



**First Trust Advisors L.P.  
Form ADV Part 2A – Firm Brochure  
March 30, 2020**

120 E. Liberty Drive  
Suite 400  
Wheaton, IL 60187  
630.765.8000  
[www.ftportfolios.com](http://www.ftportfolios.com)

This brochure provides information about the qualifications and business practices of First Trust Advisors L.P. If you have any questions about the contents of this brochure, please contact us at 630.765.8000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Additional information about First Trust Advisors L.P. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2-Material Changes

Part 2A of Form ADV has been revised since the last annual amendment dated March 29, 2019. The following is a description of the revisions:

- Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss was amended to include additional information about FLEXible EXchange® Options; and
- Item 10 – Other Financial Industry Activities and Affiliations was amended to remove and add associated persons/officer; and
- Item 17 – Voting Client Securities was amended to include revisions to Proxy Voting Policies.

We will provide clients with a new brochure, free of charge, as necessary based on future changes or new information. A request for a brochure can be made by contacting First Trust Advisors at 630.765.8000.

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#### Item 4-Advisory Business

First Trust Advisors L.P. (“FTA” or “We”) was formed in 1991. FTA is organized as a limited partnership. The general partner of FTA is The Charger Corporation (“Charger”). FTA has one limited partner, Grace Partners of DuPage (“Grace”) L.P. The general partner of Grace is Charger. Grace has a number of limited partners.

FTA’s advisory services can be broadly broken down into two principal lines of business: (1) Supervisory, evaluation and administrative services provided to unit investment trusts (“UITs”) sponsored by our affiliate, First Trust Portfolios L.P. (“FTP”); and (2) Investment management services provided to institutional and individual clients. FTA also offers certain other services on a limited basis. Each of these businesses is described below.

##### Services Provided to UITs

Our affiliate, FTP, is the sponsor of the First Trust series of unit investment trusts. A UIT is a pooled investment vehicle in which investors own a fractional undivided interest (i.e. units) in a portfolio of securities. We provide the following services to FTP-sponsored UITs:

- Portfolio supervisory services. FTA monitors each UIT’s portfolio to ensure the portfolio maintains its sound investment character. For a limited number of UIT portfolios, in selected asset classes, FTA utilizes the services of affiliated entities as sub-portfolio supervisors.
- Portfolio evaluation services. FTA determines the valuation of each security in each trust’s portfolio on a daily basis, which allows the trustee to calculate the trust’s daily net asset value. The types of securities evaluated by FTA include, but are not limited to, domestic and foreign equity securities, preferred securities, corporate bonds, municipal bonds, U.S. government bonds, U.S. government agency securities, mortgage-backed securities (MBSs), real estate investment trusts (“REITs”), master limited partnerships (“MLPs”), American Depositary Receipts (“ADRs”), closed-end fund shares (“CEFs”) and exchange-traded fund shares (“ETFs”).
- Administrative services. FTA provides certain bookkeeping and other administrative services to the trusts.

##### Investment Management Services

FTA provides discretionary investment management services to institutional and individual clients. Our institutional clients principally include open and closed-end mutual funds, collective investment funds (“CIFs”), exchange-traded funds, variable annuity sub-accounts and funds in countries other than the United States. Investment management services are offered to individual clients through separate managed accounts (“SMAs”), either directly or through “wrap fee” programs sponsored by unaffiliated investment advisors.

FTA utilizes numerous types of securities to manage client portfolios including, but not limited to: domestic and foreign equity securities; domestic and foreign fixed income securities (both investment grade and non-investment grade); U.S. government and foreign sovereign fixed income securities,

municipal securities, preferred securities, MBSs, REITs, MLPs, CEFs, ETFs, ADRs, commodities, options and senior loans.

FTA's investment management services to open and closed-end funds, CIFs, ETFs and variable annuity sub-accounts are governed by the provisions of the applicable prospectus (or information statement) and FTA's contract with the applicable fund, which may impose restrictions on FTA regarding investments in certain securities or certain types of securities. In the case of the ETFs, FTA is generally required to manage each ETF portfolio in such a manner as to match the underlying index on which the ETF portfolio is based, except in the case of actively managed ETFs.

An actively managed exchange-traded fund allows FTA to make decisions on the underlying portfolio allocation without seeking to replicate an index. Each actively managed ETF has an underlying index, but may change sector allocations, or deviate from the index as it sees fit. As a result, investment returns will not perfectly mirror the underlying index. Each actively managed ETF seeks a stated investment objective as described in each fund's prospectus.

In the case of the CEFs, most of the portfolios advised by FTA are sub-advised by other investment advisors who are responsible for the day to day management of the funds' portfolios and who are subject to FTA's oversight. The sub-advisors, and FTA when a CEF does not have a sub-advisor, are responsible for investing a CEF's portfolio in a manner consistent with the investment strategy for that CEF as set forth in the prospectus. FTA utilizes sub-advisors for CEFs principally to access their expertise in certain asset classes. Some of the sub-advisors are affiliates of FTA and/or FTP; other sub-advisors are unaffiliated with FTA and FTP.

FTA's investment management services to individuals and certain institutional clients through SMAs are governed by a contract. In some cases, the contract is between FTA and the client directly, whereas in other cases the contract is between FTA and a wrap fee program sponsor. Generally, a client selects one strategy from a menu of investment strategies offered by FTA. Typically, the investor works with his/her financial advisor as an integral part of the process, which involves a review of the investor's financial situation, goals, experience, and risk tolerance, among other factors. Each account in a particular strategy will be managed in a similar manner; however, FTA may accept reasonable client-imposed restrictions on investing in certain securities or types of securities. Such restrictions may affect the performance of an account. If FTA is unwilling to accept such restrictions, or if the restrictions are unreasonable, FTA will withdraw from managing such an account.

FTA participates in various wrap fee programs sponsored by unaffiliated firms. Such programs typically offer investors a variety of services which may include advice as to the selection of other investment advisors (such as FTA) and execution services for a single comprehensive "wrap" fee. In such cases, FTA's investment management fee is included in the wrap fee. For a given investment strategy, there is no appreciable difference in how FTA manages client accounts in a wrap fee program vs. non-wrap fee accounts.

## Other Services

In addition to our two main lines of business described above, FTA may provide non-discretionary investment recommendations in the form of model portfolios to another investment advisor/platform. In such cases, FTA will not have authority to invest any client's assets. FTA's recommendations may include CEFs and/or ETFs, including CEFs and/or ETFs managed by FTA. In some of these arrangements, FTA is participating in wrap fee programs sponsored by unaffiliated firms which offer only non-discretionary model-based recommendations to other investment advisors. FTA's fee, if any, for providing the models is included in the wrap fee.

If requested, FTA may also offer certain consulting and advisory services to institutional clients, including analyzing a client's existing portfolio, providing advice regarding portfolio construction and investment strategy, etc.

## Assets Under Management or Supervision

As of December 31, 2019, FTA had approximately \$145 billion of collective assets under management or supervision. Of this amount, approximately \$53 billion was in FTP-sponsored UITs (non-discretionary assets) and approximately \$92 billion was in ETFs, CEFs, Open-end Mutual Funds, 401(k) Funds, SMAs, and variable annuity sub-accounts (discretionary assets).

## **Item 5-Fees and Compensation**

### FTP-Sponsored UITs

FTA's fees from FTP-sponsored UITs for supervisory, evaluation and administrative services are assessed as a fixed amount per unit, and are generally paid monthly based upon the number of units of the trust outstanding at the beginning of the calendar year. The per unit amount of the fees are specified in the prospectus for each trust and are not negotiable. The trusts (and therefore indirectly, Unit holders) will also incur additional fees such as trustee fees and other operating expenses. Such fees are described in each trust's prospectus. The trusts will also incur brokerage costs as securities are purchased and sold from each trust's portfolio.

### CEFs, ETFs, Open-end Mutual Funds and Variable Annuity Sub-Accounts

FTA's investment management fees from CEFs, ETFs, Open-end mutual funds and variable annuity sub-accounts (collectively "the Funds") are assessed on the basis of assets under management at rates specified in each Fund's prospectus. Such fees are not negotiable, but FTA may contractually agree to waive a portion of its fees for a specified period of time. The Funds (and therefore indirectly, shareholders) will incur additional fees which are detailed in each Fund's prospectus. The Funds will also incur brokerage costs as securities are purchased and sold from each Fund's portfolio. Actively managed ETFs will generally have higher brokerage costs than passively managed ETFs. FTA may provide certain additional services to the Funds for additional fees.

### Separate Managed Accounts

FTA's fees for investment management services to SMAs are assessed on a quarterly basis, generally in advance; however, in the case of certain wrap programs, FTA's fees may be assessed in arrears. Fees are assessed at the rate in effect at the time of the billing. Any rate change which occurs during the quarter will be reflected in next billing period. Generally, one-quarter of FTA's annual fee is assessed each quarter based on the value of the account at the beginning of the quarter (based on independent pricing sources used by FTA or the wrap sponsor), which may or may not include accrued interest and dividends. Most deposits or withdrawals during the quarter are billed, or credited as the case may be, on a pro-rata basis at the end of the quarter. Additional billings or credits in connection with deposits or withdrawals in the case of accounts in wrap fee programs are governed by the wrap programs' sponsors' agreements with clients. If an account is closed before the end of a quarter, generally a prorated amount of the fee will be refunded to the client. However, if an account is closed in the last 30 days of a quarter, generally no such refund will be made unless the contract between FTA and the client specifies otherwise. Fee refunds for accounts in wrap fee programs are governed by the wrap programs' sponsors' agreements with clients.

Depending on the specific wrap fee platform, FTA will either bill clients, or the applicable sponsor, directly for its fees, or the sponsor will calculate the fees due to FTA and remit payment to FTA. FTA does not have the authority to deduct its fees directly from a client's account.

SMA clients will incur additional costs in connection with such accounts managed by FTA. Such costs may include custodian fees and brokerage costs to the extent such costs are not included in a comprehensive wrap fee program. (See *Item 12-Brokerage Practices* for additional discussion). Clients should review their wrap program disclosure documents for details as to what services are included in the wrap fee.

FTA's standard annual fee is .50% of assets for equity and balanced portfolios, but FTA reserves the right to negotiate fees on a case by case basis. FTA's fees for individual clients for fixed income securities portfolios are negotiable, as are all portfolios managed for institutional clients. Moreover, certain portfolios utilize the services of non-discretionary investment strategy providers or portfolio consultants who provide advice to FTA in connection with the portfolios; in such cases, FTA's fees are higher because a portion of FTA's fees is paid to these service providers. For example, FTA's standard annual fee for FTA/Morningstar Portfolios is .55%, however, fees for such accounts are also negotiable on a case-by-case basis. Additionally, FTA may offer other strategies and may charge an annual fee up to 1%.

Clients should note that certain of FTA's SMA portfolios invest partially or exclusively in CEFs and/or ETFs, including CEFs and/or ETFs managed by FTA. In addition to FTA's management fee, clients will indirectly bear the expenses of the applicable CEFs and/or ETFs, including FTA's management fee with respect to CEFs and ETFs managed by FTA.



## Other Services

FTA's fees for providing non-discretionary investment recommendations in the form of model portfolios are determined by contract and are negotiable, but generally do not exceed .50% on an annual basis and may even be provided at no charge. Fee calculations, including deposits, withdrawals and termination refunds, are governed by the program sponsors' agreements with clients.

Within the model portfolios, FTA may recommend First Trust funds where it is the investment advisor.

## RISKALYZE

FTA has entered into a strategic alliance with Riskalyze, Inc. ("Riskalyze") to utilize Riskalyze's risk analytics to assign a risk score to First Trust Funds and models.

Riskalyze has granted FTA a license to utilize the intellectual property necessary to assemble models and the Optimizer risk number assigned to such model.

FTA compensates Riskalyze for the use of its risk analytics in assembling the models and assigning risk scores to the models and First Trust Funds. As part of this relationship, FTA's models are offered for free to users of Riskalyze's Risk Optimizer program. The use of the models by financial advisors to serve their clients will result in First Trust compensating Riskalyze.

FTA has created the First Trust Risk Number® ETF Model Portfolios that are designed to target Riskalyze's patented Risk Number® score across different risk tolerances. Riskalyze's Risk Number® score objectively seeks to pinpoint an investor's risk tolerance utilizing a scientific framework. FTA utilizes Riskalyze's technology to build diversified portfolios targeting different risk scores. These models seek to provide financial advisors who use Riskalyze's technology with a foundation on which to potentially build scalable asset allocation solutions for their clients. The models aim to combine First Trust index and actively managed ETFs, along with other ETFs representing various asset classes, with a disciplined allocation methodology seeking total return while diversifying risk exposures of various asset classes over the long term. Allocation decisions are based on the model's systematic exposure to different key return and risk drivers, including asset classes, factor loadings and sectors.

The models will use funds distributed by First Trust whenever possible. Certain of these funds may track indices licensed by First Trust from Riskalyze. Funds not distributed by First Trust will only be used by a model when no First Trust fund meets the model's needs. As a result, the funds selected for the models may have different characteristics than other third-party funds, such as higher returns or better ratings.

## CLS

FTA has entered into a strategic alliance with CLS Investments, LLC ("CLS") to offer First Trust ETF models for the inclusion in CLS' Smart ETF Models program. CLS clients who participate in CLS' Smart

ETF Model are not charged a strategist fee. To offer First Trust Models through CLS' Smart ETF Models program, FTA has agreed to compensate CLS.

#### Other Compensation

Neither FTA nor any of FTA's employees receive compensation for selling securities or other investment products.

#### **Item 6-Performance-Based Fees and Side by Side Management**

FTA does not manage any accounts in which we receive a performance-based fee. A performance-based fee is a fee based on a share of capital gains or capital appreciation in a client's account.

#### **Item 7-Types of Clients**

As described more fully in *Item 4-Advisory Business*, FTA's clients include FTP-sponsored UITs, as well as CEFs, CIFs, ETFs, mutual funds, variable annuity sub-accounts, and individual and institutional clients in SMAs. Such clients include pension and profit sharing plans, trusts, corporations and foundations and may include additional types of clients in the future. FTA's clients for non-discretionary investment recommendations in the form of model portfolios are other investment advisors. FTA's clients for consultation and advisory services are principally other institutional clients.

FTA generally requires a minimum of \$100,000 to open an SMA account for most strategies, but may require a larger minimum for certain strategies. FTA reserves the right to accept accounts below the stated minimum at its sole discretion.

#### **Item 8-Methods of Analysis, Investment Strategies and Risk of Loss**

As noted in *Item 4-Advisory Business*, FTA provides discretionary investment management services to a variety of institutional and individual clients, including CEFs, CIFs, ETFs, open-end funds, variable annuity sub-accounts, funds in countries other than the US, and SMAs. In addition, FTA creates and offers model portfolios. The following discussion summarizes FTA's investment strategies in general and discusses certain risks of investing in various types of securities. Investors in CEFs, CIFs, ETFs, open-end funds and variable annuity sub-accounts should also read the applicable funds' prospectuses (or information statements), annual and semi-annual reports, and other fund specific materials for a complete description of each fund's investment strategies and risks. Of course, all investing involves the risk of loss which clients should be prepared to bear.

FTA's SMA accounts principally involve one or more equity, fixed-income or balanced strategies. (A balanced strategy involves investments in both equity and fixed income securities.) In addition FTA offers strategies investing principally in fixed income CEFs and/or ETFs which involve all of the risks of investing in the fixed income asset class, as well as risks specific to CEFs and ETFs. Following is a general description of FTA's approach to investing in various asset classes and certain risk factors applicable to each.

## Equity Securities

FTA is a bottom-up manager. Our investment philosophy is based on the belief that a company's long-term value is determined by the cash flow it generates. The FTA investment management process utilizes both quantitative and qualitative analysis to assess a company's ability to generate cash flow and its current valuation relative to intrinsic value. FTA believes the disciplined, systematic application of its proprietary process will lead to long-term value creation for its clients.

FTA's approach to selecting equity securities typically begins with defining a universe of securities eligible for selection based on the particular strategy (for example, large-cap stocks, small-cap stocks, international stocks, etc.) and applying various quantitative and qualitative analyses to select the portfolio. FTA's quantitative analysis includes various growth and value screens which FTA's research indicates result in portfolios that have historically outperformed relevant benchmarks over the long-term. FTA's qualitative analysis includes a valuation assessment focusing on a company's discounted cash flow and ability to generate future returns on invested capital, and a corporate risk assessment that attempts to assess potential "red flags" and their implications on the company's valuation. In general, FTA retains flexible sector and industry constraints and, thus, weightings in sectors and industries are principally a residual of the bottom-up stock selection process. FTA utilizes various databases and publicly available information, including SEC filings and company releases, to conduct research. FTA does not visit companies as part of its research process.

The primary risk of investing in equity securities is that they may decline in value for a variety of reasons, including a broad market downturn, unfavorable developments affecting an entire industry, and specific events affecting a single company. The following is a partial list of the risks associated with investing in various types of equity securities:

- An investment in equity securities should be made with an understanding of the risks involved with owning common stocks, such as an economic recession and the possible deterioration of either the financial condition of the issuers of the equity securities or the general condition of the stock market.
- An investment in foreign stocks is subject to additional risks, including foreign currency fluctuations, foreign political risks, foreign withholding, possible lack of adequate financial information, and possible exchange control restrictions impacting foreign issuers. These risks may be more pronounced in emerging markets where the securities markets are substantially smaller, less liquid, less regulated and more volatile than developed foreign markets.
- An investment in small-capitalization or mid-capitalization companies may be more volatile than investments in larger, more established companies, and securities of small and mid-size companies typically have more limited trading volumes.
- A portfolio may be concentrated in a particular industry or sector which involves more risk than a broadly diversified portfolio.

## Fixed Income Securities

### *Corporate Debt*

First Trust Investment Grade Fixed Income team's investment process combines rigorous top-down macro analysis, bottom-up credit analysis and disciplined portfolio construction. Risk management

is a critical component of the entire process and is embedded in both the fundamental credit analysis and portfolio construction. Key components of the investment process include:

**Macroeconomic Framework:** A key element of the investment process includes a systematic analysis of macro drivers. To build the framework for effective decision making, the team begins with a systematic analysis of five key macro factors: Drivers of economic growth and the business cycle, the pace and timing of policy decisions, risk appetite and changes to supply and demand, relative value in maturity and among asset classes, trend signals and catalysts for change. The information gathered within this framework is then distilled into core convictions on duration, curve, and credit.

**Fundamental Credit Analysis:** The investment process favors companies and securitized instruments that produce relatively stable cash flows through an economic cycle and those with an appropriate level of assets supporting the debt. Credit selection is primarily value based with a strong emphasis on downside protection. Our analysis focuses on retained cash flow, leverage ratios, interest coverage, earnings margins, and revenue growth rates.

**Portfolio Construction:** The next phase of the process includes measuring relative value and managing risk exposures. When selecting securities, each investment opportunity is evaluated relative to other opportunities available in the market. This relative value assessment helps ensure the portfolio is positioned in securities that offer the best return relative to risk. Every investment decision includes meticulous attention to best execution and risk management. To properly measure and monitor exposures, risk is decomposed into duration buckets, coupon types, sector and industry classifications, and further down to issuer and bond concentrations. Portfolio surveillance and risk management systems solidify the investment process and reinforce the continuity of each investment strategy.

The potential liquidity of each investment opportunity is analyzed prior to purchase. Factors we consider to gauge liquidity include:

- Size of issue outstanding
- Size of the bid / ask spread
- Recent trade volume
- Issuer rating
- Depth of bid or offer
- Number of dealers in commercial paper program

### *Municipal Securities*

The FTA's Municipal Securities Team utilizes a value-oriented investment process, seeking higher-yielding and undervalued municipal securities that offer the potential for above average total return. FTA applies both quantitative and fundamental research and analysis, and seeks to identify inefficiencies in the municipal bond market. The process begins with a top-down review of portfolio maturity, duration, and yield curve positioning, as well as industry, sector, and credit quality. FTA then applies total return scenario analysis at both the individual bond and portfolio level, in which we quantitatively expose both individual bonds and portfolios to interest rate, yield curve, and credit spread movements or "shocks" over different time horizons.

The essential components to our how we evaluate municipal securities and portfolios are:

- Total Return Scenario Analysis – Individual bonds and portfolios of securities are quantitatively exposed to interest rate, yield curve, and credit spread movements or “shocks”;
- Sector Analysis – Perform top-down review of core sectors based on bottom-up analysis of individual credits to determine which municipal sectors we overweight, neutral weight, and underweight;
- New Issue Credit Analysis – Evaluate new bond offerings to determine portfolio suitability based on fundamental credit research on each borrower and individual bond security features;
- Trading – Analysis of how a bond might trade in the secondary market is reviewed including total bond issuance size, underwriter willingness to make secondary markets, along with bond structural features such as coupon, maturity, call dates and sinking fund payments;
- Surveillance – Analyze holdings on a systematic basis to monitor any changes in credit trend. Credit rating momentum is monitored for each borrower (bond); and,
- Performance Attribution – Granular total return analysis is performed by key portfolio attributes such as duration, credit rating, sector, and state. A portfolio’s performance is also compared to various benchmarks.

#### *Mortgage-Backed Securities*

FTA’s Mortgage-Backed Securities Team selects the securities by implementing an investment process that is comprised of the following components:

- Sector analysis – Perform top-down review of core ABS & MBS sectors and macro market trends based on bottom-up analysis of individual securities to determine the sectors in which the Fund will be overweight, neutral weight and underweight.
- Security Analysis – Evaluate individual securities based on the following criteria; price, yield, rating and option adjusted spreads, prepayment sensitivity, default risk, interest rate duration and key rate exposure, sensitivity to yield volatility, liquidity premium and normalized valuation for each security class.
- Total Return Scenario Analysis – Perform individual security and portfolio level return analysis using extensive scenario stress testing of yield curve and spread shocks and/or movements.
- Surveillance – Analyze holdings on a systematic basis to monitor any changes in security and portfolio performance or meaningful changes in risk measures. Key risk metrics include; Option adjusted and empirical duration to measure interest rate risk, partial or key rate duration to manage yield curve risk, OAS analysis to monitor pricing quality, spread duration to measure sensitivity to overall MBS market spreads, prepayment duration to assess portfolios sensitivity to prepayment risk, default risk to monitor credit quality of securities and cash flow forecasting and overall liquidity management.
- Performance attribution – Perform granular total return analysis by reviewing key portfolio attributes such as duration, yield curve positioning, sector allocations as well as spreads. The portfolio’s performance is also compared to various benchmarks.

- Risk and performance variables evaluated in the process include the following – prepayment velocity, quality of the underlying assets; type of MBS security (Pass-thru, CMO, ARM, Interest Only, Principal Only, Inverse Interest Only, CMO etc); credit rating, OAS, interest rate volatility, liquidity premium, interest rate duration, average life, spread duration, interest rate cap analysis, home price appreciation, government policy, defaults and severities, normalized valuation, call schedule, guarantee, settlement and basis risk (difference in performance between hedges and assets).

The primary risk of investing in fixed income securities is that they may decline in value for a variety of reasons, including a broad market downturn, a rising interest rate environment, unfavorable developments affecting an entire industry, and specific events affecting a single company. The following is a partial list of the risks associated with investing in various types of fixed income securities:

- All bonds, including investment grade corporate bonds, are subject to various risks including higher interest rates (since fixed income securities typically decline in value as interest rates rise), economic recession, possible rating downgrades by one or more rating agencies, and possible defaults of interest and/or principal payments by the issuer.
- Corporate high-yield or “junk” bonds are rated below investment grade and are subject to a higher risk of rating downgrade and issuer default than investment-grade corporate bonds, and are more affected by an economic recession. The prices of high-yield bonds tend to fluctuate more than those of investment grade bonds.
- Fixed income securities issued by foreign issuers are subject to additional risks including foreign currency fluctuations, foreign political risks, foreign tax withholding, possible lack of adequate financial information and possible exchange control restrictions. Additionally, these risks may be more pronounced in emerging markets where the securities markets are substantially smaller, less liquid, less regulated, and more volatile than developed foreign markets.
- Municipal bonds are issued by states, counties or other municipal authorities and are subject to additional risks, including deterioration in the financial condition of the municipal issuer and potential changes in tax laws affecting the tax-free status of municipal bonds.
- Mortgage-backed securities may be more sensitive to changes in interest rates than traditional fixed income securities as rising rates tend to extend the duration of such securities. In addition, mortgage-backed securities are subject to prepayment risk, since borrowers may pay off their mortgages sooner than anticipated, particularly during a period of declining interest rates. Certain mortgage-backed securities are subject to a higher risk of rating downgrade or defaults than higher rated mortgage-backed securities. Mortgage loans or the guarantees underlying the mortgage-backed securities may default or otherwise fail, leading to non-payment of interest and principal.
- Senior loan securities are high-yield, floating rate corporate debt securities which are senior in a company’s capital structure to unsecured debt securities. Like all high-yield securities, such securities carry a heightened risk of a rating downgrade or issuer default than investment grade securities.

## *Leveraged Finance*

First Trust Leveraged Finance team's investment process is a balanced combination of rigorous bottom-up fundamental credit analysis and disciplined portfolio construction. The investment process follows a three step approach; fundamental credit analysis, investment committee review, and portfolio construction.

1. **Fundamental Credit Analysis.** The investment team's internal ratings system assists in the fundamental risk assessment by standardizing the risk level of credits across issuers and industries. Credits are scored from 1 through 6, with 1 the strongest fundamental business profile and 6 the weakest fundamental business profile.

Industry analysts conduct fundamental credit analysis on a credit based on the following primary criteria:

**Consistency of cash flow generation** – The investment process favors companies that produce relatively stable cash flows through an economic cycle. Highly cyclical companies or capital intensive industries face a high hurdle. A company's cash flow is stressed to determine how resilient the company would be in a downside case.

**Collateral assessment** – One of the primary advantages of the asset class is the fact that senior floating rate loans hold a secured position in the capital structure. The investment process evaluates the collateral backing each loan. Importantly, the collateral value is assessed not only in a benign credit environment when valuations are highest, but assuming the collateral will be monetized in a recession when valuations are typically at their lowest. The investment process favors companies that have strong collateral value so that a positive outcome may be achieved even in a situation when cash flows deteriorate.

**Management quality** – The investment process favors companies that have management teams with a sound track record of managing businesses with leveraged balance sheets and a commitment to deleveraging. Strong management teams are typically able to navigate more challenging business conditions or economic environments in a nimble fashion.

2. **Investment Committee.** The experienced industry analyst presents the credit to the Leveraged Finance Team's Investment Committee, which is comprised of the senior members of the investment team. This leverages the experience of the team for each potential investment opportunity. The investment committee must unanimously approve a credit in order for that credit to be eligible for purchase.

3. **Portfolio construction.** Key elements of constructing the portfolio include:

**Relative value assessment** – Each approved investment opportunity is evaluated relative to other opportunities available in the market. This relative value assessment helps ensure the portfolio is positioned in the credits that offer the best return relative to risk. The investment team's internal ratings system assists in the relative value assessment by standardizing the risk level of credits across issuers and industries. Every credit holding is assigned a relative value rating, from 1 through 6, with 1 the most attractive and 6 the least attractive.

**Portfolio diversification** – Diversification is a key component of the portfolio construction process and an important factor in risk management. The investment process seeks to have a properly diversified portfolio across individual issuers and industries. Concentrated issuer

or industry positions typically lead to outsized risk, and therefore the investment team seeks to construct well diversified portfolios.

**Issuer liquidity** – The potential liquidity of each investment opportunity is analyzed prior to purchase. The investment process favors investments in more liquid issuers, which provides the investment team the flexibility to size each investment appropriately over time.

Factors we consider to assess liquidity include:

- Transaction Size
- Quality of the arranging bank or institution
- Issuer Rating
- How widely the transaction is distributed
- Number of dealers transacting in the issue
- Size of the bid / ask spread
- Depth of the bid or offer

The investment team's internal ratings system assists in portfolio construction by standardizing the risk level of credits across issuers and industries.

### CEFs and ETFs

Certain of FTA's ETF and SMA accounts invest all or a portion of clients' portfolios in CEFs and/or ETFs. The underlying CEFs and/or ETFs may invest in a wide variety of equity or fixed income securities. The FTA approach to the selection of CEFs involves a variety of fundamental and performance-related criteria and involves both quantitative and qualitative analysis of the applicable CEF universe (i.e., equity CEFs, taxable fixed income CEFs, municipal CEFs, etc.). FTA believes the CEF marketplace is a retail-driven market where inefficiencies and opportunities exist that FTA seeks to discover and exploit.

The FTA approach to the selection of ETFs involves a variety of considerations, but primarily seeks to create an efficient asset allocation mix for a given risk tolerance (i.e., growth, moderate growth, etc.). A portion of a CEF and/or ETF SMA portfolio may be reserved for a tactical overweighting or underweighting of various asset classes based on FTA's research department or the portfolio managers current outlook for specific asset classes, industries, global geographic regions, etc.

CEFs and ETFs invest in a variety of equity or fixed income securities but also may invest in commodities. CEFs and ETFs are subject to the applicable risks previously identified above. Additionally, CEFs and ETFs are each unique securities in their own right and are subject to additional risks that are discussed below:

- Both CEFs and ETFs are subject to the funds' managements' abilities to manage the underlying portfolios to meet the funds' stated investment objectives.
- CEFs, unlike open-end funds which trade at prices based on a current determination of a fund's net asset value, frequently trade at a discount to their net asset value in the secondary market. Additionally, many CEFs employ leverage (debt) to achieve greater returns, though the strategy can increase the volatility of such funds.
- Like CEFs, ETFs may trade at a discount to their net asset value in the secondary market. The structure of an ETF is such that most ETFs' market prices tend to track the funds' respective



net asset value closely, but this may not always be the case, particularly during periods of extreme market volatility.

- Most ETFs are designed to track a specified market index; however, in some cases an ETF's return may deviate from the specified index. Certain ETFs are actively managed ETFs and are subject to management risk. Furthermore, unlike open-end funds, investors are generally not able to purchase ETF shares directly from the fund sponsor nor redeem ETF shares with the fund sponsor. Rather, only specified large blocks of ETF shares called "creation units" can be purchased from, or redeemed with, the fund.
- For Commodity Based ETFs – Negative changes in a commodity market could have an adverse impact on the value of commodity-linked investments including companies that are susceptible to fluctuations in commodity markets. The value of commodity-linked investments may be affected by changes in overall market movements, taxation, terrorism, nationalization or expropriation, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as, weather (e.g., drought, flooding), livestock disease, embargoes, tariffs and international economic, political and regulatory developments. The prices of sector commodities (e.g., energy, metals, agriculture and livestock) may fluctuate widely due to factors such as changes in value, supply and demand and governmental regulatory policies.
- Active Management Risk – Due to its active management, the Fund may not achieve its investment objectives or could underperform its benchmark index and/or other funds with similar investment objectives.

### Commodities

FTA's Alternatives and Active Management team evaluate futures contracts both quantitatively and qualitatively to seek the highest potential for total return. Through the investment process, the advisor seeks to maximize the return of a highly diversified commodity portfolio targeted to a specific volatility range.

- Select 10 to 35 distinct commodities based upon liquidity as measured by open interest. The list of commodities considered for inclusion can and will change over time.
- Model and forecast the expected volatility level of each commodity using daily historical data.
- Generate the set of portfolios that seek to maximize returns given specific levels of volatility.
- Rebalance monthly (or more frequently subject to market conditions) to the asset weighting that the advisor believes is most optimal given the desired risk range for the portfolio.

The commodity futures selected for the portfolio are those with a forecasted volatility and correlation profile that the advisor believes is far more stable than traditional portfolio construction approaches.

### FLexible EXchange® Options ("FLEX Options")

FTA, as investment advisor along with Cboe Vest as a sub-advisor, manages a suite of ETFs using a "target outcome strategy" which seeks to provide an investment outcome up to a pre-determined upside cap, while providing a buffer against potential losses based on the performance of an

underlying reference asset or index over a pre-determined period of time (“Target Outcome Period”). The funds will construct a portfolio of purchased and written put and call FLEX Options to achieve its objectives. FLEX Options are customized options contracts that provide investors the ability to customize key contract terms, such as exercise prices, styles and expiration dates. 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. The funds reset annually on the first day of each new Target Outcome Period by investing in a new set of FLEX Options that provide the buffer and cap for the new Target Outcome Period.

Similar strategies are also offered in First Trust UITs where FTA is the portfolio supervisor.

### *Targeted Outcome Risks*

There is no guarantee that the pre-determined outcomes for a Target Outcome Period will be realized. The buffer and cap for each subsequent Target Outcome Period will likely differ from the initial outcome period. The funds only seek to provide investors that hold shares for the entire Target Outcome Period with the full target buffer against losses of the reference asset or index (based upon the value of reference asset or index at the time the fund entered into the FLEX Options on the first day of the Target Outcome Period) during the Target Outcome Period. If an investor purchases shares after the first day of a Target Outcome Period, they will likely have a different return potential than an investor who purchased shares at the start of a Target Outcome Period and the buffer the fund seeks may not be available.

### Model Portfolios

FTA offer’s model portfolios to provide financial advisors with a foundation to build scalable asset allocation solutions for their clients. The models consist of First Trust ETFs and may include other ETFs representing various other asset classes to complete the allocations.

The First Trust Strategic Focus model portfolios are created by the First Trust Advisors Model Investment Committee (the “Investment Committee”). These models are designed to provide core equity, core fixed income and core alternatives foundations to build scalable asset allocation solutions.

The First Trust Strategic Risk model portfolios created by the First Trust Advisors Model Investment Committee (the “Investment Committee”). These models are aimed at total return while diversifying the risk exposures of various asset classes over the long term.

For the Strategic Risk Model Portfolios, the Investment Committee has created five general risk profiles, each targeting a specific risk tolerance ranging from a conservative profile to an aggressive growth risk profile. The Investment Committee seeks to combine less than perfectly correlated assets so that the overall risk within each profile is less than the sum of its components. Each risk profile holds a targeted percentage in equities, fixed income, alternatives and cash with the objective of achieving a suitable balance between anticipated risk and potential reward. The allocation for one or more of the risk profiles at any point in time may differ from the baseline allocation based on the Investment Committee’s current view of potential opportunities and risks; however, the strategic allocation among these broad asset classes within the risk profiles are not anticipated to materially change over time. There may be market circumstances for which the Investment Committee seeks to

reduce risk by moving a portion of the equity allocation to cash. It would, however, be highly unusual to reduce the equity allocation and in no circumstance would the equity allocation be reduced by more than 10%.

The First Trust model investment process begins with an analysis of capital markets assumptions using inputs, views and rationale from First Trust's economic and market strategy teams who assess the following:

#### **Economic Team**

- Growth forecasts for domestic GDP and inflation
- Trade and tax policy considerations
- Monetary and fiscal policy outlook
- Geopolitical considerations
- Macroeconomic indicators
- Regulatory environment

#### **Market Strategy Team**

- Earnings growth outlook for the S&P 500 Index and individual market sectors
- Highlight potential risks to the market and specific firm views
- Assess current market valuation
- Global market views

The Investment Committee collaborates with various asset class sub-committees, that consist of First Trust investment professionals, to assess the unique factors that drive risk adjusted returns across equities, fixed income and alternatives asset classes to help form model construction. By leveraging the expertise of the Sub-Committee members, the Investment Committee determines active views and potential opportunities in each asset type with the goal of providing sustainability, redundancy and accountability of the model process over time.

The Equity Sub-Committee evaluates the U.S. equity market by size, style and sector, as well as international equity markets by region and country, utilizing the following framework:

- Macro economic analysis to forecast economic growth and inflation, determine business stage cycle and evaluate recession risks
- Earnings-per-share growth as a function of revenue growth, profit margins and the rate of net share buybacks
- Valuation as a function of various price ratios such as price-to-earnings and price-to-book
- Monitor currency movements, rate differentials and capital flows

The Fixed Income Sub-Committee evaluates the fixed income markets using a rigorous process that considers the following key components:

- Interest rate outlook
- Sector relative value and spread analysis
- Credit fundamentals across asset types
- Supply/demand trends by asset type
- Risk appetite and technical analysis
- Yield curve, currency and valuation metrics
- Asset class level valuation

The Alternatives Sub-Committee evaluates the alternative markets by assessing both the overall macro risk environment and the unique attributes of each alternative strategy with a particular focus on the following characteristics:

- Identify diversifying and return enhancing strategies
- Assess the macro risk environment
- Consider factors such as asset trends and volatility, fund flows, credit spread behavior, monetary policies and investor risk discrimination as inputs into overall risk assessment

The Investment Committee evaluates asset level views and potential opportunities within a portfolio context to identify and understand embedded risks and correlations to manage the total risk contribution as appropriate for each model's objectives and constraints. The Investment Committee incorporates insights and analysis from the Sub-Committees, along with other considerations such as third-party research and affiliate views to reach conclusions on positioning. Prior to final model construction, the Investment Committee reviews additional characteristics such as emphasizing particular equity regions, sectors or styles, and positioning of fixed income duration, asset classes, market sectors and alternatives. In addition to the regular quarterly review process, the Investment Committee may adjust model weightings intra-quarter if macroeconomic or financial market conditions materially impact their market views to the extent that they believe more timely action is necessary. Lastly, continuous monitoring and risk management is conducted to evaluate the effectiveness of model exposures and the premise behind these exposures.

#### **Item 9-Disciplinary Information**

Neither FTA nor any of its management personnel have been involved in any civil or criminal proceedings, any administrative proceedings before the SEC or any other federal or state regulatory agency, or any self-regulatory organization proceeding which requires disclosure under this item.

#### **Item 10-Other Financial Industry Activities and Affiliations**

Certain of FTA's officers, directors, certain members of FTA's Investment Committee and certain FTA Portfolio Managers are also officers, directors or employees of FTA's affiliates. Furthermore, certain of these persons may be registered representatives of FTP, a broker-dealer. Following is a summary of these relationships:

- Mr. James A. Bowen is Chief Executive Officer of FTA and FTP. Mr. Bowen is also Chairman of the Board of Stonebridge Advisors LLC (Stonebridge), BondWave LLC (BondWave), and First Trust Capital Partners LLC (FTCP). He is also a Director of First Trust Global Portfolios Limited (FTGP). Stonebridge and First Trust Global Portfolios are registered investment advisors and affiliates of FTA. BondWave is a financial software developer. FTCP primarily invests in private investment opportunities. Mr. Bowen is also registered with FTP.
- Mr. Andrew S. Roggensack is President of FTA, FTP and FTCP and a Director of FTGP. Mr. Roggensack is also registered with FTP.
- Mr. James M. Dykas is Managing Director and Chief Financial Officer of FTA and FTP, and Chief Financial Officer of Stonebridge, BondWave and FTCP. Mr. Dykas is also registered with FTP.

- Ms. Kathleen W. Brown is Chief Compliance Officer of FTA and FTP. Ms. Brown is also registered with FTP.
- Mr. W. Scott Jardine is General Counsel of FTA, FTP and BondWave and Secretary of Stonebridge.
- Mr. R. Scott Hall is a Managing Director of FTA and FTP. Mr. Hall is also registered with FTP.

**The following individuals are members of the Investment Committee:**

- Mr. Jon C. Erickson is a Senior Vice President of FTA and FTP and a member of FTA's Investment Committee. Mr. Erickson is also registered with FTP.
- Mr. Daniel J. Lindquist is a Managing Director of FTA and FTP and Chairman of FTA's Investment Committee.
- Mr. David G. McGarel is a Managing Director, Chief Operating Officer and Chief Investment Officer of FTA and FTP and Chief Operating Officer of FTCP. He is also a Director of FTGP and a member of FTA's Investment Committee. Mr. McGarel is also registered with FTP.
- Mr. Chris A. Peterson is a Senior Vice President of FTA and FTP and a member of FTA's Investment Committee. Mr. Peterson is also registered with FTP.
- Mr. Roger F. Testin is a Senior Vice President of FTA and FTP and a member of FTA's Investment Committee.

**The following individuals may participate in the Investment Committee and/or manage certain portfolios based on products or asset classes managed:**

- Mr. Jeremiah B. Charles is a Senior Vice President of FTA and FTP. Mr. Charles is also registered with FTP.
- Mr. Kenneth S. Fincher is a Senior Vice President of FTA and FTP. Mr. Fincher is also registered with FTP.
- Mr. J. Thomas Futrell is a Senior Vice President of FTA and FTP. Mr. Futrell is also registered with FTP.
- Mr. John W. Gambla is a Senior Vice President of FTA and FTP. Mr. Gambla is also registered with FTP.
- Mr. Rob A. Guttschow is a Senior Vice President of FTA and FTP. Mr. Guttschow is also registered with FTP.
- Mr. William A. Housey is a Managing Director of FTA and FTP. Mr. Housey is also registered with FTP.
- Mr. Todd W. Larson is a Senior Vice President of FTA and FTP. Mr. Larson is also registered with FTP.
- Mr. Eric R. Maisel is a Senior Vice President of FTA and FTP. Mr. Maisel is also registered with FTP.
- Mr. Orlando V. Purpura is a Senior Vice President of FTA and FTP.
- Mr. Jordan S. Ramsland is a Vice President of FTA and FTP. Mr. Ramsland is also registered with FTP.
- Mr. Jeffrey M. Scott is a Senior Vice President of FTA and FTP. Mr. Scott is also registered with FTP.
- Mr. James W. Snyder is a Senior Vice President of FTA and FTP. Mr. Snyder is also registered with FTP.
- Mr. Stan Ueland is a Senior Vice President of FTA and FTP. Mr. Ueland is also registered with FTP.
- Mr. Johnathan N. Wilhelm is a Senior Vice President of FTA and FTP. Mr. Wilhelm is also registered with FTP.

FTA is registered with the National Futures Association (NFA) as an NFA member, Commodity Pool Operator and Commodity Trading Advisor. In addition, FTA is registered as a Portfolio Manager with the Ontario Securities Commission.

As previously noted in *Item 4-Advisory Business*, FTA has material business arrangements with various affiliated and unaffiliated entities. FTA provides various services to UITs sponsored by our affiliate, FTP. FTA also serves as portfolio manager to various investment companies (closed-end funds, open-end mutual funds, variable annuity sub-accounts and exchange-traded funds). In certain cases, FTA may purchase CEFs or ETFs, including CEFs or ETFs which are managed by FTA, for discretionary SMA accounts and other FTA managed CEFs and ETFs. In such cases, clients will indirectly incur the fund level expenses of the underlying CEFs or ETFs, as well as directly incurring FTA's management fee. To the extent the underlying CEFs and ETFs are managed by FTA, FTA will receive additional fees.

FTP has arrangements with certain investment advisors in which FTP is compensated for referring persons to these investment advisors, thus creating an incentive for FTP to refer persons to these other advisors. Furthermore, either FTA or an affiliate of FTA has an ownership interest in the other investment advisors. These arrangements result in a conflict of interest for FTP and FTA. FTP and FTA manage the conflict through disclosure of the arrangements, including requiring that the referral acknowledge in writing that the applicable arrangement exists.

#### **Item 11-Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

FTA has adopted a Code of Ethics (the "Code") in accordance with Rule 204A-1 of the Investment Advisers Act of 1940 and Rule 17j-1 of the Investment Company Act of 1940. The Code covers all FTA employees designated as "Access Persons" or "Investment Persons" (collectively, "Covered Employees") and sets forth specific policies regarding personal securities trading, conflicts of interest, insider trading, and service on the boards of directors of publicly traded companies.

Each Covered Employee is required to inform FTA's compliance department of all personal securities accounts over which he/she has direct or indirect ownership, influence or control and to have duplicate confirmations and statements for all such accounts sent to FTA's compliance department. All Covered Employees must pre-clear trades in most securities with FTA's compliance department, with the exception of certain exempted securities such as open-end mutual funds, unit investment trusts, U.S. Government securities, and municipal bonds. The Code also requires Covered Employees to certify on the date of hire and at least annually thereafter that he/she has received, read and understands the Code and agrees to abide by it at all times. The annual certification process also requires each Covered Employee to report all personal securities holdings to the Compliance Department. With respect to non-public securities (such as private placements), FTA requires that a Covered Employee receive approval from the Compliance Department prior to investing in such securities or recommending such securities to clients. A copy of the Code may be obtained by contacting FTA's Compliance Department at 120 East Liberty Drive, Suite 400, Wheaton, IL 60187.

FTA may recommend securities to clients (or may buy or sell securities in discretionary client accounts) in which FTA or its affiliates have a financial interest. For example, as previously noted, FTA may purchase or sell First Trust CEFs and ETFs in clients' accounts which may provide a benefit to FTA or our affiliates. In such cases, in addition to the advisory fees FTA receives for these accounts, FTA will also receive advisory fees from the CEFs and ETFs. Such transactions may give rise to a conflict of interest on FTA's part. We manage such conflicts through disclosure and through oversight of client accounts.

FTA, its affiliates and its Covered Employees may invest in securities that FTA also recommends to clients, or that FTA purchases or sells in discretionary client accounts. FTA manages these potential conflicts of interest principally through enforcement of the Code; a Covered Employee's request for pre-approval that is deemed to cause a material conflict of interest for FTA would be denied.

## **Item 12-Brokerage Practices**

FTA has an obligation to its clients to seek "best execution" for its clients' securities transactions, which in our view is a combination of price and service. While the best net price, giving effect to brokerage commissions, if any, and other transaction costs is normally an important factor in this decision, other factors may also be considered. FTA considers various factors in selecting broker-dealers for client transactions including commission rates, expertise in specific markets or types of securities; speed and responsiveness, financial strength, and compatibility with FTA's systems. As a result, FTA may pay a brokerage commission in excess of that which another broker might have charged for executing the same transaction.

FTA does not direct trades to brokers in exchange for research or other ancillary products and services that brokers may provide. Such arrangements, known as "soft dollar" arrangements, are prohibited by FTA's policy. Client brokerage commissions are used only for execution services. Nevertheless, some brokers provide FTA with unsolicited access, free of charge, to financial and market databases that may contain research. FTA may utilize such research, but it is not a factor in FTA's selection of brokers.

FTA does not select or recommend broker-dealers in exchange for client referrals from any broker-dealer.

FTA does not utilize its affiliate broker-dealer, FTP, to execute client trades.

FTA clients may direct FTA to place trades in their accounts through a specific broker-dealer, a practice known as Directed Brokerage. Alternatively, clients may permit FTA to determine which broker(s) to use. Clients advise FTA of their Directed Brokerage intentions by specifying the broker-dealer in the investment advisory contract. If a client directs FTA to utilize a specific broker-dealer, the client may forgo certain benefits, such as broker expertise in the type of transaction contemplated; prompt receipt or delivery of securities in the settlement process, or lower execution costs relating to the transaction.

In a Directed Brokerage arrangement, FTA may be unable to negotiate commissions and may be unable to obtain volume discounts or otherwise obtain best execution. Directed Brokerage trades may be entered and executed at different times than client trades directed by FTA. Furthermore, FTA may be unable to aggregate the client's order with other clients' orders (discussed below). As a result of these factors, clients utilizing Directed Brokerage may pay more money for execution and/or receive less favorable execution prices than other clients.

FTA may, for a number of reasons, aggregate brokerage orders for clients rather than execute individual transactions for each account. These reasons may include: (1) avoiding the time and expense of simultaneously entering similar orders for many individual client accounts that are

managed similarly; and (2) ensuring that accounts managed in a particular style which includes strategy, platform, and time of order, obtain the same execution to minimize differences in performance.

FTA generally manages and trades its various investment funds differently and therefore, will not aggregate orders across product lines (e.g., ETF orders will not be combined with variable annuity orders).

a. Trade Allocation Procedures for Aggregated Orders.

Consistent with FTA's obligation to seek best execution, client orders will be aggregated when it is deemed appropriate. The procedures outlined below have been designed to ensure that purchase and/or sell orders that have been aggregated are allocated fairly among clients so that, over time, all clients are treated fairly, consistent with their investment objectives. These procedures also seek to meet the best execution criteria discussed above.

- An order filled through a series of executions through the same broker on the same terms (e.g., market or limit order) on the same day will generally be allocated using an average price. Once an order is placed, subsequent orders for the same security on the same day will not be averaged for allocation purposes with the orders that were already placed.
- A preliminary commitment will be made before execution. As a general policy, the final allocation should be finalized no later than the close of business on trade day.
- When an aggregated order is filled in its entirety, the order will be allocated to participating accounts in accordance with the preliminary commitment schedule. Deviations from the preliminary commitment (and the justification for such deviation) will be discussed with the trader and the respective portfolio manager and will be documented.
- Depending on the type of security, when an aggregated order is only partially filled (and there is no reasonable expectation that the entire transaction will be completed within that trading day), the order will generally be allocated among the participating clients based on a method that is fair and equitable and does not favor one client over another. The following describes the allocation methodology for partial fills by security type:
  - Equity — Allocation of aggregated trades will be pro rata, based on the original order size of each account participating in the aggregated trade relative to each other participating account's original order size. All accounts will receive the average price for all transactions executed for that order during that trading day and all participating accounts shall share in commission and transaction costs on a pro-rata basis;
  - Government, Agency and Investment grade corporate debt securities — Allocation of aggregated trades either in a primary offering or secondary trading will be pro rata, based on the original order size of each account participating in the aggregated trade relative to each other participating account's original order size.



- **Municipal Securities** — Allocation of aggregated trades either in a primary offering or secondary trading will be pro rata, based on the original order size of each account participating in the aggregated trade relative to each other participating account's original order size. All accounts will receive the average price for all transactions executed for that order during that trading day and all participating accounts shall share in transaction costs on a pro-rata basis rounded down to the nearest 100 bonds. However, in order to minimize overall transaction costs and to prevent potential position liquidity constraints, an allocation may not be made to any account if, after proration, the account would be allocated less than \$100,000 par in bonds. Any residual bonds will be reallocated to an eligible account based on the ratio of the account's cash to total assets.

However, portfolio managers, in their judgment that an allocation of less than \$100,000 par in bonds would be beneficial to an account(s), may choose to allocate bonds to accounts that would have otherwise been excluded from receiving bonds based on the above parameters. In this case, the bonds would be allocated among participating accounts on a pro-rata basis based on the account's original commitment.

If the partially filled block order results in an account receiving less than \$100,000 par in bonds, the bonds will be allocated on a rotational basis among participating accounts to minimize overall transaction costs and to prevent position liquidity constraints. The portfolio manager will maintain a worksheet to monitor these allocations to ensure each account is treated equally.

- **Mortgage Backed Securities (MBS)** — The MBS Desk seeks to allocate investment opportunities among various accounts in a manner they believe to be fair and equitable to each client over time. MBS purchases and sales in multiple accounts may be aggregated when the MBS Desk believes it would result in a more favorable overall execution for all accounts. Pro rata allocation, based on underlying account AUM, will be used when the size of a trade provides an equal opportunity for all accounts without affecting position liquidity in each participating account. Each account will receive the average price obtained and will share in the transaction costs on a pro-rata basis.

More often than not, however, strict pro rata allocation will not generally be the method for aggregated purchases or sales of MBS in multiple accounts. The firm uses various forms of pro rata allocations, or random allocation processes and considers factors identified in Section d below to aggregate and allocate trades. Each of these factors may result in more particularized allocations.

- **High Yield Bonds and Leveraged Loans** — Allocation of aggregated trades either in a primary offering or secondary trading will be pro rata, based on the original order size of each account participating in the aggregated trade relative to each other participating account's original order size. All accounts will receive the average price for all transactions executed for that order during that trading day. Transaction costs for loans will be split evenly amongst the participating accounts. Transaction costs for bonds will be split on a pro-rata basis. Publicly traded corporate bond securities trade in minimum increments of \$1,000. Where applicable, pro rata allocations will need to be rounded down to the nearest \$1,000. Any residual bonds/loans will be reallocated to an eligible account based on account size. However, for loans, in order to minimize overall transaction costs and to prevent potential position liquidity constraints, an allocation may not be made to any account if, after proration, the account would be allocated less than \$50,000 par in loans. For bonds, an allocation may not be made to any account if, after proration, the account

would be allocated an amount less than the minimum denomination set forth in the respective bond indenture.

However, portfolio managers, in their judgment that an allocation of less than \$50,000 par in loans would be beneficial to an account(s), may choose to allocate loans to accounts that would have otherwise been excluded from receiving loans based on the above parameters. In this case, the loans would be allocated among participating accounts on a pro-rata basis based on the accounts original commitment.

If the partially filled block order results in the receipt of less than \$50,000 par in loans, the loans may be allocated on a rotational basis among participating accounts to minimize overall transaction costs and to prevent position liquidity constraints. The portfolio manager or trader will maintain a worksheet to monitor these allocations to ensure each account is treated equally.

- **Futures** — Allocation of aggregated trades will generally be pro rata, based on the original order size of each account participating in the aggregated trade relative to each other participating account's original order size. Accounts will generally receive the average price for all transactions executed for that order during that trading day and all participating accounts shall share in commission and transaction costs on a pro-rata basis.

For orders executed using different trade types, execution venues, execution brokers, or execution algorithms, the orders will be treated as separate orders, executed differently and not be averaged with the original order for allocation purposes. The split orders will be allocated on a pro-rata basis. Accounts will generally receive a separate average price for the split order.

- **Separately Managed Accounts** — FTA manages SMA portfolios on various platforms using several strategies. Trading in SMA portfolios is generally directed to the specific broker-dealers sponsoring the various platforms and will not be aggregated with fund trades in any asset class. When multiple SMA portfolios are rebalanced, it may not be possible to get the same execution prices for all clients. When FTA trades the same security on multiple platforms and/or across multiple strategies, FTA will use a rotation process that will ensure clients are treated equally over time.

b. **Timing of Allocations**

Prior to execution or, if following execution, before the end of the trading day. Within this timeframe, portfolio managers and traders may also make reallocations of trades based on their review of the trade's effect on a portfolio. Reallocations after trade date (but before settlement) may only be made in consultation with Compliance, in unusual circumstances, for example, to avoid breaching specific Account restrictions. Allocation procedures may vary from strategy to strategy due to differences in the investment styles of particular strategies.

c. **Allocation of Orders Filled Over Several Days.**

In the case of securities in markets with low trading volume, it may be difficult to fill an order in the course of a single day. Filling an order over the course of two or more days may result in increased transaction costs and variable execution prices. If an aggregated order that involves both large accounts and small accounts takes longer than a single day to fill, a portion of the order acquired on the first day may be allocated to the smaller accounts first so that the accounts do not incur additional transaction costs. However, alternative methods that take into account

transaction costs may also be considered, only if the method achieves a degree of fairness to all participating clients over time, and the allocations are appropriately documented.

d. Other Factors in Determining Allocation Methodology.

This allocation may be modified if strict adherence is impractical and leads to inefficient or undesirable results. In addition to the procedures above for the allocation of aggregated trades, the portfolio manager will also consider the following factors in determining allocation methodology:

- Account-specific investment restrictions (e.g., no defense or tobacco stocks).
- Undesirable position size. In certain cases, the amount allocated to an account on a pro-rata basis may create an undesirably sized position.
- Need to restore appropriate balance to client portfolio, if it has become over- or under-weighted due to market action.
- Client sensitivity to turnover. Such clients may be excluded from participation in positions that are not expected to be long-term holdings.
- Client tax status.
- Existing client custodian allocation requirements.
- Regulatory restrictions.
- Common sense adjustments that lead to cost savings or other transactional efficiencies.
- Investments may not be suitable for, or consistent with, known client investment objectives and goals.

**With respect to fixed income investments:**

- Ratings — A fund may have ratings constraints and/or concentrations in a given rating category.
- Yield — A fund may have a higher yield target than others.
- Availability of cash — A fund may have a larger cash position than others (i.e., allocate a larger portion to portfolios with a larger percentage of cash as a percentage of total assets).
- Country — A fund may have country restrictions.
- 1st Lien/2nd Lien — A fund may have less room for adding 2nd lien exposure than another fund.
- De-minimis allocations — To protect against allocating an amount to a fund that is so small as to hinder liquidity in the secondary market.
- Position size and relative Liquidity — A fund may require holding more liquid positions. A proportionate allocation may, given the size of a portfolio, result in an odd lot position that is too small resulting in liquidity concerns or too large to maintain an appropriate level of diversification.
- Issuer concentration — A fund may already have a high percentage of a given credit within a portfolio.
- Fund size — A smaller fund may make a larger percentage commitment in order to avoid a de-minimis allocation.
- Instances of uneven cash flows.
- Adjusting portfolio duration, yield curve positioning or credit exposure.
- Industry or sector concentration.
- Investment objectives, guidelines and restrictions, risk tolerances including minimum security quality, average portfolio quality and any targeted portfolio allocation requirements.
- Amount of existing holdings of the security (or similar securities) in the Accounts.
- Investment horizon.
- Directed brokerage instructions, if applicable.

- Allocating a smaller portion to those accounts for which the purchased security would be a peripheral investment and a larger portion to those accounts for which the security would be a core investment.

#### **With respect to commodities:**

Use of different execution methodologies.

FTA SMA clients who participate in “Wrap Fee” programs generally are not charged separately for brokerage commissions if the wrap program sponsor (or its broker-dealer affiliate) executes the trade. Therefore, most trades in wrap fee accounts will be executed through the wrap program sponsor (or its broker-dealer affiliate). As noted above, as with all Directed Brokerage arrangements, wrap fee clients should note that FTA may be unable to obtain volume discounts, best net price or best execution. While FTA believes that broker-dealers to which FTA is required to direct transactions under a wrap fee program generally do offer best execution, FTA provides no assurance that such will be the case in the future. Depending on the amount of the wrap fee charged by the program sponsor, the amount of activity in a client’s account, the value of custodial and other services provided by the program sponsor and other factors, a wrap fee client should consider whether the wrap fee would exceed the aggregate cost of such services if they were provided separately. FTA encourages wrap fee program clients to review all relevant materials from the program sponsor including the program’s terms, conditions and fees.

With respect to certain transactions for client accounts, FTA may, pursuant to its duty to seek best execution, determine to execute using step-out transactions (also referred to as “trade-aways”), even though such transactions require additional costs not covered by a wrap fee. Whenever FTA makes such a determination to trade-away, additional brokerage costs will be incurred by a client account in addition to the wrap program fee. The additional brokerage costs are netted into the price received for a security and will not be reflected as individual items on the client trade confirmation. Transactions in certain client accounts or asset classes (e.g. corporate or municipal fixed income securities) will be traded away from the wrap program sponsor via step-out transactions.

FTA manages SMA portfolios on various platforms using several strategies and when multiple SMA portfolios are rebalanced, it may not be possible to get the same execution prices for all clients. When FTA trades the same security on multiple platforms and/or across multiple strategies, FTA will use a rotation process that will ensure clients are treated equally over time.

#### **Item 13-Review of Accounts**

FTA monitors all managed accounts on a regular basis for consistency with each client’s stated investment objective and the specific investment strategy selected. Portfolios managed for CEFs, ETFs, open-end mutual funds and variable annuity sub-accounts are reviewed at least monthly by separate teams within FTA having responsibility for such reviews; each team is led by a senior vice president who is ultimately responsible for the portfolios. The nature of these reviews principally involves monitoring each fund’s portfolios for consistency with the applicable prospectus guidelines. SMA accounts are also reviewed at least monthly by a senior vice president. These

reviews involve a comparison of accounts within the applicable strategy for unusual deviations from other accounts within the same strategy. Unusual differences are discussed among FTA's portfolio management group, which may result in more in-depth analysis.

UIT portfolios supervised by FTA are continuously reviewed by FTA's research department for matters that may be cause for concern, such as a ratings downgrade, an issue being placed on credit watch by a rating agency, significant negative financial news, etc. Issues identified by research personnel are brought to the attention of a senior vice president for consideration.

SMA clients receive reports on at least a quarterly basis from their designated broker-dealer/custodian. For wrap fee clients, these reports typically come from the program sponsor. FTA also generates reports on a quarterly basis for SMA accounts, which may be available online to an SMA client and his/her financial representatives. These reports include a listing of holdings in the account, performance statistics and a detail of securities sold during the quarter.

Investors in CEFs, ETFs, open-end mutual funds and variable annuity sub-accounts receive an annual report and semi-annual report as required by applicable regulations. These reports contain a listing of holdings in the portfolios, financial statements for each fund, performance information, management's discussion, and other information.

Investors in FTP sponsored UITs receive the Trustee's Annual Report which includes a listing of holdings in each trust and a summary of transaction activity in the trust during the year.

#### **Item 14-Client Referrals and Other Compensation**

FTA does not compensate any third party for referring clients to FTA.

As further described in *Item 10-Other Financial Industry Activities and Affiliations*, FTP has arrangements with certain investment advisors in which FTP is compensated for referring persons to those advisors. Such persons are not clients of FTA, but clients of the other advisor. FTA or an affiliate of FTA has an ownership interest in these other advisors, providing an additional incentive to FTP for these referrals. These arrangements create a conflict of interest for FTP and FTA. FTP and FTA manage the conflict through disclosure of the arrangements, including requiring that the referral acknowledge in writing that the applicable arrangement exists.

#### **Item 15-Custody**

FTA does not have custody of client funds or securities. Each client's assets managed by FTA are held by qualified custodians. As noted in *Item 13-Review of Accounts*, SMA clients receive reports on at least a quarterly basis from the applicable qualified custodian. FTA also generates reports on a quarterly basis for SMA accounts, which are available online to an SMA client and/or his/her financial representative. We urge clients to compare the reports generated by FTA to the reports received from the qualified custodian. There may be differences between these reports caused by accrued dividends, different reporting dates, trade date vs. settlement date differences, etc.

#### **Item 16-Investment Discretion**

As described in *Item 4 – Advisory Business*, FTA provides discretionary investment management services to a variety of institutional and individual clients. Every account managed by FTA is governed by a written contract between FTA and the client in which the client grants FTA

discretionary authority to manage the account. For CEFs, CIFs, ETFs, open-end mutual funds and variable annuity sub-account clients, FTA's investment discretion is governed by the provisions of the applicable prospectus (or information statement) and FTA's contract with the applicable fund, which may impose restrictions on FTA regarding investing in certain securities or types of securities. In the case of most of the ETFs, FTA is generally required to manage each ETF portfolio in such a manner so as to match the underlying index on which the ETF portfolio is based. In the case of actively managed ETFs the portfolio manager will have discretion, within the constraints imposed by the prospectus, to manage the ETFs' portfolio. In the case of the CEFs and open-end mutual funds, most of the portfolios advised by FTA are sub-advised by other investment advisors who are responsible for the day-to-day management of the funds' portfolios and who are subject to FTA's oversight.

SMA clients provide FTA with discretionary investment authority through the investment advisory contract, either directly with FTA or through a wrap fee program sponsor. Generally, a client selects one strategy from a menu of investment strategies offered by FTA. Typically, the investor works with his/her financial adviser as an integral part of this process, which involves a review of the investor's financial situation, goals, experience, and risk tolerance, among other factors. Each account in a particular strategy will be managed in a similar manner. FTA may accept reasonable client-imposed restrictions on investing in certain securities or types of securities. Such restrictions may affect the performance of an account.

#### **Item 17-Voting Client Securities**

Typically, clients grant proxy voting authority to FTA in the investment management contract; however, clients may choose to vote their own proxies.

FTA has adopted proxy voting policies and procedures and has contracted with Institutional Shareholder Services (ISS) to provide research and proxy voting services. FTA generally follows the ISS proxy voting guidelines as long as such guidelines are considered to be in the client's best interests and there are no identified conflicts of interest.

If a conflict of interest arises between ISS and a company subject to a proxy vote, FTA will vote the proxy without using the analysis from ISS. If there is a conflict of interest between FTA and a company subject to a proxy vote, FTA will vote the proxy based on the recommendations of ISS. If there is a conflict of interest between FTA and a client, FTA will vote the proxy based on the recommendations of ISS. With respect to portfolios managed for CEFs, ETFs, open-end funds and variable annuity sub-accounts, if there is a conflict of interest between fund shareholders and FTA, or the fund's principal underwriter or sub-advisor, if applicable, FTA will vote the proxy based on the recommendations of ISS.

In certain circumstances where FTA has determined that it is consistent with the client's best interests, FTA may decide not to vote proxies in the client's account. Such circumstances include:

- **Limited Value.** Proxies will not be required to be voted on securities in a Client's account if the value of the Client's economic interest in the securities is indeterminable or insignificant (less than \$1,000). Proxies will also not be required to be voted for any securities that are no longer held by the Client's account.

- **Securities Lending Program.** When securities are out on loan, they are transferred into the borrower's name and are voted by the borrower, in its discretion. In most cases, FTA will not take steps to see that loaned securities are recalled to be voted. However, where FTA determines that a proxy vote, or other shareholder action, is materially important to the Client's account, FTA will make a good faith effort to recall the security for purposes of voting, understanding that in certain cases, the attempt to recall the security may not be effective in time for voting deadlines to be met.
- **Unjustifiable Costs.** In certain circumstances, after doing a cost-benefit analysis, FTA may choose not to vote where the cost of voting a Client's proxy would exceed any anticipated benefits to the Client of the proxy proposal (e.g. foreign securities).
- **International Markets Share Blocking.** In international markets where share blocking applies, FTA typically will not, but reserves the right to, vote proxies due to liquidity constraints. Share blocking is the "freezing" of shares for trading purposes at the custodian/sub-custodian bank level in order to vote proxies. While shares are frozen, they may not be traded. Therefore, the potential exists for a pending trade to fail if trade settlement falls on a date during the blocking period.

Certain FTA Funds invest in other registered investment companies ("*acquired funds*") and may do so pursuant to an exemptive order granted by the SEC. The relief granted by that order is conditioned upon complying with a number of undertakings, some of which require a Fund to vote its shares in an acquired fund in the same proportion as other holders of the acquired fund's shares. As a result, to the extent that a Fund, or another registered investment company advised by First Trust, relies on the relief granted by the exemptive order to invest in a particular acquired fund, First Trust will vote shares of that acquired fund in the same proportion as the other holders of that acquired fund's shares.

If a client wishes FTA to vote a specific proxy for a security held in his/her account in a particular way, he/she should contact FTA at 120 E. Liberty Drive, Suite 400, Wheaton, IL 60187 (attention: FTA Operations) at least two weeks prior to the proxy voting deadline. Clients who wish to obtain a summary of how FTA voted proxies for securities held in his/her account, or who wish to obtain a copy of FTA's proxy voting policies and procedures, should contact FTA at the above address.

#### **Item 18-Financial Information**

FTA has discretionary authority over clients' accounts and therefore is required to disclose to clients any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to our clients. Clients are advised that FTA has no such financial condition to disclose.

## **PRIVACY POLICY OF FIRST TRUST PORTFOLIOS L.P. AND FIRST TRUST ADVISORS L.P. ("FIRST TRUST")**

First Trust values our relationship with you and considers your privacy an important priority in maintaining that relationship. We are committed to protecting the security and confidentiality of your personal information.

### **SOURCES OF INFORMATION**

We collect nonpublic personal information about you from the following sources:

- Information we receive from you and your broker-dealer, investment advisor or financial representative through interviews, applications, agreements or other forms;
- Information about your transactions with us, our affiliates or others;
- Information we receive from your inquiries by mail, e-mail or telephone; and
- Information we collect on our website through the use of "cookies". For example, we may identify the pages on our website that your browser requests or visits.

### **INFORMATION COLLECTED**

The type of data we collect may include your name, address, social security number, age, financial status, assets, income, tax information, retirement and estate plan information, transaction history, account balance, payment history, investment objectives, marital status, family relationships and other personal information.

### **DISCLOSURE OF INFORMATION**

We do not disclose any nonpublic personal information about our customers or former customers to anyone, except as permitted by law. In addition to using this information to verify your identity (as required under law), the permitted uses may also include the disclosure of such information to unaffiliated companies for the following reasons:

- In order to provide you with products and services and to effect transactions that you request or authorize, we may disclose your personal information as described above to unaffiliated financial service providers and other companies that perform administrative or other services on our behalf, such as transfer agents, custodians and trustees, or that assist us in the distribution of investor materials such as trustees, banks, financial representatives, proxy services, solicitors and printers.
- We may release information we have about you if you direct us to do so, if we are compelled by law to do so, or in other legally limited circumstances (for example to protect your account from fraud).

In addition, in order to alert you to our other financial products and services, we may share your personal information within First Trust.

### **USE OF WEBSITE ANALYTICS**

We currently use third party analytics tools, Google Analytics and AddThis to gather information for purposes of improving First Trust's website and marketing our products and services to you. These tools employ cookies, which are small pieces of text stored in a file by your web browser and sent to websites that you visit, to collect information, track website usage and viewing trends such as the number of hits, pages visited, videos and PDFs viewed and the length of user sessions in order to evaluate website performance and enhance navigation of the website. We may also collect other anonymous information, which is generally limited to technical and web navigation information such as the IP address of your device, internet browser type and operating system for purposes of analyzing the data to make First Trust's website better and more useful to our users. The information collected does not include any personal identifiable information such as your name, address, phone number or email address unless you provide that information through the website for us to contact you in order to answer your questions or respond to your requests. To find out how to opt-out of these services click on: Google Analytics and AddThis.

### **CONFIDENTIALITY AND SECURITY**

With regard to our internal security procedures, First Trust restricts access to your nonpublic personal information to those First Trust employees who need to know that information to provide products or services to you. We maintain physical, electronic and procedural safeguards to protect your nonpublic personal information.

### **POLICY UPDATES AND INQUIRIES**

As required by federal law, we will notify you of our privacy policy annually. We reserve the right to modify this policy at any time, however, if we do change it, we will tell you promptly. For questions about our policy, or for additional copies of this notice, please go to [www.ftportfolios.com](http://www.ftportfolios.com), or contact us at 1-800-621-1675 (First Trust Portfolios) or 1-800-222-6822 (First Trust Advisors).

March 2020