

Edgar Filing: FIRST TRUST HIGH INCOME LONG/SHORT FUND - Form N-CSR

FIRST TRUST HIGH INCOME LONG/SHORT FUND  
Form N-CSR  
January 04, 2013

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-22442  
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First Trust High Income Long/Short Fund  
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(Exact name of registrant as specified in charter)

120 East Liberty Drive, Suite 400  
Wheaton, IL 60187  
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(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: October 31, 2012  
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Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR 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 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. REPORTS TO STOCKHOLDERS.

The Report to Shareholders is attached herewith.

FIRST TRUST

First Trust  
High Income  
Long/Short Fund

Annual Report  
For the Year Ended  
October 31, 2012

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October 31, 2012

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### Caution Regarding Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements regarding the goals, beliefs, plans or current expectations of First Trust Advisors L.P. ("First Trust" or the "Advisor") and/or MacKay Shields LLC ("MacKay" or the "Sub-Advisor") and their respective representatives, taking into account the information currently available to them. Forward-looking statements include all statements that do not relate solely to current or historical fact. For example, forward-looking statements include the use of words such as "anticipate," "estimate," "intend," "expect," "believe," "plan," "may," "should," "would" or other words that convey uncertainty of future events or outcomes.

Forward-looking statements involve known and unknown risks, uncertainties and

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other factors that may cause the actual results, performance or achievements of First Trust High Income Long/Short Fund (the "Fund") to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. When evaluating the information included in this report, you are cautioned not to place undue reliance on these forward-looking statements, which reflect the judgment of the Advisor and/or Sub-Advisor and their respective representatives only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events and circumstances that arise after the date hereof.

### Performance and Risk Disclosure

There is no assurance that the Fund will achieve its investment objectives. The Fund is subject to market risk, which is the possibility that the market values of securities owned by the Fund will decline and that the value of the Fund's shares may therefore be less than what you paid for them. Accordingly, you can lose money by investing in the Fund. See "Risk Considerations" in the Notes to Financial Statements for a discussion of certain other risks of investing in the Fund.

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the most recent month-end performance figures, please visit <http://www.ftportfolios.com> or speak with your financial advisor. Investment returns, net asset value and common share price will fluctuate and Fund shares, when sold, may be worth more or less than their original cost.

### How to Read This Report

This report contains information that may help you evaluate your investment. It includes details about the Fund and presents data and analysis that provide insight into the Fund's performance and investment approach.

By reading the portfolio commentary by the portfolio management team of the Fund, you may obtain an understanding of how the market environment affected the Fund's performance. The statistical information that follows may help you understand the Fund's performance compared to that of relevant market benchmarks.

It is important to keep in mind that the opinions expressed by personnel of MacKay are just that: informed opinions. They should not be considered to be promises or advice. The opinions, like the statistics, cover the period through the date on the cover of this report. The risks of investing in the Fund are spelled out in the prospectus, the statement of additional information, this report and other Fund regulatory filings.

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SHAREHOLDER LETTER

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First Trust High Income Long/Short Fund (FSD)  
Annual Letter from the Chairman and CEO  
October 31, 2012

Dear Shareholders:

I am pleased to present you with the annual report for your investment in First Trust High Income Long/Sort Fund (the "Fund").

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The report you hold contains detailed information about your investment; a portfolio commentary from the Fund's management team that provides a recap of the period; a performance analysis and a market and Fund outlook. Additionally, you will find the Fund's financial statements for the period this report covers. I encourage you to read this document and discuss it with your financial advisor. A successful investor is also typically a knowledgeable one, as we have found to be the case at First Trust.

First Trust remains committed to being a long-term investor and investment manager and to bringing you quality financial solutions regardless of market ups and downs. We have always believed, as I have written previously, that there are two ways to attain success in reaching your financial goals: staying invested in quality products and having a long-term investment horizon. We are committed to this approach in the products we manage or supervise and offer to investors.

As you know, First Trust offers a variety of products that we believe could fit many financial plans to help investors seeking long-term investment success. We encourage you to talk to your advisor about the other investments First Trust offers that might also fit your financial goals and to discuss those goals with your advisor regularly so that he or she can help keep you on track.

First Trust will continue to make available up-to-date information about your investments so you and your financial advisor are current on any First Trust investments you own. We value our relationship with you, and thank you for the opportunity to assist you in achieving your financial goals. I look forward to the New Year and to the next edition of your Fund's report.

Sincerely,

/s/ James A. Bowen

James A. Bowen

Chairman of the Board of Trustees of First Trust High Income Long/Short Fund and Chief Executive Officer of First Trust Advisors L.P.

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First Trust High Income Long/Short Fund  
"AT A GLANCE"  
October 31, 2012 (Unaudited)

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### Fund Statistics

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Symbol on NYSE	FSD
Common Share Price	\$18.78
Common Share Net Asset Value ("NAV")	\$19.05
Premium (Discount) to NAV	(1.42)%
Net Assets Applicable to Common Shares	\$686,714,730
Current Monthly Distribution per Common Share (1)	\$0.1335
Current Annualized Distribution per Common Share	\$1.6020
Current Distribution Rate on Closing Common Share Price (2)	8.53%
Current Distribution Rate on NAV (2)	8.41%

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COMMON SHARE PRICE & NAV (WEEKLY CLOSING PRICE)  
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	Common Share Price	NAV
10/11	\$16.63	\$17.82
	16.24	17.56
	15.93	17.35
	15.79	17.12
11/11	15.38	16.69
	15.48	16.87
	15.66	17.04
	15.30	16.89
	15.38	17.10
12/11	15.27	17.02
	15.70	17.29
	16.06	17.39
	16.43	17.65
1/12	16.85	17.96
	17.06	18.04
	17.24	18.11
	17.55	18.18
2/12	17.78	18.34
	17.82	18.39
	18.01	18.34
	18.09	18.50
3/12	17.94	18.46
	18.13	18.46
	18.05	18.27
	17.92	18.14
	17.94	18.21
4/12	18.16	18.36
	17.92	18.34
	17.98	18.30
	17.17	17.86
5/12	17.36	17.83
	17.20	17.55
	17.20	17.70
	17.32	17.72
6/12	17.72	17.91
	17.65	18.00
	17.97	17.96
	18.01	18.04
	17.98	18.18
7/12	18.11	18.19
	18.25	18.25
	18.21	18.36
	18.32	18.43
8/12	18.38	18.50
	18.36	18.51
	18.26	18.64
	18.82	18.98
	18.79	19.02
9/12	18.74	18.81
	18.61	18.86
	18.73	18.95
	18.75	19.13
	18.56	19.05
10/12	18.78	19.05

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 PERFORMANCE  
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	1 Year Ended 10/31/2012
FUND PERFORMANCE (3)	
NAV	17.09%
Market Value	23.69%
INDEX PERFORMANCE	
Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index	13.15%

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Industry Classification	% of Long-Term Investments
Services	18.4%
Basic Industry	13.0
Energy	11.4
Banking	8.2
Insurance	8.2
Financial Services	6.6
Automotive	6.4
Capital Goods	6.2
Telecommunications	6.0
Technology & Electronics	4.2
Utility	2.8
Consumer Non-Cyclical	1.9
Healthcare	1.9
Media	1.9
Asset-Backed Securities	1.6
Mortgage-Backed Securities	0.8
Real Estate	0.5
Total	100.0% =====

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Asset Classification	% of Long-Term Investments
Corporate Bonds and Notes	71.3%
Foreign Corporate Bonds and Notes	21.2
Senior Floating-Rate Loan Interests	3.7
Asset-Backed Securities	1.6
Common Stocks	1.2
Collateralized Mortgage Obligations	0.8
Warrants	0.2
Total	100.0% =====

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Credit Quality (4)	% of Long Fixed-Income Investments
BBB- and above	19.1%
BB	25.7
B	43.6
CCC and below	9.4
NR	2.2
Total	100.0% =====

Country Exposure	% of Total Investments
United States	79.0%
United Kingdom	3.8
Netherlands	2.9
Luxembourg	2.4
Canada	2.0
Cayman Islands	1.7
Mexico	1.3
France	1.2
Germany	1.1
Australia	0.8
Liberia	0.7
Venezuela	0.6
Brazil	0.6
Ireland	0.5
Georgia	0.5
Finland	0.5
Bermuda	0.4
Total	100.0% =====

- (1) Most recent distribution paid or declared through 10/31/2012. Subject to change in the future. The distribution was decreased subsequent to 10/31/12. See Note 7 - Subsequent Events in the Notes to Financial Statements.
- (2) Distribution rates are calculated by annualizing the most recent distribution paid or declared through the report date and then dividing by Common Share price or NAV, as applicable, as of 10/31/2012. Subject to change in the future.
- (3) Total return is based on the combination of reinvested dividend, capital gain and return of capital distributions, if any, at prices obtained by the Dividend Reinvestment Plan and changes in NAV per share for net asset value returns and changes in Common Share price for market value returns. Total returns do not reflect sales load and are not annualized for periods less than one year. Past performance is not indicative of future results.
- (4) The credit quality and ratings information presented above reflects the ratings assigned by one or more nationally recognized statistical rating organizations (NRSROs), including Standard & Poor's Ratings Group, a division of the McGraw Hill Companies, Inc., Moody's Investors Service, Inc., Fitch Ratings or a comparably rated NRSRO. For situations in which a

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security is rated by more than one NRSRO and the ratings are not equivalent, the highest ratings are used. Sub-investment grade ratings are those rated BB+/Ba1 or lower. Investment grade ratings are those rated BBB-/Baa3 or higher.

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### PORTFOLIO COMMENTARY

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First Trust High Income Long/Short Fund - FSD  
October 31, 2012

#### Sub-Advisor

MacKay Shields LLC ("MacKay Shields" or the "Sub-Advisor") is a registered investment adviser founded in 1938, and is Sub-Advisor to First Trust High Income Long/Short Fund (the "Fund"). The Fund trades under the ticker symbol FSD on the New York Stock Exchange. As of October 31, 2012, MacKay Shields had approximately \$76.4 billion in assets under management.

#### First Trust High Income Long/Short Fund

The Fund's primary investment objective is to provide current income. As a secondary objective, the Fund seeks capital appreciation. The Fund is designed to give investors a portfolio for varying market cycles and economic conditions. In an expanding economy, the strategy of buying U.S. and foreign (including emerging markets) high-yield corporate securities that are rated below investment-grade is designed to generate monthly income and capital appreciation (total return over the long term). However, if the market takes a downturn, the "short" strategy of having sold borrowed securities that the Global Fixed Income Team ("Investment Team") of MacKay Shields believes could decline in price, may help lessen the impact of a significant net asset value decline.

#### Portfolio Management Team

Dan Roberts, PhD  
Senior Managing Director, Head of Global Fixed Income Division and its Chief Investment Officer

Mr. Roberts is Head of the Global Fixed Income Division and its Chief Investment Officer. In October 2004, Mr. Roberts came to MacKay Shields when the firm acquired the high-yield and global high-yield assets of Pareto Partners. He was the Chief Investment Officer and an equity shareholder at Pareto Partners. Mr. Roberts assembled the U.S. fixed-income team while serving 10 years at UBS Asset Management, most recently as Managing Director and head of the fixed-income group. Prior to its acquisition by UBS, he was a Financial Economist for Chase Manhattan Bank, NA and later was head of Global Interest Rate and Currency Swaps Trading. In 1997, Mr. Roberts' fixed-income group was lifted out of UBS by Forstmann-Leff International and was subsequently purchased by Pareto Partners, effective February 2000. His regulatory and government experience included a two-year stint at the U.S. Securities and Exchange Commission, serving at The White House with the President's Council of Economic Advisors and as an Executive Director (Chief of Staff) of the U.S. Congress Joint Economic Committee. Mr. Roberts holds a BBA and a PhD from the University of Iowa.

Louis N. Cohen, CFA



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Managing Director, Global Fixed Income Division

Mr. Cohen is a Senior Portfolio Manager for the Global Fixed Income Division. He joined MacKay Shields in October 2004 as a Director of Research and portfolio manager for Core Plus Opportunities after MacKay Shields acquired the high-yield and global high-yield assets of Pareto Partners, where he was an equity shareholder. He joined Dan Roberts' fixed-income team at UBS in 1991 as a Core/Core Plus Portfolio Manager and was Co-Chairman of the Credit Committee while at UBS. Mr. Cohen's extensive credit experience began at Bankers Trust in 1978 where he was in the Commercial Banking Department. In 1981 he moved to specialize in fixed-income as a Fixed Income Credit Analyst at Kidder Peabody. He furthered his fixed-income credit experience as a fixed income credit manager at several major Street firms, namely, Shearson, Drexel Burnham Lambert and Paine Webber, prior to his move into portfolio management at UBS. With experience in the fixed income markets since 1978, Mr. Cohen received his BA and MBA from New York University and is a past President of the Capital Markets Credit Analyst Society, and a member of the New York Society of Security Analysts.

Michael Kimble, CFA  
Managing Director, Global Fixed Income Division

Mr. Kimble is a Senior Portfolio Manager for the Global Fixed Income Division. He joined MacKay Shields in October 2004 as Director and Co-Head of High-Yield portfolio management when MacKay Shields acquired the high-yield and global high-yield assets of Pareto Partners. Previously the Co-Head of Pareto Partners' High-Yield Investments, Mr. Kimble began his investment career with positions at Citicorp and E.F. Hutton as a fixed-income credit analyst. In 1988 he moved to Home Insurance Company as a High-Yield Bond Analyst and Portfolio Manager. Shortly thereafter Mr. Kimble was recruited by Dan Roberts to join the UBS team in the same capacity. While at UBS, he was Co-Chairman of the Credit Committee. He received a BA from Columbia University, an MBA from New York University and a JD from Fordham School of Law. With fixed-income experience since 1984, Mr. Kimble is a member of the Capital Markets Credit Analyst Society, the New York Society of Security Analysts and the New York and Louisiana State Bar Associations.

Taylor Wagenseil  
Managing Director, Global Fixed Income Division

Mr. Wagenseil is a Senior Portfolio Manager for the Global Fixed Income Division. He became Director and Co-Head of High-Yield portfolio management after MacKay Shields acquired the high-yield and global high-yield assets of Pareto Partners, where he was Co-Head of High-Yield Investments and an equity

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PORTFOLIO COMMENTARY - (CONTINUED)  
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shareholder. He began his investment career with Citibank in 1979, specializing in troubled loan workouts and recoveries. In 1986, Mr. Wagenseil moved to Drexel Burnham Lambert as a Senior Vice President to head High-Yield Commercial Paper Research. He remained at Drexel through the bankruptcy and then joined Bear Stearns as a Managing Director in the Financial Restructuring Group. He was recruited to join UBS in 1993 as a Senior Portfolio Manager for High-Yield and High-Yield Arbitrage Portfolios. Mr. Wagenseil's public service and military

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experience includes the U.S. Navy (Lieutenant) during the Vietnam War and five years as the Commissioner, Department of Elderly Affairs for the City of Boston. He received a BA from Dartmouth College and a MBA (Finance) from the Harvard Business School and has experience in the high yield market since 1979.

### Market Recap

This report covers the First Trust High Income Long/Short Fund (the "Fund") for the twelve-month period ending October 31, 2012.

In general, the rally that began in last year's fourth quarter continued through 2012 with risk being rewarded. U.S. equities were the top performer, with the S&P 500 up 15.21%. High yield, as measured by the Merrill Lynch High Yield Master II Constrained Index, was close behind, returning 13.15%. The small-cap Russell 2000 gained 12.08%, while U.S. investment-grade corporate bonds rose 10.21%, according to Barclays. The MSCI EAFE, burdened by concerns of the European debt crisis during the period, only rose 5.15%. The 10-year Treasury posted a 7.46% return as its yield declined 50 basis points (bps).

The events in Europe, which weighed heavily on the market at times, were the primary driver of the rally during the previous twelve months. In November, the period opened with a flight to quality trade, when Eurozone leaders failed to meet expectations for a comprehensive solution to the sovereign debt crisis after announcing that they finally understood the severity of the situation. In December, concerns eased when a distinction was finally made between Europe, which is most likely facing a recession, and the other global economies, most notably the U.S., that are experiencing moderate growth. However, the major turning point surrounding the events in Europe, and the single biggest factor behind the rally at the beginning of the year, was the European Central Bank's ("ECB") Long Term Refinancing Operation ("LTRO"). On December 23rd, the ECB extended (euro)489 billion in 3-year loans to 523 banks. Then, at the end of February, another tranche of the LTRO provided more financial institutions (800 in total) an additional (euro)525.5 billion. When one combines this with the sovereign bonds that were purchased through the Securities Market Program and the fact that most banks are already in compliance with post stress test minimum capital requirements, it is evident that there is substantial support for European banks and the financial markets. Banks essentially are fully provisioned for sovereign defaults, and their near-term funding needs are satisfied. This leaves them not needing to sell any more of their sovereign debt holdings, while also benefitting from the low-cost LTRO loans in lieu of floating any more of their own public bonds.

In spite of these improved fundamentals, the weakness and uncertainty in Europe resulted in tumultuous politics and markets during the first half of the year. The debate surrounding how to resolve the economic woes in Europe centered on how best to balance growth with austerity. In April, this crisis caused the Dutch government to resign. In France, the demand for growth over austerity drove the presidential campaign and the eventual victory of French Socialist Francois Hollande. The balance between growth and austerity was also the focus for the very tight election in Greece, which concluded with a modest majority for the New Democracy party, a proponent of maintaining Greece's place in the Euro and upholding the previously agreed upon austerity measures. While the Greek election did not rule out that the country may exit the Euro at some future point, it appears to have forestalled that event for the time being.

Thankfully, the sentiment surrounding the events in Europe turned around during the summer months due to a persistent drumbeat of positive news, leading to a rally in the third quarter. The rally was ignited by ECB President Mario Draghi's statements in the last week of July that the Euro is "irreversible," and that speculation to the contrary is unacceptable. He further stated that the ECB will do "whatever it takes" to preserve the Euro and "believe me, it will be enough." As we have stated before, we believe the crux of the current crisis is

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the separation between the ECB and the Eurozone treasuries. In other words, if a country issues debt in its own currency and has the capacity to create this currency, it can never be made to default. Therefore, the ECB statements cannot be overemphasized. If the ECB is "all in", then we believe the current crisis is over. This does not mean that recession in Europe won't occur or that long-term inflation is not a threat. It does mean, however, that the threat of a Euro collapse is clearly receding. As a natural and not unexpected follow-up at the beginning of September, the ECB announced an unlimited bond-buying program to stop further erosion in European debt markets. In September, Germany's highest court rejected attempts to delay the ratification of key elements of the Eurozone's debt management efforts. This cleared the path of the most significant impediment to the ECB's plan, which in turn helped lift much of the anxiety overhanging markets. Additionally, supporting the Eurozone, was that two centrist, pro-European parties won general elections in the Netherlands.

It has also been constructive that central banks around the world continue to be accommodative. In Asia, China recently lowered its lending rate to 6% and the Bank of Japan announced that it would expand its asset purchase program by 10 trillion yen. In Europe, the ECB cut its rates to 0.75% and the Bank of England

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### PORTFOLIO COMMENTARY - (CONTINUED)

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also recently announced an asset purchase plan. In the U.S., the Fed announced further quantitative easing in August, additional mortgage purchases and extended Operation Twist through the end of the year, citing concerns about the employment situation. The Fed's focus is on the job market as many large disparate employers announced layoffs. However, positive news that supports a slow growth scenario for the U.S. economy included the ISM manufacturing survey at the end of September, which was 51.5. Housing, auto sales and employment have also showed improvements. Housing starts in the U.S. are up substantially year to date, while inventories are at multi-year lows and home sales and construction reached the highest level in two years. In fact, Jamie Dimon, the CEO of JPMorgan Chase, stated that housing "has turned the corner." Further bolstering the case for a U.S. acceleration were U.S. auto sales, which reached a 4 1/2 year high in September. Non-farm payrolls beat expectations, rising 171,000 in October, while estimates for August and September were revised higher.

Equities, on the other hand, were recently under pressure due to disappointing earnings. Although U.S. corporate earnings continue to grow, the rate of growth has slowed. With the corporate sector in such good health, however, even modest earnings growth is more than enough to please credit markets, whereas equity investors clearly had to adjust their estimate of fair value due to a lower growth rate in the dividend discount model. However, as previously noted, earnings growth is still positive. With 78% of the S&P 500 having reported for the third quarter of 2012, the average growth in sales since last year is 3.6%, while the average growth in earnings is 9.9%. This is still supportive of very high levels of corporate credit quality. In addition, issuers have very high levels of cash and have been lowering their interest expense through refinancing and extending maturities on their debt.

The technicals of high yield remain strong. From the demand side, retail high-yield bond funds saw net inflows of \$35 billion year to date which is more

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than double the amount for all of 2011. Anecdotally, we continue to see strong interest from institutional investors in the asset class. On the supply side, the new issue market was extremely active for most of the year. In this rally over the year, all of the sectors of the high-yield market produced positive returns; in fact, even the lagging sectors produced returns close to 8%. The best-performing sectors were insurance, banking and real estate. The lagging sectors were consumer basic industry, energy and utilities.

### Performance Analysis

The Fund had a strong year, with significant outperformance versus its benchmark for the twelve-month period ending October 31, 2012. The Fund returned a net asset value ("NAV") total return(1) of 17.09% compared with the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index, which gained 13.15%. For the period, the Fund traded from a discount to NAV of 6.68% to a discount to NAV of 1.42%, resulting in a market value total return(1) of 23.69%.

The Fund's beta(2) positioning was highly beneficial during the rally over the previous year. Two sectors that we have successfully used in the past to help lift the beta of the portfolio are financials (banks, financial services and insurance) and housing related (home building and building materials). These sectors helped the Fund's relative performance because they are overweight and outperformed the broader market. As the concerns about Europe have eased and the financial markets have rallied, the financial industry has directly benefitted. Among the portfolio's top performers for the year from the financial sector were insurance companies: AIG, Liberty Mutual and L-incoln National; banks: Ally and Bank of America; as well as financial service companies: CIT and SLM Corp. ("Sallie Mae"). The positive trends in the housing market lifted the Fund's housing-related companies, specifically: Pulte, Hovnanian, Beazer, USG and Texas Industries. Sprint Nextel was also among the top performers in the Fund for the year. The rally in Sprint bonds was due in part to an announcement that Softbank, the Japanese technology company, would acquire a 70% stake in the company.

On the negative side, the Fund's exposure to the coal, steel, utilities and energy sectors was a drag on performance during the year. Coal producers, which include holdings in Arch Coal and Alpha Natural Resources, were under pressure as more utilities turn from coal to natural gas due to lower natural gas prices and the Obama administration's new carbon-dioxide emissions regulations, which have virtually eliminated the planned construction of new coal fired plants. Additionally, our exposure to steel companies, US Steel and Aperam, were a drag on the portfolio as steel prices declined. The warm winter in early 2012 caused difficulties for utilities after the previous year's intense cold. As a result, Texas Competitive Electricity (TXU) and Edison Mission were among the bottom performers. Additionally, some energy and energy service companies weighed down the Fund's performance, including OGX, Basic Energy Services, and Oil Insurance. Geokinetics, the seismic data company, was also a laggard during the year. The company had reported disappointing earnings earlier in the year as well as some operating difficulties in this inherently cyclical industry, and it has been reported that the company has hired an advisor to explore alternatives.

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1 Total return is based on the combination of reinvested dividends, capital gain and return of capital distributions, if any, at prices obtained by the Dividend Reinvestment Plan and changes in NAV per share for net asset value returns and changes in Common Share price for market value returns. Total returns do not reflect sales load and are not annualized for periods less than one year. Past performance is not indicative of future results.

2 Beta is a measure of volatility of risk relative to the market as a whole.

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 PORTFOLIO COMMENTARY - (CONTINUED)  
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Additionally, the Fund's short position in Treasuries was somewhat of a drag on performance during the year due to the decline in Treasury yields; however, this position provided the Fund with leverage that was reinvested in the high-yield market, magnifying the portfolio's absolute and relative gains.

Market and Fund Outlook

With the U.S. Presidential election behind us, the focus is now entirely on the "fiscal cliff". As we have stated previously, we did not believe the outcome of the election would have a material impact on the near-term trajectory of credit spreads, nor do we think the U.S. economy will fall off the proverbial "fiscal cliff" due to the potentially severe impact it could have on the real economy. Virtually no one in Congress wants to be responsible for tipping the U.S. into recession, and we believe a satisfactory compromise will be reached. However, political theater, aided by 24-hour news coverage, should be expected through the balance of the year.

Longer term, the markets remain flush with liquidity and investors continue to be paid to hold high-yield bonds. Therefore, we still favor the high-yield market for its yield advantage and capital appreciation potential relative to other asset classes. We remain constructive on the fundamental underpinnings of the issuer base and the positive market technicals helping to support bond prices. We recognize earnings season is pointing to an environment of moderate to slow growth, but we are not concerned about a meaningful pullback that would negatively impact credit costs.

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First Trust High Income Long/Short Fund  
 Portfolio of Investments  
 October 31, 2012

Principal Value	Description	Stated Coupon	M
CORPORATE BONDS AND NOTES - 87.5%			
Automotive - 4.1%			
\$ 334,000	Chrysler Group LLC/Chrysler Group Co-Issuer, Inc. ....	8.00%	0
4,367,000	Chrysler Group LLC/Chrysler Group Co-Issuer, Inc. ....	8.25%	0
2,376,000	Ford Motor Co. (a).....	9.22%	0
553,000	Ford Motor Co. (a).....	8.90%	0

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3,000,000	Ford Motor Co. (a).....	7.75%	0
2,480,000	Ford Motor Co. (a).....	9.98%	0
21,000,000	General Motors Unsecured Claim Trust Units (Non-transferable) (b)..	N/A	
21,432	General Motors Unsecured Claim Trust Units (Transferable) (b).....	N/A	
5,396,000	Goodyear Tire & Rubber (The) Co. (a).....	7.00%	0
4,872,000	Navistar International Corp. (a).....	8.25%	1
1,682,000	Tomkins Inc., LLC.....	9.00%	1
	Banking - 4.2%		
740,000	Ally Financial, Inc. (a).....	8.00%	1
2,285,000	Ally Financial, Inc. (a).....	8.00%	1
5,610,000	Bank of America Corp.....	7.63%	0
6,500,000	Capital One Capital III (a).....	7.69%	0
6,750,000	Deutsche Postbank Funding Trust IV (EUR) (c) (d).....	5.98%	0
4,000,000	Fifth Third Capital Trust IV (a) (d).....	6.50%	0
	Basic Industry - 10.2%		
4,500,000	AK Steel Corp. (a).....	8.38%	0
5,250,000	Aleris International, Inc.....	7.63%	0
4,200,000	Alpha Natural Resources, Inc. (a).....	6.00%	0
596,000	Alpha Natural Resources, Inc.....	6.25%	0
1,255,000	Arch Coal, Inc.....	7.00%	0
1,428,000	Arch Coal, Inc.....	7.25%	1
1,125,000	Arch Coal, Inc.....	7.25%	0
5,135,000	Associated Materials LLC.....	9.13%	1
2,279,000	Boise Cascade LLC.....	7.13%	1
3,635,000	Boise Paper Holdings LLC/Boise Finance Co. (a) .....	9.00%	1
1,357,000	Century Aluminum Co. (a).....	8.00%	0
3,600,000	Cloud Peak Energy Resources Corp., LLC (a).....	8.25%	1
6,500,000	Hexion U.S. Finance Corp./Hexion Nova Scotia Finance ULC (a).....	8.88%	0
8,655,000	Huntsman International LLC (a).....	8.63%	0
1,300,000	Momentive Performance Materials, Inc. (e).....	10.00%	1
4,000,000	Momentive Performance Materials, Inc.....	9.00%	0
4,000,000	Polypore International, Inc. (a).....	7.50%	1
5,150,000	Texas Industries, Inc. (a).....	9.25%	0
4,000,000	USG Corp. (a).....	6.30%	1
1,878,000	USG Corp. (e).....	8.38%	1
228,000	Vertellus Specialties, Inc. (e).....	9.38%	1
	Capital Goods - 7.0%		
4,031,000	American Railcar Industries, Inc.....	7.50%	0
3,265,000	Ducommun, Inc. (a).....	9.75%	0

See Notes to Financial Statements

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OCTOBER 31, 2012

Principal Value	Description	Stated Coupon	M
CORPORATE BONDS AND NOTES - (Continued)			
Capital Goods - (Continued)			
\$ 5,000,000	Manitowoc (The), Inc., Co. (a).....	8.50%	1
3,625,000	Mcron Finance Sub LLC/ Mcron Finance Corp. (e) .....	8.38%	0
3,760,000	Mueller Water Products, Inc. (a).....	7.38%	0
7,500,000	Reynolds Group Issuer, Inc., LLC.....	8.50%	0
2,085,000	Reynolds Group Issuer, Inc., LLC.....	9.88%	0
7,500,000	Terex Corp. (a).....	8.00%	1
4,000,000	Transdigm, Inc. (a).....	7.75%	1
4,650,000	Triumph Group, Inc. (a).....	8.63%	0
Consumer Non-Cyclical - 0.4%			
2,240,000	Smithfield Foods, Inc.....	6.63%	0
Energy - 9.7%			
4,725,000	Basic Energy Services, Inc. (e).....	7.75%	1
3,974,000	Berry Petroleum Co. (a).....	6.75%	1
5,700,000	Chesapeake Energy Corp. (a).....	9.50%	0
600,000	Chesapeake Energy Corp. (a).....	7.25%	1
1,970,000	Chesapeake Energy Corp. (a).....	6.63%	0
3,275,000	Everest Acquisition LLC/Everest Acquisition Finance, Inc. (e).....	9.38%	0
3,000,000	Ferrellgas Finance Corp., L.P. (a).....	6.50%	0
800,000	Frontier Oil Corp. (a).....	6.88%	1
1,411,000	Geokinetics Holdings USA, Inc.....	9.75%	1
4,000,000	Hornbeck Offshore Services, Inc. (a).....	8.00%	0
2,636,000	Linn Energy LLC/Linn Energy Finance Corp. (e).....	6.25%	1
5,240,000	Linn Energy LLC/Linn Energy Finance Corp.....	8.63%	0
5,500,000	PHI, Inc. (a).....	8.63%	1
5,900,000	Plains Exploration & Production Co.....	6.50%	1
3,499,000	Regency Energy Partners L.P./Regency Energy Finance Corp. (a).....	9.38%	0
3,248,000	Samson Investment Co. (e).....	9.75%	0
4,750,000	Swift Energy Co.....	8.88%	0
3,425,000	Targa Resources Partners L.P./Targa Resources Partners Finance Corp. (a).....	7.88%	1
Financial Services - 7.0%			
1,665,000	CIT Group, Inc.....	5.00%	0
10,000,000	CIT Group, Inc.....	4.25%	0
10,500,000	GE Capital Trust IV (EUR) (c) (d).....	4.63%	0
410,000	General Electric Capital Corp. (EUR) (c) (d).....	5.50%	0
7,500,000	Icahn Enterprises L.P./Icahn Enterprises Finance Corp. (a).....	8.00%	0
8,000,000	SLM Corp. (a).....	8.00%	0
5,000,000	Springleaf Finance Corp. (a).....	6.90%	1
700,000	Textron Financial Corp. (d) (e).....	6.00%	0

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	Healthcare - 2.3%		
5,880,000	Alere, Inc.....	9.00%	0
5,600,000	HCA Holdings, Inc.....	7.75%	0

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See Notes to Financial Statements

First Trust High Income Long/Short Fund  
 Portfolio of Investments - (Continued)  
 October 31, 2012

Principal Value	Description	Stated Coupon	M
CORPORATE BONDS AND NOTES - (Continued)			
Healthcare - (Continued)			
\$ 3,150,000	Kinetic Concepts, Inc. (e).....	10.50%	1
Insurance - 8.1%			
2,450,000	American International Group, Inc. (EUR) (c) (d).....	8.00%	0
1,800,000	American International Group, Inc. (EUR) (c) (d).....	4.88%	0
3,050,000	American International Group, Inc. (GBP) (c) (d).....	8.63%	0
10,950,000	American International Group, Inc. (GBP) (c) (d).....	5.75%	0
5,000,000	CHUBB Corp. (a) (d).....	6.38%	0
11,000,000	Glen Meadow Pass Through Trust (d) (e).....	6.51%	0
6,500,000	Liberty Mutual Group, Inc. (d) (e).....	7.00%	0
3,500,000	Lincoln National Corp. (a) (d).....	7.00%	0
1,800,000	Lincoln National Corp. (a) (d).....	6.05%	0
Media - 2.3%			
3,500,000	Cequel Communications Holdings I LLC/Cequel Capital Corp. (e).....	8.63%	1
3,931,000	Clear Channel Communications, Inc. (a).....	5.50%	1
1,800,000	Clear Channel Communications, Inc. (a).....	9.00%	0
324,000	Clear Channel Worldwide Holdings, Inc.....	9.25%	1
4,008,000	Clear Channel Worldwide Holdings, Inc.....	9.25%	1
456,000	Clear Channel Worldwide Holdings, Inc.....	7.63%	0
3,193,000	Clear Channel Worldwide Holdings, Inc.....	7.63%	0



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	Services - 18.6%		
4,716,098	American Airlines Pass Through Trust 2001-01.....	6.98%	0
3,500,000	ARAMARK Corp. (a).....	8.50%	0
1,095,000	Ashtead Capital, Inc. (e).....	6.50%	0
5,500,000	Avis Budget Car Rental LLC/Avis Budget Finance, Inc. (a).....	9.63%	0
1,426,000	Avis Budget Car Rental LLC/Avis Budget Finance, Inc. (a).....	8.25%	0
6,500,000	Beazer Homes USA, Inc. (a).....	8.13%	0
5,542,387	Continental Airlines 2003-ERJ1 Pass Through Trust .....	7.88%	0
2,600,076	Continental Airlines 2005-ERJ1 Pass Through Trust .....	9.80%	0
1,712,294	Delta Air Lines 2009-1 Series B Pass Through Trust .....	9.75%	1
5,486,000	Energysolutions, Inc., LLC.....	10.75%	0
9,000,000	Harrah's Operating, Inc., Co.....	10.00%	1
8,000,000	Hertz (The) Corp.....	7.50%	1
5,250,000	Iron Mountain, Inc. (a).....	8.38%	0
3,500,000	Isle of Capri Casinos, Inc. (a).....	7.75%	0
4,160,000	K Hovnanian Enterprises, Inc. (e).....	7.25%	1
8,000,000	MGM Resorts International.....	11.13%	1
1,000,000	MGM Resorts International (e).....	6.75%	1
3,500,000	Mohegan Tribal Gaming Authority (e).....	10.50%	1
3,236,793	Northwest Airlines 2001-1 Class B Pass Through Trust .....	7.69%	0
1,780,000	Pulte Group, Inc. (a).....	7.63%	1
4,570,000	Pulte Group, Inc. (a).....	7.88%	0
3,319,000	Shea Homes L.P./Shea Homes Funding Corp.....	8.63%	0

See Notes to Financial Statements

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First Trust High Income Long/Short Fund  
 Portfolio of Investments - (Continued)  
 October 31, 2012

Principal Value	Description	Stated Coupon	M
CORPORATE BONDS AND NOTES - (Continued)			
Services - (Continued)			
\$ 5,500,000	Standard Pacific Corp. (a).....	8.38%	0
3,506,791	UAL 2009-2B Pass Through Trust (e).....	12.00%	0
7,000,000	United Air Lines, Inc. (e).....	12.00%	1
7,062,000	United Rentals North America, Inc. (a).....	8.38%	0
375,000	UR Financing Escrow Corp. (e).....	7.38%	0
367,000	UR Financing Escrow Corp. (e).....	7.63%	0
6,971,154	US Airways 2000-3C Pass Through Trust .....	8.39%	0
Technology & Electronics - 5.2%			
5,500,000	Alcatel-Lucent USA, Inc. (a).....	6.45%	0
5,675,000	CommScope, Inc. (e).....	8.25%	0
9,050,000	First Data Corp. (e).....	8.88%	0
8,834,000	Freescale Semiconductor, Inc. (e).....	10.13%	0

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6,460,000	Sungard Data Systems, Inc. (e).....	6.63%	1
	Telecommunications - 5.6%		
7,000,000	Frontier Communications Corp. (a).....	9.00%	0
2,411,000	Hughes Satellite Systems Corp. (a).....	7.63%	0
3,500,000	MetroPCS Wireless, Inc. (a).....	7.88%	0
10,000,000	Sprint Capital Corp. (a).....	8.75%	0
2,600,000	Sprint Nextel Corp.....	9.13%	0
6,000,000	Sprint Nextel Corp. (a).....	9.25%	0
2,428,000	Viasat, Inc. (e).....	6.88%	0
	Utility - 2.8%		
7,500,000	Calpine Corp. (e).....	7.88%	0
3,350,000	Energy Future Intermediate Holding Co., LLC/Energy Future Intermediate Holding Finance, Inc. (a).....	10.00%	1
5,000,000	NRG Energy, Inc. (a).....	8.25%	0
2,150,000	Texas Competitive Electric Holdings Co. LLC/Texas Competitive Electric Holdings Finance, Inc. (e).....	11.50%	1
	Total Corporate Bonds and Notes.....		
	(Cost \$577,532,950)		

Principal Value (Local Currency)	Description	Stated Coupon	M
FOREIGN CORPORATE BONDS AND NOTES - 25.9%			
	Banking - 5.5%		
6,500,000	ABN AMRO Bank N.V. (EUR) (d).....	4.31%	0
2,200,000	Barclays Bank PLC (GBP).....	10.00%	0

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See Notes to Financial Statements

First Trust High Income Long/Short Fund  
Portfolio of Investments - (Continued)  
October 31, 2012

Principal

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Value (Local Currency)	Description	Stated Coupon	M
FOREIGN CORPORATE BONDS AND NOTES - (Continued)			
Banking - (Continued)			
8,264,000	Canada Square Operations PLC (GBP) (d).....	7.50%	0
3,300,000	IKB Deutsche Industriebank AG (EUR) (f).....	1.20%	0
175,000	IKB Deutsche Industriebank AG (EUR).....	4.50%	0
2,700,000	Industrial Senior Trust (e).....	5.50%	1
2,100,000	Mizuho Capital Investment, Ltd. (USD) (a) (d) (e).....	14.95%	1
3,000,000	Royal Bank of Scotland N.V. (EUR) (f).....	4.70%	0
Basic Industry - 5.7%			
4,500,000	Aperam (USD) (e).....	7.38%	0
3,451,000	Boart Longyear Management Pty., Ltd. (USD) (e).....	7.00%	0
4,065,000	Evraz Group S.A. (USD) (e).....	7.40%	0
3,135,000	FMG Resources Pty, Ltd. (USD) (e).....	7.00%	1
1,000,000	INEOS Finance PLC (EUR).....	9.25%	0
4,000,000	INEOS Group Holdings PLC (EUR).....	7.88%	0
6,300,000	Novelis, Inc. (USD) (a).....	8.75%	1
4,200,000	Stora Enso Oyj (USD) (e).....	7.25%	0
6,785,000	Vedanta Resources PLC (USD) (e).....	8.25%	0
Capital Goods - 0.6%			
3,000,000	Ardagh Packaging Finance (EUR).....	9.25%	1
Consumer Non-Cyclical - 2.0%			
6,000,000	JBS Finance II Ltd. (USD) (e).....	8.25%	0
3,770,000	Minerva Luxembourg S.A. (USD) (e).....	12.25%	0
3,000,000	Virgolino de Oliveira Finance Ltd. (USD) (e).....	11.75%	0
Energy - 3.4%			
9,400,000	CHC Helicopter S.A. (USD) (a).....	9.25%	1
3,750,000	Georgian Oil and Gas Corp. (USD) (e).....	6.88%	0
5,600,000	OGX Petroleo e Gas Participacoes S.A. (USD) (e).....	8.50%	0
5,000,000	Petroleos de Venezuela S.A. (USD).....	12.75%	0
Financial Services - 1.0%			
7,450,000	Banque PSA Finance S.A. (e).....	5.75%	0
Insurance - 2.1%			
1,650,000	Aviva PLC (EUR) (d).....	6.88%	0
3,500,000	CNP Assurances (EUR) (d).....	5.25%	0
5,000,000	ING Groep N.V. (GBP) (d).....	5.14%	0

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3,500,000	Oil Insurance Ltd. (USD) (e) (f).....	3.34%	1
	Services - 3.2%		
4,600,000	Desarrolladora Homex Sab de CV (USD) (e).....	9.75%	0
1,800,000	Empresas ICA Sab de CV (USD) (e).....	8.38%	0

See Notes to Financial Statements

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First Trust High Income Long/Short Fund  
 Portfolio of Investments - (Continued)  
 October 31, 2012

Principal Value (Local Currency)	Description	Stated Coupon	M
FOREIGN CORPORATE BONDS AND NOTES - (Continued)			
Services - (Continued)			
5,250,000	Hapag-Lloyd AG (USD) (e).....	9.75%	1
5,755,000	Royal Caribbean Cruises Ltd. (USD) (a).....	7.50%	1
4,500,000	Urbi Desarrollos Urbanos Sab de CV (USD) (e).....	9.75%	0
Telecommunications - 1.7%			
2,857,000	En Germany Holdings B.V. (EUR).....	10.75%	1
4,900,000	Intelsat Luxembourg S.A. (USD) (a).....	11.25%	0
2,550,000	Intelsat Luxembourg S.A. (USD) (a).....	11.50%	0
Utility - 0.7%			
5,000,000	Intergen N.V. (USD) (e).....	9.00%	0
Total Foreign Corporate Bonds and Notes.....			
(Cost \$175,781,662)			

Principal Value	Description	Rate (g)	Mat
SENIOR FLOATING-RATE LOAN INTERESTS - 4.5%			

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	Automotive - 2.4%		
\$ 7,172,189	Allison Transmission, Inc.....	3.72%	0
7,149,871	Federal Mogul Corp Term Loan B.....	2.15%	1
2,500,000	Navistar, Inc. Term Loan B.....	7.00%	0
	Energy - 0.9%		
5,940,000	Meg Energy Term Loan.....	4.00%	0
	Real Estate - 0.5%		
3,373,206	Realogy Initial Term Loan B.....	4.46%	1
474,960	Realogy Synthetic Letter of Credit.....	4.31%	1
	Services - 0.7%		
4,861,111	US Airways Term Loan.....	2.71%	0
	Total Senior Floating-Rate Loan Interests.....		
	(Cost \$30,922,016)		

Principal Value	Description	Stated Coupon	M
-----	-----	-----	-----
ASSET-BACKED SECURITIES - 2.0%			
	Ace Securities Corp.		
3,349,795	Series 2007-HE2, Class A2A (f).....	0.33%	1
	Carrington Mortgage Loan Trust		
2,609,167	Series 2006-NC4, Class A5 (f).....	0.27%	1
	HSI Asset Securitization Corp. Trust		
2,148,582	Series 2007-NC1, Class A1 (f).....	0.31%	0

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See Notes to Financial Statements

First Trust High Income Long/Short Fund  
 Portfolio of Investments - (Continued)  
 October 31, 2012

Principal Value	Description	Stated Coupon	M
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ASSET-BACKED SECURITIES - (Continued)			
	Keycorp Student Loan Trust		

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\$	2,886,462	Series 2000-A, Class A2 (f).....	0.75%	0
		Morgan Stanley ABS Capital I		
	1,104,074	Series 2006-HE6, Class A2B (f).....	0.31%	0
		Securitized Asset Backed Receivables LLC Trust		
	10,060,027	Series 2006-FR4, Class A2A (f).....	0.29%	0
		Soundview Home Equity Loan Trust		
	1,301,982	Series 2006-EQ2, Class A2 (f).....	0.32%	0
		Total Asset-Backed Securities.....		
		(Cost \$16,733,290)		

MORTGAGE-BACKED SECURITIES - 1.0%

		Collateralized Mortgage Obligations - 1.0%		
		Morgan Stanley Mortgage Loan Trust		
	1,789,892	Series 2007-6XS, Class 2A1S (f).....	0.32%	0
		Specialty Underwriting & Residential Finance		
	2,399,673	Series 2006-BC4, Class A2B (f).....	0.32%	0
		Wells Fargo Mortgage Backed Securities Trust		
	4,040,313	Series 2006-AR7, Class 2A4 (f).....	2.62%	0
		Total Mortgage-Backed Securities.....		
		(Cost \$7,020,293)		

Shares	Description
-----	-----

COMMON STOCKS - 1.5%

		Automotive - 1.1%		
	448,000	Ford Motor Co.....		
	98,768	General Motors Co. (i).....		
		Banking - 0.4%		
	75,700	Citigroup, Inc.....		
		Total Common Stocks.....		
		(Cost \$14,700,177)		

WARRANTS - 0.3%

		Automotive - 0.3%		
	77,608	General Motors Co. (i).....		
	77,608	General Motors Co. (i).....		
		Total Warrants.....		
		(Cost \$4,065,974)		

SHORT-TERM INVESTMENTS - 0.9%

	6,254,513	Dreyfus Government Cash Management.....		
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Total Short-Term Investments.....  
 (Cost \$6,254,513)

Total Investments.....  
 (Cost \$833,010,875) (j)

See Notes to Financial Statements

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First Trust High Income Long/Short Fund  
 Portfolio of Investments - (Continued)  
 October 31, 2012

Principal Value	Description	Stated Coupon	M
U.S. GOVERNMENT BONDS SOLD SHORT - (24.7%)			
\$ (20,500,000)	United States Treasury Note.....	0.25%	0
(119,200,000)	United States Treasury Note.....	0.88%	0
(27,500,000)	United States Treasury Note.....	2.00%	0
	Total U.S. Government Bonds Sold Short..... (Proceeds \$167,794,344)		
	Net Other Assets and Liabilities.....		
	Net Assets - 100.0%.....		

- 
- (a) This security or a portion of this security is segregated as collateral for investments sold short.
  - (b) The non-transferable trust units were originally issued to facilitate distribution of General Motors common stock and warrants pursuant to the General Motors Bankruptcy Plan of Reorganization. On June 12, 2012, the holders of these units received new transferable General Motors Unsecured Claim (GUC) Trust Units, which were created to hold and administer the common stock and warrants of General Motors Company to be contributed to the GUC Trust under the General Motors Bankruptcy Plan of Reorganization. As such, the non-transferable trust units currently exist only for the purpose of receiving any residual cash, if any, from the General Motors Bankruptcy. These units were received in exchange for the previously owned General Motors 8.375% Corporate Notes that were scheduled to mature on 7/15/33.
  - (c) Security issued by a U.S. incorporated entity, that has its principal value denominated in the listed foreign currency.
  - (d) Fixed-to-floating rate security. The interest rate shown reflects the fixed rate in effect at October 31, 2012. At a predetermined date, the fixed rate will change to a floating rate.

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- (e) This security, sold within the terms of a private placement memorandum, is exempt from registration upon resale 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 MacKay Shields LLC, 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 October 31, 2012, securities noted as such amounted to \$196,816,624, or 28.66% of net assets.
- (f) Floating rate security. The interest rate shown reflects the rate in effect at October 31, 2012.
- (g) Senior Loans in which the Fund invests generally pay interest at rates which are periodically predetermined by reference to a base lending rate plus a premium. These base lending rates are generally (i) the lending rate offered by one or more major European banks, such as the London Inter-Bank Offered Rate ("LIBOR"), (ii) the prime rate offered by one or more United States banks or (iii) the certificate of deposit rate. Certain Senior Loans are subject to a LIBOR floor that establishes a minimum LIBOR rate. The interest rate shown reflects the rate in effect at October 31, 2012.
- (h) Senior Loans generally are subject to mandatory and/or optional prepayment. As a result, the actual remaining maturity of Senior Loans may be substantially less than the stated maturities shown.
- (i) Non-income producing security.
- (j) Aggregate cost for federal income tax purposes is \$833,010,875. As of October 31, 2012, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$39,953,322 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$24,526,383.

### Currency Abbreviations:

EUR Euro  
GBP British Pound Sterling  
USD United States Dollar

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See Notes to Financial Statements

First Trust High Income Long/Short Fund  
Portfolio of Investments - (Continued)  
October 31, 2012

-----  
Valuation Inputs

A summary of the inputs used to value the Fund's investments as of October 31, 2012 is as follows (see Note 2A - Portfolio Valuation in the Notes to Financial Statements):

ASSETS TABLE

Total Level 1

Level 2  
Significa



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	Value at 10/31/2012	Quoted Prices	Observabl Inputs
Corporate Bonds and Notes:			
Automotive.....	\$ 28,361,843	\$ --	\$ 28,359
Other Industry Categories*.....	572,264,297	--	572,264
Total Corporate Bonds and Notes....	600,626,140	--	600,624
Foreign Corporate Bonds and Notes*.....	177,744,774	--	177,744
Senior Floating-Rate Loan Interests*.....	30,919,072	--	30,919
Asset-Backed Securities.....	13,445,489	--	13,445
Mortgage-Backed Securities.....	7,025,453	--	7,025
Common Stocks*.....	10,348,687	10,348,687	
Warrants*.....	2,073,686	2,073,686	
Short-Term Investments.....	6,254,513	6,254,513	
Total Investments.....	848,437,814	18,676,886	829,758
Other Financial Instruments:			
Forward Foreign Currency Contracts**.....	40,733	--	40
Total.....	\$ 848,478,547	\$ 18,676,886	\$ 829,799

LIABILITIES TABLE

	Total Value at 10/31/2012	Level 1 Quoted Prices	Level 2 Significa Observabl Inputs
U.S. Government Bonds Sold Short.....	\$ (169,592,053)	\$ --	\$ (169,592)
Forward Foreign Currency Contracts**.....	(612,612)	--	(612)
Total.....	\$ (170,204,665)	\$ --	\$ (170,204)

\* See the Portfolio of Investments for industry breakout.

\*\* See the Schedule of Forward Foreign Currency Contracts for contract and currency detail.

See Notes to Financial Statements

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First Trust High Income Long/Short Fund  
Portfolio of Investments - (Continued)  
October 31, 2012

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.

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Beginning Balance at October 31, 2011		
Corporate Bonds and Notes	\$	--
Net Realized Gain (Loss)		--
Net Change in Unrealized Appreciation/Depreciation		--
Purchases	--	
Sales	--	
Transfers In		
Corporate Bonds and Notes		2,100
Transfers Out		--
Ending Balance at October 31, 2012		
Corporate Bonds and Notes		2,100
		-----
Total Level 3 holdings	\$	2,100
		=====

All transfers in and out of the Levels during the period are assumed to be transferred on the last day of the period at their current value. The transfer from Level 2 to Level 3 occurred due to the General Motors issuance of new transferable unsecured claim trust units.

There was no net change in unrealized appreciation (depreciation) from Level 3 investments held as of October 31, 2012.

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See Notes to Financial Statements

First Trust High Income Long/Short Fund  
 Schedule of Forward Foreign Currency Contracts  
 October 31, 2012

Forward Foreign Currency Contracts

Settlement Date	Counterparty	Amount Purchased (a)	Amount Sold (a)	Purchase Value as of October 31, 2012	Value as of October 31, 2012
12/06/12	JPM	EUR 660,000	USD 854,337	\$ 855,754	\$
12/06/12	JPM	GBP 568,000	USD 914,224	916,499	
12/06/12	JPM	USD 60,654,284	EUR 46,751,000	60,654,284	
12/06/12	JPM	USD 46,696,791	GBP 29,320,000	46,696,791	
Net Unrealized Appreciation (Depreciation).....					

(a) Please see Portfolio of Investments for currency descriptions.

Counterparty Abbreviations:  
 JPM JPMorgan Chase

See Notes to Financial Statements

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First Trust High Income Long/Short Fund  
Statement of Assets and Liabilities  
October 31, 2012

ASSETS:

Investments, at value  
(Cost \$833,010,875).....  
Cash.....  
Foreign currency (Cost \$13,836).....  
Unrealized appreciation on forward foreign currency contracts.....  
Prepaid expenses.....  
Receivables:  
Interest.....  
Currency.....  
Dividends.....  
  
Total Assets.....

LIABILITIES:

Investments sold short, at value (proceeds \$167,794,344).....  
Unrealized depreciation on forward foreign currency contracts.....  
Payables:  
Investment securities purchased.....  
Investment advisory fees.....  
Interest on investments sold short.....  
Audit and tax fees.....  
Printing fees.....  
Administrative fees.....  
Legal fees.....  
Custodian fees.....  
Trustees' fees and expenses.....  
Transfer agent fees.....  
Financial reporting fees.....  
Other liabilities.....  
  
Total liabilities.....

NET ASSETS.....

NET ASSETS consist of:

Paid-in capital.....  
Par value.....  
Accumulated net investment income (loss).....  
Accumulated net realized gain (loss) on investments, forward foreign currency contracts,  
foreign currency transactions, investments sold short, futures and swap contracts.....  
Net unrealized appreciation (depreciation) on investments, forward foreign currency contracts,  
foreign currency translation and investment sold short.....

NET ASSETS.....

NET ASSET VALUE, per Common Share (par value \$0.01 per Common Share).....

Number of Common Shares outstanding (unlimited number of Common Shares has been authorized).....

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See Notes to Financial Statements

First Trust High Income Long/Short Fund  
Statement of Operations  
For the Year Ended October 31, 2012

INVESTMENT INCOME:

Interest.....  
Dividends.....  
Other.....

Total investment income.....

EXPENSES:

Investment advisory fees.....  
Interest expense on investments sold short.....  
Short sale fees.....  
Administrative fees.....  
Printing fees.....  
Legal fees.....  
Custodian fees.....  
Audit and tax fees.....  
Trustees' fees and expenses.....  
Transfer agent fees.....  
Financial reporting fees.....  
Other.....

Total expenses.....

NET INVESTMENT INCOME (LOSS).....

NET REALIZED AND UNREALIZED GAIN (LOSS):

Net realized gain (loss) on:  
Investments.....  
Forward foreign currency contracts.....  
Foreign currency transactions.....  
Short sales.....  
Swap contracts.....

Net realized gain (loss).....

Net change in unrealized appreciation (depreciation) on:

Investments.....  
Forward foreign currency contracts.....  
Foreign currency translation.....  
Short positions.....  
Swap contracts.....

Net change in unrealized appreciation (depreciation).....

NET REALIZED AND UNREALIZED GAIN (LOSS).....

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NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS.....

See Notes to Financial Statements

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First Trust High Income Long/Short Fund  
Statements of Changes in Net Assets

	Year Ended 10/31/2012
OPERATIONS:	
Net investment income (loss).....	\$ 50,915,2
Net realized gain (loss).....	(18,647,0
Net change in unrealized appreciation (depreciation).....	69,794,2
Net increase (decrease) in net assets resulting from operations.....	102,062,4
DISTRIBUTIONS TO SHAREHOLDERS FROM:	
Net investment income.....	(51,996,7
Net realized gain.....	(5,765,1
Return of capital.....	
Total distributions to shareholders.....	(57,761,9
CAPITAL TRANSACTIONS:	
Proceeds from Common Shares sold.....	
Proceeds from Common Shares reinvested.....	
Offering costs.....	
Net increase (decrease) in net assets resulting from capital transactions.....	
Total increase (decrease) in net assets.....	44,300,4
NET ASSETS:	
Beginning of period.....	642,414,2
End of period.....	\$ 686,714,7
Accumulated net investment income (loss) at end of period.....	\$ 3,630,5
CAPITAL TRANSACTIONS were as follows	
Common Shares at beginning of period.....	36,056,1
Common Shares sold.....	
Common Shares issued as reinvestment under the Dividend Reinvestment Plan.....	
Common Shares at end of period.....	36,056,1

-----  
(a) Represents shares sold from the over allotment option of the initial

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public offering. The shares were sold on November 11, 2010, the trade date, at the initial offering price of \$19.10, which differed from the closing common share price of \$20.02 and the closing NAV per share of \$19.77 on that date.

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See Notes to Financial Statements

First Trust High Income Long/Short Fund  
Statement of Cash Flows  
For the Year Ended October 31, 2012

Cash flows from operating activities:	
Net increase (decrease) in net assets resulting from operations.....	\$ 102,062,4
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by operating activities:	
Purchases of investments.....	(378,182,0
Borrowed investments sold short.....	213,737,4
Sales, maturities and paydowns of investments.....	403,664,7
Borrowed investments purchased.....	(232,429,8
Receipt for swap contracts closed.....	1,130,2
Net amortization/accretion of premiums/discounts on investments.....	273,2
Net realized gain/loss on investments.....	5,701,9
Net realized gain/loss on investments sold short.....	12,032,1
Net change in unrealized appreciation/depreciation on forward foreign currency contracts.....	(3,142,4
Net change in unrealized appreciation/depreciation on investments sold short.....	(8,368,6
Net change in unrealized appreciation/depreciation on investments.....	(58,121,3
Net change in unrealized appreciation/depreciation on swap contracts....	(116,2
Changes in assets and liabilities:	
Decrease in interest receivable.....	446,8
Decrease in swap contracts sold receivable.....	1,293,7
Increase in dividends receivable.....	(22,4
Increase in currency receivable.....	(1,570,4
Decrease in prepaid expenses.....	9,6
Decrease in interest payable on investments sold short.....	(400,4
Increase in investment advisory fees payable.....	64,8
Increase in audit and tax fees payable.....	3,6
Increase in legal fees payable.....	33,3
Increase in printing fees payable.....	21,6
Increase in administrative fees payable.....	4,8
Decrease in custodian fees payable.....	(1,9
Increase in transfer agent fees payable.....	2
Increase in Trustees' fees and expenses payable.....	7
Increase in other liabilities payable.....	5,3
Cash provided by operating activities.....	-----
Cash flows from financing activities:	
Distributions to Common Shareholders from net realized gain.....	(5,765,1
Distributions to Common Shareholders from net investment income.....	(51,996,7
Cash used by financing activities.....	-----

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Increase in cash (a).....  
 Cash at beginning of period.....  
 Cash at end of period.....  
 Supplemental disclosure of cash flow information:  
 Cash paid during the period for interest and fees.....

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 (a) Includes net change in unrealized appreciation (depreciation) on foreign  
 currency of \$45,547.

See Notes to Financial Statements

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First Trust High Income Long/Short Fund  
 Financial Highlights  
 For a Common Share outstanding throughout the period

	Year Ended 10/31/2012	Year Ended 10/31/2011	1
	-----	-----	-----
Net asset value, beginning of period .....	\$ 17.82	\$ 19.57	
Income from investment operations:			
Net investment income (loss) .....	1.41	1.48	
Net realized and unrealized gain (loss) .....	1.42	(1.72)	
Total from investment operations .....	2.83	(0.24)	
Distributions paid to shareholders from:			
Net investment income .....	(1.44)	(1.47)	
Net realized gain .....	(0.16)	--	
Return of capital .....	--	--	
Total from distributions .....	(1.60)	(1.47)	
Common Shares offering costs charged to paid-in capital .....	--	--	
Capital charge resulting from issuance of Common Shares related to over allotment .....	--	(0.04)	
Net asset value, end of period .....	\$ 19.05	\$ 17.82	
Market value, end of period .....	\$ 18.78	\$ 16.63	

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Total return based on net asset value (c).....	17.09%	(1.27)%
	=====	=====
Total return based on market value (c).....	23.69%	(9.89)%
	=====	=====
Ratios to average net assets/supplemental data:		
Net assets, end of period (in 000's) .....	\$ 686,715	\$ 642,414
Ratio of net expenses to average net assets ....	1.88%	2.09%
Ratio of net expenses to average net assets excluding interest expense .....	1.32%	1.29%
Ratio of net investment income (loss) to average net assets .....	7.83%	7.78%
Portfolio turnover rate .....	24%	18%

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- (a) Initial seed date was August 20, 2010. The Fund commenced operations on September 27, 2010.
- (b) Beginning NAV is net of sales load of \$0.90 per share from the initial offering.
- (c) Total return is based on the combination of reinvested dividend, capital gain and return of capital distributions, if any, at prices obtained by the Dividend Reinvestment Plan, and changes in net asset value per share for net asset value returns and changes in Common Share price for market value returns. Total returns do not reflect sales load and are not annualized for periods less than one year. Past performance is not indicative of future results.
- (d) Annualized.

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See Notes to Financial Statements

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### NOTES TO FINANCIAL STATEMENTS

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First Trust High Income Long/Short Fund (FSD)  
October 31, 2012

#### 1. Fund Description

First Trust High Income Long/Short Fund (the "Fund") is a diversified, closed-end management investment company organized as a Massachusetts business trust on June 18, 2010, and is registered with the Securities and Exchange Commission ("SEC") under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund trades under the ticker symbol FSD on the New York Stock Exchange ("NYSE").

The Fund's primary investment objective is to provide current income. The Fund's secondary objective is capital appreciation. The Fund seeks to achieve its investment objectives by investing, under normal market conditions, a majority of its assets in a diversified portfolio of U.S. and foreign (including emerging markets) high-yield corporate fixed-income securities of varying maturities that are rated below-investment grade at the time of purchase. For purposes of this strategy, "corporate fixed-income securities" include corporate bonds, debentures, notes, commercial paper and other similar types of corporate debt instruments, including instruments issued by corporations with direct or



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indirect government ownership, as well as asset backed securities, preferred shares, senior floating-rate loan participations, commitments and assignments ("Senior Loans")<sup>1</sup>, payment-in-kind securities, zero-coupon bonds, bank certificates of deposit, fixed time deposits, bankers' acceptances and derivative instruments that provide the same or similar economic impact as a physical investment in the above securities. Below-investment grade fixed-income securities are commonly referred to as "high-yield" or "junk" bonds and are considered speculative with respect to the issuer's capacity to pay interest and repay principal. As part of its investment strategy, the Fund intends to maintain both long and short positions in securities under normal market conditions. The Fund will take long positions in securities that MacKay Shields LLC ("MacKay" or the "Sub-Advisor") believes offer the potential for attractive returns and that it considers in the aggregate to have the potential to outperform the Fund's benchmark, the Bank