

 **First Trust**  
Portfolios Canada

2009 Interim

Management Report of Fund Performance

RBC Dominion Securities  
U.S. Focus List Portfolio

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This interim management report of Trust and/or Fund performance contains financial highlights, but does not contain the complete unaudited interim financial statements of the investment Trust and/or Fund. You can get a copy of the interim financial statements at your request, and at no cost, by calling us at 877-622-5552, or by writing to us at:

First Defined Portfolio Management Co.  
330 Bay Street, Suite 1300  
Toronto, Ontario M5H 2S8

or by visiting our website at  
[www.firsttrust.ca](http://www.firsttrust.ca)

or  
SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

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# First Trust Portfolios Canada

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## Investment Objective and Strategies

The fundamental investment objective of RBC Dominion Securities U.S. Focus List Portfolio (the "Fund") is to provide capital appreciation by purchasing and holding, for successive quarterly periods the same U.S. securities as are announced to the public by RBC DS's U.S. Equity Guided Portfolio Grid Committee (the "Grid Committee") as comprising its U.S. Focus List Portfolio.

On or before the first business day of March, June, September and December of each year (the "Quarterly Rebalance Date"), the Grid Committee will announce to the public any changes to the portfolio of securities in the U.S. Focus List Portfolio. Generally, no further changes are made to the U.S. Focus List Portfolio until the next Quarterly Rebalance Date. In certain limited circumstances the Grid Committee may revise the U.S. Focus List Portfolio in between Quarterly Rebalance Dates. In these limited circumstances the Grid Committee will undertake the same process that occurs on a Quarterly Rebalance Date.

The inception date of the Fund was December 3, 2007.

## Risk

During the second half of 2009, the risk profile of the Focus List changed as a number of sectors experienced recommended weighting shifts and as the Focus List committee decided to increase the risk-weighting in the portfolio by shifting towards more economically sensitive names. The increase in risk profile was based on the view that the global financial system would be recapitalized with the aid of governments around the world, leading to stability and an eventual rebound in economic growth. The Financial sector was moved from Underweight to Market-Weight at the beginning of the summer based on improving credit conditions and capital ratios that were bolstered following the intervention from the US government. Moreover, the exposure to credit-related and capital markets banks was raised based on the expectation that credit losses would potentially slow by year-end and capital markets-related activity would accelerate. The summer marked an inflection point for the Financials sector as investors slowly shifted their focus from capital shortfalls and book value to recovery and normalized earnings potential. The exposure in other sectors changed noticeably as well. The Committee sought to increase the cyclical exposure in the Materials sector by adding exposure to economically sensitive commodities such as industrial gases, chemicals, and base metals, and reduce the exposure to precious metals such as gold. Meanwhile, in Energy, the Committee expected an eventual return of capital expenditures and drilling projects in the oil sector, and consequently added exposure to the services sector at the expense of more diversified integrated oil company exposure. Elsewhere, the Utilities sector was lowered to an Underweight rating on the expectation that sectors more exposed to an economic recovery would outperform. The Committee raised the weighting in Information Technology to Overweight, believing the group would experience a meaningful acceleration in spending from its enterprise customers.

## Results of Operation

For the period the Fund returned 16.13% versus an 23.17% return for the US Russell 3000 benchmark index. The US equity market staged a very strong rally through the second half of 2009, driven by signs of a global economic recovery and the stability of the financial system. While the economic rebound and resumption of trade was led initially by some of the emerging markets, the recovery also gained traction in developed economies such as the US, which saw industrial production, factory and durable good orders, retail sales, and leading economic indicators rebound from the lows seen in late 2008 and early 2009. The perception of a stable financial system, lean inventories, and recovery in demand led to a strong finish to 2009.

The S&P 500 rose by nearly 23% during the second half of 2009. Outperformance was notable among the lower quality and higher beta stocks, whose mere existence was seemingly in jeopardy at the peak of the financial crisis in late 2008 and early 2009. Many of these companies had weak balance sheets and refinancing risk. With the risk of economic collapse having subsided and a recovery seemingly underway in the second half of the year, these stocks recovered and outperformed many of their larger capitalization and healthier peers. Against this backdrop, the US Focus List was up 19.2% in the second half of the year. While strong in an absolute sense, the underperformance relative to the S&P 500 was largely due to the lack of exposure to these lower quality areas of the market.

## Recent Developments

The year 2010 is expected to begin much as 2009 ended. The global economy continues to show signs of re-accelerating, fuelled largely by strengthening demand from the emerging markets and recoveries in the pace of growth in the developed world. Furthermore, earnings growth is expected to resume following a year of meaningful declines. While growth will be aided by the meaningful cost cuts undertaken by corporations and lean inventories across many industries, revenue growth may also be apparent as demand steadily improves and stimulus funds work their way through the system. This positive outlook is tempered by the acknowledgement that equity markets have rebounded significantly off the lows seen in 2009, and already discount the economic recovery that is under way. Furthermore, challenges do remain, including high levels of US unemployment, uncertainty as to the exit strategies planned by central banks including the US Federal Reserve, and regulatory intervention. As a result, the Focus List remains positioned for an ongoing global economic recovery, and begins 2010 more exposed to cyclical areas of the market than it was at the beginning of last year. Individual stock selections continue to focus on companies that can generate above average revenue growth, have leading market share, have highly regarded management teams, and can generate substantial cash in excess of their requirements.

## Adoption of New Accounting Standard

### ***Credit Risk and the Fair Value of Financial Assets and Financial Liabilities***

Effective January 20, 2009, the Fund has adopted EIC-173 ("EIC-173"), Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. EIC-173 clarifies how the Fund's own credit risk and counterparty credit risk should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The new guidance did not have any impact in the valuation of the Fund's financial assets and financial liabilities, or its net assets.

## Financial Instruments

Effective July 1, 2009, the Fund adopted the recent amendments to CICA 3862, Financial Instruments – Disclosures. Disclosures about fair value of Financial Instruments, requires the disclosure of the estimated fair value of financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Fund's financial instruments are recorded at fair value or at amounts that approximates fair value in the financial statements.

An amendment to CICA 3862, Financial Instruments – Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are as follows.

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Investment Manager has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices that is observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 One or more significant pricing inputs are unobservable for the financial asset or liability and include situations where there is little, if any, market activity for the financial asset or liability. The inputs into the determination of fair value require significant management judgment or estimation.

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## **Net Assets and Net Asset Value**

The Canadian Securities and regulatory authorities have published amendments to National Instruments 81-106 "Investments Fund Continuous Disclosure" ("NI 81-106") that remove the requirement that net asset value for transactional purposes, ("Net Asset Value") be calculated in accordance with CICA Handbook section 3855 "Financial Instruments – Recognition and Measurement" effective September 8, 2008. As a result of the amendments, the Net Asset Value of investment funds will continue to be calculated based on the fair value of investments using the close or last trade price. The net assets per share for financial reporting purposes ("Net Assets") and Net Asset Value per share could be different due to the use of different valuation techniques. As at December 31, 2009, the Fund's net asset value per share was \$6.24 (2008 - \$5.88) per Series A share, \$6.25 (2008 – nil) per Series B share, \$6.39 (2008 - \$5.81) per Series F share, and \$6.39 (2008 – nil) per Series G share. The difference between the net asset value per share for shareholder transactions and the net assets per share as shown on the Statement of Net Assets is due to the use of different pricing methodologies discussed above.

## **International Financial Reporting Standards**

As of December 31, 2009, the Manager has commenced the development of a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants (CICA) for conversion to International Financial Reporting Standards (IFRS). The key elements of the plan include disclosures of the qualitative impact in the 2009 and 2010 financial statements, the disclosures of the quantitative impact, if any, in the 2009 and 2010 financial statements and the preparation of the 2011 financial statements in accordance with IFRS, with comparatives. The impact the conversion from Canadian GAAP to IFRS will have on the Fund's net assets, accounting policies, financial statements and other business arrangements is being evaluated by the Manager.

## **Related Party Transactions**

First Defined Portfolio Management Co. is the Manager of the Fund and is a Canadian affiliate of First Trust Advisors L.P., the investment advisor (the "Advisor") of the Fund.

Pursuant to terms of the management agreement of the Fund, the Manager provides or arranges for all management, administrative and other services required by the Fund. The Manager receives a management fee from the Fund. For further details, please see "Management Fees".

The Manager has retained the Advisor to provide certain services to the Fund pursuant to an investment advisory agreement. The Advisor receives advisory fees from the Manager out of the management fee.

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## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the period. The date of inception of the Fund is December 3, 2007. Series B and Series G of the Fund started on December 3, 2009. This information is derived from the Fund's unaudited interim financial statements for the six-month period ending December 31, 2009 and the audited annual financial statements for the fiscal year ending June 30, 2008 and June 30, 2009.

### The Fund's Net Assets per Share

	Dec. 31, 2009				June 30, 2009		June 30, 2008	
	Series A	Series B	Series F	Series G	Series A	Series F	Series A	Series F
<b>Net assets, at the beginning of the period<sup>(1)</sup></b>	\$ 5.37	\$ 6.18	\$ 5.47	\$ 6.32	\$ 8.83	\$ 8.89	\$ 10.00	\$ 10.00
<b>Increase (decrease) from operations:</b>								
Total revenue	0.04	–	0.04	–	0.11	0.12	0.07	0.07
Total expenses	(0.08)	–	(0.05)	–	(0.15)	(0.08)	(0.17)	(0.12)
Realized gains (losses) for the period	0.33	–	0.34	–	(3.50)	(4.20)	(0.14)	(0.13)
Unrealized gains (losses) for the period	0.60	–	0.60	–	0.12	0.39	(0.92)	(0.90)
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 0.89</b>	<b>\$ –</b>	<b>\$ 0.93</b>	<b>\$ –</b>	<b>\$ (3.42)</b>	<b>\$ (3.77)</b>	<b>\$ (1.16)</b>	<b>\$ (1.08)</b>
<b>Distributions:</b>								
From income (excluding dividends)	–	–	–	–	–	–	–	–
From dividends	–	–	–	–	–	–	–	–
From capital gains	–	–	–	–	–	–	–	–
Return of capital	–	–	–	–	–	–	–	–
<b>Total Annual distributions</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>
<b>Net assets, at the end of the period<sup>(3)</sup></b>	<b>\$ 6.23</b>	<b>\$ 6.24</b>	<b>\$ 6.38</b>	<b>\$ 6.39</b>	<b>\$ 5.37</b>	<b>\$ 5.47</b>	<b>\$ 8.83</b>	<b>\$ 8.89</b>

(1) This information is provided as at June 30, of the years shown except in December 2009, it is shown as at December 31, 2009. The net assets per share presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

(2) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.

(3) This table is not intended to be a reconciliation of beginning to ending net assets per share.

### Ratios and Supplemental Data

	Dec. 31, 2009				June 30, 2009		June 30, 2008	
	Series A	Series B	Series F	Series G	Series A	Series F	Series A	Series F
Net asset value (000's)	\$ 13,193	\$ –	\$ 13,840	\$ –	\$ 13,245	\$ 12,458	\$ 17,285	\$ 25,872
Number of shares outstanding	2,115,040	1	2,167,420	1	2,465,767	2,277,430	1,955,447	2,907,818
Management expense ratio <sup>(1)</sup>	2.51%	0.00%	1.47%	0.00%	2.44%	1.24%	2.91%	1.85%
Management expense ratio before waivers or absorption	2.51%	0.00%	1.47%	0.00%	2.44%	1.24%	2.91%	1.85%
Trading expense ratio <sup>(2)</sup>	0.17%	0.17%	0.17%	0.17%	0.34%	0.34%	0.32%	0.32%
Portfolio turnover rate <sup>(3)</sup>	50.13%	50.13%	50.13%	50.13%	177.71%	177.71%	50.00%	50.00%
Net asset value per share	\$ 6.24	\$ 6.25	\$ 6.39	\$ 6.39	\$ 5.37	\$ 5.47	\$ 8.84	\$ 8.90

(1) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

(2) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

(3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover rate in a year, the greater the trading cost payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of a Fund.

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## Management Fees

An annual management fee is accrued daily at a rate of 0.75% of net assets of Series A, Series B, Series F and Series G and is paid to the manager monthly. Additionally, an annual management fee of 1.00% of net assets of Series A and Series B is accrued daily and is paid to the manager quarterly. The Fund received services in consideration of the management fees as follows:

Services Provided	Series A	Series F
Distribution related costs	57%	0%
Portfolio Advisor and Management services	43%	100%

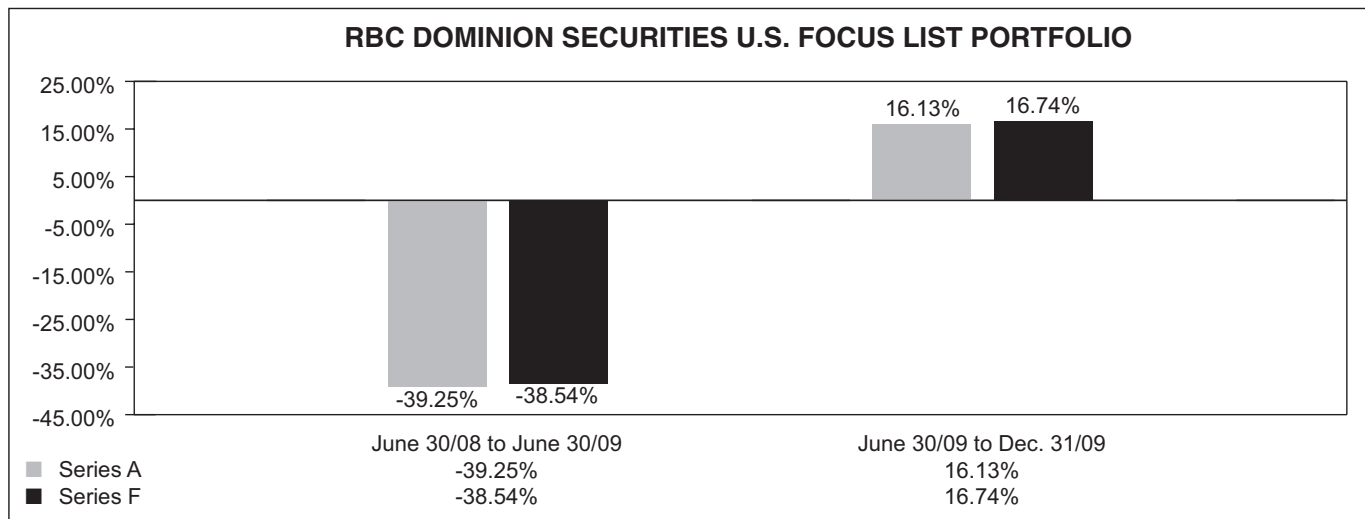
## Past Performance

### General

The past performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. How the Fund has performed in the past does not necessarily indicate how it will perform in the future.

### Year by Year Returns

The bar chart below shows the Fund's performance for the six-month period ended December 31, 2009 and for the fiscal year ending June 30, 2009, and illustrates how the investment fund's performance has changed from year to year. The chart also shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.



# First Trust Portfolios Canada

## Summary of Investment Portfolio

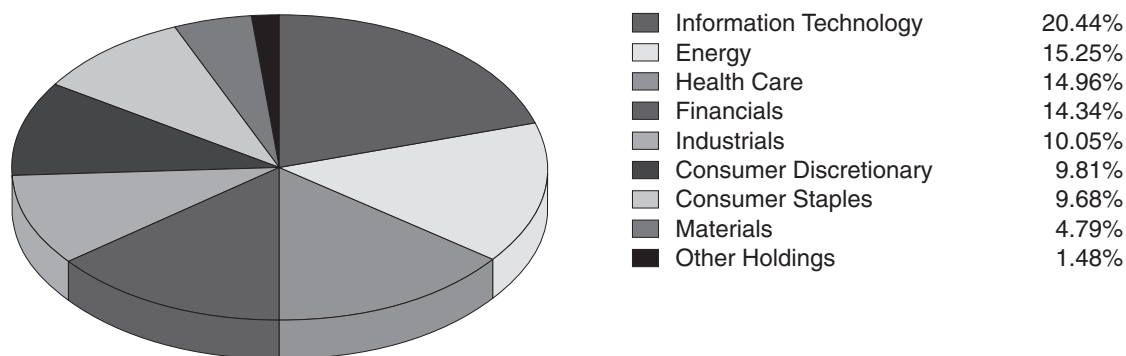
The table sets out the percentage (based on net asset value) of the Fund's holdings as at December 31, 2009.

Issuers	% of Fund Net Asset Value
APACHE CORP.	5.30%
INTEL CORP.	5.20%
HEWLETT PACKARD CO.	5.14%
QUEST DIAGNOSTICS INC.	5.10%
EMC CORP.	5.08%
UNITED TECHNOLOGIES CORP.	5.06%
HALLIBURTON CO.	5.02%
CISCO SYSTEMS INC.	5.01%
HONEYWELL INTERNATIONAL INC.	4.99%
KOHL'S CORP.	4.97%
MEDCO HEALTH SOLUTIONS INC.	4.96%
OCCIDENTAL PETROLEUM CORP.	4.93%
PFIZER INC.	4.90%
COCA-COLA CO.	4.88%
THE GOLDMAN SACHS GROUP INC.	4.87%
MCDONALD'S CORP.	4.83%
JPMORGAN CHASE & CO.	4.80%
WAL-MART STORES INC.	4.80%
AIR PRODUCTS & CHEMICALS INC.	4.79%
THE TRAVELERS COMPANIES INC.	4.66%
CASH	1.48%

This summary of portfolio holdings may change due to ongoing portfolio transactions of the Fund. A quarterly update is available [www.firsttrust.ca](http://www.firsttrust.ca)

## Portfolio Breakdown

The table sets out the percentage (based on net asset value) of the Fund's portfolio as at December 31, 2009.



## Redemption of Shares

Shareholders may redeem shares of the Fund and receive an amount for each share redeemed equal to the applicable series NAV per share as next calculated after the Manager receives the redemption request. A redemption of shares of the Fund is a disposition for tax purposes, unless switched to another Fund in the FT Mutual Fund Corporation (Fundcorp). If shares are held outside a registered plan, shareholders may realize a taxable capital gain upon a redemption.

The following paragraphs set out the redemption procedure for the Fund.

- Redemption requests received before 4:00 p.m. (Toronto time) on a business day will be priced using the applicable series NAV calculated on that day.
- Requests received after 4:00 p.m. (Toronto time) on a business day will be priced using the relevant series NAV calculated on the next business day.
- Shareholders may redeem shares through their registered dealer or broker, or by wire order by delivering a request to the Manager. In order to complete such a request shareholders must provide all required redemption application documents. Once done, the Fund will pay the redemption price within three business days after the date of the calculation of the NAV per unit used to establish the redemption price.
- Upon the direction of the Manager, the Fund may require that shareholders hold a minimum amount of shares of the Fund. If they hold less than the minimum amount, the Fund may require them to redeem their shares upon fifteen days prior notice.
- Upon the direction of the Manager, the Fund may redeem the shares to the extent necessary to pay any outstanding fees, charges or expenses that you owe. The Manager may also require a redemption of the shares in certain circumstances in order to ensure that Fundcorp maintains its status as a “mutual fund corporation” for tax purposes.
- The Manager may suspend the right of redemption and postpone the date of payment of redemptions for any period provided that it complies with applicable securities regulatory policies in doing so. Shareholders’ right to redeem shares may be suspended for any period when normal trading is suspended on a stock exchange on which securities are listed which represent more than 50% of the value of the Fund, subject to certain allowances and modification by the consent of securities regulatory authorities and provided those securities are not traded on another exchange that represents a reasonable practical alternative for the Fund.
- If the Manager suspends the right of redemption, shareholders may either withdraw their redemption request or receive, once the suspension is lifted, a payment based on the NAV per share next calculated after the suspension is lifted.
- A short-term trading fee of the purchase price (excluding any sales charges) will be applicable if shares are redeemed within the specified period described on the prospectus. The fee will be deducted from the redemption proceeds when units are redeemed. Any such fees will be retained by the Fund.

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