

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

FIRST TRUST STRATEGIC HIGH INCOME FUND

Form N-Q

September 29, 2008

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)

1001 Warrenville Road, Suite 300  
LISLE, IL 60532  
(Address of principal executive offices) (Zip code)

W. Scott Jardine, Esq.  
First Trust Portfolios L.P.  
1001 Warrenville Road, Suite 300  
LISLE, IL 60532  
(Name and address of agent for service)

Registrant's telephone number, including area code:  
630-241-4141

Date of fiscal year end: OCTOBER 31

Date of reporting period: JULY 31, 2008

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(s) of Investments is attached herewith.

FIRST TRUST STRATEGIC HIGH INCOME FUND  
PORTFOLIO OF INVESTMENTS (A)

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JULY 31, 2008 (UNAUDITED)

| PRINCIPAL<br>VALUE<br>-----     | DESCRIPTION<br>-----                             | COUPON<br>----- | STATED<br>MATURITY<br>----- | ----- |
|---------------------------------|--------------------------------------------------|-----------------|-----------------------------|-------|
| ASSET-BACKED SECURITIES - 81.9% |                                                  |                 |                             |       |
|                                 | ABCLO, Ltd.                                      |                 |                             |       |
| \$ 1,750,000                    | Series 2007-1A, Class D (b) (c) .....            | 6.69%           | 04/15/21                    | \$ 1  |
|                                 | ACE Securities Corp., Home Equity Loan Trust     |                 |                             |       |
| 504,354                         | Series 2003-OP1, Class B .....                   | 6.00%           | 12/25/33                    |       |
| 329,436                         | Series 2004-HE4, Class M11 (c) .....             | 5.96%           | 12/25/34                    |       |
| 2,000,000                       | Series 2005-HE5, Class M10 (c) .....             | 5.46%           | 08/25/35                    |       |
| 3,000,000                       | Series 2007-HE4, Class M8 (c) .....              | 4.96%           | 05/25/37                    |       |
|                                 | ACL Business Loan Receivables Trust              |                 |                             |       |
| 2,326,136                       | Series 1999-1, Class A3 (b) .....                | 7.39%           | 08/15/20                    | 2     |
| 2,499,845                       | Series 1999-2, Class B (b) .....                 | 8.75%           | 01/15/21                    | 2     |
|                                 | Aircraft Finance Trust                           |                 |                             |       |
| 1,094,354                       | Series 1999-1A, Class A2 (b) (c) .....           | 2.96%           | 05/15/24                    | 1     |
|                                 | Atherton Franchisee Loan Funding                 |                 |                             |       |
| 526,719                         | Series 1999-A, Class A2 (b) .....                | 7.23%           | 03/15/21                    |       |
|                                 | Bear Stearns Alt-A Trust                         |                 |                             |       |
| 2,244,263                       | Series 2006-8, Class 2A2 .....                   | 5.51%           | 08/25/46                    | 1     |
|                                 | Bear Stearns Asset Backed Security Trust         |                 |                             |       |
| 4,000,000                       | Series 2007-HE3, Class M9 (c) .....              | 4.71%           | 04/25/37                    |       |
|                                 | BNC Mortgage Loan Trust                          |                 |                             |       |
| 5,750,000                       | Series 2007-2, Class B1 (b) (c) .....            | 4.96%           | 05/25/37                    |       |
| 1,400,000                       | Series 2007-2, Class B2 (b) (c) .....            | 4.96%           | 05/25/37                    |       |
| 1,766,000                       | Series 2007-3, Class B2 (b) (c) .....            | 4.96%           | 07/25/37                    |       |
|                                 | Bombardier Capital Mortgage Securitization Corp. |                 |                             |       |
| 342,403                         | Series 1999-B, Class A1B .....                   | 6.61%           | 09/15/10                    |       |
| 876,643                         | Series 1999-B, Class A3 .....                    | 7.18%           | 12/15/15                    |       |
|                                 | Conseco Finance Securitizations Corp.            |                 |                             |       |
| 3,854,091                       | Series 2000-6, Class M1 .....                    | 7.72%           | 09/01/31                    | 1     |
|                                 | EMAC Owner Trust, LLC                            |                 |                             |       |
| 1,260,650                       | Series 1998-1, Class A3 (b) .....                | 6.63%           | 01/15/25                    | 1     |
| 1,162,359                       | Series 2000-1, Class A1 (b) .....                | 6.12%           | 01/15/27                    |       |
| 1,488,976                       | Series 2000-1, Class A2 (b) .....                | 6.12%           | 01/15/27                    |       |
|                                 | Falcon Franchise Loan Trust                      |                 |                             |       |
| 4,905,000                       | Series 2000-1, Class E (b) .....                 | 6.50%           | 04/05/16                    | 2     |
| 4,231,000                       | Series 2003-1, Class E (b) .....                 | 6.00%           | 01/05/25                    | 2     |
|                                 | FFCA Secured Lending Corp.                       |                 |                             |       |
| 5,000,000                       | Series 1998-1, Class D1 (b) .....                | 7.81%           | 10/18/25                    | 3     |
| 5,000,000                       | Series 1999-2, Class B1 (b) .....                | 8.27%           | 05/18/26                    | 2     |
|                                 | FMAC Loan Receivables Trust                      |                 |                             |       |
| 1,182,521                       | Series 1997-B, Class A (b) .....                 | 6.85%           | 09/15/19                    | 1     |
| 6,200,000                       | Series 1998-CA, Class A3 (b) .....               | 6.99%           | 09/15/20                    | 5     |
|                                 | Green Tree Financial Corp.                       |                 |                             |       |
| 373,335                         | Series 1997-4, Class B1 .....                    | 7.23%           | 02/15/29                    |       |
| 1,000,000                       | Series 1998-4, Class M1 .....                    | 6.83%           | 04/01/30                    |       |
| 3,000,000                       | Series 1998-8, Class M1 .....                    | 6.98%           | 09/01/30                    | 1     |
| 6,561,074                       | Series 1999-3, Class M1 .....                    | 6.96%           | 02/01/31                    | 1     |
|                                 | GreenPoint Manufactured Housing Contract Trust   |                 |                             |       |
| 10,000,000                      | Series 1999-5, Class M2 .....                    | 9.23%           | 12/15/29                    | 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, 2008 (UNAUDITED)

| PRINCIPAL<br>VALUE<br>-----           | DESCRIPTION<br>-----                      | COUPON<br>----- | STATED<br>MATURITY<br>----- | ----- |
|---------------------------------------|-------------------------------------------|-----------------|-----------------------------|-------|
| ASSET-BACKED SECURITIES - (CONTINUED) |                                           |                 |                             |       |
|                                       | GSAMP Trust                               |                 |                             |       |
| \$ 1,804,131                          | Series 2004-AR2, Class B4 (b) .....       | 5.00%           | 08/25/34                    | \$    |
| 1,000,000                             | Series 2006-S3, Class A2 .....            | 5.77%           | 05/25/36                    |       |
| 875,118                               | Series 2006-S5, Class A1 (c) .....        | 2.55%           | 09/25/36                    |       |
|                                       | Halyard Multi Asset CBO I, Ltd.           |                 |                             |       |
| 2,529,642                             | Series 1A, Class B (b) (c) .....          | 3.95%           | 03/24/10                    | 1     |
|                                       | Helios Series I Multi Asset CBO, Ltd.     |                 |                             |       |
| 3,000,000                             | Series 1A, Class B (b) (c) .....          | 4.00%           | 12/13/36                    | 1     |
|                                       | Independence 111 CDO, Ltd.                |                 |                             |       |
| 5,000,000                             | Series 3A, Class C1 (b) (c) .....         | 5.29%           | 10/03/37                    | 2     |
|                                       | Indymac Residential Asset Backed Trust    |                 |                             |       |
| 2,375,000                             | Series 2005-B, Class M10 (c) .....        | 5.96%           | 08/25/35                    |       |
|                                       | Long Beach Mortgage Loan Trust            |                 |                             |       |
| 1,966,974                             | Series 2006-A, Class A2 .....             | 5.55%           | 05/25/36                    |       |
|                                       | Longhorn CDO, Ltd.                        |                 |                             |       |
| 2,743,468                             | Series 1, Class C (b) (c) .....           | 8.97%           | 05/10/12                    | 1     |
|                                       | Merit Securities Corp.                    |                 |                             |       |
| 3,453,729                             | Series 13, Class B1 (d) .....             | 8.65%           | 12/28/33                    |       |
| 2,602,000                             | Series 13, Class M2 .....                 | 8.65%           | 12/28/33                    |       |
|                                       | North Street Referenced Linked Notes      |                 |                             |       |
| 4,500,000                             | Series 2000-1A, Class C (b) (c) .....     | 4.55%           | 04/28/11                    | 1     |
| 7,000,000                             | Series 2000-1A, Class D1 (b) (c) .....    | 5.40%           | 04/28/11                    | 4     |
|                                       | Oakwood Mortgage Investors, Inc.          |                 |                             |       |
| 8,000,000                             | Series 2002-B, Class M1 .....             | 7.62%           | 06/15/32                    | 2     |
|                                       | Park Place Securities, Inc.               |                 |                             |       |
| 3,689,895                             | Series 2004-WCW1, Class M8 (c) .....      | 5.96%           | 09/25/34                    |       |
| 1,301,976                             | Series 2004-WCW2, Class M10 (b) (c) ..... | 5.21%           | 10/25/34                    |       |
| 5,000,000                             | Series 2005-WCW3, Class M11 (b) (c) ..... | 4.96%           | 08/25/35                    |       |
| 3,000,000                             | Series 2005-WHQ4, Class M10 (b) (c) ..... | 4.96%           | 09/25/35                    |       |
|                                       | Pebble Creek LCDO, Ltd.                   |                 |                             |       |
| 2,000,000                             | Series 2007-2A, Class E (b) (c) .....     | 6.05%           | 06/22/14                    | 1     |
|                                       | Pegasus Aviation Lease Securitization III |                 |                             |       |
| 1,787,312                             | Series 2001-1A, Class A3 (b) (c) .....    | 3.14%           | 03/10/14                    | 1     |
|                                       | Rosedale CLO, Ltd.                        |                 |                             |       |
| 3,500,000                             | Series I-A, Class II (b) .....            | 0.00%           | 07/24/21                    | 2     |
|                                       | Signature 5, Ltd.                         |                 |                             |       |
| 1,000,000                             | Series 5A, Class C (b) .....              | 12.56%          | 10/27/12                    |       |
|                                       | Soundview Home Equity Loan Trust          |                 |                             |       |
| 1,634,000                             | Series 2007-OPT3, Class M10 (b) (c) ..... | 4.96%           | 08/25/37                    |       |
|                                       | Structured Asset Investment Loan Trust    |                 |                             |       |
| 2,004,771                             | Series 2004-8, Class B2 .....             | 5.00%           | 09/25/34                    |       |
|                                       | Structured Asset Securities Corp.         |                 |                             |       |
| 3,000,000                             | Series 2007-BC3, Class B1 (b) (c) .....   | 4.96%           | 05/25/47                    |       |
| 2,000,000                             | Series 2007-OSI, Class M10 (c) .....      | 4.96%           | 06/25/37                    |       |
|                                       | Summit CBO I, Ltd.                        |                 |                             |       |
| 4,914,010                             | Series 1A, Class B (b) (c) .....          | 3.78%           | 05/23/11                    |       |
|                                       | UCFC Manufactured Housing Contract        |                 |                             |       |
| 10,000,000                            | Series 1998-3, Class M1 .....             | 6.51%           | 01/15/30                    | 3     |

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See Notes to Quarterly Portfolio of Investments

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FIRST TRUST STRATEGIC HIGH INCOME FUND  
 PORTFOLIO OF INVESTMENTS (A) - (CONTINUED)  
 JULY 31, 2008 (UNAUDITED)

| PRINCIPAL<br>VALUE<br>-----                   | DESCRIPTION<br>-----                                                                        | COUPON<br>----- | STATED<br>MATURITY<br>----- |    |
|-----------------------------------------------|---------------------------------------------------------------------------------------------|-----------------|-----------------------------|----|
| ASSET-BACKED SECURITIES - (CONTINUED)         |                                                                                             |                 |                             |    |
| \$ 3,947,000                                  | Wells Fargo Home Equity Trust<br>Series 2007-2, Class B2 (b) (c) .....                      | 4.96%           | 04/25/37                    | \$ |
|                                               | TOTAL ASSET-BACKED SECURITIES<br>(Cost \$102,138,441) .....                                 |                 |                             | 66 |
| COLLATERALIZED MORTGAGE OBLIGATIONS - 5.0%    |                                                                                             |                 |                             |    |
| 1,930,000                                     | Adjustable Rate Mortgage Trust<br>Series 2005-10, Class 5M5 (c) .....                       | 4.66%           | 01/25/36                    |    |
| 3,911,601                                     | Countrywide Alternative Loan Trust<br>Series 2005-56, Class B4 (b) (c) .....                | 3.71%           | 11/25/35                    |    |
| 3,422,651                                     | Series 2005-56, Class M4 (c) .....                                                          | 3.38%           | 11/25/35                    | 1  |
| 2,678,611                                     | Series 2006-OA2, Class B2 (c) .....                                                         | 4.71%           | 05/20/46                    |    |
| 2,411,456                                     | Credit Suisse Mortgage Capital Certificates<br>Series 2006-1, Class DB5 (d) .....           | 5.74%           | 02/25/36                    |    |
| 2,331,569                                     | Series 2006-2, Class DB5 (d) .....                                                          | 5.87%           | 03/25/36                    |    |
| 1,089,558                                     | CS First Boston Mortgage Securities Corp.<br>Series 2005-11, Class DB6 (d) .....            | 6.14%           | 12/25/35                    |    |
| 3,690,610                                     | Deutsche Alt-A Securities, Inc. Mortgage Loan Trust<br>Series 2007-OA4, Class M10 (c) ..... | 5.46%           | 08/25/47                    |    |
| 4,107,433                                     | HarborView Mortgage Loan Trust<br>Series 2005-9, Class B10 (c) .....                        | 4.21%           | 06/20/35                    | 2  |
|                                               | TOTAL COLLATERALIZED MORTGAGE OBLIGATIONS<br>(Cost \$11,231,859) .....                      |                 |                             | 4  |
| COMMERCIAL MORTGAGE-BACKED SECURITIES - 27.5% |                                                                                             |                 |                             |    |
| 1,171,422                                     | Banc of America Commercial Mortgage Inc.<br>Series 2000-1, Class M (b) .....                | 6.00%           | 11/15/31                    |    |
| 2,000,000                                     | Banc of America Large Loan, Inc.<br>Series 2005-MIB1, Class L (b) (c) .....                 | 5.46%           | 03/15/22                    | 1  |
| 2,878,166                                     | Banc of America Structural Securities Trust<br>Series 2002-X1, Class O (b) .....            | 7.00%           | 10/11/33                    | 2  |
| 2,878,166                                     | Series 2002-X1, Class P (b) .....                                                           | 7.00%           | 10/11/33                    | 2  |
| 1,776,400                                     | Bear Stearns Commercial Mortgage Securities<br>Series 2000-WF1, Class K .....               | 6.50%           | 02/15/32                    |    |
| 8,458,685                                     | FannieMae-ACES<br>Series 1998-M7, Class N, IO (e) (f) .....                                 | 0.00%           | 05/25/36                    |    |
| 700,000                                       | GE Capital Commercial Mortgage Corp.<br>Series 2000-1, Class G (b) .....                    | 6.13%           | 01/15/33                    |    |
| 1,000,000                                     | GMAC Commercial Mortgage Securities, Inc.<br>Series 1999-C3, Class G (b) .....              | 6.97%           | 08/15/36                    |    |

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|            |                                          |       |          |   |
|------------|------------------------------------------|-------|----------|---|
|            | Government National Mortgage Association |       |          |   |
| 95,222,608 | Series 2003-47, Class XA, IO (e) .....   | 1.24% | 06/16/43 | 4 |
| 24,043,228 | Series 2003-59, Class XA, IO (e) .....   | 1.98% | 06/16/34 | 1 |
|            | GS Mortgage Securities Corp. II          |       |          |   |
| 7,000,000  | Series 1998-C1, Class H (b) .....        | 6.00% | 10/18/30 | 2 |
|            | LB-UBS Commercial Mortgage Trust         |       |          |   |
| 3,025,000  | Series 2001-C7, Class Q (b) .....        | 5.87% | 11/15/33 | 1 |
| 2,083,703  | Series 2001-C7, Class S (b) .....        | 5.87% | 11/15/33 | 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, 2008 (UNAUDITED)

| PRINCIPAL<br>VALUE<br>-----                         | DESCRIPTION<br>-----                                                     | COUPON<br>----- | STATED<br>MATURITY<br>----- |      |
|-----------------------------------------------------|--------------------------------------------------------------------------|-----------------|-----------------------------|------|
| COMMERCIAL MORTGAGE-BACKED SECURITIES - (CONTINUED) |                                                                          |                 |                             |      |
|                                                     | Morgan Stanley Capital I, Inc.                                           |                 |                             |      |
| \$ 968,400                                          | Series 1999-WF1, Class M (b) .....                                       | 5.91%           | 11/15/31                    | \$   |
| 2,787,919                                           | Series 2003-IQ5, Class O (b) .....                                       | 5.24%           | 04/15/38                    |      |
|                                                     | TOTAL COMMERCIAL MORTGAGE-BACKED SECURITIES<br>(Cost \$29,722,483) ..... |                 |                             | 22   |
| CORPORATE BONDS - 6.6%                              |                                                                          |                 |                             |      |
| 3,500,000                                           | Americast Technologies, Inc. (b) .....                                   | 11.00%          | 12/01/14                    | 3    |
| 1,500,000                                           | Lexington Precision Corp., Units (g) .....                               | 0.00%           | 08/01/09                    | 1    |
| 1,498,000                                           | Rafealla Apparel Group, Inc., Series B .....                             | 11.25%          | 06/15/11                    |      |
|                                                     | TOTAL CORPORATE BONDS<br>(Cost \$6,266,266) .....                        |                 |                             | 5    |
| STRUCTURED NOTES - 4.7%                             |                                                                          |                 |                             |      |
|                                                     | Bacchus Ltd.                                                             |                 |                             |      |
| 1,225,000                                           | Series 2006-1I, Subordinated Bond (b) .....                              | 0.00%           | 01/20/19                    |      |
|                                                     | InCaps Funding II Ltd./InCaps Funding II Corp.                           |                 |                             |      |
| 2,000,000                                           | Subordinated Note (b) .....                                              | 0.00%           | 01/15/34                    |      |
| 3,750,000                                           | Preferred Term Securities XXV, Ltd. (d) .....                            | 0.00%           | 06/22/37                    | 2    |
|                                                     | TOTAL STRUCTURED NOTES<br>(Cost \$5,414,654) .....                       |                 |                             | 3,84 |

| SHARES<br>-----             | DESCRIPTION<br>----- |  |
|-----------------------------|----------------------|--|
| PREFERRED SECURITIES - 5.9% |                      |  |

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|       |                                                 |       |
|-------|-------------------------------------------------|-------|
| 1,450 | Ajax Two Ltd., Series 2A (b) (h) .....          | \$    |
| 2,000 | Ajax Two Ltd., Series 2X (b) (h) .....          |       |
| 4,000 | Pro Rata Funding, Ltd., Inc. (b) (h) .....      | 2     |
| 2,000 | Soloso CDO, Ltd., Series 2005-1 (b) (h) .....   | 1     |
| 3,000 | White Marlin CDO, Ltd., Series AI (b) (h) ..... |       |
|       | TOTAL PREFERRED SECURITIES                      |       |
|       | (Cost \$7,816,157) .....                        | 4     |
|       | TOTAL INVESTMENTS - 131.6%                      |       |
|       | (Cost \$162,589,860) (i) .....                  | 107   |
|       | LOAN OUTSTANDING - (41.6)% .....                | (34   |
|       | NET OTHER ASSETS AND LIABILITIES - 10.0% .....  | 8     |
|       | NET ASSETS - 100.0% .....                       | \$ 81 |

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST STRATEGIC HIGH INCOME FUND  
 PORTFOLIO OF INVESTMENTS (A) - (CONTINUED)  
 JULY 31, 2008 (UNAUDITED)

- 
- (a) All percentages shown in the Portfolio of Investments are based on net assets.
  - (b) This security, sold within the terms of a private placement memorandum, is exempt from registration under Rule 144A of 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 Valhalla Capital Partners, LLC, the Fund's investment sub-advisor. At July 31, 2008, securities noted as such amounted to \$70,868,851 or 86.7% of net assets.
  - (c) Floating rate security. The interest rate shown reflects the rate in effect at July 31, 2008.
  - (d) This security, sold within the terms of a private placement memorandum, is exempt from registration 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).
  - (e) IO - Interest only.
  - (f) ACES - Alternative Credit Enhancement Securities.
  - (g) The issuer is in default. Income is not being accrued.
  - (h) Zero coupon.
  - (i) Aggregate cost for federal income tax and financial reporting purposes. As of July 31, 2008, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was

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\$3,824,831, and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$58,809,946.

CBO Collateralized Bond Obligation

CDO Collateralized Debt Obligation

CLO Collateralized Loan Obligation

See Notes to Quarterly Portfolio of Investments

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### NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS

FIRST TRUST STRATEGIC HIGH INCOME FUND  
JULY 31, 2008 (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. 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 at market value or, in the absence of market value with respect to any portfolio securities, at fair value according to procedures adopted by the Fund's Board of Trustees. Securities for which market quotations are readily available are valued at market value, which is currently determined using the last reported sale price on the business day as of which such value is being determined or, if no sales are reported on such day (as in the case of some securities traded over-the-counter), the last reported bid price, except that certain U.S. government securities are valued at the mean between the last reported bid and asked prices. The Fund values mortgage-backed securities and other debt securities not traded in an organized market on the basis of valuations provided by dealers who make markets in such securities or by an independent pricing service approved by the Board of Trustees which uses information with respect to transactions in such securities, quotations from dealers, market transactions for comparable securities, various relationships between securities and yield to maturity in determining value. The Fund's Portfolio of Investments includes investments with a value of \$55,082,984 (51.2% of total investments) as of July 31, 2008, whose values have been determined based on prices supplied by dealers in the absence of readily determinable values. These values may differ from the values that would have been used had an independent price for these investments existed, and the differences could be material. The remaining investments, with a value of \$52,521,761 (48.8% of total investments), were valued by an independent pricing service.

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

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of discounts.

In the event that market quotations are not readily available, the pricing service or dealer does not provide a valuation for a particular asset, or the valuations are deemed unreliable, First Trust Advisors L.P. ("First Trust") may use a fair value method to value the Fund's securities and investments. Additionally, if events occur after the close of the principal markets for particular securities (e.g., domestic debt and foreign securities), but before the Fund values its assets, that could materially affect NAV, First Trust may use a fair value method to value the Fund's securities and investments. 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. A variety of factors may be considered in determining the fair value of such securities including 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) type of holding; 4) financial statements of the issuer; 5) cost at date of purchase; 6) credit quality and cash flow of the issuer based on external analysis; 7) information as to any transactions in or offers for the holding; 8) price and extent of public trading in similar securities of the issuer/borrower, or comparable companies; and 9) other relevant factors. The use of fair value pricing by the Fund is governed by valuation procedures adopted by the Fund's Board of Trustees, and in accordance with the provisions of the Investment Company Act of 1940, as amended. When fair value pricing of securities is employed, the prices of securities used by the Fund to calculate its NAV may differ from market quotations or official closing prices. 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.

The Fund invests a significant portion of its assets in below-investment grade debt securities, including mortgage-backed securities, asset-backed securities, corporate bonds and collateralized debt obligations. The value and related income of these securities is sensitive to changes in economic conditions, including delinquencies and/or defaults. Recent instability in the markets for fixed income securities, particularly mortgage-backed and asset-backed securities, has resulted in increased volatility of market prices and periods of illiquidity that have adversely impacted the valuation of certain securities held by the Fund.

### 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 or sold on a when-issued or delayed-delivery basis may be settled a month or more after the trade date; interest income on such securities is not accrued until settlement date. The Fund maintains liquid assets of the Fund with a current value at least equal to the amount of its when-issued or delayed-delivery purchase commitments. At July 31, 2008, the Fund had no when-issued or delayed-delivery purchase commitments.

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NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS - (CONTINUED)

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### C. RESTRICTED SECURITIES:



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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 of the 1933 Act, normally to qualified institutional buyers. As of July 31, 2008, the Fund held restricted securities as shown in the table below that the Sub-Advisor has deemed illiquid pursuant to procedures adopted by the Fund's Board of Trustees. 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 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<br>-----                           | ACQUISITION<br>DATE<br>----- | PRINCIPAL<br>VALUE<br>----- | CARRYING<br>VALUE PER<br>SHARE<br>----- | CARRYING<br>COST<br>----- |
|---------------------------------------------|------------------------------|-----------------------------|-----------------------------------------|---------------------------|
| Credit Suisse Mortgage Capital Certificates |                              |                             |                                         |                           |
| Series 2006-1, Class DB5, 5.74%, 02/25/36   | 12/15/06                     | \$ 2,411,456                | \$2.58                                  | \$ 838,392                |
| Series 2006-2, Class DB5, 5.87%, 03/25/36   | 12/15/06                     | 2,331,569                   | 4.23                                    | 811,568                   |
| CS First Boston Mortgage Securities Corp.   |                              |                             |                                         |                           |
| Series 2005-11, Class DB6, 6.14%, 12/25/35  | 12/15/06                     | 1,089,558                   | 1.99                                    | 147,828                   |
| Merit Securities Corp.                      |                              |                             |                                         |                           |
| Series 13, Class B1, 8.65%, 12/28/33        | 02/20/07                     | 3,453,729                   | 5.41                                    | 79,475                    |
| Preferred Term Securities XXV, Ltd.         | 03/22/07                     | 3,750,000                   | 0.59                                    | 3,630,406                 |
|                                             |                              | -----                       |                                         | -----                     |
|                                             |                              | \$13,036,312                |                                         | \$5,507,669               |
|                                             |                              | =====                       |                                         | =====                     |

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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  
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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 September 24, 2008  
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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  
-----

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

Date September 24, 2008  
-----

By (Signature and Title)\* /S/ MARK R. BRADLEY  
-----

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

Date September 24, 2008  
-----

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