

Dorsey Wright International Focus Five Index Methodology

Index Description

The Dorsey Wright International Focus Five Index selects five exchange-traded funds from the First Trust Portfolios product line with powerful relative strength characteristics.

Index Calculation

The Dorsey Wright International Focus Five Index is an equal weighted index. The value of the Index equals the aggregate value of the Index share weights, also known as the Index Shares, of each of the Index Securities multiplied by each such security's Last Sale Price¹, and divided by the divisor of the Index. The divisor serves the purpose of scaling such aggregate value to a lower order of magnitude which is more desirable for reporting purposes. If trading in an Index Security is halted on its primary listing market, the most recent Last Sale Price for that security is used for all index computations until trading on such market resumes. Likewise, the most recent Last Sale Price is used if trading in a security is halted on its primary listing market before the market is open. The Index began on July 17, 2014 with a base value of 1000.00.

The formula for index value is as follows:

$$\text{Aggregate Adjusted Market Value/Divisor}$$

The formula for the divisor is as follows:

$$(\text{Market Value after Adjustments/Market Value before Adjustments}) \times \text{Divisor before Adjustments}$$

Two versions of the Index are calculated – a price return index and a total return index.

- The price return Index (NASDAQ: DWANQIFF) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return Index (NASDAQ: DWANQIFFT) reinvests cash dividends on the ex-date.

Both Indexes reflect extraordinary cash distributions.

The Indexes are calculated and disseminated once per second from 9:30:01 to 17:16:00 Eastern Time (ET) in USD. The closing value of the Indexes may change up until 17:15:00 ET due to corrections to the Last Sale Price of the Index Securities.

¹ For purposes of this document, Last Sale Price refers to the last regular way trade reported on such security's Index Market. The Index Market is the listing market for which prices are received and used by Nasdaq, Inc. in the Index calculation and generally will represent the most liquid trading market of the Index Security. If a security does not trade on its Index Market on a given day or the Index Market has not opened for trading, the most recent last sale price from the Index Market (adjusted for corporate actions, if any) is used. For securities where Nasdaq is Index Market, the Last Sale Price may be the Nasdaq Official Closing Price (NOCP) when Nasdaq is closed.

Eligibility Criteria

The potential inventory for the Index consists of First Trust ETFs that are designed to target a specific country or region excluding the United States, or that have a significant overweight towards a particular country or region excluding the United States, and the potential inventory's members are chosen at the sole discretion of the Index Provider. The Index is designed to provide targeted exposure to the five ETFs that the Index Provider believes offer the greatest potential to outperform the other ETFs in the selection universe. The Index Provider believes that the most adaptive tool to achieve the goal of discerning the strongest trends versus that of the weakest is relative strength. Relative strength is a momentum technique that relies on unbiased, unemotional and objective data, rather than biased forecasting and subjective research. Relative strength is a way of recording historic performance patterns, and Dorsey, Wright Associates (DWA) uses relative strength signals as a trend indicator for current momentum trends of a security versus another security.

Index Evaluation

Point & Figure Charting: Point & Figure charting is a logical, organized way of recording supply and demand within a security, focusing on the price movements of that security. Point-and-figure charts filter out non-significant price movements by ignoring small price fluctuations, trading volume, and time.

Point & Relative Strength Chart: Relative strength is another technical analysis tool that measures a security's performance relative to other securities in the same industry, competitive industry, benchmark or broad market indices. Relative strength is a momentum technique that relies on unbiased, unemotional and objective data, rather than biased forecasting and subjective research. Relative strength is a way of recording historic performance patterns, and DWA uses relative strength signals as a trend indicator for current momentum and future performance trends of a security versus another one.

For the purpose of conducting the Dorsey Wright International Focus Five Index methodology, DWA has selected the Index's potential inventory, which is composed of roughly 22 international First Trust ETFs. The price data of these selected First Trust Portfolios ETFs is used to perform relative strength analysis.

DWA builds relative strength charts for each First Trust Portfolios ETF using the following process:

- (i) On a daily basis, DWA computes the ratio of the closing price of each First Trust Portfolios ETF to the closing price of each other First Trust Portfolios ETF.

Example:

$$\text{Relative Strength Reading} = (\text{ETF 1 Closing Price} \div \text{ETF 2 Closing Price}) \times 100$$

- (ii) As a result of on-going calculations, a Point & Figure relative strength chart is created for each relationship within the inventory. A Point & Figure Relative Strength chart is a variation of a Point & Figure chart but its input value is computed in the previous step, instead of individual security prices.

Relative Strength Matrix: DWA has implemented a systematic way of analyzing many Point & Figure relative strength charts by aggregating Buy Signals and Sell Signals within a "matrix"

format. When a column of X's exceeds a previous column of X's, the chart indicates a "Buy Signal" (also referred to as positive relative strength). Conversely, "Sell Signals" are given when a column of O's exceeds a previous column of O's (also referred to as negative relative strength).

DWA created the relative strength matrix (the "Matrix") to analyze large numbers of charts and to easily display an equally large data set of signals. Each box of the Matrix represents a relative strength contest between one First Trust Portfolios ETF and another, where the numerator is the ETF running down the left hand side of the matrix and the denominator is the ETF from the top of the Matrix.

For each First Trust Portfolios ETF, the total number of relative strength charts that are on a Buy Signal are noted in the column "Buys" of the Matrix. The Matrix is ranked such that the ETF with the highest number of Buy Signals is ranked #1, and appears at the top of the Matrix. The First Trust with the lowest number is ranked last and appears on the bottom of the "Matrix".

The Index is composed of the top five First Trust ETFs in the inventory and the ETFs are only sold when they fall sufficiently out of favor versus the other members of the inventory on a relative strength basis. A new ETF is only added to the Index when an ETF in the Index is sold. When an addition or deletion is made, the Index is rebalanced so that each position is equally weighted. Security additions and deletions are made periodically and will become effective after the close of trading on the Friday following the announced effective date of the changes.

The Index holdings are evaluated on bi-monthly basis. Evaluation periods occur in the first and third weeks of the month containing a Friday.

Additionally, if at any time during the year other than the Evaluation, an Index Security no longer meets the Index Eligibility Criteria, or is otherwise determined to have become ineligible for continued inclusion in the Index, the security is removed from the Index and will not be replaced. In all cases, a security is removed from the Index at its Last Sale Price. If, however, at the time of its removal the Index Security is halted from trading on its primary listing market and an official closing price cannot readily be determined, the Index Security may, in Nasdaq's discretion, be removed at a zero price. The zero price will be applied to the Index Security after the close of the market but prior to the time the official closing value of the Index is disseminated, which is ordinarily 17:16:00 ET.

Index Maintenance

Index Share changes are not made outside of the evaluation and rebalancing; however changes arising from stock dividends and stock splits are made to the Index on the evening prior to the effective date of such corporate action. In the case of certain spin-offs or rights issuances, the price of the Index Security is adjusted and a corresponding adjustment is made to the Index Shares such that the weight of the Index Security does not change as a result of the action.

A special cash dividend announced by the listing exchange, will result in an adjustment to the Last Sale Price for the special amount distributed and a corresponding adjustment to the Index Shares of an Index Security prior to market open on the ex-date such that the weight of the Index Security will not change as a result of the action. A special dividend may also be referred to as extra, extraordinary, non-recurring, one-time, unusual, etc.

Ordinarily, whenever there is a change in an Index Security or a change to the price of an Index Security due to spin-offs, rights issuances or special cash dividends as mentioned above, the divisor is adjusted to ensure that there is no discontinuity in the value of the Index which might otherwise be caused by any such change. All changes are announced in advance and are reflected in the Index prior to market open on the Index effective date.

Index Rebalancing

The Index employs an equal-dollar weighting methodology. In the event of a rebalance, Index Shares are calculated employing the equal-dollar weighting utilizing Tuesday's closing prices of the given week's review and goes effective after the close of trading that Friday. The changes are made periodically, in conjunction with the bi-monthly Index Evaluation.

In instances where the market may be closed on the effective date outlined above, the changes will become effective on the next business day.

Nasdaq, Inc. may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity.

December 2018