



## Information Circular: First Trust Exchange-Traded AlphaDEX Fund

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**To:** Head Traders, Technical Contacts, Compliance Officers, Heads of ETF Trading, Structured Products Traders

**From:** PHLX Listing Qualifications Department

**DATE:** January 15, 2009

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### Background Information on the Funds

The First Trust Exchange-Traded AlphaDEX Fund (the "Trust") is a management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"), consisting of several investment portfolios (the "Funds"). Each Fund is treated as a separate fund with its own investment objective and policies. First Trust Advisors L.P. ("Adviser") is the investment adviser to the Funds. The shares of the Fund are referred to herein as "Shares." This circular applies to the Funds listed in Appendix A and Appendix B.

The investment objective of each Fund listed in Appendix A is to seek investment results that correspond generally to the price and yield (before the Fund's fees and expenses) of such Fund's corresponding index ("Index") in a family of custom "enhanced" indexes created and administered by the Amex: the StrataQuant Series, which is comprised of the StrataQuant Consumer Discretionary Index, StrataQuant Consumer Staples Index, StrataQuant Energy Index, StrataQuant Financials Index, StrataQuant Health Care Index, StrataQuant Industrials Index, StrataQuant Materials Index, StrataQuant Technology Index and StrataQuant Utilities Index.

The investment objective of each Fund listed in Appendix B is to seek investment results that correspond generally to the price and yield (before each Fund's fees and expenses) of such Fund's Index in a family of custom "enhanced" indexes created and administered by Standard & Poor's ("S&P"): the Defined Index Series, which is comprised of the Defined Large Cap Core Index, the Defined Mid Cap Core Index, the Defined Small Cap Core Index, the Defined Large Cap Value Opportunities Index, the Defined Large Cap Growth Opportunities Index, the Defined Multi Cap Value Index and the Defined Multi Cap Growth Index.

The Funds will normally invest at least 90% of their total assets in common stocks that comprise each Fund's Index. The Funds' investment objective and the 90% investment strategy are non-fundamental and require 60 days prior written notice to shareholders before they can be changed. As non-fundamental policies, such policies may be changed by the Board of Trustees without receiving shareholder approval.

Each Fund generally will invest in all of the stocks comprising its Index in proportion to their weightings in the Index. However, under various circumstances, it may not be possible or practicable to purchase all of those stocks in those weightings. In those circumstances, the Funds may purchase a sample of stocks in the Index. There may also be instances in which the Adviser may choose to overweight certain stocks in the Index, purchase securities not in the Index which the Adviser believes are appropriate to substitute for certain securities in the Index, use futures or other derivative instruments or utilize various combinations of the above techniques in seeking to track the Index. The Funds may sell stocks that are represented in the Index in anticipation of their removal from the Index or may purchase stocks not represented in the Index in anticipation of their addition to the Index.

The Bank of New York is the administrator, custodian and fund accounting and transfer agent for the Funds. First Trust Portfolios L.P. ("FTP") serves as the distributor for the Funds on an agency basis. FTP does not maintain a secondary market in Shares.

As described more fully in the Trust's prospectus and Statement of Additional Information ("SAI"), the Funds will issue and redeem Shares on a continuous basis at their net asset value ("NAV") only in large blocks of 50,000 Shares (each, a "Creation Unit") or multiples thereof. Creation Units will be issued and redeemed principally in-kind for securities included in the underlying index and a specified cash payment. Except when aggregated in Creation Units, the Shares may not be redeemed with the Funds.

Shares are held in book-entry form, which means that no Share certificates are issued. The Depository Trust Company or its nominee is the record owner of all outstanding Shares of the Funds and is recognized as the owner of all Shares for all purposes.

Each Fund's NAV is determined as of the close of trading (normally 4:00 p.m., Eastern Time (ET)) on each day the New York Stock Exchange is open for business. NAV is calculated for each Fund by taking the market price of a Fund's total assets, including interest or dividends accrued but not yet collected, less all liabilities, and dividing such amount by the total number of Shares outstanding. The result, rounded to the nearest cent, is the NAV per Share. All valuations are subject to review by the Board or its delegate.

Dividends from net investment income, if any, are declared and paid semi-annually. Each Fund distributes its net realized capital gains, if any, to shareholders annually.

Each Index in the StrataQuant Series that each respective Fund in Appendix A seeks to track is compiled by the Amex. The Amex is not affiliated with the Funds, the Adviser or FTP. The Funds are entitled to use each Index in the StrataQuant Series pursuant to sublicensing arrangements by and among each Fund, the Amex, the Adviser and FTP, which in turn has a licensing agreement with the Amex.

Each Index in the Defined Index Series that each respective Fund in Appendix B seeks to track is compiled by S&P. S&P is not affiliated with the Funds, the Adviser or FTP. The Funds are entitled to use each Index in the Defined Index Series pursuant to sublicensing arrangements by and among each Fund, S&P, the Adviser and FTP, which in turn has a licensing agreement with S&P.

The registration statement for the Funds describes the various fees and expenses for the Funds' Shares. For a more complete description of the Funds and the underlying Indexes, visit the Funds' website at [www.ftportfolios.com](http://www.ftportfolios.com).

### **Purchases and Redemptions in Creation Unit Size**

PHLX members and member organizations are hereby informed that procedures for purchases and redemptions of Shares in Creation Unit Size are described in the Trust's prospectus and SAI and that Shares are not individually redeemable but are redeemable only in Creation Unit Size aggregations or multiples thereof.

### **Principal Risks**

Interested persons are referred to the discussion in the prospectus for the Funds of the principal risks of an investment in the Funds. These include, but are not limited to, tracking error risk (factors causing a Fund's performance to not match the performance of the underlying index), market trading risk (for example, trading halts, trading above or below net asset value), stock market risk, investment style risk, interest rate risk, concentration risk, non-diversification risk, issuer-specific risk, management risk, lack of market liquidity and foreign securities risk.

### **Exchange Rules Applicable to Trading in the Shares**

Trading of the Shares on PHLX's PSX system is on a UTP basis and is subject to PHLX rules.

### **Trading Hours**

The values of the Index underlying the Shares are disseminated to data vendors every 15 seconds. The Shares will trade on PSX between 9:00 a.m. and 5:00 p.m., ET, unless otherwise indicated.

### **Suitability**

Members and member organizations recommending transactions in the Shares to customers should make a determination that the recommendation is suitable for the customer, as provided by PHLX Rule 763.

PHLX members and member organizations also should review NASD Notice to Members 03-71 or guidance on trading these products. The Notice reminds members of their obligations to: (1) conduct adequate due diligence to understand the features of the product; (2) perform a reasonable-basis suitability analysis; (3) perform customer-specific suitability analysis in connection with any recommended transactions; (4) provide a balanced disclosure of both the risks and rewards associated with the particular product, especially when selling to retail investors; (5) implement appropriate internal controls; and (6) train registered persons regarding the features, risk and suitability of these products.

### **Trading Halts**

PHLX will halt trading in the Shares of a Fund in accordance with PHLX Rule 3100. The grounds for a halt under these rules include a halt by the primary market because the intraday indicative value of the Fund and/or the value of its underlying index are not being disseminated as required or a halt for other regulatory reasons. In addition, PHLX will also stop trading the Shares of a Fund if the primary market de-lists the Fund.

## Delivery of a Prospectus

PHLX members and member organizations should be mindful of applicable prospectus delivery requirements under the federal securities laws with respect to transactions in the Funds.

Prospectuses may be obtained through the Funds' website. The prospectus for the Funds does not contain all of the information set forth in the Funds' registration statement (including the exhibits to the registration statement), parts of which have been omitted in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). For further information about the Funds, please refer to the registration statement.

In the event that the Funds rely upon an order by the SEC exempting the Shares from certain prospectus delivery requirements under Section 24(d) of the 1940 Act and in the future make available a written product description, PHLX Rule 803(o) requires that PHLX members and member organizations provide to all purchasers of Shares a written description of the terms and characteristics of such securities, in a form prepared by the Trust for the Funds, no later than the time a confirmation of the first transaction in the Shares is delivered to such purchaser. In addition, PHLX members and member organizations shall include such a written description with any sales material relating to the Shares that is provided to customers or the public. Any other written materials provided by a PHLX member or member organization to customers or the public making specific reference to the Shares as an investment vehicle must include a statement in substantially the following form: "A circular describing the terms and characteristics of the Shares of the Fund has been prepared by the Trust and is available from your broker. It is recommended that you obtain and review such circular before purchasing Shares of the Fund. In addition, upon request you may obtain from your broker a prospectus for Shares of the Fund."

A PHLX member or member organization carrying an omnibus account for a non-member broker-dealer is required to inform such non-member that execution of an order to purchase Shares for such omnibus account will be deemed to constitute agreement by the non-member to make such written description available to its customers on the same terms as are directly applicable to PHLX members and member organizations under this rule.

Upon request of a customer, PHLX members and member organizations also shall provide a copy of the prospectus.

## **Exemptive, Interpretive and No-Action Relief Under Federal Securities Regulations**

The SEC has issued exemptive, interpretive or no-action relief from certain provisions of rules under the Securities Exchange Act of 1934 (the "Act") regarding trading in the above mentioned exchange-traded funds.

### **Regulation M Exemptions**

Generally, Rules 101 and 102 of Regulation M prohibit any "distribution participant" and its "affiliated purchasers" from bidding for, purchasing or attempting to induce any person to bid for or purchase any security which is the subject of a distribution until after the applicable restricted period, except as specifically permitted in Regulation M. The provisions of the Rules apply to underwriters, prospective underwriters, brokers, dealers and other persons who have agreed to participate or are participating in a distribution of securities.

The SEC has granted an exemption from Rule 101 under Regulation M to permit persons participating in a distribution of shares of the above-mentioned Funds to engage in secondary market transactions in such shares during their participation in such a distribution. In addition, the SEC has granted relief under Regulation M to permit persons who may be deemed to be participating in the distribution of shares of the above-mentioned Funds (i) to purchase securities for the purpose of purchasing Creation Unit Aggregations of Fund Shares and (ii) to tender securities for redemption in Creation Unit Aggregations. Further, the SEC has clarified that the tender of Fund Shares to the Funds for redemption does not constitute a bid for or purchase of any of the Funds' securities during the restricted period of Rule 101. The SEC has also granted an exemption pursuant to paragraph (e) of Rule 102 under Regulation M to allow the redemption of Fund Shares in Creation Unit Aggregations during the continuous offering of shares.

### **Customer Confirmations for Creation or Redemption of Fund Shares (SEC Rule 10b-10)**

Broker-dealers who handle purchases or redemptions of Fund Shares in Creation Unit size for customers will be permitted to provide such customers with a statement of the number of Creation Unit Aggregations created or redeemed without providing a statement of the identity, number and price of shares of the individual securities tendered to the Fund for purposes of purchasing Creation Unit Aggregations ("Deposit Securities") or the identity, number and price of shares to be delivered by the Trust for the Funds to the redeeming holder ("Redemption Securities"). The composition of the securities required to be tendered to the Fund for creation purposes and of the securities to be delivered on redemption will be disseminated each business day and will be applicable to requests for creations or redemption, as the case may be, on that day. This exemptive relief under Rule 10b-10 with respect to creations and redemptions is subject to the following conditions:

- 1) Confirmations to customers engaging in creations or redemptions must state that all information required by Rule 10b-10 will be provided upon request;
- 2) Any such request by a customer for information required by Rule 10b-10 will be filed in a timely manner, in accordance with Rule 10b-10(c);

- 3) Except for the identity, number and price of shares of the component securities of the Deposit Securities and Redemption Securities, as described above, confirmations to customers must disclose all other information required by Rule 10b-10(a).

### **SEC Rule 14e-5**

An exemption from Rule 14e-5 has been granted to permit any person acting as a dealer-manager of a tender offer for a component security of the Funds (1) to redeem Fund Shares in Creation Unit Aggregations from the issuer that may include a security subject to such tender offer and (2) to purchase Fund Shares during such tender offer. In addition, a no-action position has been taken under Rule 14e-5 if a broker-dealer acting as a dealer-manager of a tender offer for a security of the Fund purchases or arranges to purchase such securities in the secondary market for the purpose of tendering such securities to purchase one or more Creation Unit Aggregations of Shares, if made in conformance with the following:

- 1) Such bids or purchases are effected in the ordinary course of business, in connection with a basket of 20 or more securities in which any security that is the subject of a distribution, or any reference security, does not comprise more than 5% of the value of the basket purchased; or
- 2) Purchases are effected as adjustments to such basket in the ordinary course of business as a result of a change in the composition of the underlying index; and
- 3) Such bids or purchases are not effected for the purpose of facilitating such tender offer.

### **Section 11(d)(1); SEC Rules 11d1-1 and 11d1-2**

Section 11(d)(1) of the Act generally prohibits a person who is both a broker and a dealer from effecting any transaction in which the broker-dealer extends credit to a customer on any security which was part of a new issue in the distribution of which he participated as a member of a selling syndicate or group within thirty days prior to such transaction. The SEC has clarified that Section 11(d)(1) does not apply to broker-dealers that are not Authorized Participants (and, therefore, do not create Creation Unit Aggregations) that engage in both proprietary and customer transactions in Shares of the Funds in the secondary market, and for broker-dealer Authorized Participants that engage in creations of Creation Unit Aggregations. This relief is subject to specific conditions, including the condition that such broker-dealer (whether or not an Authorized Participant) does not, directly or indirectly, receive from the fund complex any payment, compensation or other economic incentive to promote or sell the Shares of the Funds to persons outside the fund complex, other than non-cash compensation permitted under NASD Rule 2830(l)(5)(A), (B) or (C). (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.) The SEC also has taken a no-action position under Section 11(d)(1) of the Act that broker-dealers may treat Shares of the Funds, for purposes of Rule 11d1-2, as "securities issued by a registered open-end investment company

as defined in the Investment Company Act" and thereby extend credit or maintain or arrange for the extension or maintenance of credit on Shares that have been owned by the persons to whom credit is provided for more than 30 days, in reliance on the exemption contained in the rule.

### **SEC Rule 15c1-5 and 15c1-6**

The SEC has taken a no-action position with respect to Rule 15c1-5 and Rule 15c1-6 as to the required disclosure of control by a broker or dealer with respect to creations and redemptions of Fund Shares and secondary market transactions therein. (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.)

**This Information Circular is not a statutory prospectus. PHLX members and member organizations should consult the Funds' prospectus and/or the Funds' website for relevant information.**

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Inquiries regarding this Information Circular should be directed to:

- [Will Slattery](#), PHLX Listing Qualifications, at 301.978.8088
- [PSX Market Sales](#) at 800.846.0477

## Appendix A

<b>Exchange-Traded Fund</b>	<b>Symbol</b>	<b>CUSIP #</b>
First Trust Consumer Discretionary AlphaDEX Fund	FXD	33734X101
First Trust Consumer Staples AlphaDEX Fund	FXG	33734X119
First Trust Energy AlphaDEX Fund	FXN	33734X127
First Trust Financials AlphaDEX Fund	FXO	33734X135
First Trust Health Care AlphaDEX Fund	FXH	33734X143
First Trust Industrials AlphaDEX Fund	FXR	33734X150
First Trust Materials AlphaDEX Fund	FXZ	33734X168
First Trust Technology AlphaDEX Fund	FXL	33734X176
First Trust Utilities AlphaDEX Fund	FXU	33734X184



## Appendix B

<b>Exchange-Traded Fund</b>	<b>Symbol</b>	<b>CUSIP #</b>
First Trust Large Cap Core AlphaDEX Fund	FEX	33734K109
First Trust Mid Cap Core AlphaDEX Fund	FNX	33735B108
First Trust Small Cap Core AlphaDEX Fund	FYX	33734Y109
First Trust Large Cap Value Opportunities AlphaDEX Fund	FTA	33735J101
First Trust Large Cap Growth Opportunities AlphaDEX Fund	FTC	33735K108
First Trust Multi Cap Value AlphaDEX Fund	FAB	33733C108
First Trust Multi Cap Growth AlphaDEX Fund	FAD	33733F101