



## First Trust FactorFX Investment Overview Q3 2019

The First Trust FactorFX UCITS ETF (the "Fund") launched in July 2017 and is an exchange-traded fund (ETF) that seeks to deliver total returns by exploiting carry, value and momentum factors within global fixed income and currency markets.

The fund aims to deliver investors low correlation to broader equity, bond and commodity markets over the medium to long term.

Currencies are a relative instrument – the buyer of one currency is the natural seller of another. As such, currency is different from traditional sources of fixed-income risk premia (curve and credit) as focus is shifted from the absolute yield level to the relative yield difference between regions/countries. The currency investor's opportunity set expands as global yield divergence increases or decreases. Therefore, this product may potentially diversify existing global fixed income allocations in a rising yield environment.

| Fund Information | London Stock Exchange | London Stock Exchange | Euronext Amsterdam |
|------------------|-----------------------|-----------------------|--------------------|
| ISIN             | IE00BD5HBQ97          | IE00BD5HBR05          | IE00BD5HBS12       |
| TICKER           | FTFX LN               | FXGB LN               | FXEU NA            |
| Trading Currency | USD                   | GBP Hedged            | EUR (Hedged)       |
| TER              | 0.75%                 | 0.75%                 | 0.75%              |
| Income Treatment | Accumulating          | Accumulating          | Accumulating       |

The Fund seeks to deliver total returns to investors with lower correlation to broader equity, bond and commodity markets over the medium to long term through its exposure to global currencies and related markets.

## Challenges in Global Fixed Income

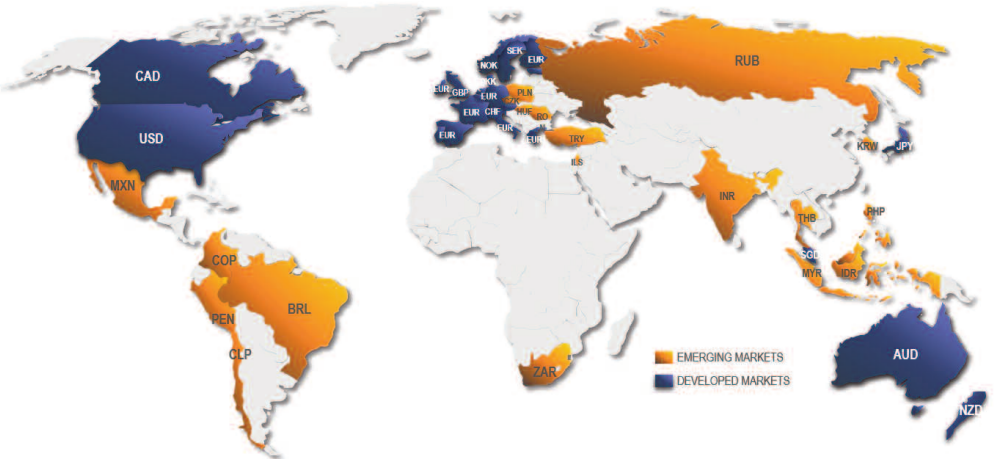
In current market conditions, traditional portfolios may struggle to deliver investors' desired outcomes. The traditional '60/40' portfolio (60% Equity, 40% Fixed Income) has delivered stable returns over the last 10-20 years thanks to a broad equity market rally and global developed market bond yield compression. However, yield compression, which benefitted historic bond performance, has reduced current yields and hence long-term expected returns. For example, over the last 10 years the Barclay's Global Aggregate Index Yield to Worst has compressed from 2.98% to 1.30% as at 30 September 2019.

### Increase duration or reduce quality or...

In the search for yield, some investors have looked to take on more fundamental fixed income risks - either increase duration or reduce quality.

However, there is an additional source of yield which can be harvested from Global Fixed Income

– **'Currency Carry'**



### ...increase Currency as a solution

Currencies are a relative instrument – the buyer of one currency is the natural seller of another. As such, currency is different from the other three components of Global Fixed Income as focus is shifted from the absolute yield level to the relative yield difference. Therefore, the currency investor's opportunity set increases as global divergence increases, independently from absolute yield level.

Further benefits of the Currency solution are the efficiency and liquidity of global FX Markets. For instance, per the 2016 BIS Triennial Survey, there is on average more than \$5 trillion traded per a day across a broad spectrum of currencies.

## Four C's of Global Fixed Income Yield:

We are able to deconstruct fixed income yields into 4 broad risk premises:

**Cash** | Local short term interest rate, commonly known as 'the risk-free rate'

**Curve** | Additional yield earned from taking duration risk

**Credit** | Yield compensation for assuming default risk

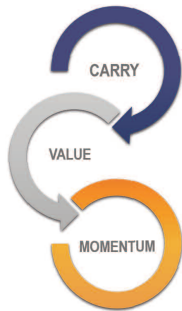
**Currency** | Yield which can be harvested from divergent short term interest rates across regions - **'Carry'**

## FactorFX: How to harvest yield divergence

### 1 | Opportunity: Factor Investing with Currencies<sup>1</sup>

#### Explanation

Currencies tend to mean revert to fair values as per purchasing power parity (PPP)<sup>2</sup> over the long term.



#### Explanation

Exploits forward rate bias that interest rate parity (IRP)<sup>3</sup> doesn't hold (high yielding FX outperform low yielding)

#### Explanation

Momentum has theoretically and empirically been identified across asset classes and can be attributable to behavioural biases associated with holding losers and cutting winners

### 2 | Execution: Systematic Portfolio Construction

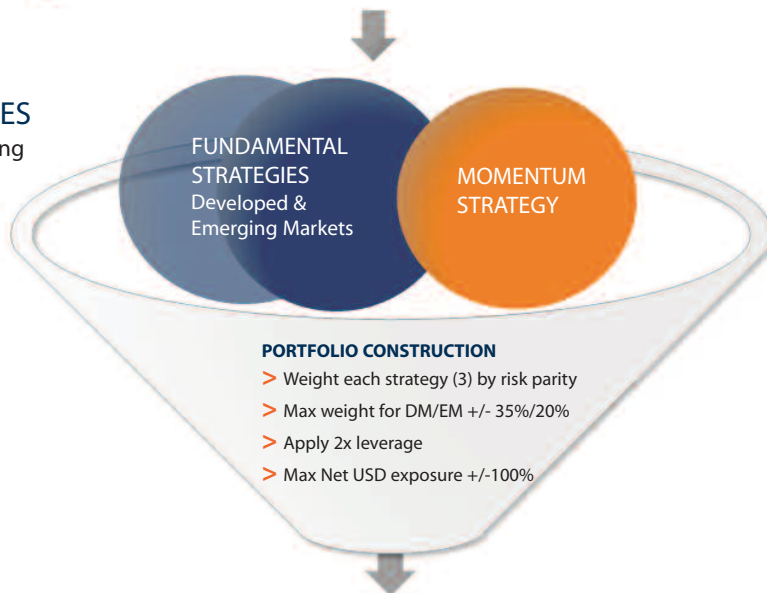


#### STATISTICAL CORRELATION SCREEN

Removal of pseudo pegged pairs & pricing complexity

#### FUNDAMENTAL STRATEGIES

- > Separate developed and emerging market currencies
- > Long pairs with positive Carry and undervalued, short pairs with negative Carry and overvalued
- > Reduce exposures through dynamic volatility model



#### MOMENTUM STRATEGY

- > Short, mid and long term models
- > Weight currencies through dynamic volatility model - 'risk parity'<sup>4</sup>

#### PORTFOLIO CONSTRUCTION

- > Weight each strategy (3) by risk parity
- > Max weight for DM/EM +/- 35%/20%
- > Apply 2x leverage
- > Max Net USD exposure +/-100%

#### FINAL PORTFOLIO

Apply **rebalancing model** which compares the active share of the 'current portfolio' to 'theoretically optimal'

### 3 | Results: Simulated Performance

- » **Low Correlation and Beta** to traditional asset classes
- » **Moderate drawdowns** relative to risky asset classes
- » **Simple, transparent** process with low leverage

## Descriptions and Source

<sup>1</sup>Value and Momentum Everywhere by Clifford S. Asness, AQR Capital Management, LLC. Uncovered interest rate parity refers to a condition where the relationship between interest rates and the spot and forward currency values of two countries are in equilibrium. As a result, there are no interest rate arbitrage opportunities between those two currencies. <sup>2</sup>Purchasing power parity (PPP) is a theory which states that exchange rates between currencies are in equilibrium when their purchasing power is the same in each of the two countries. <sup>3</sup>The interest rate parity (IRP) is a theory in which the interest rate differential between two countries is equal to the differential between the forward exchange rate and the spot exchange rate. Interest rate parity plays an essential role in foreign exchange markets, connecting interest rates, spot exchange rates and foreign exchange rates. <sup>4</sup>Risk parity is an approach to investment portfolio management which focusses on allocation of risk, usually defined as volatility, rather than allocation of capital.

## Index Descriptions

Barclay's Global Aggregate Index measures of the global investment grade debt from twenty-four local currency markets. The multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

## Risks

■ **The Fund's shares may change in value and may go down as well as up. You could lose money by investing in the Fund. You may not get back all of the money you invest.**

■ Actively managed funds are subject to management. In managing a fund's investment portfolio, the advisor will apply investment techniques and risk analyses that may not have the desired result. There can be no assurance that a fund's investment objectives will be achieved.

■ A fund is subject to market risk, which means that shares of a fund may fall in value due to market fluctuations caused by such factors as economic, political, regulatory or market developments, changes in interest rates and perceived trends in securities prices.

■ The use of derivative instruments can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, which may be magnified by certain features of the derivatives. These risks are heightened when a fund's portfolio managers use derivatives to enhance a fund's return or as a substitute for a position or security, rather than solely to hedge (or offset) the risk of a position or security held by a fund.

■ As the Fund's investments may be denominated in currencies other than the Fund's currency, an investment in this Fund may expose you to currency risk.

■ This Fund's Net Asset Value (NAV) is likely to have high volatility due to the portfolio composition. As such, potential investors should be aware that the Fund's shares may change in value, and may do so in a volatile fashion; potential investors could lose money by investing in the Fund.

■ Neither First Trust Global Portfolios Limited ("FTGP") nor any of its affiliates, guarantees the performance or the future returns of the Fund.

■ For more details relating to risks of investing in the Fund, please refer to the "Risk Factors" section of the Fund's prospectus.

## Important Information

This material is issued by FTGP of 8 Angel Court, London, EC2R7HJ. FTGP is authorised and regulated by the UK Financial Conduct Authority ("FCA") (register no. 583261). The Fund is not regulated by the FCA.

Nothing contained herein constitutes investment, legal, tax or other advice and it is not to be solely relied on in making an investment or other decision, nor does the document implicitly or explicitly recommend or suggest an investment strategy, reach conclusions in relation to an investment strategy for the reader, or provide any opinions as to the present or future value or price of any fund. It is not an invitation, offer, or solicitation to engage in any investment activity, including making an investment in the Fund, nor does the information, recommendations or opinions expressed herein constitute an offer for sale of the Fund.

The Fund is an open-ended sub-fund of the First Trust Global Funds PLC (the "Company"), an umbrella UCITS fund with segregated liability between sub-funds, incorporated with limited liability as an investment company with variable capital under the laws of Ireland with UCITS registered number 514357.

The material in this document is not comprehensive and must therefore be read in conjunction with the Fund's prospectus, which contains material information not contained herein, including the terms of investment and information regarding investment risks and restrictions, fees and expenses and conflicts of interests. Potential investors should pay particular attention to the risk disclosures in the "Risk Factors" section of the Fund's prospectus. No assurance can be given that the Fund's investment objective will be achieved or that the Fund will generate a positive return. Contact FTGP or visit [www.ftglobalportfolios.com](http://www.ftglobalportfolios.com) to obtain a Prospectus and/or Key Investor Information Document (available in English).

Shares of the Fund are not available for sale in any state or jurisdiction in which such sale would be prohibited. The shares of the Fund have not been registered under the US Securities Act of 1933, as amended, and the Fund is not registered under the US Investment Company Act of 1940, as amended. Neither this material nor the Fund's shares are available to or suitable for US persons.

UCITS ETF's units / shares purchased on the secondary market cannot usually be sold directly back to UCITS ETF. Investors must buy and sell units / shares on a secondary market with the assistance of an intermediary (e.g. a stockbroker) and may incur fees for doing so. In addition, investors may pay more than the current net asset value when buying units / shares and may receive less than the current net asset value when selling them.

### Portfolio Holdings Disclosure Policy:

The Company's portfolio holdings policy is designed to be transparent, whilst being in the best interest of the Funds and protecting the confidentiality of each Fund's portfolio holdings. The full portfolio holdings for the Fund shall generally be available daily, with a one-day lag, on [www.ftglobalportfolios.com](http://www.ftglobalportfolios.com). Any portfolio holdings information which may otherwise be provided on request shall be provided on a confidential basis.

### For Investors in the UK

This document is only for, or directed at persons who are professional clients or eligible counterparties for the purposes of the FCA's Conduct of Business Sourcebook. This document is exempt from the scheme promotion restriction (in Section 238 of the Financial Services and Markets Act 2000 ("FSMA") on the communication of invitations or inducements to engage in investment activity) on the grounds that it is a recognised collective investment scheme (a "recognised scheme") for the purposes of section 264 of the FSMA of the United Kingdom. Most of the protections provided by the UK regulatory system do not apply to the operation of the Fund and compensation will not be available under the UK Financial Services Compensation Scheme on its default.

### For Investors in Austria

The Fund is registered for public offer in Austria. The Prospectus, Key Investor Information Document ("KIID") and other documents, as well as the annual and semi-annual reports have been published in Austria and are available free of charge from Erste Bank der österreichischen Sparkassen AG, Graben 21, A-1010 Wien, the Austrian paying and information agent.

### For Investors in Belgium

The offering of Shares has not been and will not be notified to the Belgian Financial Services and Markets Authority (Autoriteit voor Financiële Diensten en Markten/Autorité des Services et Marchés Financiers) nor has this document been, nor will it be, approved by the Financial Services and Markets Authority. Shares may be offered in Belgium only to professional investors, in reliance of article 5, §1 of the Law of August 3, 2012 on collective investment undertakings that satisfy the conditions of Directive 2009/65/EC and undertakings for investments in receivables (the "Law of August 3, 2012"), such investors acting for their own account and subject to them complying with the resale condition as set forth in that article 5, §1 of the Law of August 3, 2012.

### For Investors in Denmark

This document is only for the attention of "Professional" investors as defined in Directive 2004/39/EC dated 21 April 2004 on Markets in Financial Instruments (MIFID), to investment services providers and any other professional of the financial industry. The products and services to which this communication relates are only available to such persons and persons of any other description should not rely on this communication. The Fund has been registered with the Financial Supervisory Authority of Denmark (Finanstilsynet) in order to market its shares for sale to professional investors only in Denmark in accordance with the Danish Investment Associations Act and Executive Order on the Marketing of Foreign UCITS in Denmark, each as amended from time to time.



## Important Information

### For Investors in Finland

This document is only for the attention of “Professional” investors as defined in Finnish law implementing Directive 2004/39/EC dated 21 April 2004 on Markets in Financial Instruments (MIFID), to investment services providers and any other professional of the financial industry. The products and services to which this communication relates are only available to such persons and persons of any other description should not rely on this communication. The Fund has been registered with the Financial Supervisory Authority of Finland (Finanssivalvonta) in order to market its shares for sale to professional investors only in Finland in accordance with the Finnish Act on Common Funds (48/1999) as amended from time to time.

### For Investors in Germany

This document is only for the attention of “Professional” investors as defined in Directive 2004/39/EC dated 21 April 2004 on Markets in Financial Instruments (“MIFID”), to investment services providers and any other professional of the financial industry. The offering of the First Trust UCITS ETFs by the Company has been notified to the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) in accordance with Section 310 of the German Investment Code (KAGB). Prospective investors may obtain the KIID in German and the current Prospectus, the articles of incorporation, as well as the latest annual and semi-annual report, in English, free of charge from FinCo Financial Communications GmbH, Großer Burstah 42, 20457 Hamburg.

### For Investors in Iceland

This document has been issued to you for your use only and exclusively for the purpose of the described investment opportunities. Accordingly, this document and relevant information may not be used for any other purpose or passed on to any other person in Iceland. The investment described in this document has been registered for public distribution in Iceland with the Financial Supervisory Authority pursuant to the Icelandic Act on Undertakings for Collective Investment in Transferable Securities (UCITS) and Investment Funds and Institutional Investment Funds No. 128/2011 and supplementary regulations. The Investment may not be offered or sold by means of this document or in any way later resold otherwise than in accordance with the ACT No. 128/2011.

### For Investors in Italy

This information document is addressed to professional investors only, as defined in Directive 2004/39/EC of 21 April 2004 (MiFID). The present document does not constitute in any way an offer or recommendation to make investments in the Fund or to execute other transactions in relation to the latter. The investors shall consult with their investment consultants in order to analyse the legal, fiscal and accounting aspects of the investment or other transactions concerning the investment in the Fund and evaluate whether such investment or transaction is suitable to their own risk profile, financial status and investment objectives. The Fund has been registered with the Commissione Nazionale per le Società e la Borsa (CONSOB) for the offer in Italy towards professional investors only. Before taking any investment decisions, the prospected investors should read carefully the KIID (available in Italian) and the Prospectus on the following website [www.ftglobalportfolios.com](http://www.ftglobalportfolios.com).

### For Investors in Luxembourg

The Fund is registered for public offer in Luxembourg. The Prospectus, Key Investor Information Document (“KIID”) and other documents as well as the annual and semi-annual reports are available in English free of charge from CACEIS Bank Luxembourg, 5, allée Scheffer, L-2520 Luxembourg.

### For Investors in the Netherlands

This document is only for the attention of “Professional” investors as defined in Directive 2004/39/EC dated 21 April 2004 on Markets in Financial Instruments (“MIFID”), to investment services providers and any other professional of the financial industry. The products and services to which this communication relates are only available to such persons and persons of any other description should not rely on this communication. The Company has completed its notification to the Authority Financial Markets (Stichting Autoriteit Financiële Markten) in the Netherlands in order to market its shares for sale to the public in the Netherlands according to Section 2:72 of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht) as amended from time to time.

### For Investors in Norway

This document is only for the attention of “Professional” investors as defined in Directive 2004/39/EC dated 21 April 2004 on Markets in Financial Instruments (MIFID). The products and services to which this communication relates are only available to such persons and persons of any other description should not rely on this communication. The Fund has been registered with the Financial Supervisory Authority of Norway (Finanstilsynet) in accordance with the Norwegian Securities Funds Act section 9-3, in order to market its shares for sale to professional investors only in Norway.

### For Investors in Portugal

This information document is addressed to professional investors only, as defined in Directive 2004/39/EC of 21 April 2004 (MiFID). The present document does not constitute in any way an offer or recommendation to make investments in the Fund or to execute other transactions in relation to the latter. The investors shall consult with their investment consultants in order to analyse the legal, fiscal and accounting aspects of the investment or other transactions concerning the investment in the Fund and evaluate whether such investment or transaction is suitable to their own risk profile, financial status and investment objectives. The offering of the First Trust UCITS ETFs in Portugal has been notified to the Portuguese Securities Market Commission (Comissão do Mercado dos Valores Mobiliários) for the purposes of Article 196 of the Portuguese General Framework on Collective Investment Schemes (Regime Geral dos Organismos de Investimento Colectivo). Prospective investors may obtain the KIID in Portuguese and the current Prospectus, the articles of incorporation, as well as the latest annual and semi-annual report, in English, free of charge from [www.ftglobalportfolios.com](http://www.ftglobalportfolios.com).

### For Investors in Spain

This document is only for, or direct at persons who, are “professional clients” for the purposes of Article 205 of the Royal Legislative Decree 4/2015, of 23 October, which approves the recast text of the Securities Market Law. The products and services to which this communication relates are only available to such persons and persons of any other description should not rely on this communication. The Fund has been registered with the Comisión Nacional del Mercado de Valores (CNMV) in Spain with registration number 1545. Any investment decision must be based solely on the basis of a careful consideration and understanding of all information contained in the latest Fund’s prospectus and key investor information document (KIID). All mandatory official documentation (including the prospectus and the KIID) shall be available through the relevant distributors in Spain, in hard copy or by electronic means, and also available free of charge upon request by dialling +44(0)203 195 7121, writing to [EuroSales@ftgportfolios.com](mailto:EuroSales@ftgportfolios.com) or consulting [www.ftgportfolios.com](http://www.ftgportfolios.com), where you may also obtain updated information on the net asset value of the relevant shares. It is advisable to obtain further information and request professional advice before taking an investment decision.

### For Investors in Sweden

This document is only for the attention of “Professional” investors as defined in the Swedish Securities Markets Act (Sw. lag (2007:528) om värdepappersmarknaden), implementing Directive 2004/39/EC dated 21 April 2004 on Markets in Financial Instruments (MIFID) into Swedish law, to investment services providers and any other professional of the financial industry. The products and services to which this communication relates are only available to such persons and persons of any other description should not rely on this communication. The Fund has been registered with the Swedish Financial Supervisory Authority (Sw. Finansinspektionen) in accordance with Chapter 1, Section 7 of the Swedish Securities Funds Act (Sw. lag (2004:46) om värdepappersfonder), as amended from time to time. Prospective investors may obtain the KIID in Swedish and the current Prospectus, the articles of incorporation, as well as the latest annual and semi-annual report, in English, free of charge from [www.ftgportfolios.com](http://www.ftgportfolios.com).

### For Investors in Switzerland

The distribution of shares in Switzerland will be exclusively made to, and directed at, qualified investors (the “Qualified Investors”), as defined in the Swiss Collective Investment Schemes Act of 23 June 2006, as amended (“CISA”) and its implementing ordinance. Accordingly, the Funds are not and will not be registered with the Swiss Financial Market Supervisory Authority (FINMA). This document and/or any other offering materials relating to the Funds may be made available in Switzerland solely to Qualified Investors. For this, the Funds have appointed as Swiss Representative Oligo Swiss Fund Services SA, Av. Villamont 17, 1005 Lausanne, Switzerland, Tel: +41 21 311 17 77, email: [info@oligofunds.ch](mailto:info@oligofunds.ch). The Funds’ paying agent is Banque Cantonale de Genève. Any Fund Documentation may be obtained free of charge from the Swiss Representative in Lausanne. The information provided here is for general information only and historical performance is not a guide to current or future performance. The performance data does not take account of commissions and costs incurred on the issue and redemption of shares.