ETF INTERVIEW:

First Trust Announces Launch of First Trust Global Tactical Commodity Strategy Fund Interview

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Q: Thank you for joining us today. Can you give us a bit of background on First Trust Portfolios L.P. and your role as ETF Strategist?

Ryan Issakainen: First Trust was founded in 1991, and currently manages and supervises about $82 billion across a variety of investment structures including Exchange-Traded Funds, Unit Investment Trusts, Closed-End Funds, Open-End Funds, and Separate Managed Accounts.

As an ETF Strategist, my job is to provide insights to financial advisors and portfolio managers to help them sort through the huge number of ETF choices available, in order to help them determine which ETFs may be best suited for their clients' risk and return objectives.

Q: We've been hearing that commodities are a unique asset class and are also a complement to traditional asset classes. Can you please shed some insight into the reasoning behind this? What are some of the strategies First Trust Portfolios is using in the commodities market?

Ryan Issakainen: The benefits of incorporating commodities, and other "alternative" asset classes, in an investment portfolio are primarily driven by the relatively low, and sometimes negative, correlations between the returns of commodities and "traditional" asset classes. This provides the potential to reduce overall risk by further diversifying an investment portfolio, while potentially improving risk-adjusted returns.

For example, think about what often happens to the price of stocks versus the price of oil during periods of unrest in the Middle East: stock prices drop and oil prices move higher. So the positive returns from a long position in oil futures, for example, may help offset the negative returns from stocks.

Because commodity prices typically rise with inflation, commodities may also act as a hedge against inflation.

Currently, First Trust has two ETFs that utilize commodity futures: the First Trust Morningstar Managed Futures Strategy Fund (ticker: FMF) and the First Trust Global Tactical Commodity Strategy Fund (ticker: FTGC).

Q: Congratulations on the launch of First Trust Global Tactical Commodity Strategy Fund, an actively managed Commodities ETF, on Oct 23. What is the investment strategy behind FTGC and how will it limit investors' exposure into a volatile commodities market?

This ETF has several unique attributes that we believe provide added value to investors, but one of the most important is the fact that it's an actively managed strategy, compared to most commodity ETPs which track passive indices. This provides the flexibility for the Fund's managers to actively select between specific futures contracts in order to seek to maximize roll yield (defined as the amount of return generated in specific markets by rolling short-term contracts into longer-term contracts and profiting from the convergence of a higher spot price). We view this as a significant advantage versus ETPs that are forced to roll at a specific point along the futures curve, particularly when the futures curve is in a persistent state of contango (meaning the futures price of a commodity is above the expected future spot price), which may force these ETPs to systematically realize substantial negative roll yields.

Active management also means that FTGC's allocations are not tied to a specific commodity benchmark that may be dominated by one sector, such as energy. Instead, allocations are determined by a consideration of the forecasted risk and correlations of each commodity in the portfolio in order to seek a relatively stable risk profile. Unlike most passive commodity ETPs, active management also allows the Fund's managers to regularly rebalance to the optimal asset weighting given the desired risk for the portfolio.

Q: ETFs that invest in commodity futures contracts typically issue K-1 for tax forms. However, FTGC will report taxable gains and losses on a Form 1099. What are the benefits of reporting on a Form 1099?

Ryan Issakainen: We have received excellent feedback from financial advisors regarding the fact that FTGC does not issue K-1s, but instead intends to report taxes on a Form 1099. Believe it or not, the additional administrative burden of dealing with K-1s has kept many investors from allocating to commodity ETPs, despite their potential benefits, which is a shame. If commodities are appropriate for an investor's portfolio, we think many will prefer the familiarity of the 1099 tax reporting offered by FTGC.

Q: What are First Trust Portfolio's core products?

Ryan Issakainen: In addition to some of the newer ETFs that First Trust has recently launched, such as FTGC, we offer a number of core equity strategies, including 39 funds from our AlphaDEX family of ETFs. These ETFs, which have accumulated over $9 billion in AUM, follow a quantitative, multi-factor model that seeks better risk-adjusted returns than benchmark indices.

You should consider a fund's investment objectives, risks, and charges and expenses carefully before investing. Contact First Trust Portfolios L.P. at 1-800-621-1675 or visit www.ftportfolios.com to obtain a prospectus or summary prospectus which contains this and other information about a fund. The prospectus or summary prospectus should be read carefully before investing.

ETF Characteristics

The fund will list and principally trade its shares on The NASDAQ Stock Market LLC. The fund may not be fully invested at times. Investors buying or selling fund shares on the secondary market may incur customary brokerage commissions. Market prices may differ to some degree from the net asset value of the shares. Investors who sell fund shares may receive less than the share's net asset value. Shares may be sold throughout the day on the exchange through any brokerage account. However, unlike mutual funds, shares may only be redeemed directly from the fund by authorized participants, in very large creation/redemption units.

The funds' shares will change in value and you could lose money by investing in the funds. The funds are subject to market risk.

You should anticipate that the value of an AlphaDEX fund's shares will decline, more or less, in correlation with any decline in the value of the applicable index. An AlphaDEX fund may invest in securities issued by companies concentrated in a particular industry or country and may invest in small capitalization and mid-capitalization companies. Such companies may experience greater price volatility than larger, more established companies.

The trading prices of commodities futures, fixed income securities and other instruments in which FMF and FTGC invest fluctuate in response to a variety of factors. The funds' net asset value and market price may fluctuate significantly in response to these factors. As a result, an investor could lose money over short or long periods of time. In addition, the net asset value of the funds over short-term periods may be more volatile than other investment options because of the funds' significant use of financial instruments that have a leveraging effect. There is no guarantee that any leveraging strategy the funds employ will be successful.

The value of commodities and commodity-linked instruments typically is based upon the price movements of a physical commodity or an economic variable linked to such price movements. The prices of commodities and commodities-linked instruments may fluctuate quickly and dramatically and may not correlate to price movements in other asset classes. An active trading market may not exist for certain commodities. Each of these factors and events could have a significant negative impact on the funds. All futures and futures-related products are highly volatile. Price movements are influenced by a variety of factors. The value of commodities, commodity-linked instruments, futures and futures-related products may be affected by changes in overall economic conditions, changes in interest rates, or factors affecting a particular commodity or industry, such as production, supply, demand, drought, floods, weather, political, economic and regulatory developments.

The funds will not invest directly in futures instruments. Rather, they will invest in a wholly-owned subsidiary, which will have the same investment objective as the funds, but unlike the funds, it may invest without limitation in futures instruments. The subsidiary is not registered under the 1940 Act and is not subject to all the investor protections of the 1940 Act. Thus, the funds, as an investor in the subsidiary, will not have all the protections offered to investors in registered investment companies.

FMF is not obligated to invest in the same instruments included in the benchmark and may invest in certain other securities. There can be no assurance that the fund's performance will exceed the performance of the benchmark at all times.

The funds' strategy may frequently involve buying and selling portfolio securities to rebalance the funds' exposure to various market sectors. Higher portfolio turnover may result in the funds paying higher levels of transaction costs and generating greater tax liabilities for shareholders.