

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

FIRST TRUST STRATEGIC HIGH INCOME FUND

Form N-Q

September 22, 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

First Trust Strategic High Income Fund

(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

(Name and address of agent for service)

Registrant's telephone number, including area code: 630-765-8000

Date of fiscal year end: October 31

Date of reporting period: July 31, 2011

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.

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

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

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY	VALU
CORPORATE BONDS AND NOTES - 93.3%				
AUTOMOTIVE - 5.0%				
\$ 425,000	American Axle & Manufacturing, Inc. ...	7.88%	03/01/17	\$ 4
400,000	Ford Motor Co.	6.50%	08/01/18	4
550,000	Pittsburgh Glass Works LLC (b) (c)....	8.50%	04/15/16	5
425,000	Tenneco, Inc.	6.88%	12/15/20	4
70,000	Visteon Corp. (b).....	6.75%	04/15/19	
				1,9
BASIC INDUSTRY - 13.7%				
455,000	AK Steel Corp. (c).....	7.63%	05/15/20	4
425,000	Arch Coal, Inc. (c).....	8.75%	08/01/16	4
215,000	Georgia-Pacific LLC	7.38%	12/01/25	2
185,000	Georgia-Pacific LLC	7.25%	06/01/28	2
275,000	Hexion U.S. Finance Corp./Hexion Nova Scotia Finance ULC (c).....	8.88%	02/01/18	2
425,000	Huntsman International LLC	8.63%	03/15/21	4
425,000	Mercer International, Inc. (c).....	9.50%	12/01/17	4
550,000	Ply Gem Industries, Inc. (b).....	8.25%	02/15/18	5
425,000	Polymer Group, Inc. (b).....	7.75%	02/01/19	4
325,000	Steel Dynamics, Inc.	7.63%	03/15/20	3
600,000	United States Steel Corp. (c).....	7.00%	02/01/18	6
400,000	Westlake Chemical Corp. (c).....	6.63%	01/15/16	4
355,000	Xerium Technologies, Inc. (b).....	8.88%	06/15/18	3
				5,3
CAPITAL GOODS - 8.6%				
550,000	Berry Plastics Corp. (c).....	9.50%	05/15/18	5
245,000	Coleman Cable, Inc. (c).....	9.00%	02/15/18	2
425,000	Crown Cork & Seal Co., Inc.	7.38%	12/15/26	4
825,000	Owens-Illinois, Inc. (c).....	7.80%	05/15/18	8
400,000	Terex Corp. (c).....	8.00%	11/15/17	4
275,000	Trimas Corp. (c).....	9.75%	12/15/17	3
550,000	USG Corp. (c) (d).....	9.75%	01/15/18	5
				3,3
CONSUMER CYCLICAL - 7.6%				
425,000	ACCO Brands Corp. (c).....	10.63%	03/15/15	4
400,000	Easton-Bell Sports, Inc. (c).....	9.75%	12/01/16	4
550,000	Levi Strauss & Co. (c).....	7.63%	05/15/20	5
425,000	Limited Brands, Inc. (c).....	7.60%	07/15/37	4
220,000	Neiman Marcus Group, Inc. (c).....	10.38%	10/15/15	2

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250,000	Phillips-Van Heusen Corp.	7.38%	05/15/20	2
550,000	Reynolds Group Issuer, Inc./Reynolds Group Issuer LLC (b) (c).....	9.00%	04/15/19	5

				2,9

CONSUMER NON-CYCLICAL - 4.9%				
425,000	B&G Foods, Inc. (c).....	7.63%	01/15/18	4
500,000	C&S Group Enterprises LLC (b) (c).....	8.38%	05/01/17	5
425,000	Cott Beverages, Inc. (c).....	8.13%	09/01/18	4
275,000	Rite Aid Corp. (c).....	8.63%	03/01/15	2

See Notes to Quarterly Portfolio of Investments

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

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY	VALUE

CORPORATE BONDS AND NOTES - (Continued)				
CONSUMER NON-CYCLICAL - (Continued)				
\$ 200,000	Rite Aid Corp. (c).....	9.75%	06/12/16	\$ 2

				1,9

ENERGY - 16.6%				
425,000	Breitbart Energy Partners LP/Breitbart Finance Corp.	8.63%	10/15/20	4
425,000	Calfrac Holdings LP (b).....	7.50%	12/01/20	4
550,000	Calumet Specialty Products Partners LP/Calumet Finance Corp. (b) (c)...	9.38%	05/01/19	5
200,000	Chaparral Energy, Inc. (c).....	8.88%	02/01/17	2
425,000	Crosstex Energy LP/Crosstex Energy Finance Corp. (c).....	8.88%	02/15/18	4
140,000	EV Energy Partners LP/EV Energy Finance Corp. (b).....	8.00%	04/15/19	1
275,000	GMX Resources, Inc. (b) (c).....	11.38%	02/15/19	2
275,000	Hercules Offshore LLC (b) (c).....	10.50%	10/15/17	2
425,000	Hilcorp Energy I LP/Hilcorp Finance Co. (b) (c).....	8.00%	02/15/20	4
425,000	Key Energy Services, Inc.	6.75%	03/01/21	4
120,000	Linn Energy LLC/Linn Energy Finance Corp.	8.63%	04/15/20	1
400,000	McJunkin Red Man Corp. (b).....	9.50%	12/15/16	4
495,000	Niska Gas Storage US LLC/Niska Gas Storage Canada ULC (c).....	8.88%	03/15/18	5
425,000	Pioneer Natural Resources Co. (c).....	6.65%	03/15/17	4
425,000	Plains Exploration & Production Co. (c)	7.63%	06/01/18	4
550,000	Venoco, Inc.	8.88%	02/15/19	5
165,000	W&T Offshore, Inc. (b).....	8.50%	06/15/19	1

				6,4

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HEALTHCARE - 0.5%				
195,000	Inventiv Health, Inc. (b).....	10.00%	08/15/18	1

MEDIA - 9.2%				
425,000	American Reprographics Co.	10.50%	12/15/16	4
425,000	Cablevision Systems Corp. (c).....	8.63%	09/15/17	4
425,000	CCO Holdings LLC/CCO Holdings Capital Corp. (c).....	8.13%	04/30/20	4
425,000	Clear Channel Communications, Inc. (b).	9.00%	03/01/21	4
425,000	Deluxe Corp. (c).....	7.38%	06/01/15	4
425,000	Insight Communications Co., Inc. (b) (c)	9.38%	07/15/18	4
425,000	Lamar Media Corp. (c).....	7.88%	04/15/18	4
425,000	Mediacom LLC/Mediacom Capital Corp. (c)	9.13%	08/15/19	4

3,5				

SERVICES - 17.0%				
400,000	AMC Entertainment, Inc. (c).....	8.75%	06/01/19	4
425,000	Avis Budget Car Rental LLC/Avis Budget Finance, Inc. (c).....	9.63%	03/15/18	4

Page 2 See Notes to Quarterly Portfolio of Investments

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

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY	VALU

CORPORATE BONDS AND NOTES - (Continued)				
SERVICES - (Continued)				
\$ 200,000	Beazer Homes USA, Inc. (c).....	9.13%	06/15/18	\$ 1
425,000	Citycenter Holdings LLC/Citycenter Finance Corp (b) (c).....	7.63%	01/15/16	4
400,000	Harrah's Operating Co., Inc. (c).....	11.25%	06/01/17	4
400,000	Iron Mountain, Inc. (c).....	8.75%	07/15/18	4
425,000	K Hovnanian Enterprises, Inc.	10.63%	10/15/16	3
550,000	Marina District Finance Co., Inc.	9.88%	08/15/18	5
300,000	Maxim Crane Works LP (b) (c).....	12.25%	04/15/15	2
225,000	MGM Resorts International (c).....	5.88%	02/27/14	2
225,000	MGM Resorts International (c).....	10.38%	05/15/14	2
140,000	MTR Gaming Group, Inc. (b).....	11.50%	08/01/19	1
550,000	Palace Entertainment Holdings LLC/Palace Entertainment Holdings Corp. (b) (c)	8.88%	04/15/17	5
550,000	Pulte Group, Inc. (c).....	6.38%	05/15/33	4
225,000	RSC Equipment Rental, Inc./RSC Holdings III LLC (c).....	10.25%	11/15/19	2
550,000	Standard Pacific Corp. (c).....	8.38%	05/15/18	5
550,000	United Rentals North America, Inc. (c).	8.38%	09/15/20	5

6,6				

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TECHNOLOGY & ELECTRONICS - 2.8%				
22,000	First Data Corp.	9.88%	09/24/15	5
550,000	First Data Corp. (b).....	8.25%	01/15/21	5
500,000	Freescale Semiconductor, Inc. (b) (c) ..	9.25%	04/15/18	5

				1,1

TELECOMMUNICATIONS - 5.8%				
215,000	Cincinnati Bell, Inc. (c).....	8.25%	10/15/17	2
275,000	Cincinnati Bell, Inc. (c).....	8.38%	10/15/20	2
400,000	Frontier Communications (c).....	7.13%	03/15/19	4
200,000	PAETEC Holding Corp. (c).....	9.50%	07/15/15	2
300,000	PAETEC Holding Corp.	9.88%	12/01/18	3
400,000	Qwest Corp.	6.88%	09/15/33	3
425,000	Windstream Corp.	7.00%	03/15/19	4

				2,2

UTILITY - 1.6%				
425,000	Calpine Corp. (b) (c).....	7.25%	10/15/17	4
225,000	Edison Mission Energy	7.00%	05/15/17	1

				6

TOTAL CORPORATE BONDS AND NOTES				36,4
(Cost \$35,270,730)				-----
MORTGAGE-BACKED SECURITIES - 16.6%				
COLLATERALIZED MORTGAGE OBLIGATIONS - 9.1%				
Banc of America Mortgage Securities, Inc.,				
123,000	Series 2007-1, Class 1A26	6.00%	03/25/37	1
Chase Mortgage Finance Corp.				
118,962	Series 2007-S2, Class 1A8	6.00%	03/25/37	1

See Notes to Quarterly Portfolio of Investments

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

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY	VALU

MORTGAGE-BACKED SECURITIES - (Continued)				
COLLATERALIZED MORTGAGE OBLIGATIONS - (Continued)				
Citicorp Mortgage Securities, Inc.				
\$ 660,000	Series 2007-2, Class 1A3	6.00%	02/25/37	\$ 6
Citigroup Mortgage Loan Trust, Inc.				
250,501	Series 2006-AR6, Class 1A1 (e).....	5.91%	08/25/36	2
265,714	Series 2007-AR4, Class 1A1A (e)....	5.79%	03/25/37	2
Countrywide Alternative Loan Trust				
82,444	Series 2006-41CB, Class 2A14	6.00%	01/25/37	

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	Countrywide Home Loan Mortgage Pass Through Trust			
429,869	Series 2005-27, Class 2A1	5.50%	12/25/35	3
314,000	Series 2007-10, Class A5	6.00%	07/25/37	2
	HarborView Mortgage Loan Trust			
3,615,995	Series 2005-9, Class B10 (e).....	1.94%	06/20/35	2
	JP Morgan Mortgage Trust			
67,857	Series 2006-S3, Class 1A30	6.50%	08/25/36	
	Residential Asset Securitization Trust			
377,718	Series 2005-A8CB, Class A11	6.00%	07/25/35	3
	Structured Asset Securities Corp.			
58,214	Series 2003-10, Class A	6.00%	04/25/33	
	Wells Fargo Mortgage Backed Securities Trust			
306,668	Series 2006-8, Class A15	6.00%	07/25/36	2
350,000	Series 2007-3, Class 1A10	5.50%	04/25/37	3
181,683	Series 2007-7, Class A38	6.00%	06/25/37	1
25,737	Series 2007-8, Class 1A16	6.00%	07/25/37	

				3,5

	COMMERCIAL MORTGAGE-BACKED SECURITIES - 7.5%			
	Banc of America Large Loan, Inc.			
2,000,000	Series 2005-MIB1, Class L (e) (f) (g)	3.19%	03/15/22	1,0
	Citigroup Commercial Mortgage Trust			
170,000	Series 2007-C6, Class AM (e).....	5.89%	12/10/49	1
	Citigroup/Deutsche Bank Commercial Mortgage Trust			
310,000	Series 2007-CD4, Class A4	5.32%	12/11/49	3
	Commercial Mortgage Pass Through Certificates			
330,000	Series 2007-C9, Class A4 (e).....	6.01%	12/10/49	3
	Credit Suisse Mortgage Capital Certificates			
30,000	Series 2006-C5, Class AJ	5.37%	12/15/39	
	Greenwich Capital Commercial Funding Corp.			
290,000	Series 2007-GG9, Class AM	5.48%	03/10/39	2
200,000	Series 2007-GG11, Class A4	5.74%	12/10/49	2
330,000	Series 2007-GG11, Class AJ (e).....	6.20%	12/10/49	2

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See Notes to Quarterly Portfolio of Investments

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

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY	VALU
	MORTGAGE-BACKED SECURITIES - (Continued)			
	COMMERCIAL MORTGAGE-BACKED SECURITIES - (Continued)			
	GS Mortgage Securities Corp II			
\$ 390,000	Series 2006-GG8, Class AJ	5.62%	11/10/39	\$ 3

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					2,9

	TOTAL MORTGAGE-BACKED SECURITIES				6,4
	(Cost \$7,187,130)				-----
ASSET-BACKED SECURITIES - 8.0%					
	Ace Securities Corp.				
322,000	Series 2003-MH1, Class A4 (b).....	6.50%	08/15/30		3
	Bombardier Capital Mortgage				
	Securitization Corp.				
303,472	Series 1999-B, Class A1B	6.61%	12/15/29		1
1,087,758	Series 1999-B, Class A3	7.18%	12/15/29		6
	Conseco Finance Securitizations Corp.				
2,545,430	Series 2000-6, Class M1	7.72%	09/01/31		6
	Countrywide Asset-Backed Certificates				
224,512	Series 2006-13, Class 3AV2 (e).....	0.34%	01/25/37		1
	Credit Suisse First Boston Mortgage				
	Securities Corp.				
94,380	Series 2002-MH3, Class A	6.70%	12/25/31		1
	Falcon Franchise Loan Trust				
912,276	Series 2003-1, Class E (f) (h).....	6.00%	01/05/25		
	Green Tree Financial Corp.				
174,750	Series 1997-4, Class B1	7.23%	02/15/29		
810,293	Series 1998-4, Class M1	6.83%	04/01/30		3
3,373,269	Series 1999-3, Class M1	6.96%	02/01/31		4
	GSAMP Trust				
440,199	Series 2004-AR2, Class B4 (e) (f)...	5.10%	08/25/34		
964,138	Series 2006-S3, Class A2 (e) (g)...	6.27%	05/25/36		
845,179	Series 2006-S5, Class A1 (e).....	0.28%	09/25/36		
	Independence III CDO, Ltd.				
5,000,000	Series 3A, Class C1 (e) (f) (i)....	2.75%	10/03/37		
	Park Place Securities, Inc.				
1,465,491	Series 2004-WCW1, Class M8 (e).....	3.69%	09/25/34		
1,301,976	Series 2004-WCW2, Class M10 (e) (f)	2.94%	10/25/34		
	Summit CBO I, Ltd.				
4,250,309	Series 1A, Class B (e) (f) (h).....	1.41%	05/23/11		

	TOTAL ASSET-BACKED SECURITIES				3,1
	(Cost \$3,073,599)				-----
FOREIGN CORPORATE BONDS AND NOTES - 6.7%					
	BASIC INDUSTRY - 3.8%				
425,000	Cascades, Inc. (c).....	7.88%	01/15/20		4
550,000	Masonite International Corp. (b).....	8.25%	04/15/21		5
450,000	Tembec Industries, Inc. (c).....	11.25%	12/15/18		4

					1,4

See Notes to Quarterly Portfolio of Investments

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

PRINCIPAL		STATED	STATED	
VALUE	DESCRIPTION	COUPON	MATURITY	VALUE

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FOREIGN CORPORATE BONDS AND NOTES - (Continued)

\$	425,000	CAPITAL GOODS - 1.2% Bombardier, Inc. (b) (c).....	7.75%	03/15/20	\$	4
	170,000	ENERGY - 0.5% Precision Drilling Corp.	6.63%	11/15/20		1
	400,000	TELECOMMUNICATIONS - 1.2% Global Crossing Ltd. (c).....	12.00%	09/15/15		4
		TOTAL FOREIGN CORPORATE BONDS AND NOTES				2,6
		(Cost \$2,514,323)				

SENIOR FLOATING-RATE LOAN INTERESTS - 0.4%

214,649	UTILITY - 0.4% Texas Competitive Electric Holdings Co., LLC Tranche B2 (e).....	4.69%-4.77%	10/10/14		1
	TOTAL SENIOR FLOATING-RATE LOAN INTERESTS				1
	(Cost \$191,986)				

STRUCTURED NOTES - 0.0%

3,750,000	Preferred Term Securities XXV, Ltd. (f) (j)	06/22/37			
	TOTAL STRUCTURED NOTES				
	(Cost \$0)				

U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES - 0.0%

76,708	COMMERCIAL MORTGAGE-BACKED SECURITIES - 0.0% FannieMae-ACES Series 1998-M7, Class N, IO (e)....	0.32%	05/25/36		
	TOTAL U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES				
	(Cost \$106,509)				

SHARES	DESCRIPTION	VALU
	PREFERRED SECURITIES - 0.1%	
2,000	Soloso CDO, Ltd., Series 2005-1 (f) (j).....	
3,000	White Marlin CDO, Ltd., Series AI (f) (i) (j).....	
	TOTAL PREFERRED SECURITIES	
	(Cost \$0)	
	TOTAL INVESTMENTS - 125.1%	48,8
	(Cost \$48,344,277) (k)	
	OUTSTANDING LOAN - (34.1%)	(13,3
	NET OTHER ASSETS AND LIABILITIES - 9.0%	3,5
	NET ASSETS - 100.0%	\$ 39,0

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- (a) All percentages shown in the Portfolio of Investments are based on net assets.

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

- (b) 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 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 July 31, 2011, securities noted as such amounted to \$11,214,708 or 28.72% of net assets.
- (c) All or a portion of this security is available to serve as collateral on the outstanding loan.
- (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 July 31, 2011.
- (e) Floating rate security. The interest rate shown reflects the rate in effect at July 31, 2011.
- (f) 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 1C - Restricted Securities in the Notes to Quarterly Portfolio of Investments).
- (g) Security is receiving less than the stated coupon.
- (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 July 31, 2011, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$2,587,758 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$2,095,368.

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ACES Alternative Credit Enhancement Securities

CBO Collateralized Bond Obligation

CDO Collateralized Debt Obligation

IO Interest-Only Security - Principal amount shown represents par value on which interest payments are based.

See Notes to Quarterly Portfolio of Investments

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

VALUATION INPUTS

A summary of the inputs used to value the Fund's investments as of July 31, 2011 is as follows (see Note 1A - Portfolio Valuation in the Notes to Quarterly Portfolio of Investments):

	TOTAL VALUE AT 7/31/2011	LEVEL 1 QUOTED PRICES	LEVEL 2 SIGNIFICANT OBSERVABLE INPUTS
Corporate Bonds and Notes*.....	\$ 36,427,006	\$ --	\$ 36,427,006
Mortgage-Backed Securities:			
Collateralized Mortgage Obligations.....	3,570,749	--	3,570,749
Commercial Mortgage-Backed Securities.....	2,920,567	--	2,920,567
Asset-Backed Securities.....	3,122,301	--	3,121,115
Foreign Corporate Bonds and Notes*.....	2,600,875	--	2,600,875
Senior Floating-Rate Loan Interests*.....	159,779	--	159,779
Structured Notes.....	375	--	375
U.S. Government Agency Mortgage-Backed Securities.....	15	--	15
Preferred Securities.....	35,000	--	--
TOTAL INVESTMENTS.....	\$ 48,836,667	\$ --	\$ 48,800,481

* See the Portfolio of Investments for industry breakout.

All transfers in and out of Level 3 during the period are assumed to be transferred on the last day of the period at their current value. The following table presents the activity of 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	BALANCE AS OF	TRANSFERS IN	NET REALIZED	CHANGE IN NET UNREALIZED
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UNOBSERVABLE INPUTS (LEVEL 3)	OCTOBER 31, 2010	(OUT) OF LEVEL 3	GAINS (LOSSES)	APPRECIATION (DEPRECIATION)	NET
Asset-Backed Securities	\$ 87,636	\$ (42)	\$ 1,961,863	\$ (40,353)	\$ (
Preferred Securities	35,000	--	--	--	
TOTAL	\$ 122,636	\$ (42)	\$ 1,961,863	\$ (40,353)	\$ (

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See Notes to Quarterly Portfolio of Investments

NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS

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

1. 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") is 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;

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- 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 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 a 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
JULY 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.
- 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.

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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 July 31, 2011, is included with the Fund's Portfolio of Investments.

B. SECURITIES TRANSACTIONS AND INVESTMENT INCOME:

Securities transactions are recorded as of the trade date. Realized gains and losses from securities transactions are recorded on the identified cost basis. Interest income is recorded daily on the accrual basis. Amortization of premiums and accretion of discounts are recorded using the effective interest method.

The Fund invests in certain lower credit quality securitized assets (for example, asset-backed securities, collateralized mortgage obligations and commercial mortgage-backed securities), as well as interest-only securities, that have contractual cash flows. For these securities, if there is a change in the estimated cash flows, based on an evaluation of current information, then the estimated yield is adjusted on a prospective basis over the remaining life of the security. Additionally, if the evaluation of current information indicates a permanent impairment of the security, the cost basis of the security is written down and a loss is recognized. Debt obligations may be placed on non-accrual status, and related interest income may be reduced by ceasing current accruals and amortization/accretion and writing off interest receivables when the collection of all or a portion of interest has become doubtful based on consistently applied procedures. A debt obligation is removed from non-accrual status when the issuer resumes interest payments or when collectability of interest is reasonably assured.

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 July 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 July 31, 2011, the Fund held restricted securities as shown in the following table that 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

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NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS - (Continued)

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

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

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the Portfolio Valuation note (Note 1A) 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.

SECURITY	ACQUISITION DATE	PRINCIPAL VALUE/SHARES	PRICE	CARRYING COST	
Banc of America Large Loan, Inc. Series 2005-MIB1, Class L, 3.19%, 03/15/22	08/26/06	\$ 2,000,000	\$50.63	\$ 537,865	\$
Falcon Franchise Loan Trust Series 2003-1, Class E, 6.00%, 01/05/25	08/09/05	\$ 912,276	0.13	--	
GSAMP Trust Series 2004-AR2, Class B4, 4.76%, 08/25/34	08/17/05	\$ 440,199	1.76	--	
Independence III CDO, Ltd. Series 3A, Class C1, 2.75%, 10/03/37	12/27/06	\$ 5,000,000	0.29	--	
Park Place Securities, Inc. Series 2004-WCW2, Class M10, 2.94%, 10/25/34	03/24/06	\$ 1,301,976	3.82	183,786	
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, 1.41%, 05/23/11	08/03/05	\$ 4,250,309	0.00 *	91,513	
White Marlin CDO, Ltd., Series AI	06/01/07	3,000	5.00	--	
				<u>\$ 813,164</u>	<u>\$</u>

* Amount is less than \$0.01.

** Amount is less than 0.01%.

D. INTEREST-ONLY SECURITIES:

An interest-only security ("IO Security") is the interest-only portion of a 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.

E. 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

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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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NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS - (Continued)

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

2. SUBSEQUENT EVENTS

On August 8, 2011, shareholders of First Trust Strategic High Income Fund (NYSE: FHI) and First Trust Strategic High Income Fund III (NYSE: FHO) approved the reorganizations of each of FHI and FHO into First Trust Strategic High Income Fund II (NYSE: FHY) (collectively, the "Funds") and shareholders of FHY approved the issuance of additional common shares of FHY in connection with the reorganizations. In connection with the reorganizations, FHY will acquire all of the assets and liabilities of FHI and FHO in separate tax-free transactions for common shares of FHY. Each reorganization, if completed, will occur based on the relative net asset values of FHY, FHI and FHO as of September 30, 2011. It is currently expected that the reorganizations will be effective on October 3, 2011, subject to all regulatory requirements and customary closing conditions being satisfied.

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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.

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

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

By (Signature and Title)* /s/ James A. Bowen

James A. Bowen, Chairman of the Board, President and
Chief Executive Officer
(principal executive officer)

Date September 21, 2011

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

James A. Bowen, Chairman of the Board, President and
Chief Executive Officer
(principal executive officer)

Date September 21, 2011

By (Signature and Title)* /s/ Mark R. Bradley

Mark R. Bradley, Treasurer, Chief Financial Officer and
Chief Accounting Officer (principal financial officer)

Date September 21, 2011

* Print the name and title of each signing officer under his or her signature.