

 **First Trust**  
Portfolios Canada

2009 Interim

Management Report of Fund Performance

**Veritas Canadian Select Portfolio**

---

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.

---

# First Trust Portfolios Canada

---

## Investment Objective and Strategies

The fundamental investment objective of Veritas Canadian Select Portfolio (the "Fund") is to provide long-term capital appreciation by investing primarily in the same portfolio of securities, and tracking the performance of, the "V-List" (as it may be renamed and reconstituted from time to time) chosen by Veritas Investment Research Corporation ("Veritas").

The inception date of the Fund was April 15, 2008.

## Risk

The Fund is a concentrated portfolio of stocks. Veritas believes that a portfolio comprising well researched companies backed by in house expertise mitigates unsystematic risk. Furthermore, a rigorous screening of financial reporting practices of fund constituents adds an additional layer of downside protection.

Changes to the portfolio during the reporting period have been consistent with the fund's investment objective and have not materially altered its risk profile.

## Results of Operation

For the period, the Fund returned 11.55% versus a 14.88% return for the S&P/Toronto Stock Exchange Composite benchmark index. As of December 31, 2009, the portfolio held 1.85% in cash and the rest in equity holdings. That was a significant change from a conservative stance early in the year with a cash position of 23.9%. Given Veritas' view that the markets are undergoing a structural shift, driven by de-leveraging of both the corporate sector and consumers, the fund managers have positioned the Fund to outperform in a slow growth environment.

The portfolio contains four holdings within the financial services sector for a total weight of 23.81%. Royal Bank (RY), Manulife (MFC), Toronto-Dominion (TD) and National Bank (NA) each meet Veritas' criteria regarding capital strength and upside potential. In the case of the three bank holdings, Veritas believe that RY and NA will have significantly less trouble adjusting to a stricter capital regime, due to various reasons. In the case of TD, although its holding in TD Ameritrade attracts adverse capital implications, Veritas has assessed TD's options and its internal capital generation and are comfortable with the holding.

In the case of Manulife, though many investors became bearish upon the company's announcement of \$2.5B equity offering in November 2009, Veritas was already negative throughout the summer and autumn but became more positive with the addition of the added cushion against future losses. With equity markets continuing to rally and interest rates starting to edge higher, shares have already recovered to levels above the offering price.

On an improving economic outlook and tighter supply conditions for oil and gas, Veritas added to the Energy weighting throughout the second half of 2009. The portfolio had an energy weight of 26.61% as of December 31<sup>st</sup> compared to no position in the first half of the year.

Veritas maintained positions in **Canadian Natural Resources Ltd.** and **Nexen Inc.** with the view that their undervalued oil sands assets will add volumes and cash flow over the coming year. Veritas added **Suncor Energy Inc.** by selecting **Petro-Canada Inc.** at a discount in the lead up to their merger. With diverse assets and growth options, Suncor provides broad, oil weighted production with near term upside.

Veritas added **EnCana Corporation** in September, prior to its split with **Cenovus Energy Inc.**, giving us exposure to two successor companies with focused development plans. As expected, post-split EnCana traded up to match valuations at its gas weighted peers. Veritas removed EnCana Corporation as a hedge against potential weakness in 2010 gas markets. Veritas maintains Cenovus on the V-List as they believe it is undervalued given its premier oil sands assets, stable production and medium term growth options.

Finally, Veritas added **Baytex Energy Trust** in November, on the view that its unit price did not reflect its development assets and underlying cash flows. In December, Baytex increased its distribution by 50%.

Between 06/30/09 and 12/31/09, the Fund reduced its investment position in the Utilities sector from 22.67% to Nil. While Veritas still hold a positive outlook for several sector participants, they believe better value opportunities exist elsewhere. Veritas removed of **Emera Inc.** in November and **Fortis Inc.** in December based on share price appreciation towards Veritas' intrinsic value estimates of \$25.50 and \$27.50, respectively. The Fund realized a significant gain when **Canadian Hydro Developers, Inc.** was bought out by TransAlta Corporation.

# First Trust Portfolios Canada

---

The portfolio held an approximate average of 7% in industrial stocks for the reporting period. While Veritas lowered **IESI-BFC Limited's** weighting in October due its price approaching their intrinsic value estimate, Veritas continues to see upside stemming primarily from the Waste Services Inc. acquisition. Acquisition synergies – improved route density, higher internalization in US Northeast, and potential re-capitalization opportunities – combined with a recovery of industrial waste volumes and recycled commodities pricing positions BIN for further share price appreciation heading into 2010. Accordingly, Veritas continues to hold its common shares on the V-List.

CN Rail is also in the Fund. Compared to CP, CN provides investors significantly better downside protection under a scenario where growth remains weak and price increases fail to meet expectations. Superior margins and FCF generation, driven by CN's low cost operations, will also benefit the company in the case of a strong economic recovery.

Shaw Communications Inc. and BCE Inc. together accounted for 10.23% of the portfolio at the end of the reporting period. Shaw has no exposure to the increasingly competitive wireless sector and a cable franchise that continues to enjoy a competitive advantage over Telus Corp. BCE turnaround is progressing apace and the company continues to increase its dividend payments to investors. Moreover a solid free cash flow profile accompanied with a significant investment in pushing fiber to the node – 80% of the homes within GTA and GMA are within 1Km of the fiber – strengthens BCE competitive position.

**Consumers' Waterheater Income Fund** continued to suffer customer attrition in the second half of 2009 from the door to door selling tactics of National Home Services, now owned by Just Energy. In the view of Veritas, the trust has cut distributions to a level that is sustainable when it becomes taxable in 2011. In the interim, Consumers has launched an informational blitz to warn customers off switching providers. In Veritas' view, the market is discounting a sustained level of customer attrition that does not reflect Consumers' efforts to fight back. The competitive landscape will also improve with the February 2012 expiry of a Competition Bureau order limiting customer exit fees.

Veritas continues to hold Maple Leaf Foods. Veritas believes it is in an undervalued consumer staple that is showing signs of improving fundamentals. The stocks has done well for the unitholders and we believe that the company's efforts to move away from the commoditized meat value chain towards a more brand focused offering should serve shareholders well going forward.

Grocery Stocks accounted for 13.94% of the portfolio at the end of the reporting period. The Fund has positions in Loblaw Companies and Metro Inc. Veritas believes both organizations have the wherewithal to stand up to the incursions being made by WalMart in the Canadian grocery industry. While the investment community remains skeptical of the ability of the Canadian grocers to compete on price, Veritas' work shows that pricing should stabilize going forward. Moreover, Loblaw has a significant presence in the discount segment. That implies Loblaw's position is more defensible than some the competitors that Walmart was able to steamroll in the U.S.

The Fund also holds Jean Coutu in the portfolio driven by Veritas' belief that the Pro-Doc acquisition will improve gross margins at the company while legislative changes being debated in Ontario will be less detrimental to Jean Coutu compared to Shoppers Drug Mart.

Veritas continues to believe that markets are entering a period of low returns where current income will become an important part of total returns. Accordingly the portfolio's indicated yield is 3.34% as of December 31, 2009.

## Recent Developments

Veritas removed Baytex Energy from the V-List given that the stocks had attained Veritas' estimate of its intrinsic value.

## 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.

# First Trust Portfolios Canada

---

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.

## **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 \$8.50 (2008 – \$7.40) per Series A share & \$8.68 (2008 – \$7.46) per Series F 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 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.

# First Trust Portfolios Canada

## 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 April 15, 2008. 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 F	Series A	Series F	Series A	Series F
<b>Net assets, at the beginning of the period<sup>(1)</sup></b>	<b>\$ 7.61</b>	<b>\$ 7.71</b>	<b>\$ 9.47</b>	<b>\$ 9.50</b>	<b>\$ 10.00</b>	<b>\$ 10.00</b>
<b>Increase (decrease) from operations:</b>						
Total revenue	0.14	0.14	0.27	0.27	0.10	0.10
Total expenses	(0.11)	(0.08)	(0.24)	(0.16)	(0.37)	(0.29)
Realized gains (losses) for the period	0.40	0.42	(1.70)	(1.92)	–	0.01
Unrealized gains (losses) for the period	0.47	0.45	0.25	0.14	(0.41)	(0.62)
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 0.90</b>	<b>\$ 0.93</b>	<b>\$ (1.42)</b>	<b>\$ (1.67)</b>	<b>\$ (0.68)</b>	<b>\$ (0.80)</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>Net assets, at the end of the period<sup>(3)</sup></b>	<b>\$ 8.48</b>	<b>\$ 8.65</b>	<b>\$ 7.61</b>	<b>\$ 7.71</b>	<b>\$ 9.47</b>	<b>\$ 9.50</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 F	Series A	Series F	Series A	Series F
Net asset value (000's)	\$ 2,533	\$ 1,062	\$ 1,719	\$ 982	\$ 1,275	\$ 722
Number of shares outstanding	298,063	122,386	225,582	127,081	134,293	75,811
Management expense ratio <sup>(1)</sup>	2.75%	1.86%	3.17%	2.09%	12.88%	7.58%
Management expense ratio before waivers or absorption	6.47%	5.26%	5.29%	4.25%	12.88%	7.58%
Trading expense ratio <sup>(2)</sup>	0.35%	0.35%	0.72%	0.72%	1.05%	1.05%
Portfolio turnover rate <sup>(3)</sup>	71.53%	71.53%	246.65%	246.65%	31.41%	31.41%
Net asset value per share	\$ 8.50	\$ 8.68	\$ 7.62	\$ 7.72	\$ 9.50	\$ 9.52

(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.

# First Trust Portfolios Canada

## Management Fees

An annual management fee is accrued daily at a rate of 1.95% of Series A net assets and 0.95% of Series F net assets and is paid to the manager monthly. Additionally, an annual management fee of 1.00% of net assets of Series A 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	51%	0%
Portfolio Advisor and Management services	49%	100%

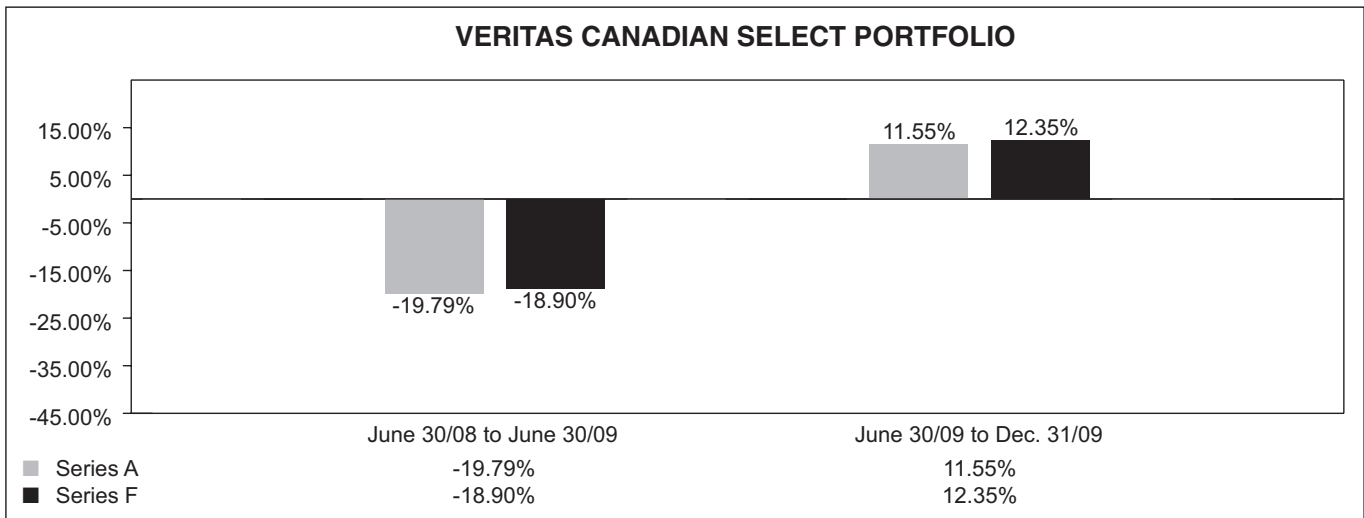
## Past Performance

### 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

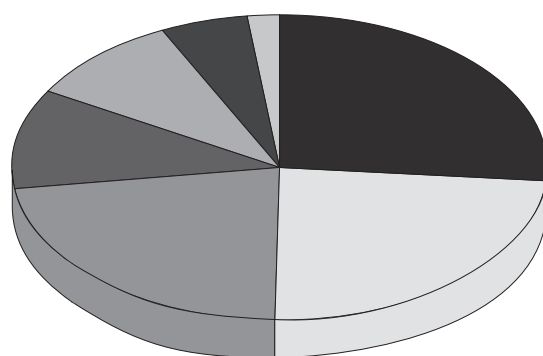
The table sets out the percentage (based on net asset value) of the Fund's holdings as at December 31, 2009.

Issuers	% of Fund Net Asset Value
MAPLE LEAF FOODS INC.	8.37%
NATIONAL BANK OF CANADA	6.54%
ROYAL BANK OF CANADA	6.33%
CANADIAN NATURAL RESOURCES LTD.	5.55%
IESI-BFC LTD.	5.54%
MANULIFE FINANCIAL CORP.	5.46%
BAYTEX ENERGY TRUST	5.40%
METRO INC.	5.36%
TORONTO-DOMINION BANK	5.33%
CENOVUS ENERGY INC.	5.26%
LOBLAW COMPANIES LTD.	5.25%
BCE INC.	5.21%
NEXEN INC.	5.15%
SHAW COMMUNICATIONS INC.	5.13%
SUNCOR ENERGY INC.	5.08%
CANADIAN NATIONAL RAILWAY CO.	5.03%
THE CONSUMERS' WATERHEATER INCOME FUND	4.29%
THE JEAN COUTU GROUP (PJC) INC.	3.24%
CASH	1.85%

*This summary of portfolio holdings may change due to ongoing portfolio transactions of the Fund. A quarterly update is available at [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.



Energy	26.44%
Financials	23.66%
Consumer Staples	22.22%
Industrials	10.57%
Consumer Discretionary	9.42%
Telecommunication Services	5.21%
Other Holdings	1.85%

# First Trust Portfolios Canada

---

## 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 Series A or Series F 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 Series A or Series F 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.

First Defined Portfolio Management Co.

330 Bay Street, Suite 1300  
Toronto, ON M5H 2S8

[www.firsttrust.ca](http://www.firsttrust.ca)

