First Trust

# STRATEGIC RISK MODEL PORTFOLIOS

## 4Q 2024 QUARTERLY ALLOCATIONS AND OUTLOOK

## MODEL OVERVIEW

The First Trust Strategic Risk Model Portfolios consist of exchange-traded funds (ETFs) and are created by the First Trust Advisors Model Investment Committee. These models are aimed at total return while diversifying the risk exposure of various asset classes over the long term and are designed to provide financial professionals with a foundation to build scalable asset allocation solutions for their clients.

## 3Q 2024 MARKET REVIEW

The U.S. equity market finished strong after a volatile third quarter (S&P 500 Index +5.9%). A dovish 50 basis point rate cut on the part of the Fed bolstered sentiment, which had been shaken to a degree by early signs of labor market softening, and the potential impact of U.S.-China trade tensions on the information technology sector.

Declining Treasury yields were a tailwind for rate sensitive utilities and real estate sector stocks, which were the top performers within the S&P 500 Index during the third quarter (S&P 500 Utilities Index +19.4%, S&P 500 Real Estate Index +17.2%). In a reversal of leadership, information technology and communication services sector stocks earned only slight gains during the quarter. Energy sector stocks were the worst performing (S&P 500 Energy Index -2.3%) on concerns about soft Chinese demand for crude, as well as oversupply.

Value outpaced growth during the third quarter. The S&P 500 Value Index (+9.1%) benefited from its exposure to utilities and real estate sector stocks, while the S&P 500 Growth Index was weighed down by information technology stocks, which trailed the broad market during the quarter. On a size basis, both mid and small cap equities outperformed the S&P 500 Index, with the S&P Small Cap 600 Index gaining 10.1% in value, while the S&P MidCap 400 Index rose 6.9%.

Monthly domestic macroeconomic reports released during the third quarter of 2024 were mixed, but generally indicated continued economic expansion. According to the August payroll report, which was released in September, a weaker than expected 142,000 jobs were added to non-farm payrolls during the month, although August unemployment decreased to 4.2%. Wages remain positive, as average hourly earnings increased a solid 3.8% year-over-year. August core retail sales growth was softer than expected at only 0.2% month-over-month. The September Conference Board Consumer Confidence Survey fell below 100, as the "expectations" component of the survey slipped to 81.7, and the "present situation" component of the survey declined to 124.3. The August ISM manufacturing survey (47.2) remained below 50, indicating a decline in activity, and the survey's new orders component (44.6) was especially weak. August core CPI inflation remained steady at 3.2% year-over-year, while core PPI accelerated to 2.4% year-over-year.

International markets generally outperformed the S&P 500 Index during the quarter in U.S. dollar terms, with Emerging Market equities (MSCI Emerging Markets Index +8.8%) outpacing Developed Markets equities (MSCI EAFE Index +7.4%). Within Emerging Markets, Chinese equities (MSCI China Index +23.7%) performed strongly, outpacing Latin American equities (MSCI Emerging Markets Latin America Index +3.9%). Among Developed Markets, European equities (MSCI Europe Index +6.5%) outperformed Japanese equities (MSCI Japan Index +5.7%).

The U.S. 10-year Treasury yield decreased to 3.8% by the end of September. Both investment grade and high yield credit spreads tightened during the quarter, with high yield credit spreads narrowing more significantly.

**This information is not personalized investment advice, research or an investment recommendation from any First Trust entity regarding (i) the funds that make up the model portfolios, (ii) the use of the model portfolios in a client's best interest, or (iii) any security in particular, and is intended for use only by a third party financial professional, with other information, as a resource to help build a portfolio or as an input in the development of investment advice for its own clients. Financial professionals are responsible for making their own independent judgment as to how to use this information in its client's best interest. Only an investor and their financial professional know enough about their circumstances to make an investment decision. First Trust does not have investment discretion over, nor does it place trade orders for, any non-First Trust portfolios or accounts derived from this information. Performance of any account or portfolio derived from this information may vary materially from the performance shown herein. There is no guarantee that any investment strategy illustrated will be successful or achieve any particular result.**

**Investing involves risk, including possible loss of principal. Asset allocation and diversification may not protect against market risk, loss of principal or volatility of returns.**

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## EQUITIES OUTLOOK

**Overweighting the biggest stocks was the way to outperform the S&P 500 Index over the last 10 years. Hindsight is easy. What about now?**

The S&P 500 Index (index) looks significantly different today than it did 10 years ago. The top 10 stocks in September 2014 comprised 18% of the index's weight (Table 1). Today, the top 10 stocks represent 36% of its weight (Table 1). While Apple Inc was the biggest stock in both periods, Microsoft Corp and Alphabet Inc were the only two other technology (tech+) stocks in the top 10 in September 2014. Today, however, there are 8 technology (tech+) names in the top 10. The technology (tech+) weighting in the index has seen a huge increase.

While the market capitalization (cap) weighted index has been the place to be these last 10 years, the question looking forward is one of risk and reward. The outperformance over the last 10 years has included a large increase in the P/E multiple of the technology sector and the entire S&P 500 Index. Today, there is also significantly more sector concentration and single stock exposure at the top of the S&P 500 Index than 10 years ago. Ten years ago, the top 10 stocks collectively had a low forward P/E multiple relative to the rest of the index while today they have the highest multiple by far (Chart 2).

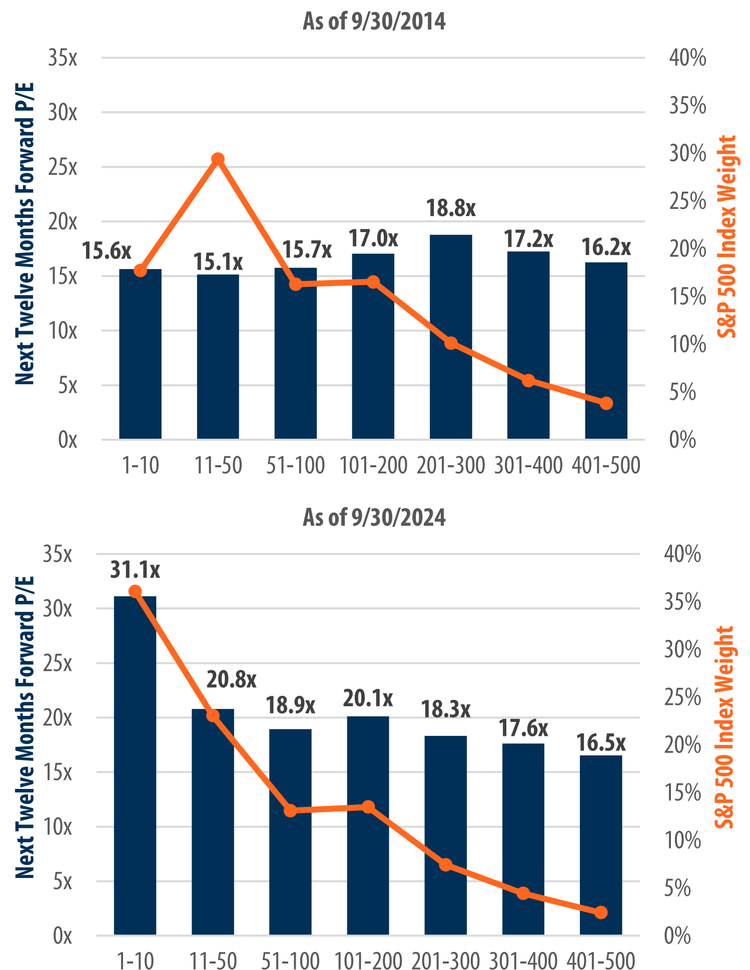
While the index is now very top heavy, we prefer to think of it as bottom light. The bottom 490 names share only 64% of the index's weight. In our view, considering the 2025 earnings growth differential between mega caps and smaller large caps in the S&P 500 Index is expected to narrow and there exists a large valuation disparity between them, the real risk may now be at the top of the index and the best opportunity across the rest of the index. **We believe the rest of the index may be ready to reward investors.**

### Table 1: S&P 500 Sector Returns

| As of 9/30/2014 | |
|---|---|
| Apple Inc | 3.42 |
| Exxon Mobil Corp | 2.28 |
| Microsoft Corp | 2.18 |
| Alphabet Inc | 1.88 |
| Johnson & Johnson | 1.69 |
| General Electric Co | 1.45 |
| Berkshire Hathaway Inc | 1.43 |
| Wells Fargo & Co | 1.4 |
| Procter & Gamble Co/The | 1.3 |
| Chevron Corp | 1.29 |

| As of 9/30/2024 | |
|---|---|
| Apple Inc | 7.27 |
| Microsoft Corp | 6.57 |
| NVIDIA Corp | 6.13 |
| Alphabet Inc | 3.64 |
| Amazon.com Inc | 3.57 |
| Meta Platforms Inc | 2.57 |
| Berkshire Hathaway Inc | 1.73 |
| Broadcom Inc | 1.65 |
| Tesla Inc | 1.49 |
| Eli Lilly & Co | 1.44 |

### Chart 2: Estimated Year-Over-Year % Earnings Per Share Growth




Source: Capital IQ. Estimates are based on the next four quarters. Forward estimates are divided by the trailing four quarters of earnings to derive future growth rates. There can be no assurance that any estimates will be achieved.

**Past performance is no guarantee of future results.**

**Definitions**

The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Forward Price-to-Earnings (P/E) is the price of a stock divided by estimated forward earnings. Technology Plus (Tech+) is a combination of the technology sector; the interactive home entertainment and interactive media & services industries; Amazon.com Inc., Tesla Inc., and Netflix Inc.

References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

Index data is for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. These returns were the result of certain market factors and events which may not be repeated in the future.

This report was prepared by First Trust Advisors L.P. and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

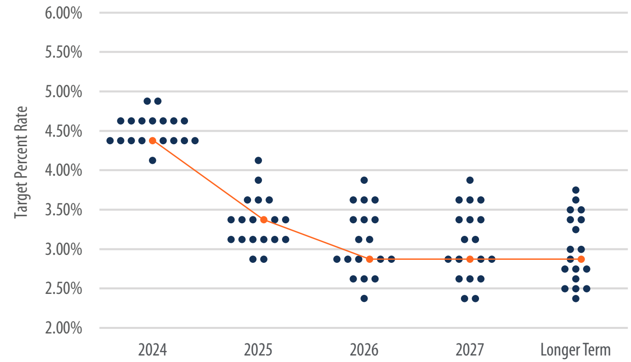
## FIXED INCOME OUTLOOK

After two years, six months and the equivalent of twenty-one 25 basis point ("bps") rate hikes, the Fed finally reversed course in September with a 50 bps interest rate cut, bringing the effective federal funds rate to 4.83%. The larger than expected move (most were looking for a 25 bps initial cut) was an intentionally bold start to the rate cutting cycle. The Fed hopes that beginning to remove some of the restrictiveness in monetary policy while growth and employment are still strong will act as an insurance policy against a hard landing of the U.S. economy. This, in the Fed's view, is made possible by inflation returning toward their 2% target. Downplaying fears that ongoing growth risks rekindling inflationary pressures, the Fed anticipates several additional interest rate cuts, with the median expectation seeing a return to a 3.375% federal funds rate by year-end 2025 (Chart 3).

As of the end of September, with two interest rate cuts in the books, the bond market is pricing in approximately 8 additional interest rate cuts (each cut represents 25 bps) by the end of 2025, with three of those rate cuts anticipated by the end of 2024. The bond market expects the federal funds rate to eventually land near 3.00% (Chart 4). We believe a terminal federal funds rate of 3.00% makes intuitive sense, especially with a backdrop of inflation returning to 2.00%. However, the path the bond market believes we'll take is far too sanguine in our view. We think there are too many rate cuts priced into the yield curve given the current state of the U.S. economy. As additional economic data is released, the timing and the quantity of rate cuts forecasted by the bond market are likely to adjust, removing some of the anticipated rate reduction from the yield curve. We expect two additional interest rate cuts in 2024, with one in November, the day after the presidential election, and another in December. In addition, our base case is that there will be four cuts in 2025, bringing the total to 6; approximately two fewer cuts than what the market believes today. As such, this will likely lead to modest upward pressure on interest rates across the curve, with the order of magnitude for higher rates in the tens of basis points, not hundreds of basis points.

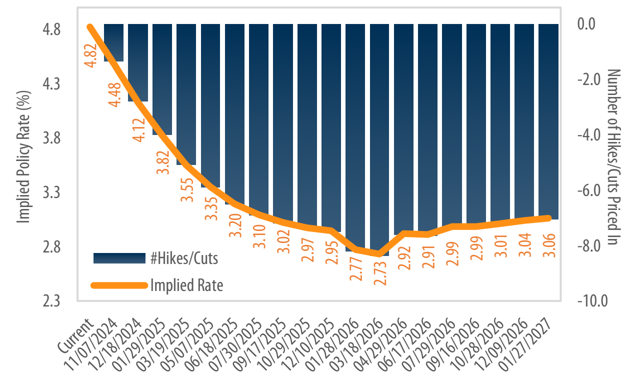
The Fed, having cut 50 bps, brought us into a new phase of interest rate policy. While we expect interest rate volatility (Chart 5) to lift interest rates modestly as the bond market recalibrates its expectations for the timing and the quantity of interest rate cuts, we believe there now exists a structural tailwind to interest rates and the bond market broadly given that the Fed has entered the cutting phase of its policy. On a retracement higher in interest rates, if the 10-year U.S. Treasury yield crosses above 4.07%, we expect the move to peak at approximately 4.34%. In addition, the yield ("carry") of today's bond market, coupled with the convexity (non-linear relationship between interest rates and bond prices) may offer both additional protection and an attractive total return potential opportunity to investors. As such, in the model portfolios, we advocate for a more neutral stance towards duration and credit with prudent allocation to higher income producing asset classes as appropriate given the portfolio objectives.

### Chart 3: Fed Dot Plot



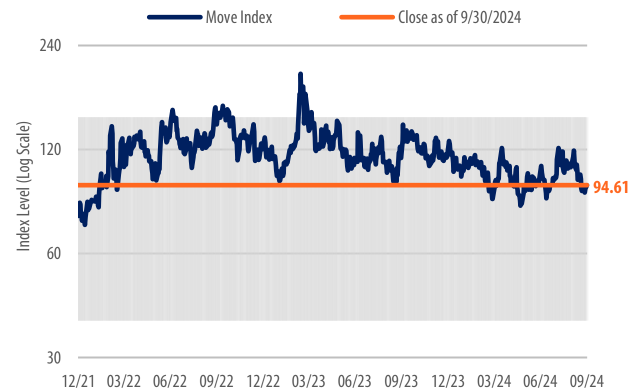

Source: Bloomberg. Data as of 9/30/2024. Orange dots are the FOMC Dots Median.

### Chart 4: Implied Federal Funds Rate & Number of Hikes/Cuts




Source: Bloomberg, as of 9/30/2024. The assumed rate movement for one rate hike or cut is equivalent to +/- 0.25%. There is no assurance forecasts will be achieved.

### Chart 5: Move Index




Source: Bloomberg. Data from 12/31/2021 to 9/30/2024. Past performance is no guarantee of future results. The ICE BofA MOVE Index is shown above. The area shaded in gray represents 2 standard deviations above and below the mean of the MOVE Index from 12/31/2021 to 9/30/2024.

**Definitions**

The **Federal Funds Rate** is the interbank overnight lending rate for commercial banks' excess reserves. The **Implied Federal Funds Rate** for the U.S. is the estimated forward rate for the United States and is derived from Federal Funds Futures contracts to determine the probability of the Federal Reserve changing monetary policy at a particular meeting.

The **Bloomberg U.S. Aggregate Bond Index** measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS, ABS and CMBS. The **ICE BofA MOVE Index** is a yield curve weighted index of the normalized implied volatility on 1-month Treasury options. It is the weighted average of volatilities on the CT2, CT5, CT10, and CT30 (weighted average of 1m2y, 1m5y, 1m10y, 1m30y Treasury implied vols with weights 0.2/0.2/0.4/0.2, respectively). Indexes are unmanaged and investors cannot invest directly in an index.

There can be no assurance that any of the trends and projections cited herein will continue or come to fruition. References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

## ASSET ALLOCATION VIEWS AND RATIONALE

### EQUITY ALLOCATION

| | | |
|---|---|---|
| Macro Positioning | Balanced U.S. Equity Outlook | After a sell-off in August on softer than expected payroll data, U.S. equity markets regained a measure of momentum after the Fed signaled a commitment to dovish policy with a 50 basis-point rate cut. Meanwhile, investment in Artificial Intelligence (AI) related capital expenditure continues to buttress market optimism. That said, prudence requires a degree of caution towards U.S. equities. In our view, expectations for future Fed rate cuts, and forecasts for earnings growth in 2024 are largely priced into the equity market; further multiple expansion from here may be challenging. Further, while we expect continued economic expansion in the immediate term, we believe past Fed rate hikes and early signs of a gradual softening in the labor market increase the risk of a potential recession. Lackluster industrial activity, including recent weakness in new orders data may also mean slowing growth. We believe valuation, earnings stability and financial strength will become more important over time. As such, we favor value over growth, exposure to quality, and dividend paying equities. |
| Style Positioning | Maintaining Significant Exposure to Dividend Paying Equities, Increasing Exposure to Quality | This quarter, we are continuing to emphasize dividend paying equities, while increasing our exposure to quality. Additionally, we believe growth equities are priced at an unsustainably high premium to value, which may lead to the underperformance of growth equities during a market downturn. An emphasis on dividend paying equities is intended to lower the overall risk of the model, and not only increases weighting to defensive sectors such as utilities, but also provides exposure to firms with sufficient cash flow to potentially return to shareholders. |
| Sector Positioning | Favor Health Care and Utilities vs. Other Sectors | Our current emphasis on dividend paying equities results in higher exposure to the utilities sector, which we believe is attractively valued, defensive, and may potentially benefit from an easing in the Fed's monetary policy stance. The health care sector offers opportunities less exposed to the business cycle at an attractive valuation. We emphasize biotech within the health care sector, as we believe falling interest rates will provide easier access to capital in the industry and improve sentiment. We have a more balanced view of the energy sector versus last quarter. We are not currently emphasizing the consumer discretionary sector, as we expect a gradually weaker consumer over time as we believe the labor market may cool and excess savings may be depleted. Additionally, we believe financial sector fundamentals may soften, as banks' net interest margin may compress in a declining interest rate environment, while borrower credit quality may deteriorate over time. |
| International Positioning | Underweight International Equities vs. U.S. Equities, Favor Japan. | We remain underweight international equities versus the U.S. market, which benefits from higher exposure to innovation relative to foreign markets. While we believe valuation levels in European markets are attractive, economic growth has been stagnant in the region, and we do not yet see a near term catalyst to growth, in our view. We believe much uncertainty remains in Emerging Markets. Chinese fiscal stimulus measures and monetary accommodation have not significantly re-accelerated growth, while the ongoing property market contraction, and industrial weakness remain headwinds to growth. While Japan faces secular challenges, solid wage growth, and robust capital equipment exports are supporting near term economic prospects. Meanwhile, rising demand driven inflation has led the Bank of Japan to embark on a monetary tightening cycle, which may support the yen as the Fed eases. |

### ALTERNATIVES ALLOCATION

| | | |
|---|---|---|
| Strategy Positioning | Favor Absolute Return Strategies | Absolute return strategies, such as managed futures and long/short commodities, currently provide the potential for returns which are less correlated to traditional asset classes such as stocks and bonds, in our opinion. The low correlations to traditional asset classes help improve a model's overall diversification profile, potentially providing lower overall portfolio risk and an improved drawdown profile. |

### FIXED INCOME SECTOR POSITIONING

| | |
|---|---|
| Mortgage-Backed Securities | We expect mortgage-backed securities to provide a ballast relative to broader credit markets during a potential correction in risk assets or a recession. Index agency mortgage-backed securities are concentrated in low coupon securities which results in lower levels of income while spreads are near historic averages. As volatility remains elevated, we continue to prefer defensive positions and would selectively look to enhance yield in commercial and non-agency sectors. |
| Investment Grade Corporate Bonds | We believe investment grade corporate bond yields are attractive and supportive of demand for the sector despite credit spreads that remain below historical averages. Fundamentals remain relatively healthy. However, we expect a bifurcation in valuations between cyclical and non-cyclical sectors over time and, as such, careful credit selection is imperative. We also expect more risk associated with longer term securities given more exposure to spread duration. |
| U.S. Treasury Securities | U.S. Treasuries are pricing in significant easing from the Fed. While we expect rates to decline over time, we believe it will be slower than what is currently priced in the market as inflation remains above the Fed's target despite trending lower. We expect that U.S. Treasuries would provide a ballast against sectors exposed to credit risk if economic conditions were to deteriorate faster than expected. |
| Emerging Market Bonds | We view the Fed beginning its rate cutting cycle this month as a catalyst for positive returns in local currency emerging markets debt and provides policy flexibility for central banks that have already paused their easing cycles such as Mexico, Brazil and Indonesia. Our medium-term view is for the U.S. dollar to continue to weaken, however the outcome of the U.S. elections provides some uncertainty. We believe emerging market currencies remain attractively valued, and paired with expectations for a weakening U.S. dollar, provide an opportunity in local currency emerging markets debt even as yields have fallen over the quarter. |

# MODEL ALLOCATIONS

AS OF 9/30/24

| | | CONSERVATIVE | CONSERVATIVE GROWTH | BALANCED GROWTH | MODERATE GROWTH | AGGRESSIVE GROWTH |
|---|---|---|---|---|---|---|
| **EQUITY ALLOCATION** | **TICKER** | **17.0%** | **35.0%** | **50.0%** | **70.0%** | **85.0%** |
| **DOMESTIC CORE** | | | | | | |
| First Trust Large Cap Value AlphaDEX® Fund | FTA | – | 6.0% | 6.5% | 9.0% | 9.5% |
| First Trust Capital Strength® ETF | FTCS | 4.0% | 5.0% | 6.0% | 8.0% | 10.5% |
| First Trust Value Line® Dividend Index Fund | FVD | 7.0% | 6.5% | 7.5% | 9.5% | 11.5% |
| First Trust Large Cap Core AlphaDEX® Fund | FEX | 3.0% | – | – | – | – |
| First Trust Growth Strength™ ETF | FTGS | – | 3.5% | 5.0% | 7.5% | 9.5% |
| **INTERNATIONAL CORE** | | | | | | |
| First Trust Europe AlphaDEX® Fund | FEP | – | – | 3.0% | 2.5% | 3.5% |
| First Trust Emerging Markets AlphaDEX® Fund | FEM | – | 2.0% | 2.0% | 2.5% | 4.0% |
| First Trust Developed Markets ex-US AlphaDEX® Fund | FDT | 3.0% | 5.0% | 3.0% | 6.0% | 7.5% |
| First Trust Japan AlphaDEX® Fund | FJP | – | – | 2.0% | 3.0% | 3.5% |
| **SATELLITE** | | | | | | |
| First Trust Dow Jones Internet Index Fund | FDN | – | – | 4.0% | 5.5% | 7.0% |
| First Trust Health Care AlphaDEX® Fund | FXH | – | 4.0% | 1.5% | 2.0% | 3.0% |
| First Trust NASDAQ Technology Dividend Index Fund | TDIV | – | 3.0% | 7.5% | 8.0% | 7.5% |
| First Trust NASDAQ-100-Technology Sector Index Fund | QTEC | – | – | – | 3.5% | 5.0% |
| First Trust NYSE® Arca® Biotechnology Index Fund | FBT | – | – | 2.0% | 3.0% | 3.0% |
| **ALTERNATIVES ALLOCATION** | **TICKER** | **8.0%** | **10.0%** | **12.0%** | **10.0%** | **5.0%** |
| First Trust Alternative Absolute Return Strategy ETF | FAAR | 4.0% | 2.5% | 3.0% | 2.5% | – |
| First Trust Managed Futures Strategy Fund | FMF | 4.0% | 5.0% | 6.0% | 5.0% | 2.5% |
| First Trust Long/Short Equity ETF | FTLS | – | 2.5% | 3.0% | 2.5% | 2.5% |
| **FIXED INCOME ALLOCATION** | **TICKER** | **75.0%** | **55.0%** | **38.0%** | **20.0%** | **10.0%** |
| **U.S. MORTGAGE-BACKED** | | | | | | |
| First Trust Low Duration Opportunities ETF | LMBS | 10.0% | 5.0% | 4.0% | 2.0% | – |
| **U.S. OPPORTUNISTIC CORE** | | | | | | |
| First Trust TCW Opportunistic Fixed Income ETF | FIXD | 30.0% | 22.0% | 18.0% | 10.0% | 10.0% |
| **U.S. CORPORATE - INVESTMENT GRADE** | | | | | | |
| First Trust Limited Duration Investment Grade Corporate ETF | FSIG | 7.5% | 5.0% | 4.0% | – | – |
| First Trust Intermediate Duration Investment Grade Corporate ETF | FIIG | 10.5% | 11.0% | 6.0% | 5.0% | – |
| **U.S. TREASURY** | | | | | | |
| First Trust Long Duration Opportunities ETF | LGOV | 15.0% | 10.0% | 6.0% | 3.0% | – |
| **INTERNATIONAL – EMERGING MARKETS** | | | | | | |
| First Trust Emerging Markets Local Currency Bond ETF | FEMB | 2.0% | 2.0% | – | – | – |

## ALLOCATION CHANGES

AS OF 9/30/24

| EQUITY ALLOCATION | TICKER | CONSERVATIVE | CONSERVATIVE GROWTH | BALANCED GROWTH | MODERATE GROWTH | AGGRESSIVE GROWTH |
|---|---|---|---|---|---|---|
| **DOMESTIC CORE** | | | | | | |
| First Trust Large Cap Growth AlphaDEX® Fund | FTC | – | -2.0% | -3.5% | -5.0% | -6.0% |
| First Trust Large Cap Value AlphaDEX® Fund | FTA | – | – | – | – | – |
| First Trust Capital Strength® ETF | FTCS | – | – | – | – | – |
| First Trust Value Line® Dividend Index Fund | FVD | – | +1.0% | +3.0% | +3.5% | +3.0% |
| First Trust Large Cap Core AlphaDEX® Fund | FEX | – | – | – | – | – |
| First Trust Rising Dividend Achievers ETF | RDVY | – | – | -3.5% | -3.0% | -4.0% |
| First Trust Growth Strength™ ETF | FTGS | – | – | +3.0% | +3.0% | +4.0% |
| **INTERNATIONAL CORE** | | | | | | |
| First Trust Europe AlphaDEX® Fund | FEP | – | – | – | – | – |
| First Trust Emerging Markets AlphaDEX® Fund | FEM | – | – | – | – | – |
| First Trust Developed Markets ex-US AlphaDEX® Fund | FDT | – | – | – | – | – |
| First Trust Japan AlphaDEX® Fund | FJP | – | – | – | – | – |
| **SATELLITE** | | | | | | |
| First Trust Dow Jones Internet Index Fund | FDN | – | – | – | – | – |
| First Trust Health Care AlphaDEX® Fund | FXH | – | +1.0% | -2.0% | -2.5% | -2.0% |
| First Trust NASDAQ Technology Dividend Index Fund | TDIV | – | – | +1.0% | – | – |
| First Trust NASDAQ-100-Technology Sector Index Fund | QTEC | – | – | – | +1.0% | +2.0% |
| First Trust NYSE® Arca® Biotechnology Index Fund | FBT | – | – | +2.0% | +3.0% | +3.0% |
| **ALTERNATIVES ALLOCATION** | **TICKER** | – | – | – | – | – |
| First Trust Alternative Absolute Return Strategy ETF | FAAR | – | – | – | – | – |
| First Trust Managed Futures Strategy Fund | FMF | – | – | – | – | – |
| First Trust Long/Short Equity ETF | FTLS | – | – | – | – | – |
| **FIXED INCOME ALLOCATION** | **TICKER** | – | – | – | – | – |
| **U.S. MORTGAGE-BACKED** | | | | | | |
| First Trust Low Duration Opportunities ETF | LMBS | – | – | – | – | – |
| **U.S. OPPORTUNISTIC CORE** | | | | | | |
| First Trust TCW Opportunistic Fixed Income ETF | FIXD | – | -5.0% | – | – | – |
| **U.S. CORPORATE - INVESTMENT GRADE** | | | | | | |
| First Trust Limited Duration Investment Grade Corporate ETF | FSIG | – | – | – | – | – |
| First Trust Intermediate Duration Investment Grade Corporate ETF | FIIG | – | +5.0% | – | – | – |
| **U.S. TREASURY** | | | | | | |
| First Trust Long Duration Opportunities ETF | LGOV | – | – | – | – | – |
| **INTERNATIONAL – EMERGING MARKETS** | | | | | | |
| First Trust Emerging Markets Local Currency Bond ETF | FEMB | – | – | – | – | – |

**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 First Trust fund. The prospectus or summary prospectus should be read carefully before investing.**

## RISK CONSIDERATIONS

**You could lose money by investing in a fund. An investment in a fund is not a deposit of a bank and is not insured or guaranteed. There can be no assurance that a fund's objective(s) will be achieved. Investors buying or selling shares on the secondary market may incur customary brokerage commissions. Please refer to each fund's prospectus and Statement of Additional Information for additional details on a fund's risks. The order of the below risk factors does not indicate the significance of any particular risk factor.**

Some Asian economies are highly dependent on trade with other countries and there is a high concentration of market capitalization and trading volume in a small number of Asian issuers as well as a high concentration of investors and financial intermediaries. Certain Asian countries experience expropriation and nationalization of assets, confiscatory taxation, currency manipulation, political instability, armed conflict and social instability as a result of religious, ethnic, socio-economic and/or political unrest. In particular, escalated tensions involving North Korea could have severe adverse effect on Asian economies. Recent developments between the U.S. and China have heightened concerns of increased tariffs and restrictions on trade.

Asset-backed securities are a type of debt security and are generally not backed by the full faith and credit of the U.S. government and are subject to the risk of default on the underlying asset or loan, particularly during periods of economic downturn.

Unlike mutual funds, shares of the fund may only be redeemed directly from a fund by authorized participants in very large creation/redemption units. If a fund's authorized participants are unable to proceed with creation/redemption orders and no other authorized participant is able to step forward to create or redeem, fund shares may trade at a premium or discount to a fund's net asset value and possibly face delisting and the bid/ask spread may widen.

Investments in bank loans are subject to the same risks as other debt securities, but the risks may be heightened because of limited public information available and because loan borrowers may be leveraged and tend to be more adversely affected by changes in market or economic conditions. The secondary market for bank loans may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods.

Biotechnology and pharmaceutical companies are subject to changing government regulation which could have a negative effect on the price, profitability and availability of their products and services. Biotechnology and pharmaceutical companies face increasing competition from generic drugs, termination of their patent protection and technological advances which render their products or services obsolete. The research and development costs required to bring a drug to market are substantial and may include a lengthy review by the government, with no guarantee that the product will ever be brought to market or show a profit. Many of these companies may not offer certain drugs or products for several years, and as a result, may have significant losses of revenue and earnings.

During periods of falling interest rates if an issuer calls higher-yielding debt instruments, a fund may be forced to invest the proceeds at lower interest rates, likely resulting in a decline in the fund's income.

A fund that effects all or a portion of its creations and redemptions for cash rather than in-kind may be less tax-efficient.

The failure or bankruptcy of a fund's and the subsidiary's clearing broker could result in substantial loss of fund assets.

Collateralized loan obligations ("CLOs") carry additional risks, including the possibility that distributions from collateral securities will not be adequate to make interest or other payments, the quality of the collateral may decline in value or default, the possibility that the investments in CLOs are subordinate to other classes or tranches, and the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

Because the shares of CEFs cannot be redeemed upon demand, shares of many CEFs will trade on exchanges at market prices rather than net asset value, which may cause the shares to trade at a price greater than NAV (premium) or less than NAV (discount). A fund that invests in the shares of CEFs involves additional expenses that would not be present in a direct investment in the underlying funds. In addition, a fund's investment performance and risks will be related to the investment performance and risks of the underlying funds. CEFs may utilize leverage and the fund may be indirectly exposed to leverage.

Commodity prices can have significant volatility, and exposure to commodities can cause the value of a fund's shares to decline or fluctuate in a rapid and unpredictable manner.

Investments linked to the prices of commodities may be considered speculative and subject a fund to greater volatility than investments in traditional securities.

To avoid exceeding position limits set by the Commodity Futures Trading Commission, a fund may have to liquidate commodity contract positions at disadvantageous times or prices which may result in substantial loss of fund assets.

Communication services companies are subject to certain risks, which may include rapidly changing technologies, short product life cycles, fierce competition, aggressive pricing and reduced profit margins, loss of patent, copyright and trademark protections, cyclical market patterns, evolving industry standards, often unpredictable changes in consumer tastes and frequent new product introductions. Such companies are particularly vulnerable to domestic and international government regulation, rely heavily on intellectual property rights, and may be adversely affected by the loss or impairment of those rights.

The success of consumer discretionary companies is tied closely to the performance of the overall U.S. and international economies, interest rates, competition, consumer confidence, disposable household income and consumer spending. Changes in demographics and consumer tastes can also affect the demand for consumer discretionary products.

A fund may be subject to the risk that a counterparty will not fulfill its obligations which may result in significant financial loss to a fund.

Covenant-lite loans contain fewer maintenance covenants than traditional loans and may not include terms that allow the lender to monitor the financial performance of the borrower and declare a default if certain criteria are breached. This may hinder a fund's ability to mitigate problems and increase a fund's exposure to losses on such investments.

An issuer or other obligated party of a debt security may be unable or unwilling to make dividend, interest and/or principal payments when due and the value of a security may decline as a result.

An investment in credit default swaps involves greater risks than if a fund had invested in the reference obligation directly. These risks include general market, liquidity, counterparty, credit and leverage risks.

Ratings assigned by a credit rating agency are opinions of such entities, not absolute standards of credit quality and they do not evaluate risks of securities. Any shortcomings or inefficiencies in the process of determining credit ratings may adversely affect the credit ratings of the securities held by a fund and their perceived or actual credit risk.

The differences in yield between debt securities of different credit quality may increase which may reduce the market value of a fund's debt securities.

Changes in currency exchange rates and the relative value of non-US currencies may affect the value of a fund's investments and the value of a fund's shares.

Current market conditions risk is the risk that a particular investment, or shares of the fund in general, may fall in value due to current market conditions. As a means to fight inflation, the Federal Reserve and certain foreign central banks have raised interest rates; however, the Federal Reserve has recently lowered interest rates and may continue to do so. Recent and potential future bank failures could result in disruption to the broader banking industry or markets generally and reduce confidence in financial institutions and the economy as a whole, which may also heighten market volatility and reduce liquidity. Ongoing armed conflicts between Russia and Ukraine in Europe and among Israel, Hamas and other militant groups in the Middle East, have caused and could continue to cause significant market disruptions and volatility within the markets in Russia, Europe, the Middle East and the United States. The hostilities and sanctions resulting from those hostilities have and could continue to have a significant impact on certain fund investments as well as fund performance and liquidity. The COVID-19 global pandemic, or any future public health crisis, and the ensuing policies enacted by governments and central banks have caused and may continue to cause significant volatility and uncertainty in global financial markets, negatively impacting global growth prospects.

A fund is susceptible to operational risks through breaches in cyber security. Such events could cause a fund to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures and/or financial loss.

Investments in debt securities subject the holder to the credit risk of the issuer and the value of debt securities will generally change inversely with changes in interest rates. In addition, debt securities generally do not trade on a securities exchange making them less liquid and more difficult to value.

Depositary receipts may be less liquid than the underlying shares in their primary trading market and distributions may be subject to a fee. Holders may have limited voting rights, and investment restrictions in certain countries may adversely impact their value.

The use of derivatives instruments involves different and possibly greater risks than investing directly in securities including counterparty risk, valuation risk, volatility risk, and liquidity risk. Further, losses because of adverse movements in the price or value of the underlying asset, index or rate may be magnified by certain features of the derivatives.

Distressed securities are speculative and often illiquid or trade in low volumes and thus may be more difficult to value and pose a substantial risk of default.

Companies that issue dividend-paying securities are not required to continue to pay dividends on such securities. Therefore, there is a possibility that such companies could reduce or eliminate the payment of dividends in the future.

Investments in emerging market securities are generally considered speculative and involve additional risks relating to political, economic and regulatory conditions.

Energy companies are subject to certain risks, including volatile fluctuations in price and supply of energy fuels, international politics, terrorist attacks, reduced demand, the success of exploration projects, natural disasters, clean-up and litigation costs relating to oil spills and environmental damage, and tax and other regulatory policies of various governments. Oil production and refining companies are subject to extensive federal, state and local environmental laws and regulations regarding air emissions and the disposal of hazardous materials and may be subject to tariffs. In addition, oil prices are generally subject to extreme volatility.

Equity securities may decline significantly in price over short or extended periods of time, and such declines may occur in the equity market as a whole, or they may occur in only a particular country, company, industry or sector of the market.

A fund may invest in the shares of other ETFs, which involves additional expenses that would not be present in a direct investment in the underlying funds. In addition, a fund's investment performance and risks may be related to the investment performance and risks of the underlying funds.

Political or economic disruptions in European countries, even in countries in which a fund is not invested, may adversely affect security values and thus the fund's holdings. A significant number of countries in Europe are member states in the European Union, and the member states no longer control their own monetary policies. In these member states, the authority to direct monetary policies, including money supply and official interest rates for the Euro, is exercised by the European Central Bank. The implications of the United Kingdom's withdrawal from the European Union are difficult to gauge and cannot yet be fully known.

Extension risk is the risk that, when interest rates rise, certain obligations will be paid off by the issuer (or other obligated party) more slowly than anticipated, causing the value of these debt securities to fall. Rising interest rates tend to extend the duration of debt securities, making their market value more sensitive to changes in interest rates.

Financial services companies are subject to the adverse effects of economic recession, currency exchange rates, government regulation, decreases in the availability of capital, volatile interest rates, portfolio concentration in geographic markets, industries or products, and competition from new entrants in their fields of business.

Floating rate securities are structured so that the security's coupon rate fluctuates based upon the level of a reference rate. As a result, the coupon on floating rate securities will generally decline in a falling interest rate environment, causing a fund to experience a reduction in the income it receives from the security. A floating rate security's coupon rate resets periodically according to the terms of the security. Consequently, in a rising interest rate environment, floating rate securities with coupon rates that reset infrequently may lag behind the changes in market interest rates.

Trading on foreign commodity markets is not regulated by any U.S. government agency and may involve risks not applicable to U.S. exchanges.

The market for forward contracts is substantially unregulated and can experience lengthy periods of illiquidity, unusually high trading volume and other negative impacts, such as political intervention. Forward contracts can increase a fund's risk exposure to underlying references and their attendant risks, such as credit risk, currency risk, market risk, and interest rate risk, while also exposing a fund to counterparty risk, liquidity risk and valuation risk, among others.

Forward foreign currency exchange contracts involve certain risks, including the risk of failure of the counterparty to perform its obligations under the contract and the risk that the use of forward contracts may not serve as a complete hedge because of an imperfect correlation between movements in the prices of the contracts and the prices of the currencies hedged.

The frequent trading of commodity futures contracts may increase the amount of commissions or mark-ups that a fund pays when it buys and sells contracts which may detract from a fund's performance.

The risk of a position in a futures contract may be very large compared to the relatively low level of margin a fund is required to deposit and a relatively small price movement in a futures contract may result in immediate and substantial loss relative to the size of margin deposit.

A commodity price may change substantially between periods of trading due to adverse news announcements.

A Global Depositary Note ("GDN"), a form of depositary receipt, involves further risks due to certain features of GDNs. Certain investment restrictions in certain countries may limit the ability to convert bonds into GDNs and vice versa which may cause the bonds of the underlying issuer to trade at a discount or premium to the market price of the GDN. Distributions paid to holders of GDNs are usually subject to a fee.

Stocks with growth characteristics tend to be more volatile than certain other stocks and their prices may fluctuate more dramatically than the overall stock market.

Health care companies may be affected by government regulations and government health care programs, increases or decreases in the cost of medical products and services and product liability claims, among other factors. Many health care companies are heavily dependent on patent protection, and the expiration of a company's patent may adversely affect that company's profitability. Health care companies are also subject to competitive forces that may result in price discounting, may be thinly capitalized and susceptible to product obsolescence.

High yield securities, or "junk" bonds, are less liquid and are subject to greater market fluctuations and risk of loss than securities with higher ratings, and therefore, are considered to be highly speculative.

A fund's income may decline when interest rates fall or if there are defaults in its portfolio.

An index fund will be concentrated in an industry or a group of industries to the extent that the index is so concentrated. A fund with significant exposure to a single asset class, or the securities of issuers within the same country, state, region, industry, or sector may have its value more affected by an adverse economic, business or political development than a broadly diversified fund.

A fund may be a constituent of one or more indices or models which could greatly affect a fund's trading activity, size and volatility.

There is no assurance that the index provider or its agents will compile or maintain the index accurately. Losses or costs associated with any index provider errors generally will be borne by a fund and its shareholders.

Industrials and producer durables companies are subject to certain risks, including the general state of the economy, intense competition, consolidation, domestic and international politics, excess capacity and consumer demand and spending trends. They may also be significantly affected by overall capital spending levels, economic cycles, technical obsolescence, delays in modernization, labor relations, and government regulations.

As inflation increases, the present value of a fund's assets and distributions may decline.

Inflation-indexed debt securities, such as TIPS, are subject to the same risks as other debt securities. Although the holders of TIPS receive no less than the par value of the security at maturity, if a fund purchases TIPS in the secondary market whose principal values have previously been adjusted upward and there is a period of subsequent declining inflation rates, a fund may receive at maturity less than it invested and incur a loss.

Information technology companies are subject to certain risks, including rapidly changing technologies, short product life cycles, fierce competition, aggressive pricing and reduced profit margins, loss of patent, copyright and trademark protections, cyclical market patterns, evolving industry standards and regulation and frequent new product introductions.

The yield on an interest-only security is extremely sensitive to the rate of principal payments on the underlying mortgage assets and a rapid payment rate may have an adverse effect on a fund's yield to maturity from these securities. Conversely, principal-only securities tend to decline in value if prepayments are slower than anticipated.

Interest rate risk is the risk that the value of the debt securities in a fund's portfolio will decline because of rising interest rates. Interest rate risk is generally lower for shorter term debt securities and higher for longer-term debt securities.

Many internet companies have incurred large losses since their inception and may continue to incur large losses in the hope of capturing market share and generating future revenues. Accordingly, many such companies expect to incur significant operating losses for the foreseeable future, and may never be profitable.

Inverse floating rate securities are a type of debt instrument that has a coupon rate that varies inversely with a benchmark rate. Inverse floaters create effective leverage and will typically be more volatile and involve greater risk than the fixed rate municipal bonds underlying the inverse floaters.

Because Japan's economy and equity market share a strong correlation with the U.S. markets, the Japanese economy may be affected by economic problems in the U.S. Japan also has a growing economic relationship with China and other Southeast Asian countries. Should political tension increase, it could adversely affect the economy and destabilize the region as a whole. Japan also remains heavily dependent on oil imports, and higher commodity prices could therefore have a negative impact on the economy. Japanese securities may also be subject to lack of liquidity, excessive taxation, government seizure of assets, different legal or accounting standards and less government supervision and regulation of exchanges than in the U.S. Furthermore, the natural disasters that have impacted Japan and the ongoing recovery efforts have had a negative effect on Japan's economy, and may continue to do so.

Large capitalization companies may grow at a slower rate than the overall market.

The economies of Latin American countries have in the past experienced considerable difficulties, including high inflation rates, high interest rates, high unemployment, government overspending and political instability. International economic conditions, particularly those in the United States, Europe and Asia, as well as world prices for oil and other commodities may also influence the development of Latin American economies. Many Latin American countries are highly reliant on the exportation of commodities and their economies may be significantly impacted by fluctuations in commodity prices and the global demand for certain commodities.

Leverage may result in losses that exceed the amount originally invested and may accelerate the rates of losses. Leverage tends to magnify, sometimes significantly, the effect of any increase or decrease in a fund's exposure to an asset or class of assets and may cause the value of a fund's shares to be volatile and sensitive to market swings.

To the extent a fund invests in floating or variable rate obligations that use the London Interbank Offered Rate ("LIBOR") as a reference interest rate, it is subject to LIBOR Risk. LIBOR has ceased to be made available as a reference rate and there is no assurance that any alternative reference rate, including the Secured Overnight Financing Rate ("SOFR"), will be similar to or produce the same value or economic equivalence as LIBOR. The unavailability or replacement of LIBOR may affect the value, liquidity or return on certain fund investments and may result in costs incurred in connection with closing out positions and entering into new trades. Any potential effects of the transition away from LIBOR on a fund or on certain instruments in which a fund invests is difficult to predict and could result in losses to the fund.

Certain fund investments may be subject to restrictions on resale, trade over-the-counter or in limited volume, or lack an active trading market. Illiquid securities may trade at a discount and may be subject to wide fluctuations in market value.

A portfolio comprised of low volatility stocks may not produce investment exposure that has lower variability to changes in such stocks' price levels. Low volatility stocks are likely to underperform the broader market during periods of rapidly rising stock prices.

The portfolio managers of an actively managed portfolio will apply investment techniques and risk analyses that may not have the desired result.

Market risk is the risk that a particular security, or shares of a fund in general may fall in value. Securities are subject to market fluctuations caused by such factors as general economic conditions, political events, regulatory or market developments, changes in interest rates and perceived trends in securities prices. Shares of a fund could decline in value or underperform other investments as a result. In addition, local, regional or global events such as war, acts of terrorism, spread of infectious disease or other public health issues, recessions, natural disasters or other events could have significant negative impact on a fund.

There can be no assurance that the securities held by a fund will stay within a fund's intended market capitalization range.

A fund faces numerous market trading risks, including the potential lack of an active market for fund shares due to a limited number of market makers. Decisions by market makers or authorized participants to reduce their role or step away in times of market stress could inhibit the effectiveness of the arbitrage process in maintaining the relationship between the underlying values of a fund's portfolio securities and a fund's market price.

Mid capitalization companies may experience greater price volatility than larger, more established companies.

Master limited partnerships ("MLPs") are subject to certain risks, including price and supply fluctuations caused by international politics, energy conservation, taxes, price controls, and other regulatory policies of various governments. In addition, there is the risk that MLPs could be taxed as corporations, resulting in decreased returns from such MLPs.

A fund that holds cash or invests in money market or short-term securities may be less likely to achieve its investment objective and could lose money.

Mortgage-related securities are more susceptible to adverse economic, political or regulatory events that affect the value of real estate.

The values of municipal securities may be adversely affected by local political and economic conditions and developments. Income from municipal securities could be declared taxable because of, among other things, unfavorable changes in tax laws, adverse interpretations by the Internal Revenue Service or state tax authorities, or noncompliant conduct of an issuer.

Large inflows and outflows may impact a new fund's market exposure for limited periods of time.

There are no government or agency guarantees of payments in securities offered by non- government issuers, therefore they are subject to the credit risk of the issuer. Non-agency securities often trade "over-the-counter" and there may be a limited market for them making them difficult to value.

An index fund's return may not match the return of the index for a number of reasons including operating expenses, costs of buying and selling securities to reflect changes in the index, and the fact that a fund's portfolio holdings may not exactly replicate the index.

A fund classified as "non-diversified" may invest a relatively high percentage of its assets in a limited number of issuers. As a result, a fund may be more susceptible to a single adverse economic or regulatory occurrence affecting one or more of these issuers, experience increased volatility and be highly concentrated in certain issuers.

Securities of non-U.S. issuers are subject to additional risks, including currency fluctuations, political risks, withholding, lack of liquidity, lack of adequate financial information, and exchange control restrictions impacting non-U.S. issuers.

A fund and a fund's advisor may seek to reduce various operational risks through controls and procedures, but it is not possible to completely protect against such risks. The fund also relies on third parties for a range of services, including custody, and any delay or failure related to those services may affect the fund's ability to meet its objective.

The prices of options are volatile and the effective use of options depends on a fund's ability to terminate option positions at times deemed desirable to do so. There is no assurance that a fund will be able to effect closing transactions at any particular time or at an acceptable price.

Because OTC derivatives do not trade on an exchange, the parties to an OTC derivative face heightened levels of counterparty risk, liquidity risk and valuation risk.

A fund that invests in securities included in or representative of an index will hold those securities regardless of investment merit and the fund generally will not take defensive positions in declining markets.

Pharmaceutical companies are subject to changing government regulation which could have a negative effect on the price, profitability and availability of their products and services. Regulations have been proposed to increase the availability and affordability of prescription drugs including proposals to increase access to generic drugs and to increase the rebates paid by drug manufacturers in exchange for Medicaid coverage of their products. Whether such proposals will be adopted cannot be predicted. In addition, such companies face increasing competition from existing generic drugs, the termination of their patent protection for certain drugs and technological advances which render their products or services obsolete. The research and development costs required to bring a drug to market are substantial and may include a lengthy review by the government, with no guarantee that the product will ever be brought to market or show a profit. In addition, the potential for an increased amount of required disclosure of proprietary scientific information could negatively impact the competitive position of these companies. Many of these companies may not offer certain drugs or products for several years, and as a result, may have significant losses of revenue and earnings.

High portfolio turnover may result in higher levels of transaction costs and may generate greater tax liabilities for shareholders.

Preferred securities combine some of the characteristics of both common stocks and bonds. Preferred stocks are typically subordinated to other debt instruments in terms of priority to corporate income, and therefore will be subject to greater credit risk than those debt instruments.

The market price of a fund's shares will generally fluctuate in accordance with changes in the fund's net asset value ("NAV") as well as the relative supply of and demand for shares on the exchange, and a fund's investment advisor cannot predict whether shares will trade below, at or above their NAV.

Prepayment risk is the risk that the issuer of a debt security will repay principal prior to the scheduled maturity date. Debt securities allowing prepayment may offer less potential for gains during a period of declining interest rates, as a fund may be required to reinvest the proceeds of any prepayment at lower interest rates.

Real Estate Investment Trusts ("REITs") are subject to the risks of investing in real estate, including, but not limited to, changes in the real estate market, vacancy rates and competition, volatile interest rates and economic recession. Increases in interest rates typically lower the present value of a REIT's future earnings stream and may make financing property purchases and improvements more costly. The value of a fund will generally decline when investors in REIT stocks anticipate or experience rising interest rates.

If a fund's counterparty defaults on its obligations and a fund is delayed or prevented from recovering collateral, or if the value of the collateral is insufficient, a fund may realize a loss.

A fund may be unable to sell a restricted security on short notice or only sell them at a price below current value.

Companies that issue loans tend to be highly leveraged and thus are more susceptible to the risks of interest deferral, default and/or bankruptcy. Loans are usually rated below investment grade but may also be unrated. As a result, the risks associated with these loans are similar to the risks of high-yield fixed income instruments. The senior loan market has seen a significant increase in loans with weaker lender protections which may impact recovery values and/or trading levels in the future.

Short selling creates special risks which could result in increased gains or losses and volatility of returns. Because losses on short sales arise from increases in the value of the security sold short, such losses are theoretically unlimited.

A fund with significant exposure to a single asset class, country, region, industry, or sector may be more affected by an adverse economic or political development than a broadly diversified fund.

Securities of small capitalization companies may experience greater price volatility and be less liquid than larger, more established companies.

Securities of small- and mid-capitalization companies may experience greater price volatility and be less liquid than larger, more established companies.

Investments in sovereign bonds involve special risks because the governmental authority that controls the repayment of the debt may be unwilling or unable to repay the principal and/or interest when due. In times of economic uncertainty, the prices of these securities may be more volatile than those of corporate debt or other government debt obligations.

## RISK CONSIDERATIONS CONTINUED

Subsidiary investment risk applies to a fund that invests in certain securities through a wholly-owned subsidiary of the fund that is organized under the laws of the Cayman Islands ("Subsidiary"). Changes in the laws of the U.S. and/or Cayman Islands could result in the inability of a fund to operate as intended. The Subsidiary is not registered under the 1940 Act and is not subject to all the investor protections of the 1940 Act. Thus, a fund that is as an investor in the Subsidiary will not have all the protections offered to investors in registered investment companies.

Swap agreements may involve greater risks than direct investment in securities and could result in losses if the underlying reference or asset does not perform as anticipated. In addition, many swaps trade over-the-counter and may be considered illiquid.

If a fund does not qualify as a RIC for any taxable year and certain relief provisions were not available, a fund's taxable income would be subject to tax at the fund level and to a further tax at the shareholder level when such income is distributed. Further, there may be other tax implications to a fund based on the type of investments in a fund.

Trading on an exchange may be halted due to market conditions or other reasons. There can be no assurance that a fund's requirements to maintain the exchange listing will continue to be met or be unchanged.

Securities issued or guaranteed by federal agencies and U.S. government sponsored instrumentalities may or may not be backed by the full faith and credit of the U.S. government.

A fund may hold securities or other assets that may be valued on the basis of factors other than market quotations. This may occur because the asset or security does not trade on a centralized exchange, or in times of market turmoil or reduced liquidity. Portfolio holdings that are valued using techniques other than market quotations, including "fair valued" assets or securities, may be subject to greater fluctuation in their valuations from one day to the next than if market quotations were used. There is no assurance that a fund could sell or close out a portfolio position for the value established for it at any time.

Value characteristics of a stock may not be fully recognized for a long time or a stock judged to be undervalued may actually be appropriately priced at a low level.

In China, direct ownership of companies in certain sectors by foreign individuals and entities is prohibited. In order to allow for foreign investment in these businesses, many Chinese companies have created variable interest entities ("VIEs") structures to enable indirect foreign ownership. VIEs are not formally recognized under Chinese law. Intervention by the Chinese government with respect to VIEs could significantly affect the Chinese company's performance and the enforceability of the VIE's contractual arrangements that establish the links between the Chinese company and the shell company in which the Fund invests. VIEs are also subject to the investment risks associated with the underlying Chinese issuer or operating company. Chinese companies are not subject to the same degree of regulatory requirements or accounting standards and oversight as companies in more developed countries. As a result, information about the Chinese securities and VIEs in which the Fund invests may be less reliable and incomplete.

A fund may invest in securities that exhibit more volatility than the market as a whole.

The purchase of securities on a when-issued, TBA ("to be announced"), delayed delivery or forward commitment basis may give rise to investment leverage and increase a fund's volatility and exposure to default.

"Whipsaw" markets in which significant price movements develop but then repeatedly reverse, may cause substantial losses for a fund.

Zero coupon bonds do not pay interest on a current basis, they may be highly volatile, and they do not produce cash flow. A fund could be forced to liquidate zero coupon bond securities at an inopportune time to generate cash to distribute to shareholders as required by tax laws.

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