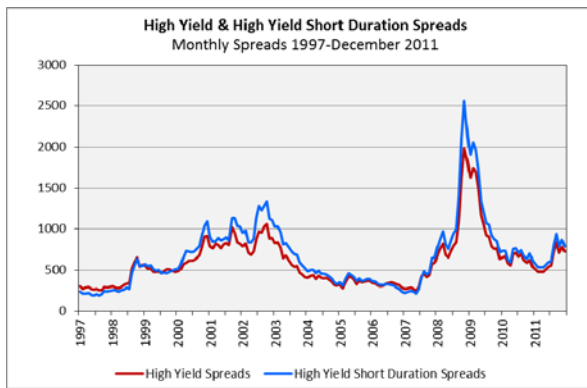


Global markets rebounded in the fourth quarter although volatility remained elevated and there was no clear market direction for an extended period of time. The main driver of volatility remained the European sovereign debt crisis with political and economic uncertainty in the U.S. only a secondary concern. With this backdrop, U.S. high yield prices rebounded sharply in October, declined in November and rebounded once more in December as investors routinely switched back and forth between the risk-on and risk-off trades. The S&P 500 Index returned close to 12% and 10-year treasury yields declined by 4 basis points to 1.88%. The VIX Index (Chicago Board Options Exchange Market Volatility Index) declined 45% to 23 as investor fears dissipated somewhat and volatility was reduced. U.S. High yield spreads-to-treasuries as measured by the Merrill Lynch U.S. High Yield Master II Index tightened by 118 basis points for the quarter, but widened by 182 basis points for the year to 723 off the US treasury curve. Short duration high yield

Credit quality was a major driver in performance as CCCs and distressed securities outperformed Bs which were well ahead of BBs. Outperforming industries during the quarter included home building related, metals/mining, media, utilities and technology, while notable underperformers were financials, paper/packaging, retail, transportation and services. During the quarter, the underweighting of BBs and overweighting of Bs was favorable while the avoidance of distressed securities was a negative. In addition, our security selection in the following industries was favorable: paper/packaging, services, energy, home building and food/drug retail. On the other hand, our security selections in financials, chemicals, retail, transportation and technology were unfavorable during the quarter.



spreads-to-treasuries in the U.S. as measured by the Merrill Lynch High Yield U.S. Coporates Cash Pay 1-5 years index tightened by 138 basis points for the quarter but widened by 175 basis points for the year to 792 off the US treasury curve. U.S. high yield funds reported \$11.7 billion of inflows for the quarter and \$15 billion for all of 2011, up from \$12.5 billion in 2010. While the primary market was active in the fourth quarter, it remained below the record pace of the first half 2011, as 66 new issues priced totaling \$38.2 billion. For the full year, 510 new deals priced totaling \$245.6 billion, an 18% decline from last year's record but well above levels set in previous years. U.S. high yield default rates remained low at 2.3% of the number of issuers and 1.8% of the total par amount.

Fund Overview

Ticker:	FSD.UN
Fund Type:	High Yield Bond
Fund Advisor:	First Trust Advisors L.P.
Fund Manager:	First Defined Portfolio Management Co.
Sub-Advisor:	First Western Capital Management Company
Cusip:	33733N104
Fiscal Year-End:	June 30
Exchange:	Toronto Stock Exchange
Inception:	May 20, 2011
Inception Price:	\$12.00
Inception NAV:	\$11.26

Fund Data (as of December 30, 2011)

Closing NAV:	\$10.29
Closing Share Price:	\$9.99
Total Net Assets:	\$71,503,090
Distribution Frequency:	Monthly
Distribution per Unit*:	\$0.0700
Distribution Rate**:	8.41% (based on closing price on December 30, 2011)

*Most recent distribution paid or declared through today's date.
Subject to change in the future.

**Calculated based on the closing price of December 30, 2011. Subject to change on a daily basis.

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