

**INDEPENDENT REVIEW COMMITTEE
2009 ANNUAL REPORT TO UNITHOLDERS**

**First Trust/Highland Capital Floating Rate Income Fund II
First Trust/Highland Capital Senior Loan Trust
(the “Funds”)**

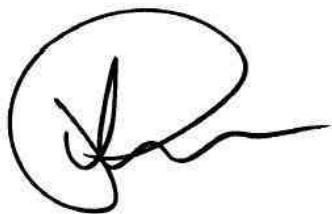
March 18, 2010

Dear Unitholder:

As Chair of the Independent Review Committee (the “IRC”) of the Funds established pursuant to *National Instrument 81-107 - Independent Review Committee for Investment Funds* (“NI 81-107”), I am pleased to provide you with this annual report to unitholders of the Funds for the period ended December 31, 2009 as required under NI 81-107.

The IRC is comprised of three independent members with expertise in a variety of fields, including financial institutions, other investment businesses, prudential regulation and governance.

Securities regulators have given the IRC a mandate to review mutual fund conflict of interest matters referred to the IRC by the manager of the Funds and to give its approval or recommendation, depending on the conflict of interest matter. The IRC has conducted its business on behalf of the Funds with a view to ensuring compliance with NI 81-107. The manager of the Funds has provided the IRC with compliance certificates with respect to the standing instructions it has issued. We are satisfied that the manager of each Fund has acted in accordance with all related regulations, policies and standing instructions governing the management of conflicts of interest in the management of the Funds.

A handwritten signature in black ink, consisting of a large, stylized initial 'P' followed by a series of loops and a long horizontal tail.

Peter C. Copestake
Chair of the Independent Review Committee

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**First Trust/Highland Capital Floating Rate Income Fund II
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Members of the IRC

The members of the IRC are:

Peter Copestake (Chair)
Jacqueline Orange
George Anderson

None of the members of the IRC acts on an IRC for any other investment funds other than those managed by First Defined Portfolio Management Co. or its affiliates.

FT (NSI) Management Co. (the “Manager”) is the manager of First Trust/Highland Capital Floating Rate Income Fund II and First Trust/Highland Capital Senior Loan Trust. The Manager is an affiliate of First Defined Portfolio Management Co.

All of the members of the IRC were appointed to the IRC on May 1, 2007. There have been no changes in the composition of the IRC since that date. During the period from January 1 to December 31, 2009 (the “Period”), none of the members of the IRC had any relationships with a Manager that would cause a reasonable person to question an IRC member’s independence.

Holdings of Securities

- (a) **Funds:** As at December 31, 2009, no member of the IRC beneficially owned any units of the Funds.
- (b) **Manager:** As at December 31, 2009, no member of the IRC beneficially owned directly or indirectly any class or series of voting or equity securities of the Manager.
- (c) **Service Providers:** As at December 31, 2009, the members of the IRC, individually and in the aggregate beneficially owned an inconsequential number being less than 0.01% of any class or series of voting or equity securities of a person or company that provides services to the Funds or to the Manager.

Compensation and Indemnities

The fees and expenses of the IRC of the Funds are allocated among all of the funds managed by First Defined Portfolio Management Co. and its affiliates (including the Manager of the Funds) based on the average net assets of each fund during the period in which the fees or expenses arose.

The aggregate compensation paid by the Funds to the IRC during the Period was \$2,893 (\$4,594 in 2008) and was allocated between the two Funds by the Manager in proportion to the average net assets of each Fund.

The initial compensation of the IRC was set by the Manager of each Fund. In light of the general economic climate and the decline in total assets of the funds under the purview of the committee, and the availability of information related to compensation for IRCs in general, the members agreed to reduce the annual retainer they receive from \$25,000 to \$15,000 effective April 1, 2009. Fees paid for attendance at meetings remain unchanged at \$1,000 (\$1,500 for the Chair) for each meeting the member attends. No indemnities were paid to the IRC by the Funds or the Manager during the Period.

At least annually, the IRC will review its compensation, giving consideration to the following:

1. the best interests of the Funds;
2. industry best practices, including industry averages and surveys on IRC compensation;
3. the number, nature and complexity of the funds for which the IRC acts;
4. the nature and extent of the workload of each member of the IRC, including the commitment of time and energy that is expected from each member; and
5. the IRC's most recent self-assessment and any recommendation of the Manager in respect of IRC compensation and expenses.

The IRC also reviews the expense reimbursement policy applicable to the IRC on an annual basis.

The Manager of the Funds recommended to the members of the IRC that the compensation for 2010 remain as revised in April 2009. The committee met to discuss its compensation on June 8, 2009. It reviewed the above criteria on a best efforts basis including comparative data from other fund groups (to the extent available) and agreed with the Manager's recommendation.

Conflict of Interest Matters

The IRC is not aware of any instance in which the Manager of a Fund acted in a conflict of interest matter referred to the IRC during the Period for which the IRC did not give a positive recommendation or for which the Manager did not meet a condition imposed by the IRC in its recommendation or approval.

Policies and Standing Instructions

The Manager has policies and procedures in place to address each of the actions listed below in this report. For each of these actions, the IRC has issued standing instructions to the Manager that requires the Manager to comply with its related policy and procedures and to report periodically to the IRC.

Approvals

In accordance with the requirements of NI 81-102 and NI 81-107, the IRC has provided approval by way of standing instruction for each Fund to:

1. Invest in or hold securities of related issuers to the Manager.
2. Purchase securities from or sell securities to another investment fund managed by the Manager or an affiliate of the Manager (referred to as inter-fund trades).

Recommendations

In addition, the IRC provided a positive recommendation and standing instruction in respect of the following conflict of interest matters:

1. Allocation of Investment Opportunities;
2. Best Execution/Soft Dollars;
3. Allocating Costs to the Funds;
4. Correcting Portfolio NAV Errors;
5. Dealer Managed Fund Trades;
6. Proxy Voting: and
7. Trades to Non-Canadian Funds managed by Non-Canadian Sub-Advisor.

The Manager has advised the IRC that the Manager relied on the standing instructions granted in respect of the Manager's policies and procedures respecting Best Execution/Soft Dollars, Allocation of Investment Opportunities, Proxy Voting, Allocating Costs to Funds and Correcting Portfolio NAV Errors during the Period. The Manager also provided to the IRC a report confirming that it acted in compliance with the standing instructions.

Other Approvals

In addition, the Manager presented the terms of the merger (the "Merger") of First Trust/Highland Capital Floating Rate Income Fund II ("Fund II") with First Trust/Highland Capital Floating Rate Income Fund ("Fund I") to the IRC for its recommendation. The IRC reviewed the conflict of interest matters raised by the proposed Merger and associated matters and having regard to, among other things, the process proposed for the completion of the Merger, including the requirement to obtain unitholder approval, the IRC resolved that the conflict of interest matters raised by the Merger and associated matters achieve a fair and reasonable result for the Fund.

In conjunction with the Merger, the Manager proposed amendments to certain features of Fund II, including the redemption policy, termination provisions and additional securities offerings. The Manager presented these amendments to the IRC for a recommendation. The IRC reviewed

each and recommended that the conflict of interest matters raised by the proposed amendments will achieve a fair and reasonable result for Fund II.

In addition to the foregoing, in the event that unitholders of Fund I or Fund II did not approve the Merger, the unitholders of each Fund would have been asked to consider a resolution to terminate such funds (the "Termination Resolution") at a meeting of unitholders held in July, 2009. The Manager presented the Termination Resolution of Fund II to the IRC for a recommendation. The IRC reviewed and recommended that the conflict of interest matters raised by the proposed termination of Fund II would achieve a fair and reasonable result for Fund II.