

Edgar Filing: FIRST TRUST STRATEGIC HIGH INCOME FUND - Form N-Q

FIRST TRUST STRATEGIC HIGH INCOME FUND

Form N-Q

March 28, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT  
INVESTMENT COMPANY

Investment Company Act file number 811-21756  
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First Trust Strategic High Income Fund  
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(Exact name of registrant as specified in charter)

120 East Liberty Drive, Suite 400  
Wheaton, IL 60187  
-----

(Address of principal executive offices) (Zip code)

W. Scott Jardine, Esq.  
First Trust Portfolios L.P.  
120 East Liberty Drive, Suite 400  
Wheaton, IL 60187  
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(Name and address of agent for service)

Registrant's telephone number, including area code: 630-765-8000  
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Date of fiscal year end: October 31  
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Date of reporting period: January 31, 2011  
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Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (ss.ss. 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

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ITEM 1. SCHEDULE OF INVESTMENTS. The Schedule of Investments is attached herewith.

FIRST TRUST STRATEGIC HIGH INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a)  
 JANUARY 31, 2011 (UNAUDITED)

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY	
CORPORATE BONDS AND NOTES - 90.3%				
	AUTOMOTIVE - 1.2%			
\$ 400,000	Ford Motor Co. ....	6.50%	08/01/18	\$
	BASIC INDUSTRY - 12.8%			
455,000	AK Steel Corp. (b) .....	7.63%	05/15/20	
425,000	Arch Coal, Inc. (b) .....	8.75%	08/01/16	
425,000	Cascades, Inc. (b) .....	7.88%	01/15/20	
215,000	Georgia-Pacific LLC (b) .....	7.38%	12/01/25	
185,000	Georgia-Pacific LLC .....	7.25%	06/01/28	
275,000	Hexion U.S. Finance Corp./Hexion Nova Scotia Finance ULC .....	8.88%	02/01/18	
425,000	Mercer International, Inc. (c) .....	9.50%	12/01/17	
325,000	Steel Dynamics, Inc. (b) (c) .....	7.63%	03/15/20	
450,000	Tembec Industries, Inc. (c) .....	11.25%	12/15/18	
600,000	United States Steel Corp. (b) .....	7.00%	02/01/18	
400,000	Westlake Chemical Corp. (b) .....	6.63%	01/15/16	
	CAPITAL GOODS - 12.2%			
425,000	BE Aerospace, Inc. ....	8.50%	07/01/18	
90,000	Berry Plastics Corp. ....	9.50%	05/15/18	
425,000	Bombardier, Inc. (b) (c) .....	7.75%	03/15/20	
400,000	CNH America LLC (b) .....	7.25%	01/15/16	
245,000	Coleman Cable, Inc. ....	9.00%	02/15/18	
215,000	Mueller Water Products, Inc. ....	7.38%	06/01/17	
825,000	Owens-Illinois, Inc. (b) .....	7.80%	05/15/18	
225,000	RBS Global, Inc./Rexnord LLC .....	8.50%	05/01/18	
400,000	Terex Corp. ....	8.00%	11/15/17	
275,000	Trimas Corp. ....	9.75%	12/15/17	
425,000	USG Corp. (d) .....	9.75%	01/15/18	
	CONSUMER CYCLICAL - 9.3%			
425,000	ACCO Brands Corp. (b) .....	10.63%	03/15/15	
400,000	Easton-Bell Sports, Inc. ....	9.75%	12/01/16	
425,000	Ford Motor Credit Corp., LLC (b) .....	8.00%	12/15/16	
425,000	Levi Strauss & Co. (b) .....	7.63%	05/15/20	
425,000	Limited Brands, Inc. (b) .....	7.60%	07/15/37	
220,000	Neiman Marcus Group, Inc. ....	10.38%	10/15/15	
250,000	Phillips-Van Heusen Corp. ....	7.38%	05/15/20	

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425,000	Reynolds Group Issuer, Inc./Reynolds Group Issuer LLC (c).....	9.00%	04/15/19
	CONSUMER NON-CYCLICAL - 5.3%		
425,000	B&G Foods, Inc. ....	7.63%	01/15/18
500,000	C&S Group Enterprises LLC (c).....	8.38%	05/01/17
425,000	Constellation Brands, Inc. (b).....	7.25%	05/15/17
215,000	Rite Aid Corp. ....	8.63%	03/01/15

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST STRATEGIC HIGH INCOME FUND  
PORTFOLIO OF INVESTMENTS (a) - (CONTINUED)  
JANUARY 31, 2011 (UNAUDITED)

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY
CORPORATE BONDS AND NOTES - (CONTINUED)			
	CONSUMER NON-CYCLICAL - (CONTINUED)		
\$ 200,000	Rite Aid Corp. ....	9.75%	06/12/16
	ENERGY - 12.8%		
200,000	Chaparral Energy, Inc. ....	8.88%	02/01/17
425,000	Crosstex Energy LP/Crosstex Energy Finance Corp. ....	8.88%	02/15/18
425,000	Edgen Murray Corp. ....	12.25%	01/15/15
275,000	Hercules Offshore LLC (c).....	10.50%	10/15/17
425,000	Hilcorp Energy I LP/Hilcorp Finance Co. (b) (c).....	8.00%	02/15/20
120,000	Linn Energy LLC/Linn Energy Finance Corp. (c).....	8.63%	04/15/20
400,000	McJunkin Red Man Corp. (c).....	9.50%	12/15/16
495,000	Niska Gas Storage US LLC/Niska Gas Storage Canada ULC (b) (c).....	8.88%	03/15/18
425,000	Pioneer Natural Resources Co. (b).....	6.65%	03/15/17
425,000	Plains Exploration & Production Co. ...	7.63%	06/01/18
170,000	Precision Drilling Corp. (c).....	6.63%	11/15/20
500,000	Whiting Petroleum Corp. ....	6.50%	10/01/18

MEDIA - 10.1%

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285,000	American Reprographics Co. (c).....	10.50%	12/15/16
425,000	Cablevision Systems Corp. (b).....	8.63%	09/15/17
425,000	CCO Holdings LLC/CCO Holdings Capital Corp. (c).....	8.13%	04/30/20
425,000	Deluxe Corp. (b).....	7.38%	06/01/15
425,000	Dish DBS Corp. (b).....	7.88%	09/01/19
425,000	Insight Communications Co., Inc. (c)...	9.38%	07/15/18
425,000	Lamar Media Corp. ....	7.88%	04/15/18
425,000	Mediacom LLC/Mediacom Capital Corp. ...	9.13%	08/15/19
	SERVICES - 15.0%		
400,000	AMC Entertainment, Inc. ....	8.75%	06/01/19
425,000	ARAMARK Corp. ....	8.50%	02/01/15
425,000	Avis Budget Car Rental LLC/Avis Budget Finance, Inc. ....	9.63%	03/15/18
200,000	Beazer Homes USA, Inc. ....	9.13%	06/15/18
400,000	Harrah's Operating Co., Inc. ....	11.25%	06/01/17
400,000	HCA, Inc. (b).....	9.25%	11/15/16
400,000	Iron Mountain, Inc. (b).....	8.75%	07/15/18
97,000	KAR Holdings, Inc. ....	10.00%	05/01/15
300,000	Maxim Crane Works LP (c).....	12.25%	04/15/15
225,000	MGM Resorts International ....	5.88%	02/27/14
225,000	MGM Resorts International ....	10.38%	05/15/14
425,000	Pulte Group, Inc. ....	6.38%	05/15/33

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST STRATEGIC HIGH INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (CONTINUED)  
 JANUARY 31, 2011 (UNAUDITED)

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY	
CORPORATE BONDS AND NOTES - (CONTINUED)				
	SERVICES - (CONTINUED)			
\$ 225,000	RSC Equipment Rental, Inc./RSC Holdings III LLC .....	10.25%	11/15/19	\$
425,000	Standard Pacific Corp. ....	8.38%	05/15/18	
425,000	United Rentals North America, Inc. ....	8.38%	09/15/20	
	TECHNOLOGY & ELECTRONICS - 1.9%			
22,000	First Data Corp. ....	9.88%	09/24/15	
96,000	First Data Corp. (c).....	8.25%	01/15/21	

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500,000	Freescale Semiconductor, Inc. (c).....	9.25%	04/15/18
	TELECOMMUNICATIONS - 7.4%		
215,000	Cincinnati Bell, Inc. ....	8.25%	10/15/17
210,000	Cincinnati Bell, Inc. ....	8.38%	10/15/20
400,000	Citizens Communications (b).....	7.13%	03/15/19
400,000	Global Crossing Ltd. ....	12.00%	09/15/15
200,000	PAETEC Holding Corp. ....	9.50%	07/15/15
200,000	PAETEC Holding Corp. ....	8.88%	06/30/17
400,000	Qwest Corp. (b).....	6.88%	09/15/33
425,000	Windstream Corp. (b).....	7.00%	03/15/19
	UTILITY - 2.3%		
425,000	Calpine Corp. (c).....	7.25%	10/15/17
225,000	Dynegy Holdings, Inc. ....	7.75%	06/01/19
225,000	Edison Mission Energy ....	7.00%	05/15/17
	TOTAL CORPORATE BONDS AND NOTES .....		
	(Cost \$29,754,243)		

MORTGAGE-BACKED SECURITIES - 20.8%

	COLLATERALIZED MORTGAGE OBLIGATIONS - 8.4%		
	Chase Mortgage Finance Corp.		
143,804	Series 2007-S2, Class 1A8 .....	6.00%	03/25/37
	Citicorp Mortgage Securities, Inc.		
660,000	Series 2007-2, Class 1A3 .....	6.00%	02/25/37
	Countrywide Alternative Loan Trust		
98,509	Series 2006-41CB, Class 2A14 .....	6.00%	01/25/37
	Countrywide Home Loan Mortgage Pass Through Trust		
470,477	Series 2005-27, Class 2A1 .....	5.50%	12/25/35
314,000	Series 2007-10, Class A5 .....	6.00%	07/25/37
	HarborView Mortgage Loan Trust		
3,680,848	Series 2005-9, Class B10 (e).....	2.01%	06/20/35
	JP Morgan Mortgage Trust		
78,753	Series 2006-S3, Class 1A30 .....	6.50%	08/25/36
	Residential Asset Securitization Trust		
398,069	Series 2005-A8CB, Class A11 .....	6.00%	07/25/35

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST STRATEGIC HIGH INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (CONTINUED)  
 JANUARY 31, 2011 (UNAUDITED)

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PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY	
MORTGAGE-BACKED SECURITIES - (CONTINUED)				
COLLATERALIZED MORTGAGE OBLIGATIONS - (CONTINUED)				
	Structured Asset Securities Corp.			
\$ 66,168	Series 2003-10, Class A .....	6.00%	04/25/33	\$
	Wells Fargo Mortgage Backed Securities Trust			
308,000	Series 2006-8, Class A15 .....	6.00%	07/25/36	
216,485	Series 2007-7, Class A38 .....	6.00%	06/25/37	
28,241	Series 2007-8, Class 1A16 .....	6.00%	07/25/37	
COMMERCIAL MORTGAGE-BACKED SECURITIES - 12.4%				
	Banc of America Commercial Mortgage, Inc.			
778,723	Series 2000-1, Class M (g) (h).....	6.00%	11/15/31	
	Banc of America Large Loan, Inc.			
2,000,000	Series 2005-MIB1, Class L (e) (f) (g)	3.26%	03/15/22	
	Citigroup/Deutsche Bank Commercial Mortgage Trust			
310,000	Series 2007-CD4, Class A4 .....	5.32%	12/11/49	
	Commercial Mortgage Pass Through Certificates			
330,000	Series 2007-C9, Class A4 (e).....	5.81%	12/10/49	
	Credit Suisse Mortgage Capital Certificates			
60,000	Series 2006-C5, Class AJ .....	5.37%	12/15/39	
	Extended Stay America Trust			
830,000	Series 2010-ESHA, Class D (c).....	5.50%	11/05/27	
	GE Capital Commercial Mortgage Corp.			
700,000	Series 2000-1, Class G (f) (g).....	6.13%	01/15/33	
	Greenwich Capital Commercial Funding Corp.			
200,000	Series 2007-GG11, Class A4 .....	5.74%	12/10/49	
330,000	Series 2007-GG11, Class AJ .....	6.00%	12/10/49	
	LB-UBS Commercial Mortgage Trust			
3,025,000	Series 2001-C7, Class Q (g).....	5.87%	11/15/33	
773,848	Series 2001-C7, Class S (g).....	5.87%	11/15/33	
	Morgan Stanley Capital I, Inc.			
968,400	Series 1999-WF1, Class M (g).....	5.91%	11/15/31	
2,787,919	Series 2003-IQ5, Class O (f) (g)...	5.24%	04/15/38	
TOTAL MORTGAGE-BACKED SECURITIES .....				
(Cost \$7,591,302)				
ASSET-BACKED SECURITIES - 10.4%				
	Ace Securities Corp.			
322,000	Series 2003-MH1, Class A4 (c).....	6.50%	08/15/30	
	Bombardier Capital Mortgage Securitization Corp.			
308,658	Series 1999-B, Class A1B .....	6.61%	12/15/29	

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1,106,347                      Series 1999-B, Class A3 .....                      7.18%                      12/15/29

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST STRATEGIC HIGH INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (CONTINUED)  
 JANUARY 31, 2011 (UNAUDITED)

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY	
ASSET-BACKED SECURITIES - (CONTINUED)				
\$ 2,720,628	Conseco Finance Securitizations Corp. Series 2000-6, Class M1 .....	7.72%	09/01/31	\$
232,948	Countrywide Asset-Backed Certificates Series 2006-13, Class 3AV2 (e).....	0.41%	01/25/37	
100,966	Credit Suisse First Boston Mortgage Securities Corp. Series 2002-MH3, Class A .....	6.70%	12/25/31	
4,905,000	Falcon Franchise Loan Trust Series 2000-1, Class E (c) (f).....	6.50%	04/05/16	
4,231,000	Series 2003-1, Class E (g) (h).....	6.00%	01/05/25	
208,298	Green Tree Financial Corp. Series 1997-4, Class B1 .....	7.23%	02/15/29	
858,461	Series 1998-4, Class M1 .....	6.83%	04/01/30	
3,844,951	Series 1999-3, Class M1 .....	6.96%	02/01/31	
440,199	GSAMP Trust Series 2004-AR2, Class B4 (g).....	5.00%	08/25/34	
968,788	Series 2006-S3, Class A2 (f).....	5.77%	05/25/36	
848,537	Series 2006-S5, Class A1 (e).....	0.35%	09/25/36	
5,000,000	Cndependence III CDO, Ltd. Series 3A, Class C1 (e) (g) (i)....	2.80%	10/03/37	
1,912,209	Long Beach Mortgage Loan Trust Series 2006-A, Class A2 (f).....	6.05%	05/25/36	
1,564,299	Park Place Securities, Inc. Series 2004-WCW1, Class M8 (e).....	3.76%	09/25/34	
1,301,976	Series 2004-WCW2, Class M10 (e) (g)	3.01%	10/25/34	
77,999	Stanfield Azure CLO, Ltd. Series 2006-1A, Class X (c).....	5.34%	05/27/20	
4,219,712	Summit CBO I, Ltd. Series 1A, Class B (e) (g) (h).....	1.44%	05/23/11	
13,656	Summit Lake CLO, Ltd. Series 2005-1A, Class X (c).....	5.25%	02/24/11	
TOTAL ASSET-BACKED SECURITIES .....				
(Cost \$3,446,262)				

SENIOR FLOATING-RATE LOAN INTERESTS - 0.5%

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	UTILITY - 0.5%		
223,269	Texas Competitive Electric Holdings Co., LLC Tranche B2 (e).....	3.30%	10/10/14
	TOTAL SENIOR FLOATING-RATE LOAN INTERESTS .....		
	(Cost \$193,290)		

U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES - 0.1%

	COMMERCIAL MORTGAGE-BACKED SECURITIES - 0.1%		
	FannieMae-ACES		
2,497,896	Series 1998-M7, Class N, IO (e)....	0.63%	05/25/36
	TOTAL U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES .....		
	(Cost \$105,240)		

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST STRATEGIC HIGH INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (CONTINUED)  
 JANUARY 31, 2011 (UNAUDITED)

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY
	STRUCTURED NOTES - 0.0%		
\$ 3,750,000	Preferred Term Securities XXV, Ltd. (g)	(j)	06/22/37
	TOTAL STRUCTURED NOTES .....		
	(Cost \$0)		

SHARES	DESCRIPTION
	PREFERRED SECURITIES - 0.1%
2,000	Soloso CDO, Ltd., Series 2005-1 (g) (j).....
3,000	White Marlin CDO, Ltd., Series AI (g) (i) (j).....
	TOTAL PREFERRED SECURITIES .....
	(Cost \$0)



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TOTAL INVESTMENTS - 122.2% .....  
 (Cost \$41,090,337) (k)

PRINCIPAL VALUE	DESCRIPTION
REVERSE REPURCHASE AGREEMENTS - (28.0%)	
\$ (3,774,054)	With Barclays Capital Inc. 1.00% dated 01/18/11, to be repurchased at \$3,777,724 on 02/22/11 .....
(3,663,820)	With Barclays Capital Inc. 1.00% dated 01/19/11, to be repurchased at \$3,667,381 on 02/23/11 .....
(2,247,087)	With Barclays Capital Inc. 1.00% dated 01/20/11, to be repurchased at \$2,249,272 on 02/24/11 .....
	TOTAL REVERSE REPURCHASE AGREEMENTS .....
	NET OTHER ASSETS AND LIABILITIES - 5.8% .....
	NET ASSETS - 100.0% .....

- (a) All percentages shown in the Portfolio of Investments are based on net assets.
- (b) This security or a portion of this security is segregated as collateral for reverse repurchase agreements.
- (c) This security, sold within the terms of a private placement memorandum, is exempt from registration upon resale under Rule 144A under the Securities Act of 1933, as amended (the "1933 Act"), and may be resold in transactions exempt from registration, normally to qualified institutional buyers. Pursuant to procedures adopted by the Fund's Board of Trustees, this security has been determined to be liquid by Brookfield Investment Management Inc., the Fund's investment sub-advisor. Although market instability can result in periods of increased overall market illiquidity, liquidity for each security is determined based on security specific factors and assumptions, which require subjective judgment. At January 31, 2011, securities noted as such amounted to \$8,605,007 or 22.84% of net assets.
- (d) Multi-Step Coupon Bond - coupon steps up or down based upon ratings changes by Standard & Poor's Ratings Group or Moody's Investors Service, Inc. The interest rate shown reflects the rate in effect at January 31, 2011.
- (e) Floating rate security. The interest rate shown reflects the rate in effect at January 31, 2011.
- (f) Security is receiving less than the stated coupon.

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FIRST TRUST STRATEGIC HIGH INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (CONTINUED)  
 JANUARY 31, 2011 (UNAUDITED)

- (g) This security, sold within the terms of a private placement memorandum, is exempt from registration upon resale under Rule 144A under the 1933 Act, and may be resold in transactions exempt from registration, normally to qualified institutional buyers (see Note C - Restricted Securities in the Notes to Quarterly Portfolio of Investments).
- (h) Security missed one or more of its interest payments.
- (i) The issuer is in default. Income is not being accrued.
- (j) Zero coupon security.
- (k) Aggregate cost for financial reporting purposes, which approximates the aggregate cost for federal income tax purposes. As of January 31, 2011, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$3,057,892 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$1,814,107.

ACES Alternative Credit Enhancement Securities  
 CBO Collateralized Bond Obligation  
 CDO Collateralized Debt Obligation  
 CLO Collateralized Loan Obligation  
 IO Interest-Only Security - Principal amount shown represents par value on which interest payments are based.

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VALUATION INPUTS

A summary of the inputs used to value the Fund's investments as of January 31, 2011 is as follows (see Note A - Portfolio Valuation in the Notes to Quarterly Portfolio of Investments):

	TOTAL VALUE AT 1/31/2011	LEVEL 1 QUOTED PRICES	LEVEL 2 SIGNIFICANT OBSERVABLE INPUTS
	-----	-----	-----
Corporate Bonds and Notes*.....	\$ 31,283,093	\$ --	\$ 31,283,093
Mortgage-Backed Securities:			
Collateralized Mortgage Obligations.....	2,924,726	--	2,924,726

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Commercial Mortgage-Backed Securities.....	4,279,654	--	4,279,654
Asset-Backed Securities.....	3,611,650	--	3,537,916
Senior Floating-Rate Loan Interests*.....	184,511	--	184,511
U.S. Government Agency Mortgage-Backed Securities .....	15,113	--	15,113
Structured Notes.....	375	--	375
Preferred Securities.....	35,000	--	--
TOTAL INVESTMENTS.....	<u>\$ 42,334,122</u>	<u>\$ --</u>	<u>\$ 42,225,388</u>

\* See the Portfolio of Investments for industry breakout.

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST STRATEGIC HIGH INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (CONTINUED)  
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The following table presents the Fund's investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period presented.

INVESTMENTS AT FAIR VALUE USING SIGNIFICANT UNOBSERVABLE INPUTS ( LEVEL 3)	BALANCE AS OF OCTOBER 31, 2010	TRANSFERS IN (OUT) OF LEVEL 3	NET REALIZED GAINS (LOSSES)	CHANGE IN NET UNREALIZED APPRECIATION (DEPRECIATION)	PUR (S
Asset-Backed Securities	\$ 87,636	\$ --	\$ (137)	\$ (230)	\$ (1
Preferred Securities	35,000	--	--	--	
TOTAL INVESTMENTS	<u>\$ 122,636</u>	<u>\$ --</u>	<u>\$ (137)</u>	<u>\$ (230)</u>	<u>\$ (1</u>

See Notes to Quarterly Portfolios of Investments

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NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS

FIRST TRUST STRATEGIC HIGH INCOME FUND

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JANUARY 31, 2011 (UNAUDITED)

## VALUATION AND INVESTMENT PRACTICES

### A. PORTFOLIO VALUATION:

The net asset value ("NAV") of the Common Shares of First Trust Strategic High Income Fund (the "Fund") determined daily as of the close of regular trading on the New York Stock Exchange ("NYSE"), normally 4:00 p.m. Eastern time, on each day the NYSE is open for trading. If the NYSE closes early on a valuation day, the NAV is determined as of that time. Domestic debt securities and foreign securities are priced using data reflecting the earlier closing of the principal markets for those securities. The NAV per Common Share is calculated by dividing the value of all assets of the Fund (including accrued interest and dividends), less all liabilities (including accrued expenses, dividends declared but unpaid and any borrowings of the Fund), by the total number of Common Shares outstanding.

The Fund's investments are valued daily in accordance with valuation procedures adopted by the Fund's Board of Trustees, and in accordance with provisions of the Investment Company Act of 1940, as amended (the "1940 Act"). Securities for which market quotations are readily available are valued using the last reported sale price on the business day as of which such value is being determined. If no sales are reported on such business day (as in the case of some securities traded over-the-counter), the last reported bid price is used, except that certain U.S. Government securities are valued at the mean between the last reported bid and asked prices. Mortgage-backed securities ("MBS") and other debt securities not traded in an organized market are valued on the basis of valuations provided by dealers who make markets in such securities or by an independent pricing service approved by the Fund's Board of Trustees, which may use the following valuation inputs when available:

- 1) benchmark yields;
- 2) reported trades;
- 3) broker/dealer quotes;
- 4) issuer spreads;
- 5) benchmark securities;
- 6) bids and offers; and
- 7) reference data including market research publications.

A ready market does not exist for some of these investments. As such, these values may differ from the values that would have been used had a ready market for these investments existed, and the differences could be material.

Debt securities having a remaining maturity of sixty days or less when purchased are valued at cost adjusted for amortization of premiums and accretion of discounts.

In the event that market quotations are not readily available, the pricing service or dealer does not provide a valuation, or the valuations received are deemed unreliable, the Fund's Board of Trustees has designated First Trust Advisors L.P. ("First Trust") to use a fair value method to value the Fund's securities. Additionally, if events occur after the close of the principal markets for certain securities (e.g., domestic debt and foreign securities) that could materially affect the Fund's NAV, First Trust may use a fair value method to value the Fund's securities. The use of fair value pricing is governed by valuation procedures adopted by the Fund's Board of Trustees, and in accordance with the provisions of the 1940 Act. As a general principle, the fair value of a security is the amount which the Fund might reasonably expect to receive for the security upon its current sale. However, in light of the judgment involved in fair valuations, there can be no assurance that a fair value assigned to a

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particular security will be the amount which the Fund might be able to receive upon its current sale. Fair valuation of a security is based on the consideration of all available information, including, but not limited to, the following:

- 1) the fundamental business data relating to the issuer;
- 2) an evaluation of the forces which influence the market in which these securities are purchased and sold;
- 3) the type, size and cost of security;
- 4) the financial statements of the issuer;
- 5) the credit quality and cash flow of the issuer, based on the Sub-Advisor's or external analysis;
- 6) the information as to any transactions in or offers for the security;
- 7) the price and extent of public trading in similar securities (or equity securities) of the issuer/borrower, or comparable companies;
- 8) the coupon payments;
- 9) the quality, value and salability of collateral, if any, securing the security;
- 10) the business prospects of the issuer, including any ability to obtain money or resources from a parent or affiliate and an assessment of the issuer's management;
- 11) the prospects for the issuer's industry, and multiples (of earnings and/or cash flows) being paid for similar businesses in that industry; and
- 12) other relevant factors.

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NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS - (CONTINUED)

### FIRST TRUST STRATEGIC HIGH INCOME FUND JANUARY 31, 2011 (UNAUDITED)

The Fund invests a significant portion of its assets in below-investment grade debt securities, including structured finance securities and corporate bonds. Structured finance securities include: asset-backed securities, including home equity, auto, equipment lease, credit card, aircraft, franchise, manufactured housing, etc.; commercial mortgage-backed securities; residential mortgage-backed or private-label collateralized mortgage obligations; collateralized debt obligations and collateralized loan obligations. The value and related income of these securities is sensitive to changes in economic conditions, including delinquencies and/or defaults. Instability in the markets for fixed-income securities, particularly mortgage-backed and asset-backed securities, has resulted in increased volatility and periods of illiquidity that have adversely impacted the valuation of certain securities held by the Fund.

The Fund is subject to fair value accounting standards that define fair value, establish the framework for measuring fair value and provide a three-level hierarchy for fair valuation based upon the inputs to the valuation as of the measurement date. The three levels of the fair value hierarchy are as follows:

- o Level 1 - Level 1 inputs are quoted prices in active markets for identical securities. An active market is a market in which transactions for the security occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

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- o Level 2 - Level 2 inputs are observable inputs, either directly or indirectly, and include the following:
  - o Quoted prices for similar securities in active markets.
  - o Quoted prices for identical or similar securities in markets that are non-active. A non-active market is a market where there are few transactions for the security, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.
  - o Inputs other than quoted prices that are observable for the security (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
  - o Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
  
- o Level 3 - Level 3 inputs are unobservable inputs. Unobservable inputs may reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the security.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. A summary of the inputs used to value the Fund's investments as of January 31, 2011, is included with the Fund's Portfolio of Investments.

### B. SECURITIES TRANSACTIONS:

Securities transactions are recorded as of the trade date. Realized gains and losses from securities transactions are recorded on the identified cost basis.

Securities purchased on a when-issued, delayed-delivery or forward purchase commitment basis may have extended settlement periods. The value of the security so purchased is subject to market fluctuations during this period. The Fund maintains liquid assets with a current value at least equal to the amount of its when-issued, delayed-delivery or forward purchase commitments until payment is made. At January 31, 2011, the Fund had no when-issued, delayed-delivery or forward purchase commitments.

### C. RESTRICTED SECURITIES:

The Fund invests in restricted securities, which are securities that may not be offered for public sale without first being registered under the 1933 Act. Prior to registration, restricted securities may only be resold in transactions exempt from registration under Rule 144A under the 1933 Act, normally to qualified institutional buyers. As of January 31, 2011, the Fund held restricted securities as shown in the following table that the Brookfield Investment Management Inc. has deemed illiquid pursuant to procedures adopted by the Fund's Board of Trustees. Although market instability can result in periods of increased overall market illiquidity, liquidity for each security is determined based on security-specific factors and assumptions, which require subjective judgment. The Fund does not have the right to demand that such securities be registered. These securities are valued according to the valuation procedures as stated in the Portfolio Valuation footnote (Note A) and are not expressed as a discount to the carrying value of a comparable unrestricted security. There are no unrestricted securities with the same maturity dates and yields for these issuers.

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NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS - (CONTINUED)

## FIRST TRUST STRATEGIC HIGH INCOME FUND JANUARY 31, 2011 (UNAUDITED)

SECURITY	ACQUISITION DATE	PRINCIPAL VALUE/SHARES	PRICE	CARRYING COST
Banc of America Commercial Mortgage, Inc. Series 2000-1, Class M, 6.00%, 11/15/31	08/22/05	\$ 778,723	\$ 0.00 *	\$ -
Banc of America Large Loan, Inc. Series 2005-MIB1, Class L, 3.26%, 03/15/22	08/26/06	\$ 2,000,000	33.72	520,128
Falcon Franchise Loan Trust Series 2003-1, Class E, 6.00%, 01/05/25	08/09/05	\$ 4,231,000	0.13	-
GE Capital Commercial Mortgage Corp. Series 2000-1, Class G, 6.13%, 01/15/33	06/27/07	\$ 700,000	40.92	478,396
GSAMP Trust Series 2004-AR2, Class B4, 5.00%, 08/25/34	08/17/05	\$ 440,199	3.45	-
Independence III CDO, Ltd. Series 3A, Class C1, 2.80%, 10/03/37	12/27/06	\$ 5,000,000	0.67	-
LB-UBS Commercial Mortgage Trust Series 2001-C7, Class Q, 5.87%, 11/15/33	09/19/05	\$ 3,025,000	4.50	-
Series 2001-C7, Class S, 5.87%, 11/15/33	09/29/05	\$ 773,848	1.83	-
Morgan Stanley Capital I, Inc. Series 1999-WF1, Class M, 5.91%, 11/15/31	08/03/05	\$ 968,400	84.67	717,462
Series 2003-IQ5, Class O, 5.24%, 04/15/38	10/19/06	\$ 2,787,919	9.40	2,592
Park Place Securities, Inc. Series 2004-WCW2, Class M10, 3.01%, 10/25/34	03/24/06	\$ 1,301,976	5.42	120,334
Preferred Term Securities XXV, Ltd. Zero Coupon, 06/22/37	03/22/07	\$ 3,750,000	0.00 *	-
Soloso CDO, Ltd., Series 2005-1	11/30/05	\$ 2,000	10.00	-
Summit CBO I, Ltd Series 1A, Class B, 1.44%, 05/23/11	08/03/05	\$ 4,219,712	0.13	72,625
White Marlin CDO, Ltd., Series AI	06/01/07	\$ 3,000	5.00	-
				----- \$1,911,537 =====

\* Amount is less than \$0.01.

\*\* Amount is less than 0.01%.

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### D. REVERSE REPURCHASE AGREEMENTS:

Reverse repurchase agreements are utilized as leverage for the Fund. A reverse repurchase agreement, although structured as a sale and repurchase obligation, acts as a financing under which Fund assets are pledged as collateral to secure a short-term loan. Generally, the other party to the agreement makes the loan in an amount equal to a percentage of the market value of the pledged collateral. At the maturity of the reverse repurchase agreement, the loan will be repaid and the collateral will correspondingly be received back to the Fund. While used as collateral, the assets continue to pay principal and interest which are for the benefit of the Fund.

Information for the period ended January 31, 2011:

Maximum amount outstanding during the period.....	\$9,684,961
Average amount outstanding during the period*.....	\$8,787,235
Average monthly Common Shares outstanding during the period...	9,150,594
Average debt per Common Share outstanding during the period...	\$0.96

\* The average amount outstanding during the period was calculated by adding the borrowings at the end of each day and dividing the sum by the number of days in the period ended January 31, 2011.

During the period ended January 31, 2011, interest rate was 1.00% on borrowings by the Fund under reverse repurchase agreements, which had interest expense that aggregated \$22,456.

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### NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS - (CONTINUED)

#### FIRST TRUST STRATEGIC HIGH INCOME FUND JANUARY 31, 2011 (UNAUDITED)

### E. INTEREST-ONLY SECURITIES:

An interest-only security ("IO Security") is the interest-only portion of a mortgage-backed security ("MBS") that receives some or all of the interest portion of the underlying MBS and little or no principal. A reference principal value called a notional value is used to calculate the amount of interest due to the IO Security. IO securities are sold at a deep discount to their notional principal amount. Generally speaking, when interest rates are falling and prepayment rates are increasing, the value of an IO Security will fall. Conversely, when interest rates are rising and prepayment rates are decreasing, generally the value of an IO Security will rise. These securities, if held in the Fund, are identified on the Portfolio of Investments.

### F. MORTGAGE DOLLAR ROLLS:

The Fund may enter into mortgage dollar rolls in which the Fund sells mortgage-backed securities for delivery in the current month, realizing a gain or loss, and simultaneously contracts to repurchase substantially similar (same type, coupon and maturity) securities to settle on a specified future date.



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The Fund executes its mortgage dollar rolls entirely in the TBA market, whereby the Fund makes a forward commitment to purchase a security and, instead of accepting delivery, the position is offset by a sale of the security with a simultaneous agreement to repurchase at a future date. The Fund accounts for mortgage dollar rolls as purchases and sales.

The risk of entering into mortgage dollar rolls is that the market value of the securities the Fund is obligated to repurchase under the agreement may decline below the repurchase price. In the event the buyer of securities under a mortgage dollar roll files for bankruptcy or becomes insolvent, the Fund's use of the proceeds of the mortgage dollar roll may be restricted pending a determination by the counterparty, or its trustee or receiver, whether to enforce the Fund's obligation to repurchase the securities.

### G. COLLATERALIZED DEBT OBLIGATIONS:

A collateralized debt obligation ("CDO") is an asset-backed security whose underlying collateral is typically a portfolio of bonds or bank loans. Where the underlying collateral is a portfolio of bonds, a CDO is referred to as a collateralized bond obligation ("CBO"). Where the underlying collateral is a portfolio of bank loans, a CDO is referred to as a collateralized loan obligation ("CLO"). Investors in CDOs bear the credit risk of the underlying collateral. Multiple tranches of securities are issued by the CDO, offering investors various maturity and credit risk characteristics. Tranches are categorized as senior, mezzanine, and subordinated/equity, according to their degree of risk. If there are defaults or the CDO's collateral otherwise underperforms, scheduled payments to senior tranches take precedence over those of mezzanine tranches, and scheduled payments to mezzanine tranches take precedence over those to subordinated/equity tranches. CDOs, similar to other asset-backed securities, are subject to prepayment risk.

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### ITEM 2. CONTROLS AND PROCEDURES.

- (a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

### ITEM 3. EXHIBITS.

Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) First Trust Strategic High Income Fund  
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By (Signature and Title)\* /s/ James A. Bowen  
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James A. Bowen, Chairman of the Board, President and  
Chief Executive Officer  
(principal executive officer)

Date March 23, 2011  
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Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)\* /s/ James A. Bowen  
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James A. Bowen, Chairman of the Board, President and  
Chief Executive Officer  
(principal executive officer)

Date March 23, 2011  
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By (Signature and Title)\* /s/ Mark R. Bradley  
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Mark R. Bradley, Treasurer, Chief Financial Officer  
and Chief Accounting Officer  
(principal financial officer)

Date March 23, 2011  
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\* Print the name and title of each signing officer under his or her signature.