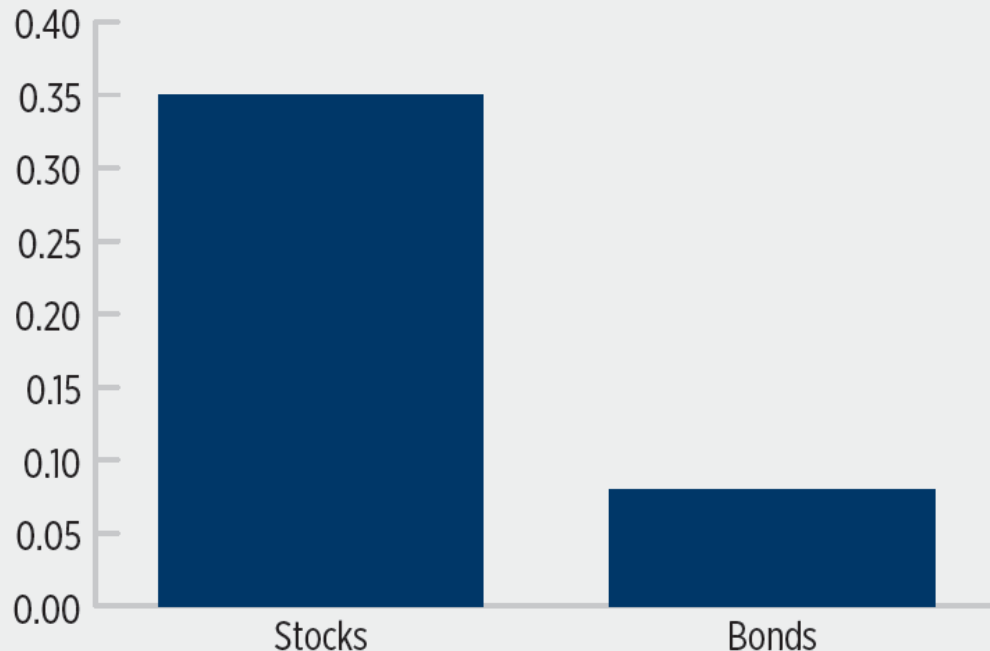


# Opportunity for improved diversification

Because commodities have historically not been highly correlated with traditional asset classes, they can potentially:

- Decrease portfolio volatility
- Enhance overall return
- Provide meaningful diversification to an asset allocation strategy

Historical Correlation of Commodities to Stocks and Bonds\* (8/31/98 – 8/31/13)



Source: Bloomberg. Historical correlation of the indexes is for illustrative purposes only and not indicative of any actual investment. An index cannot be purchased directly by investors.

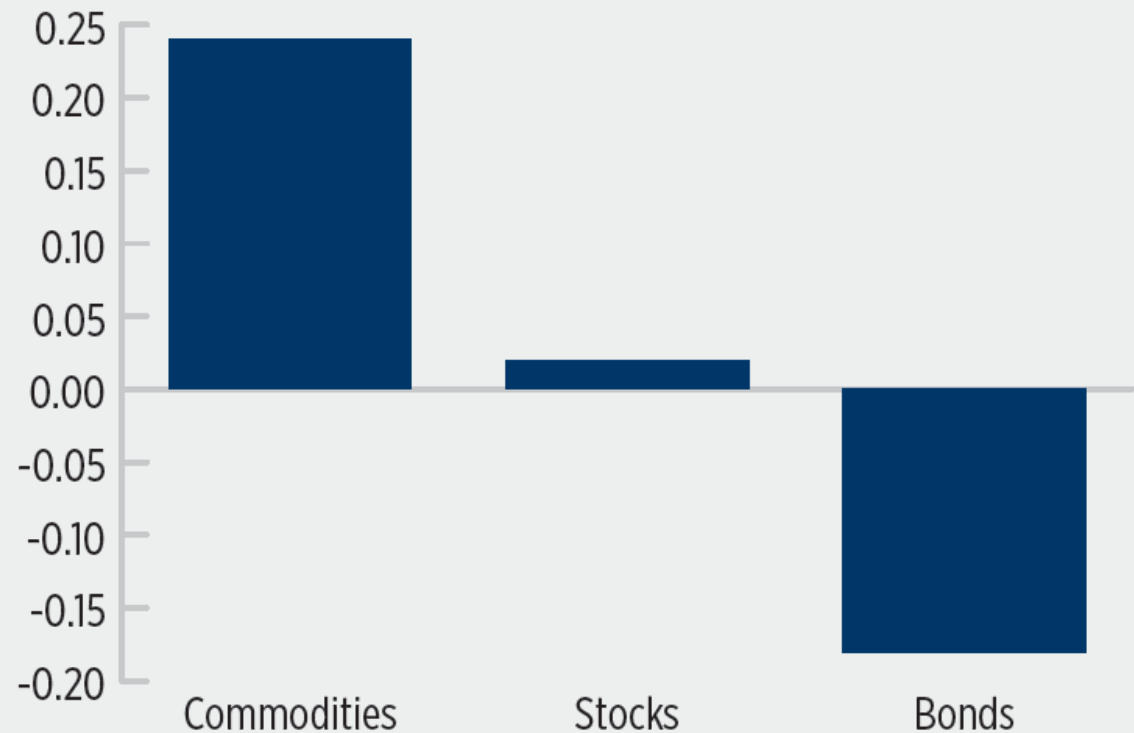
It is important to note that diversification does not guarantee a profit or protect against loss.

\*Commodities are represented by the Dow Jones-UBS Commodity Index. Bonds are represented by the Barclays Capital U.S. Aggregate Bond Index. Stocks are represented by the S&P 500 Index. Please see endnotes for a description of these indices.

# A potential inflation hedge

Commodity prices typically rise with inflation. Historically, commodities have exhibited a higher positive correlation with inflation.

Historical Correlation of Returns to U.S. Inflation\*  
(8/31/98 – 8/31/13)



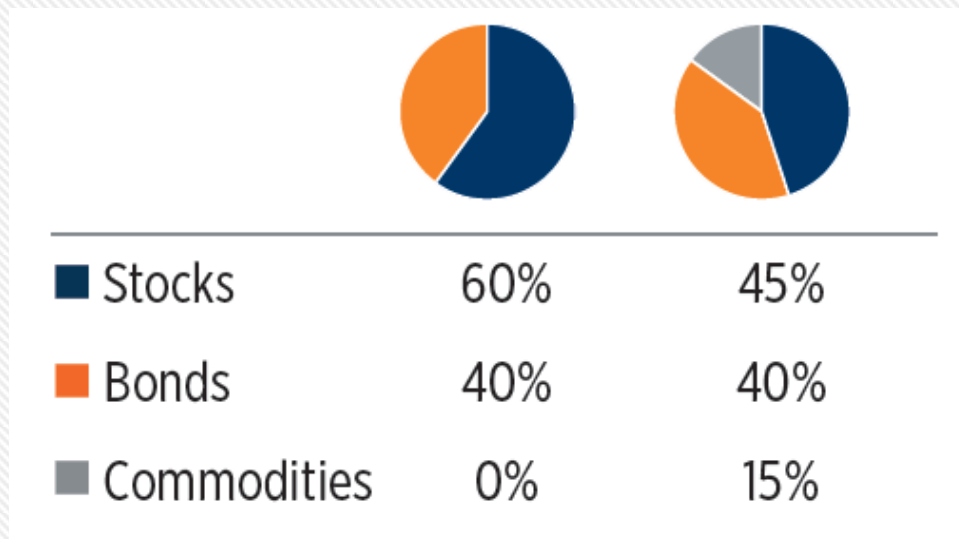
Source: Bloomberg. Historical correlation of the indexes is for illustrative purposes only and not indicative of any actual investment. An index cannot be purchased directly by investors.

\*Commodities are represented by the Dow Jones-UBS Commodity Index. Bonds are represented by the Barclays Capital U.S. Aggregate Bond Index. Stocks are represented by the S&P 500 Index. Inflation is represented by the Consumer Price Index (CPI). Please see endnotes for a description of these indices.

# The impact of commodities on risk and return

Hypothetical performance for the 15-year period ending 8/31/13

Adding commodities to a portfolio significantly reduced volatility and risk, while increasing risk-adjusted returns.

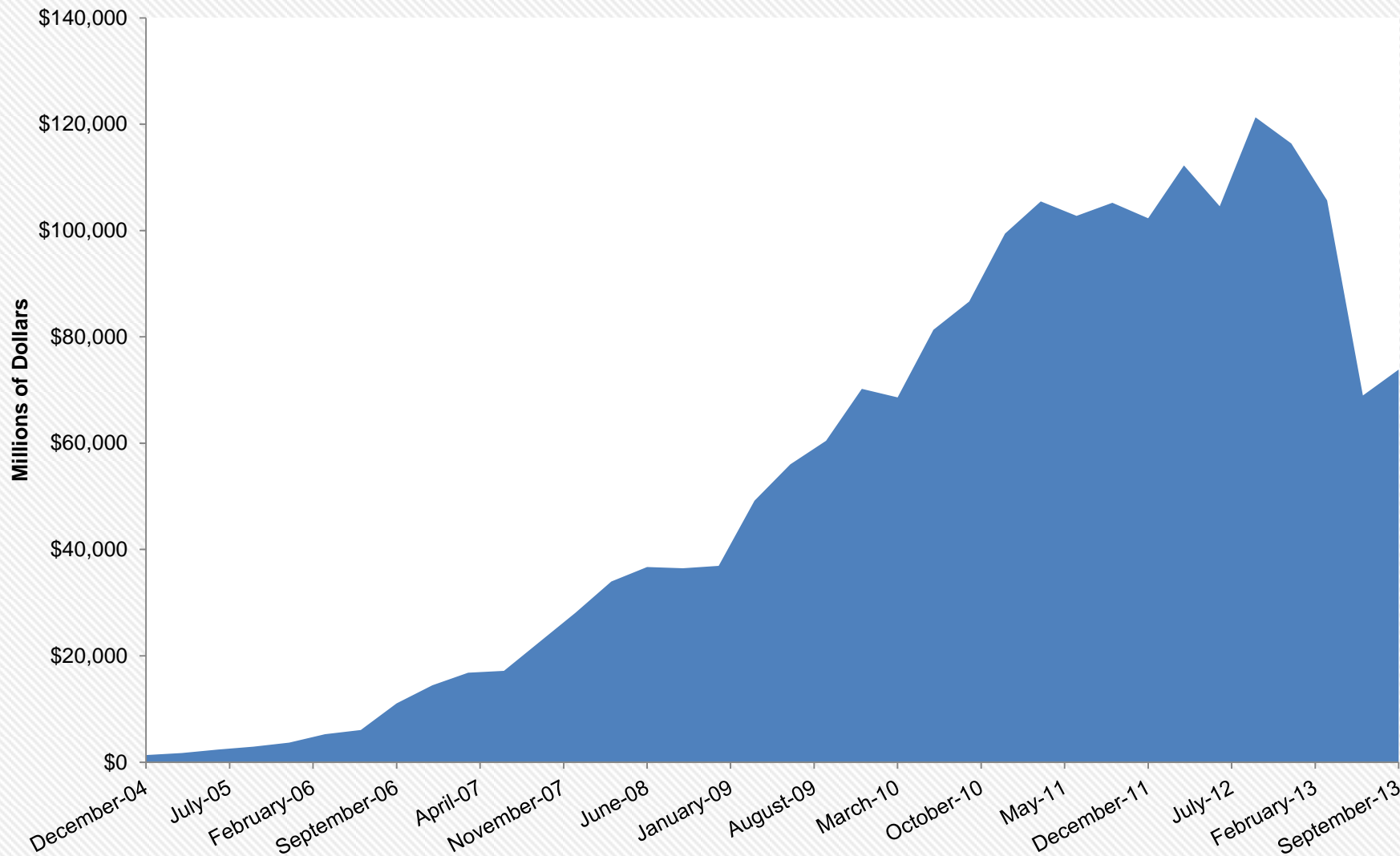


	Average Annual Total Returns	Standard Deviation	Sharpe Ratio
60/40	5.82%	12.08%	0.29
45/40/15	5.92%	9.87%	0.37

These examples are for illustrative purposes only and not indicative of any investment or fund. The examples assume the portfolios are rebalanced annually. The examples exclude the effects of taxes and brokerage commissions or other fees incurred when investing. Past performance is no guarantee of future results. An index cannot be purchased directly by investors. Standard Deviation is a measure of price variability (risk). Sharpe Ratio is a measure of excess reward per unit of volatility. Commodities are represented by the Dow Jones-UBS Commodity Index. Bonds are represented by the Barclays Capital U.S. Aggregate Bond Index. Stocks are represented by the S&P 500 Index. Please see endnotes for a description of these indices.

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# The Growth of Commodity ETFs



Source: Index Universe and Bloomberg; includes Commodity ETPs with >\$100 million, excluding leveraged and inverse ETPs

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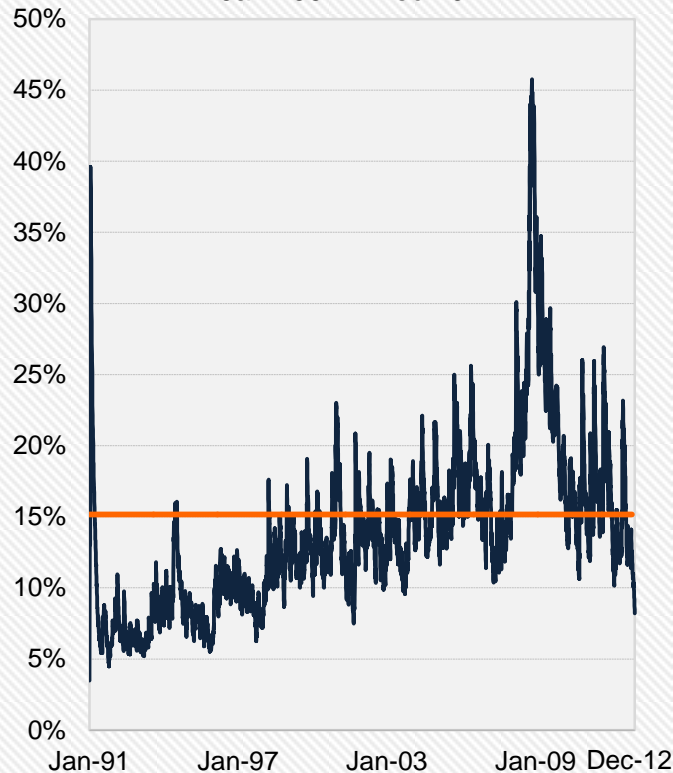
# The Volatile Volatility of Commodity Indices

Commodities, while offering significant opportunities for diversification, can possess a level of volatility that makes the average investor uncomfortable.

The two major passive commodity indices, the Dow Jones UBS Commodities Index and the S&P GSCI Commodities Index have high absolute levels of volatility as well as a wide range of realized volatility.

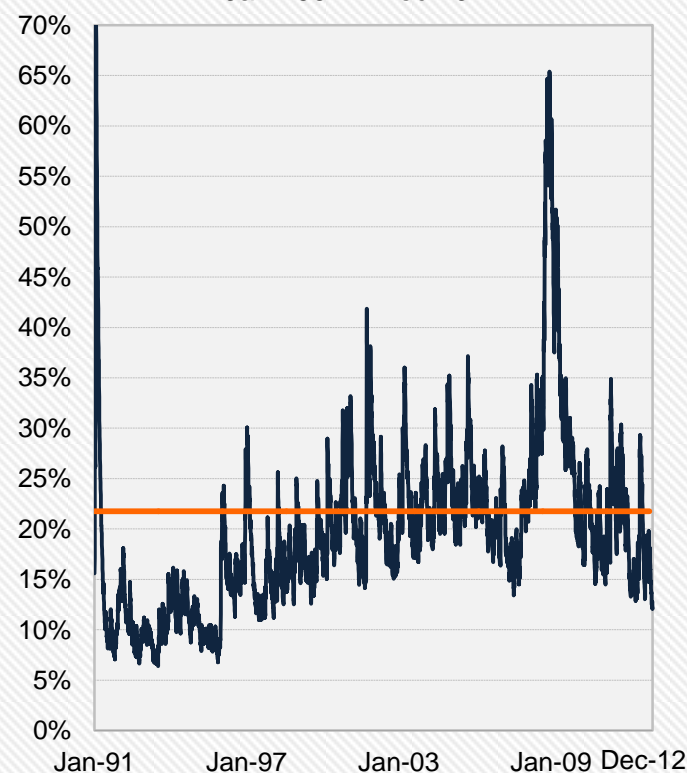
### Dow Jones UBS Commodity Index

Jan 1991 – Dec 2012



### S&P GSCI Commodity Index

Jan 1991 – Dec 2012



— Daily Volatility      — Ann. Standard Deviation

Sources: Bloomberg. These examples are for illustrative purposes only and not indicative of the fund. Past performance is no guarantee of future results. An index cannot be purchased directly by investors.

# Sector Allocations of Commodity Indices

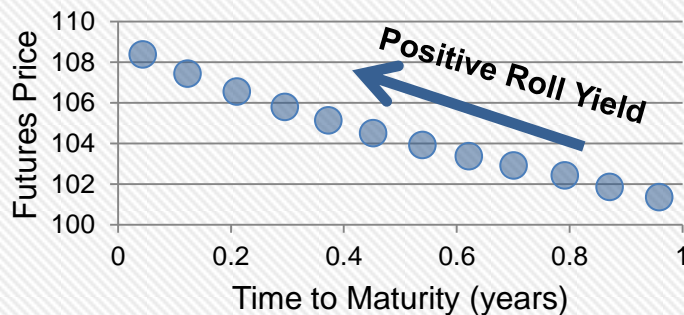
Compare allocations of passive indices to show overweight in energy-related commodities.

# Potential advantages of active management

An actively managed approach allows the fund to potentially benefit from the shape of the various underlying futures curves.

**Futures Curve for Brent Oil**

As of 9/30/2013

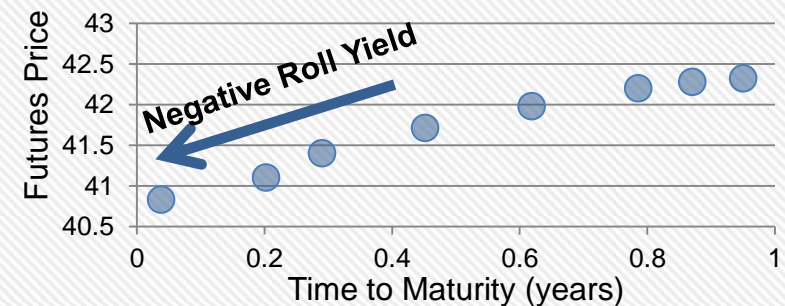


Positive Roll Yield can occur when a futures curve is in a state of "Backwardation."

Backwardation is the market condition where futures contracts with successively longer maturities are trading at successively lower prices.

**Futures Curve for Soy Bean Oil**

As of 9/30/2013



Negative Roll Yield can occur when a futures curve is in a state of "Contango."

Contango is the market condition where futures contracts with successively longer maturities are trading at successively higher prices.

Chart Source: Bloomberg. These examples are for illustrative purposes only and do not represent any investment in the fund.

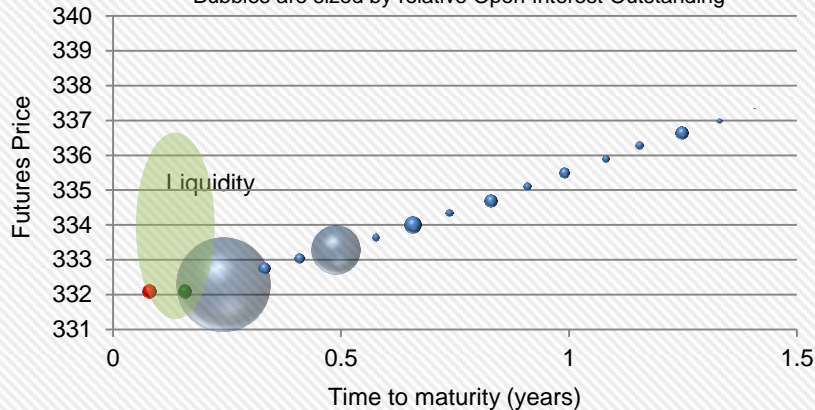
# Potential advantages of active management

An actively managed approach allows the fund to potentially benefit from the idiosyncratic nature of each futures curve, capturing additional return/risk drivers in the investment process.

## Futures Curve for Copper

As of 9/30/2013

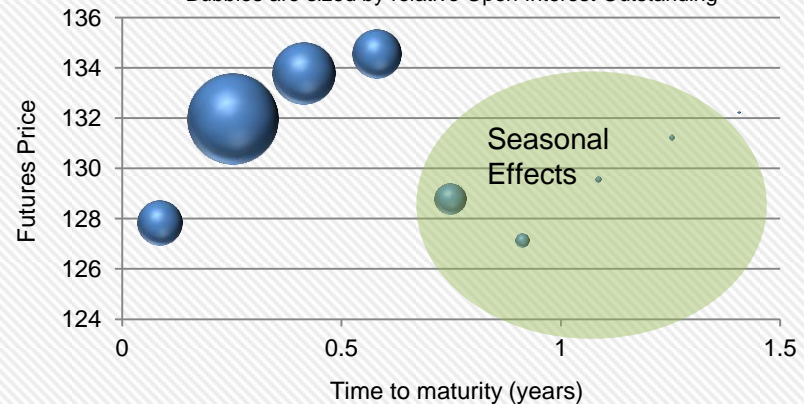
Bubbles are sized by relative Open Interest Outstanding



## Futures Curve for Live Cattle

As of 9/30/2013

Bubbles are sized by relative Open Interest Outstanding



- Research has shown that a portfolio's exposure along the futures curve can have big impact on potential returns.
- Active management allows the portfolio managers more latitude in contract selection, potentially offering higher long-term returns.
- Examples of such idiosyncratic return/risk drivers affecting individual commodities might be:
  - Harvest cycles
  - Weather
  - Inflation
  - Number of hedgers vs. number of spectators
  - Physical inventory positions
  - Macro-economic environment
  - Geo-political event risk

Chart Source: Bloomberg. These examples are for illustrative purposes only and do not represent any investment in the fund.

# FTGC investment process

Seeks to maximize the return of a highly diversified commodity portfolio targeted to a specific volatility range.

- Select 10 to 35 distinct commodities
- Model and forecast the expected volatility level of each commodity using daily historical data.
- Generate a set of portfolios that seeks to maximize returns given specific levels of volatility along the efficient frontier.
- Rebalance monthly (or more frequently subject to market conditions) to the optimal asset weighting given the desired risk range for the portfolio.



The commodity futures selected for inclusion in the portfolio are those, which when combined with the other selected contracts, create a more diversified and stable risk profile than traditional portfolio construction approaches.

# First Trust Global Tactical Commodity Strategy Fund

- No K-1 tax reporting.
- Broad-based commodity diversification.
- Potential inflation hedge.
- Historically low correlation to stocks and bonds.
- Uses risk-managed approach to potentially increase risk/return relationship.
- Ability to manage roll curve to potentially increase roll yield.

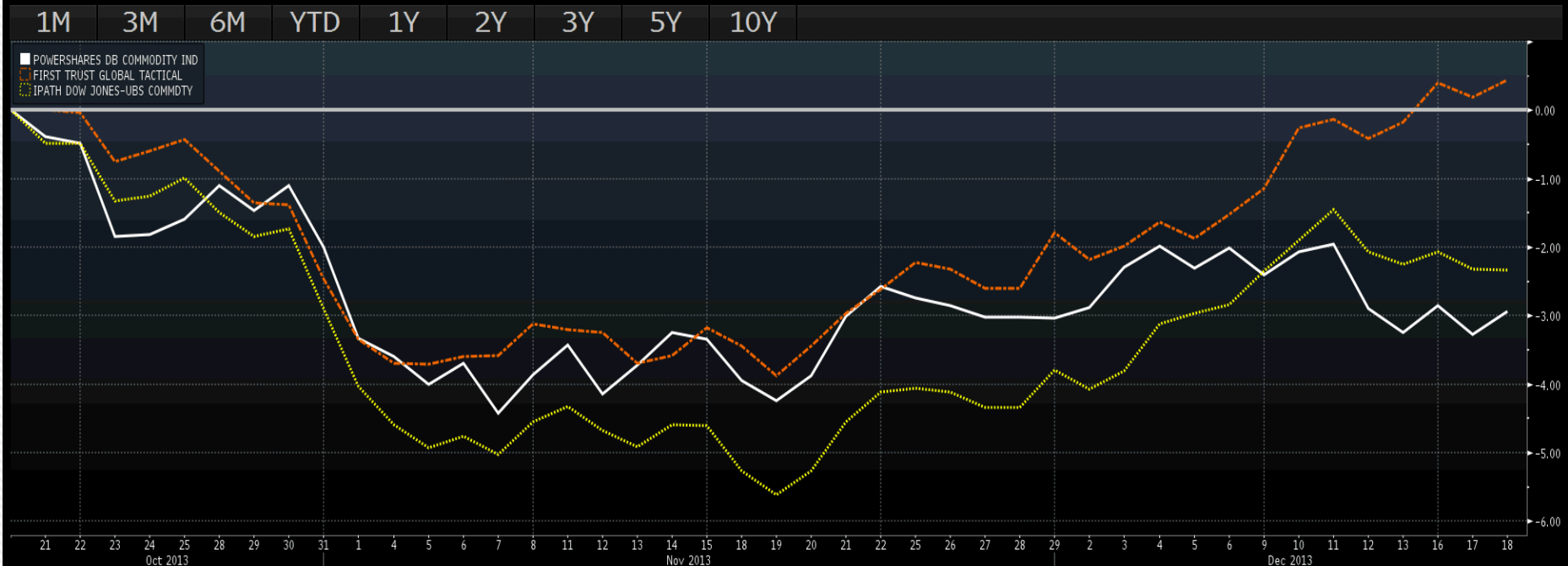
## Fund Details

Fund Ticker	FTGC
Exchange Listing	10/23/13
CUSIP	33739H101
Intraday NAV	FTGCIV
Primary Listing	NASDAQ
Expense Ratio	0.95%



# FTGC vs. DBC and DJP

1) Settings		2) Actions		Page 1/4	Comparative Return		
Range	10/18/2013	-	12/18/2013	Period	Daily	No. of Period	61 Day(s)
Security	Currency	Price Change	Total Return	Difference	Annual Eq		
1. DBC US Equity	USD	-2.94%	-2.94%	-3.38%	-16.35%		
2. FTGC US Equity	USD	.44%	.44%		2.66%		
3. DJP US Equity	USD	-2.33%	-2.33%	-2.77%	-13.16%		



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000  
 SN 775846 EST GMT-5:00 H270-151-2 19-Dec-2013 17:13:04