

July 21, 2009



## CBSX Trader News Update

### CBSX to Add New Stocks for Trading

TO: Members

SUBJECT: First Trust Exchange-Traded Funds to begin trading Thursday, July 23, 2009

Compliance and supervisory personnel should note that, among other things, this Information Bulletin discusses the need to deliver a prospectus to customers purchasing shares ("Shares") of the seven (7) exchange-traded funds ("Funds") listed below issued by First Trust. Please forward this Information Bulletin to other interested persons within your organization.

The following securities have been approved for trading on CBSX:

<u>Exchange-Traded Funds</u>	<u>Symbol</u>
First Trust Enhanced Equity Income Fund	FFA
First Trust Strategic High Income Fund III	FHO
First Trust Strategic High Income Fund II	FHY
First Trust Strategic High Income Fund	FHI
First Trust/FIDAC Mortgage Income Fund	FMY
First Trust/Aberdeen Emerging Opportunity Fund	FEO
First Trust Active Dividend Income Fund	FAV

### **Background Information on the Fund**

First Trust (the "Trust") is a management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"), consisting of several investment portfolios. This circular relates only to the (the "Funds"). The shares of the Fund are referred to herein as "Shares." First Trust Advisors L.P. (the "Adviser") is the investment adviser to the Fund.

First Trust Enhanced Equity Income Fund is a diversified, closed-end management investment company. The Fund's investment objective is to provide a high level of current income and gains and, to a lesser extent, capital appreciation. The Fund pursues its investment objective by investing in a diversified portfolio of equity securities. Under normal market conditions, the fund pursues an integrated investment strategy in which the Fund invests substantially all of its managed assets in a diversified portfolio of common stocks of U.S. corporations and U.S. dollar-denominated equity securities of non-U.S. issuers, in each case that are traded on U.S. securities exchanges.

The Fund is subject to various risks, including: Investment and Market Risk, Management Risk, Common Stock Risk, Option Risk, Investment Companies Risk, Industry and Sector Risk, Income Risk, Portfolio Turnover Risk, Non-U.S. Equity Securities Risk, Illiquid Securities Risk, Tax Risk, Derivatives Risk, Interest Rate Risk, Market Disruption Risk, Inflation Risk, Certain Affiliations, Anti-Takeover Provisions, Market Discount from Net Asset Value.

The Fund may write (sell) covered call options on all or a portion of the equity securities held in the Fund's portfolio as determined to be appropriate by the Fund's investment sub-advisor, consistent with the Fund's investment objective. The ability to successfully implement the Fund's investment strategy depends on the investment sub-advisor's ability to predict pertinent market movements, which cannot be assured. Thus, the use of options may require the Fund to sell portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Fund can realize on an investment, or may cause the Fund to hold an equity security that it might otherwise sell. There can be no assurance that a liquid market for the options will exist when the Fund seeks to close out an option position. Additionally, to the extent that the Fund purchases options pursuant to a hedging strategy, the Fund will be subject to additional risks. Covered call option premiums will be treated by the Fund as either short-term or long-term capital gain or loss, depending whether the call option expires, is exercised or cancelled pursuant to a covering transaction, and the timing of such transaction. Thus, The fund cannot assure you as to any level of any regular quarterly distributions of net investment income (income other than net long-term capital gain) that will be treated as ordinary income, cannot assure you as to any level of capital gain distributions and cannot assure you as to any ratio of regular quarterly distributions to capital gain distributions.

First Trust Strategic High Income Fund III is a diversified, closed-end management investment company. The Fund's primary objective is to seek a high level of current income. The Fund seeks capital growth as a secondary objective. The Fund intends to achieve its objective by investing in a diversified portfolio of below-investment grade and investment grade debt securities and

equity securities that the investment sub-advisor believes offer attractive yield and/or capital appreciation potential. The Fund may invest up to 100% of its Managed Assets in below-investment grade debt securities (commonly referred to as "high-yield" or "junk" bonds).

Investment and market risk, management risk, sub-advisor risk, value investing risk, below-investment grade debt securities risk, fixed-income securities risk, mortgage-backed securities risk, asset-backed securities risk, convertible securities risk, municipal securities risk, foreign securities risk, foreign government securities risk, emerging markets risk, currency risk, distressed securities risk, equity securities risk, preferred stock risk, credit linked notes risk, credit default swaps risk, REIT risk, inflation/deflation risk, market discount from net asset value risk, leverage risk, derivatives risk, portfolio turnover risk, market disruption risk, illiquid/restricted securities risk, certain affiliations risk, anti-takeover provisions risk, secondary market for the fund's common shares risk, and lending portfolio securities risk.

Below-investment grade 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 and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for high-yield securities tend to be very volatile, and these securities are less liquid than investment grade debt securities. For these reasons, your investment in the Fund is subject to the following specific risks: (a) increased price sensitivity to changing interest rates and to a deteriorating economic environment; (b) greater risk of loss due to default or declining credit quality; (c) adverse company specific events are more likely to render the issuer unable to make interest and/or principal payments; and (d) a negative perception of the high-yield market may depress the price and liquidity of high-yield securities.

First Trust Strategic High Income Fund II is a diversified, closed-end management investment company. The Fund's primary investment objective is to seek a high level of current income. The Fund seeks capital growth as a secondary objective. The Fund will seek to achieve its investment objectives by investing in a diversified portfolio of below-investment grade and investment grade debt securities, and equity securities that the investment sub-advisor believes offer attractive yield and/or capital appreciation potential. The Fund May invest up to 100% of its managed assets in below-investment grade debt securities (commonly referred to as "high-yield" or "junk" bonds).

The Fund is subject to various risks, including: Investment and Market Risk, Management Risk, Sub-Advisor Risk, Value Investing Risk, Below-Investment Grade Securities Risk, Fixed-Income Securities Risk, Issuer Risk, Interest Rate Risk, Reinvestment Risk, Prepayment Risk, Mortgage-Backed Securities risk,

Asset-Backed Securities Risk, Convertible Securities Risk, Municipal Securities Risk, Non-U.S. Securities Risk, Non-U.S. Government Securities Risk, Currency Risk, Distressed Securities Risk, Equity Securities Risk, Preferred Stock Risk, Inflation/Deflation Risk, Market Discount From Net Asset Value Risk, Leverage Risk, Derivatives Risk, Portfolio Turnover Risk, Market Disruption Risk, Illiquid/Restricted Securities Risk, Certain Affiliations, Anti-Takeover Provisions, and Secondary Market for the Fund's Shares.

Below-investment grade 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 and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for high-yield securities tend to be very volatile, and these securities are less liquid than investment grade debt securities. For these reasons, your investment in the Fund is subject to the following specific risks: (a) increased price sensitivity to changing interest rates and to a deteriorating economic environment; (b) greater risk of loss due to default or declining credit quality; (c) adverse company specific events are more likely to render the issuer unable to make interest and/or principal payments; and (d) a negative perception of the high-yield market may depress the price and liquidity of high-yield securities.

First Trust Strategic High Income Fund is a diversified, closed-end management investment company. The Fund's primary investment objective is to seek a high level of current income. The Fund seeks capital growth as a secondary objective. The Fund will seek to achieve its investment objective by investing at least 80% of its managed assets in a diversified portfolio of high income producing securities that the investment sub-advisor believes offer attractive yield and capital appreciation potential.

The Fund is subject to various risks, including: Investment and Market Risk, Management Risk, Value Investing Risk, Below-investment Grade Securities Risk, Fixed-Income Securities Risk, Issuer Risk, Interest Rate Risk, Reinvestment Risk, Prepayment Risk, Mortgage-Backed Securities risk, Asset-Backed Securities Risk, Convertible Securities Risk, Municipal Securities Risk, Non-U.S. Securities Risk, Non-U.S. Government Securities Risk, Currency Risk, Distressed Securities Risk, Equity Securities Risk, Preferred Stock Risk, Inflation/Deflation Risk, Market Discount From Net Asset Value Risk, Leverage Risk, Derivatives Risk, Portfolio Turnover Risk, Market disruption Risk, Illiquid/Restricted Securities Risk, Certain Affiliations, Anti-Takeover Provisions, and Secondary Market for the Fund's Shares.

Below-investment grade 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 and are susceptible to default or decline in

market value due to adverse economic and business developments. The market values for high-yield securities tend to be very volatile, and these securities are less liquid than investment grade debt securities. For these reasons, your investment in the Fund is subject to the following specific risks: (a) increased price sensitivity to changing interest rates and to a deteriorating economic environment; (b) greater risk of loss due to default or declining credit quality; (c) adverse company specific events are more likely to render the issuer unable to make interest and/or principal payments; and (d) a negative perception of the high-yield market may depress the price and liquidity of high-yield securities.

First Trust/FIDAC Mortgage Income Fund is a diversified, closed-end management investment company. The Fund's primary investment objective is to seek a high level of current income. As a secondary objective, the Fund will seek to preserve capital. The Fund will pursue its objectives by investing primarily in mortgage-backed securities representing part ownership in a pool of either residential or commercial mortgage loans that, in the opinion of the Fund's investment sub-advisor, offer an attractive combination of credit quality, yield and maturity.

The Fund is subject to various risks, including: Investment and Market Risk, Management Risk, Credit Risk, Prepayment Risk, Reinvestment Risk, Interest Rate Risk, Floating Rate CMOs/Inverse Floating Rate CMOs Risk, Tax Risk Relating to Investments in Certain REMICs, Bond Market Risk, Economic Sector Risk, Inflation Risk, U.S. Government Securities Risk, Government Agency Risk, Asset-Backed Securities Risk, Market Discount From Net Asset Value, Leverage Risk, Interest Rate Transactions Risk, Derivatives Risk, Illiquid/Restricted Securities Risk, Portfolio Turnover Risk, Market Disruption Risk, Certain Affiliations, Anti-Takeover Provisions, Secondary Market for the Fund's Shares.

**Subordinated Debt Risk:** The Fund may invest a portion of its Managed Assets in subordinated classes of MBS, including debt obligations issued by private originators or issuers backed by residential mortgage loans and multi-class debt or pass-through or paythrough securities backed by a mortgage loan or pool of mortgage loans on commercial real estate. Such subordinated classes are subject to a greater degree of non-payment risk than are senior classes of the same issuer or agency.

**Prepayment Risk:** If borrowers prepay their mortgage loans at rates that are faster than expected, this results in prepayments that are faster than expected on MBS. These faster than expected prepayments may adversely affect the Fund's profitability, particularly if the Fund is forced to invest prepayments it receives in lower yielding securities. Moreover, the Fund may also acquire MBS that are less affected by prepayments. While the Fund will seek to minimize prepayment risk to the extent practical, the Fund must balance prepayment risk

against other risks and the potential returns of each investment in selecting investments. No strategy can completely insulate the Fund from prepayment risk.

**Interest Rate Risk:** The Fund may also invest in MBS which are interest-only ("IO") securities and principal-only ("PO") securities. Generally speaking, when interest rates are falling and prepayment rates are increasing, the value of a PO security will rise and the value of an IO security will fall. Conversely, when interest rates are rising and prepayment rates are decreasing, generally the value of a PO security will fall and the value of an IO security will rise.

First Trust/Aberdeen Emerging Opportunity Fund is a diversified, closed-end management investment company. The Fund's investment objective is to provide a high level of total return. The Fund will pursue its investment objective by investing at least 80% of its managed assets in a diversified portfolio of equity and fixed-income securities of issuers in emerging market countries.

The Fund is subject to various risks, including: Investment and Market Risk, Management Risk, Emerging markets Risk, Equity Securities Risk, Fixed-Income Securities Risk, Interest Rate Risk, Non-Investment Grade Securities Risk, Non-U.S. Securities Risk, Government Securities Risk, Non-U.S. Government Securities Risk, Currency Risk, Preferred Stock Risk, Convertible Securities Risk, Asset-Backed Securities Risk, Credit Linked Notes Risk, Credit Default Swaps Risk, Smaller Capitalization Risk, Market Discount From Net Asset Value, Leverage Risk, Derivatives Risk, Portfolio Turnover Risk, Market Disruption Risk, Inflation Risk, Illiquid/Restricted Securities Risk, Certain Affiliations, Anti-Takeover Provisions, Secondary Market for the Fund's Shares, Lending Portfolio Securities.

Investments in equity or fixed-income securities of issuers located in countries considered to be emerging markets are considered speculative. In addition to the general risks of investing in non-U.S. securities, heightened risks of investing in emerging markets securities include: smaller market capitalization of securities markets, which may suffer periods of relative illiquidity; significant price volatility; restrictions on foreign investment; and possible restrictions on repatriation of investment income and capital. Furthermore, foreign investors may be required to register the proceeds of sales, and future economic or political crises could lead to price controls, forced mergers, expropriation or confiscatory taxation, seizure, nationalization or creation of government monopolies. The currencies of emerging market countries may experience significant declines against the U.S. dollar, and devaluation may occur subsequent to investments in these currencies by the Fund. Inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain emerging market countries.

The First Trust Active Dividend Income Fund is a diversified, closed-end management investment company. The Fund's primary investment objective is to seek a high level of current income. It has a secondary objective of capital appreciation. The Fund will seek to achieve its investment objectives by investing at least 80% of its Managed Assets in a diversified portfolio of dividend-paying multi-cap equity securities of both U.S. and non-U.S. issuers that the Fund's investment sub-advisor believes offer the potential for attractive income and/or capital appreciation. The Fund does not employ leverage or covered calls to generate income.

Investment and market risk, management risk, sub-advisor risk, value investing risk, dividend strategy risk, qualified dividend tax risk, equity securities risk, small and medium cap company risk, non-U.S. securities risk, emerging markets risk, preferred stock risk, convertible securities risk, REIT risk, master limited partnership risk, fixed-income securities risk, market discount from net asset value risk, derivatives risk, portfolio turnover risk, leverage risk, market disruption risk, defensive positions risk, inflation risk, certain affiliations risk, anti-takeover risk, secondary market for the Fund's shares, and lending portfolio securities risk.

**Qualified Dividend Tax Risk:** There can be no assurance as to what portion of the distributions paid to the Fund's Common Shareholders will consist of tax-advantaged qualified dividend income. For taxable years beginning before January 1, 2011, certain distributions designated by the Fund as derived from qualified dividend income will be taxed in the hands of non-corporate Common Shareholders at the rates applicable to long-term capital gain, provided certain holding period and other requirements are satisfied by both the Fund and the Common Shareholders. Additional requirements apply in determining whether distributions by foreign issuers should be regarded as qualified dividend income. Certain investment strategies of the Fund will limit the Fund's ability to meet these requirements and consequently will limit the amount of qualified dividend income received and distributed by the Fund. A change in the favorable provisions of the federal tax laws with respect to qualified dividends may effect a widespread reduction in announced dividends and may adversely impact the valuation of the shares of dividend-paying companies.

The risks of investing in the Fund are spelled out in the prospectus, shareholder report and other regulatory filings.

Closed-end funds, unlike open-end funds, are not continuously offered. Shares, once issued, are traded in the open market through a stock exchange. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the Fund's shares is determined by a number of factors, several of which are

beyond the control of the Fund. Therefore, the Fund cannot predict whether its shares will trade at, below or above net asset value.

The NAV per Share for the Fund is computed by dividing the value of the net assets of the Fund (i.e., the value of its total assets less total liabilities) by the total number of Shares outstanding. Expenses and fees are accrued daily and taken into account for purposes of determining NAV. The NAV of each Fund is determined each business day after the close of trading (ordinarily 4:00 p.m., Eastern Time or "ET") of the New York Stock Exchange. Any assets or liabilities denominated in currencies other than the U.S. dollar are converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

The registration statement for the Funds describes the various fees and expenses for the Funds' Shares. For a more complete description of the Funds and the underlying indexes, visit the Funds' website at <http://www.firsttrust.com>.

### **Exchange Rules Applicable to Trading the Shares**

The Shares are considered equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities.

### **Principal Risks**

Interested persons are referred to the discussion in the prospectus for the Fund of the principal risks of an investment in the Fund. These include tracking error risk (factors causing the Fund's performance to not match the performance of the underlying index), market trading risk (for example, trading halts, trading above or below net asset value), investment style risk, sector risk, investment approach risk, non-diversification risk, issuer-specific risk, management risk, credit risk, interest rate risk, liquidity risk, derivatives risk and leveraging risk.

### **Trading Hours**

The values of each index underlying the Shares are disseminated to data vendors every 15 seconds. The Shares will trade on the CBSX from 8:15 a.m. CT until 3:00 p.m. CT. The trading increment for the Fund's Shares will be \$0.01.

### **Extended Hours Trading**

Members are reminded that trading in the Fund's Shares prior to 8:30 a.m. may result in additional trading risks which include: (1) that the current underlying index value may not be updated, (2) the intraday indicative value may not be

updated, (3) lower liquidity may impact pricing, (4) higher volatility may impact pricing, (5) wider spreads may occur, and (6), since the intraday indicative value is not calculated or widely disseminated, an investor who is unable calculate an implied value for an ETF in those sessions may be at a disadvantage to market professionals.

### **Trading Halts**

The Exchange will halt trading in the Shares based on Rule 52.3 and/or because dissemination of the intraday indicative value of the Shares and/or the underlying value of the index has ceased.

### **Suitability**

Members are reminded of their obligation under Rule 53.6 whereby the Member shall use due diligence to learn the essential facts relative to every customer prior to trading the Shares or recommending a transaction in the Shares that an investment in the Shares is suitable for the customer. Members should adopt appropriate procedures for the opening and maintaining of accounts, including the maintaining of records prescribed by any applicable regulatory organization and by the rules and regulations of the Commission.

### **Delivery of a Prospectus**

Consistent with the requirements of the Securities Act and the rules thereunder, investors purchasing Shares in the initial public offering and anyone purchasing Shares directly from a Fund (by delivery of the designated securities) must receive a Prospectus. In addition, Members are required to deliver a Prospectus to all purchasers of newly-issued Shares (i.e. during the initial public offering). Members purchasing shares from a Fund for resale to investors will deliver a Prospectus to such investors.

Prospectuses may be obtained through the Fund's website. The Prospectus does not contain all of the information set forth in the Registration Statement (including the exhibits to the Registration Statement), parts of which have been omitted in accordance with the rules and regulations of the Commission. For further information about a Fund, please refer to the Registration Statement.

In the event that a Fund relies upon an order by the Commission exempting the Shares from certain Prospectus delivery requirements under Section 24(d) of the 1940 Act and makes available a written product description, the Exchange requires that Members provide to all purchasers of Shares a written description of the terms and characteristics of such securities, in a form prepared by the Trust, no later than the time a confirmation of the first transaction in the Shares,

is delivered to such purchaser. In addition, ETP Holders shall include such a written description with any sales material relating to the Shares that is provided to customers or the public. Any other written materials provided by a Member to customers or the public making specific reference to the Shares as an investment vehicle must include a statement in substantially the following form: "A circular describing the terms and characteristics of Shares of the Fund has been prepared by the Trust and is available from your broker. It is recommended that you obtain and review such circular before purchasing Shares of the Fund. In addition, upon request you may obtain from your broker a prospectus for Shares of the Fund."

An Member carrying an omnibus account for a non-Member is required to inform such non-Member that execution of an order to purchase Shares for such omnibus account will be deemed to constitute agreement by the non-Member to make such written description available to its customers on the same terms as are directly applicable to Members under this rule.

Upon request of a customer, Members shall also provide a copy of the Prospectus.

This Information Bulletin is not a statutory Prospectus. Members should consult the Trust's Registration Statement, SAI, Prospectus and the Fund's website for relevant information.

Inquiries regarding this Information Bulletin should be directed to David Reed, 866.458.2279.

