

Edgar Filing: FIRST TRUST ENHANCED EQUITY INCOME FUND - Form N-Q

FIRST TRUST ENHANCED EQUITY INCOME FUND

Form N-Q

November 30, 2009

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

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT  
INVESTMENT COMPANY

Investment Company Act file number 811-21586

FIRST TRUST ENHANCED EQUITY INCOME FUND

-----  
(Exact name of registrant as specified in charter)

120 East Liberty Drive, Suite 400

WHEATON, IL 60187

-----  
(Address of principal executive offices) (Zip code)

W. Scott Jardine, Esq.  
First Trust Portfolios L.P.  
120 East Liberty Drive, Suite 400  
WHEATON, IL 60187

-----  
(Name and address of agent for service)

Registrant's telephone number, including area code: (630) 765-8000  
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Date of fiscal year end: DECEMBER 31

Date of reporting period: SEPTEMBER 30, 2009

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (ss.ss. 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

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

ITEM 1. SCHEDULE OF INVESTMENTS.

The Schedule(s) of Investments is attached herewith.

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FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a)  
 SEPTEMBER 30, 2009 (UNAUDITED)

| SHARES  | DESCRIPTION                                     | VALUE        |
|---|---|--------------|
| COMMON STOCKS - 90.1%                         |   |              |
| AEROSPACE & DEFENSE - 3.0%                    |   |              |
| 100,000                                       | Honeywell International, Inc. ....              | \$ 3,715,000 |
| 54,000  | United Technologies Corp. (b) .....             | 3,290,220    |
|   |   | 7,005,220    |
| BEVERAGES - 4.2%                              |   |              |
| 80,000  | Coca-Cola (The) Co. ....                        | 4,296,000    |
| 60,000  | Diageo PLC, ADR (e) .....                       | 3,689,400    |
| 30,000  | PepsiCo, Inc. ....                              | 1,759,800    |
|   |   | 9,745,200    |
| CAPITAL MARKETS - 1.9%                        |   |              |
| 56,300  | Ameriprise Financial, Inc. (b) .....            | 2,045,379    |
| 80,000  | Bank of New York Mellon (The), Corp. (e) .....  | 2,319,200    |
|   |   | 4,364,579    |
| CHEMICALS - 1.7%                              |   |              |
| 70,000  | PPG Industries, Inc. (e) .....                  | 4,074,700    |
| COMMERCIAL BANKS - 1.0%                       |   |              |
| 198,185                                       | National Penn Bancshares, Inc. ....             | 1,210,910    |
| 37,500  | Wells Fargo & Co. (b) .....                     | 1,056,750    |
|   |   | 2,267,660    |
| COMMERCIAL SERVICES & SUPPLIES - 1.0%         |   |              |
| 80,000  | Waste Management, Inc. (e) .....                | 2,385,600    |
| COMMUNICATIONS EQUIPMENT - 3.5%               |   |              |
| 295,200                                       | Cisco Systems, Inc. (c) .....                   | 6,949,008    |
| 30,000  | QUALCOMM, Inc. (e) .....                        | 1,349,400    |
|   |   | 8,298,408    |
| COMPUTERS & PERIPHERALS - 4.0%                |   |              |
| 70,000  | Hewlett-Packard Co. ....                        | 3,304,700    |
| 50,000  | International Business Machines Corp. (e) ..... | 5,980,500    |
|   |   | 9,285,200    |
| DIVERSIFIED FINANCIAL SERVICES - 2.7%         |   |              |
| 147,000                                       | JPMorgan Chase & Co. (e) .....                  | 6,441,540    |
| DIVERSIFIED TELECOMMUNICATION SERVICES - 3.9% |   |              |
| 200,000                                       | Alaska Communications Systems Group, Inc. ....  | 1,850,000    |
| 92,100  | AT&T, Inc. (e) .....                            | 2,487,621    |

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|         |  |           |
|---------|--|-----------|
| 155,000 | Verizon Communications, Inc. (e) ..... | 4,691,850 |
|         |  | -----     |
|         |  | 9,029,471 |
|         |  | -----     |
|         | ELECTRIC UTILITIES - 0.7%              |           |
| 35,000  | Exelon Corp. ....                      | 1,736,700 |
|         |  | -----     |
|         | ELECTRICAL EQUIPMENT - 3.1%            |           |
| 180,000 | Emerson Electric Co. (e) .....         | 7,214,400 |
|         |  | -----     |
|         | FOOD & STAPLES RETAILING - 0.7%        |           |
| 45,000  | CVS Caremark Corp. ....                | 1,608,300 |
|         |  | -----     |

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (CONTINUED)  
 SEPTEMBER 30, 2009 (UNAUDITED)

| SHARES                      | DESCRIPTION                            | VALUE        |
|-----------------------------|--|--------------|
| -----                       | -----                                  | -----        |
| COMMON STOCKS - (CONTINUED) |  |              |
|                             | FOOD PRODUCTS - 1.0%                   |              |
| 85,000                      | Kraft Foods, Inc., Class A .....       | \$ 2,232,950 |
|                             |  | -----        |
|                             | HEALTHCARE EQUIPMENT & SUPPLIES - 1.4% |              |
| 90,000                      | Medtronic, Inc. ....                   | 3,312,000    |
|                             |  | -----        |
|                             | HOTELS, RESTAURANTS & LEISURE - 2.7%   |              |
| 90,000                      | Carnival Corp. (b) .....               | 2,995,200    |
| 100,000                     | Darden Restaurants, Inc. (e) .....     | 3,413,000    |
|                             |  | -----        |
|                             |  | 6,408,200    |
|                             |  | -----        |
|                             | INDUSTRIAL CONGLOMERATES - 1.0%        |              |
| 30,000                      | 3M Co. (e) .....                       | 2,214,000    |
|                             |  | -----        |
|                             | INSURANCE - 5.5%                       |              |
| 60,000                      | ACE Ltd. ....                          | 3,207,600    |
| 50,000                      | Lincoln National Corp. ....            | 1,295,500    |
| 130,000                     | MetLife, Inc. (b) .....                | 4,949,100    |
| 70,000                      | Prudential Financial, Inc. (e) .....   | 3,493,700    |
|                             |  | -----        |
|                             |  | 12,945,900   |
|                             |  | -----        |
|                             | IT SERVICES - 1.2%                     |              |
| 100,000                     | Paychex, Inc. (b) .....                | 2,905,000    |
|                             |  | -----        |
|                             | MACHINERY - 2.0%                       |              |
| 90,000                      | Caterpillar, Inc. (e) .....            | 4,619,700    |
|                             |  | -----        |
|                             | MARINE - 0.4%                          |              |

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|         |  |            |
|---------|--|------------|
| 110,000 | Seaspan Corp. ....                           | 984,500    |
|         |  | -----      |
|         | MEDIA - 1.2%                                 |            |
| 145,000 | Regal Entertainment Group, Class A (e) ..... | 1,786,400  |
| 40,000  | Walt Disney (The) Co. (e) .....              | 1,098,400  |
|         |  | -----      |
|         |  | 2,884,800  |
|         |  | -----      |
|         | METALS & MINING - 1.1%                       |            |
| 40,000  | BHP Billiton Ltd., ADR (b) .....             | 2,640,400  |
|         |  | -----      |
|         | MULTILINE RETAIL - 4.3%                      |            |
| 119,000 | J.C. Penney Co., Inc. (e) .....              | 4,016,250  |
| 131,000 | Target Corp. (e) .....                       | 6,115,080  |
|         |  | -----      |
|         |  | 10,131,330 |
|         |  | -----      |
|         | OIL, GAS & CONSUMABLE FUELS - 9.3%           |            |
| 60,000  | Chevron Corp. (e) .....                      | 4,225,800  |
| 120,000 | Exxon Mobil Corp. ....                       | 8,233,200  |
| 105,200 | Occidental Petroleum Corp. (e) .....         | 8,247,680  |
| 60,000  | Williams (The) Cos., Inc.(b) .....           | 1,072,200  |
|         |  | -----      |
|         |  | 21,778,880 |
|         |  | -----      |
|         | PHARMACEUTICALS - 8.5%                       |            |
| 95,000  | Abbott Laboratories .....                    | 4,699,650  |
| 400,000 | Bristol-Myers Squibb Co. (e) .....           | 9,008,000  |
| 70,000  | Merck & Co., Inc. ....                       | 2,214,100  |
| 250,000 | Pfizer, Inc. ....                            | 4,137,500  |
|         |  | -----      |
|         |  | 20,059,250 |
|         |  | -----      |

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (CONTINUED)  
 SEPTEMBER 30, 2009 (UNAUDITED)

| SHARES  | DESCRIPTION                                  | VALUE        |
|---------|--|--------------|
| -----   | -----  | -----        |
|         | COMMON STOCKS - (CONTINUED)                  |              |
|         | REAL ESTATE INVESTMENT TRUSTS (REITS) - 5.1% |              |
| 200,400 | Annaly Capital Management, Inc. (b) .....    | \$ 3,635,256 |
| 100,000 | Capstead Mortgage Corp. ....                 | 1,391,000    |
| 865,000 | MFA Mortgage Investments, Inc. ....          | 6,885,400    |
|         |  | -----        |
|         |  | 11,911,656   |
|         |  | -----        |
|         | ROAD & RAIL - 1.7%                           |              |
| 70,000  | Union Pacific Corp. (e) .....                | 4,084,500    |
|         |  | -----        |

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|         |   |             |
|---------|---|-------------|
|         | SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT - 6.1% |             |
| 457,300 | Intel Corp. (e) .....                           | 8,949,361   |
| 200,000 | Microchip Technology, Inc. ....                 | 5,300,000   |
|         |   | -----       |
|         |   | 14,249,361  |
|         |   | -----       |
|         | SOFTWARE - 1.2%                                 |             |
| 110,000 | Microsoft Corp. (e) .....                       | 2,847,900   |
|         |   | -----       |
|         | SPECIALTY RETAIL - 2.9%                         |             |
| 400,000 | Limited Brands, Inc. (b) .....                  | 6,796,000   |
|         |   | -----       |
|         | TOBACCO - 1.5%                                  |             |
| 120,000 | Altria Group, Inc. ....                         | 2,137,200   |
| 30,000  | Philip Morris International, Inc. ....          | 1,462,200   |
|         |   | -----       |
|         |   | 3,599,400   |
|         |   | -----       |
|         | WATER UTILITIES - 0.6%                          |             |
| 74,200  | American Water Works Co., Inc. ....             | 1,479,548   |
|         |   | -----       |
|         | TOTAL COMMON STOCKS                             |             |
|         | (Cost \$232,317,491) .....                      | 211,542,253 |
|         |   | -----       |
|         | MASTER LIMITED PARTNERSHIPS - 4.6%              |             |
|         | OIL, GAS & CONSUMABLE FUELS - 4.6%              |             |
| 200,000 | Copano Energy, LLC .....                        | 3,640,000   |
| 90,000  | Energy Transfer Partners, L.P. ....             | 3,829,500   |
| 40,000  | Enterprise Products Partners, L.P. ....         | 1,132,800   |
| 60,000  | Magellan Midstream Partners, L.P. ....          | 2,256,000   |
|         |   | -----       |
|         | TOTAL MASTER LIMITED PARTNERSHIPS               |             |
|         | (Cost \$10,255,083) .....                       | 10,858,300  |
|         |   | -----       |
|         | EXCHANGE-TRADED FUNDS - 3.9%                    |             |
|         | CAPITAL MARKET - 2.6%                           |             |
| 264,500 | SPDR KBW Bank ETF (b) .....                     | 6,170,785   |
|         |   | -----       |
|         | LARGE CAP GROWTH - 1.3%                         |             |
| 28,000  | SPDR Trust Series 1 .....                       | 2,955,680   |
|         |   | -----       |
|         | TOTAL EXCHANGE-TRADED FUNDS                     |             |
|         | (Cost \$6,923,028) .....                        | 9,126,465   |
|         |   | -----       |
|         | TOTAL INVESTMENTS - 98.6%                       |             |
|         | (Cost \$249,495,602) (d) .....                  | 231,527,018 |
|         |   | -----       |

See Notes to Quarterly Portfolio of Investments

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| NUMBER OF<br>CONTRACTS        | DESCRIPTION                                | VALUE       |
|-------------------------------|--|-------------|
| CALL OPTIONS WRITTEN - (0.7%) |  |             |
|                               | 3M Co. Call                                |             |
| 150                           | @ 75 due Oct 09 .....                      | \$ (14,250) |
|                               | Ameriprise Financial, Inc. Call            |             |
| 563                           | @ 35 due Oct 09 .....                      | (121,045)   |
|                               | Annaly Capital Management, Inc. Calls      |             |
| 4                             | @ 18 due Oct 09 .....                      | (188)       |
| 1,843                         | @ 19 due Nov 09 .....                      | (64,505)    |
| 157                           | @ 19 due Oct 09 .....                      | (1,570)     |
|                               |  | (66,263)    |
|                               | AT&T, Inc. Call                            |             |
| 600                           | @ 27 due Oct 09 .....                      | (24,000)    |
|                               | Bank of New York Mellon (The), Corp. Call  |             |
| 400                           | @ 33 due Oct 09 .....                      | (2,000)     |
|                               | BHP Billiton Ltd.,ADR Call                 |             |
| 400                           | @ 70 due Oct 09 .....                      | (26,000)    |
|                               | Bristol-Myers Squibb Co. Call              |             |
| 2,000                         | @ 23 due Oct 09 .....                      | (48,000)    |
|                               | Carnival Corp. Calls                       |             |
| 450                           | @ 34 due Oct 09 .....                      | (24,300)    |
| 450                           | @ 35 due Oct 09 .....                      | (21,600)    |
|                               |  | (45,900)    |
|                               | Caterpillar, Inc. Call                     |             |
| 400                           | @ 55 due Oct 09 .....                      | (22,800)    |
|                               | Chevron Corp. Call                         |             |
| 400                           | @ 75 due Oct 09 .....                      | (6,000)     |
|                               | Darden Restaurants, Inc. Call              |             |
| 500                           | @ 38 due Oct 09 .....                      | (2,500)     |
|                               | Diageo PLC, ADR Call                       |             |
| 200                           | @ 65 due Oct 09 .....                      | (5,000)     |
|                               | Emerson Electric Co. Call                  |             |
| 700                           | @ 43 due Oct 09 .....                      | (10,500)    |
|                               | Intel Corp. Call                           |             |
| 750                           | @ 21 due Oct 09 .....                      | (13,500)    |
|                               | International Business Machines Corp. Call |             |
| 250                           | @ 130 due Oct 09 .....                     | (6,250)     |

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (CONTINUED)  
 SEPTEMBER 30, 2009 (UNAUDITED)

| NUMBER OF<br>CONTRACTS             | DESCRIPTION                             | VALUE       |
|------------------------------------|---|-------------|
| CALL OPTIONS WRITTEN - (CONTINUED) |   |             |
|                                    | J.C. Penney Co., Inc. Calls             |             |
| 500                                | @ 33 due Oct 09 .....                   | \$ (80,000) |
| 350                                | @ 35 due Oct 09 .....                   | (19,250)    |
|                                    |   | -----       |
|                                    |   | (99,250)    |
|                                    |   | -----       |
|                                    | JPMorgan Chase & Co. Call               |             |
| 700                                | @ 47 due Oct 09 .....                   | (37,100)    |
|                                    |   | -----       |
|                                    | Limited Brands, Inc. Call               |             |
| 4,000                              | @ 17.5 due Oct 09 .....                 | (140,000)   |
|                                    |   | -----       |
|                                    | Metlife, Inc. Calls                     |             |
| 300                                | @ 41 due Oct 09 .....                   | (15,000)    |
| 1,000                              | @ 44 due Oct 09 .....                   | (10,000)    |
|                                    |   | -----       |
|                                    |   | (25,000)    |
|                                    |   | -----       |
|                                    | Microsoft Corp. Call                    |             |
| 750                                | @ 26 due Oct 09 .....                   | (30,000)    |
|                                    |   | -----       |
|                                    | Occidental Petroleum Corp. Call         |             |
| 600                                | @ 80 due Oct 09 .....                   | (81,000)    |
|                                    |   | -----       |
|                                    | Paychex, Inc. Call                      |             |
| 1,000                              | @ 30 due Oct 09 .....                   | (30,000)    |
|                                    |   | -----       |
|                                    | PPG Industries, Inc. Call               |             |
| 400                                | @ 60 due Oct 09 .....                   | (42,000)    |
|                                    |   | -----       |
|                                    | Prudential Financial, Inc. Calls        |             |
| 200                                | @ 50 due Oct 09 .....                   | (43,000)    |
| 250                                | @ 55 due Oct 09 .....                   | (13,750)    |
|                                    |   | -----       |
|                                    |   | (56,750)    |
|                                    |   | -----       |
|                                    | QUALCOMM, Inc. Call                     |             |
| 150                                | @ 49 due Oct 09 .....                   | (1,200)     |
|                                    |   | -----       |
|                                    | Regal Entertainment Group, Class A Call |             |
| 300                                | @ 15 due Oct 09 .....                   | (3,000)     |
|                                    |   | -----       |
|                                    | SPDR KBW Bank ETF Call                  |             |
| 2,645                              | @ 24 due Oct 09 .....                   | (132,250)   |
|                                    |   | -----       |
|                                    | S&P 500 Index Call                      |             |
| 400                                | @ 1070 due Oct 09(f) .....              | (504,000)   |

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|     |                          |          |
|-----|--------------------------|----------|
|     | Target Corp. Call        |          |
| 650 | @ 50 due Oct 09 .....    | (13,000) |
|     | Union Pacific Corp. Call |          |
| 200 | @ 65 due Oct 09 .....    | (3,000)  |

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (CONTINUED)  
 SEPTEMBER 30, 2009 (UNAUDITED)

| NUMBER OF<br>CONTRACTS             | DESCRIPTION  | VALUE         |
|------------------------------------|--|---------------|
| CALL OPTIONS WRITTEN - (CONTINUED) |  |               |
|                                    | United Technologies Corp. Call   |               |
| 540                                | @ 65 due Oct 09 .....  | \$ (10,800)   |
|                                    | Verizon Communications, Inc. Call  |               |
| 500                                | @ 31 due Oct 09 .....  | (7,500)       |
|                                    | Walt Disney (The) Co. Call   |               |
| 200                                | @ 29 due Oct 09 .....  | (3,000)       |
|                                    | Waste Management, Inc. Call  |               |
| 300                                | @ 30 due Oct 09 .....  | (13,500)      |
|                                    | Wells Fargo & Co. Call   |               |
| 375                                | @ 29 due Oct 09 .....  | (20,625)      |
|                                    | Williams (The) Cos., Inc. Call   |               |
| 600                                | @ 20 due Oct 09 .....  | (2,400)       |
|                                    | TOTAL CALL OPTIONS WRITTEN - (0.7%)<br>(Premiums received \$2,867,481) ..... | (1,669,383)   |
|                                    | NET OTHER ASSETS AND LIABILITIES - 2.1% .....                                | 5,044,082     |
|                                    | NET ASSETS - 100.0% .....  | \$234,901,717 |

- 
- (a) All percentages shown in the Portfolio of Investments are based on net assets.
  - (b) Call options were written on this entire Common Stock position and are fully covered by the Common Stock position.
  - (c) Non-income producing security.



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- (d) Aggregate cost for financial reporting purposes, which approximates the aggregate cost for federal income tax purposes. As of September 30, 2009, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$15,856,111 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$33,824,695.
- (e) Call options were written on a portion of this Common Stock position and are fully covered by the Common Stock position.
- (f) Call options on securities indices were written on a portion of the Common Stock positions that were not covered by call options on individual equity securities held in the Fund's Portfolio.

ADR American Depositary Receipt

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS - (CONTINUED)  
 SEPTEMBER 30, 2009 (UNAUDITED)

VALUATION INPUTS

A summary of the inputs used to value the Fund's investments as of September 30, 2009 is as follows (see Note 1A -Portfolio Valuation in the Notes to Quarterly Portfolio of Investments):

ASSETS TABLE

|                                    | TOTAL MARKET<br>VALUE AT<br>9/30/09 | LEVEL 1<br>QUOTED<br>PRICES | LEVEL 2<br>SIGNIFICANT<br>OBSERVABLE<br>INPUTS | LEVEL 3<br>SIGNIFICANT<br>UNOBSERVABLE<br>INPUTS |
|------------------------------------|-------------------------------------|-----------------------------|--|--|
|                                    | -----                               | -----                       | -----  | -----  |
| Common Stocks* .....               | \$211,542,253                       | \$211,542,253               | \$--   | \$--   |
| Master Limited Partnerships* ..... | 10,858,300                          | 10,858,300                  | --   | --   |
| Exchange-Traded Funds* .....       | 9,126,465                           | 9,126,465                   | --   | --   |
|                                    | -----                               | -----                       | ---  | ---  |
| Total Investments .....            | \$231,527,018                       | \$231,527,018               | \$--   | \$--   |
|                                    | =====                               | =====                       | ===  | ===  |

LIABILITIES TABLE

|  | TOTAL MARKET<br>VALUE AT<br>9/30/09 | LEVEL 1<br>QUOTED<br>PRICES | LEVEL 2<br>SIGNIFICANT<br>OBSERVABLE<br>INPUTS | LEVEL 3<br>SIGNIFICANT<br>UNOBSERVABLE<br>INPUTS |
|--|-------------------------------------|-----------------------------|--|--|
|  | -----                               | -----                       | -----  | -----  |

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|                            |               |               |      |      |
|----------------------------|---------------|---------------|------|------|
| Call Options Written ..... | \$(1,669,383) | \$(1,669,383) | \$-- | \$-- |
|                            | =====         | =====         | ===  | ===  |

\* See the Portfolio of Investments for industry breakdown.

See Notes to Quarterly Portfolio of Investments

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### NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS

FIRST TRUST ENHANCED EQUITY INCOME FUND  
SEPTEMBER 30, 2009 (UNAUDITED)

#### 1. VALUATION AND INVESTMENT PRACTICES

##### A. PORTFOLIO VALUATION:

The net asset value ("NAV") of the Common Shares of First Trust Enhanced Equity Income Fund (the "Fund") is determined daily as of the close of regular trading on the New York Stock Exchange ("NYSE"), normally 4:00 p.m. Eastern time, on each day the NYSE is open for trading. The NAV per Common Share is calculated by dividing the value of all assets of the Fund (including accrued interest and dividends), less all liabilities (including accrued expenses, the value of call options written (sold) and dividends declared but unpaid), by the total number of Common Shares outstanding.

The Fund's investments are valued daily at market value or, in the absence of market value with respect to any portfolio securities, at fair value in accordance with valuation procedures adopted by the Fund's Board of Trustees. Portfolio securities listed on any exchange other than the NASDAQ National Market ("NASDAQ") and the London Stock Exchange Alternative Investment Market ("AIM") are valued at the last sale price on the business day as of which such value is being determined. Securities listed on the NASDAQ or the AIM are valued at the official closing price on the business day as of which such value is being determined. If there has been no sale on such day or no official closing price in the case of securities traded on the NASDAQ or the AIM, the securities are valued at the mean of the most recent bid and asked prices on such day. Portfolio securities traded on more than one securities exchange are valued at the last sale price or official closing price, as applicable, on the business day as of which such value is being determined at the close of the exchange representing the principal market for such securities. Portfolio securities traded in the over-the-counter market, but excluding securities trading on the NASDAQ and the AIM, are valued at the closing bid prices. Short-term investments that mature in less than 60 days when purchased are valued at amortized cost.

The Fund values exchange-traded options and other derivative contracts at the closing price on the exchange on which they are principally traded, or if not traded, or no closing price is available, at the mean between the last bid and asked price.

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

- Level 1 - Level 1 inputs are quoted prices in active markets for identical securities. An active market is a market in which

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transactions for the security occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. A summary of the inputs used to value the Fund's investments as of September 30, 2009, is included with the Fund's Portfolio of Investments.

### B. OPTION CONTRACTS:

COVERED OPTIONS. The Fund may write (sell) covered call options ("options") on all or a portion of the equity securities held in the Fund's portfolio and on securities indices as determined to be appropriate by Chartwell Investment Partners, L.P ("Chartwell" or the "Sub-Advisor"), consistent with the Fund's investment objective. The number of options the

NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS - (CONTINUED)

### FIRST TRUST ENHANCED EQUITY INCOME FUND SEPTEMBER 30, 2009 (UNAUDITED)

Fund can write (sell) is limited by the amount of equity securities the Fund holds in its portfolio. Options on securities indices are designed to reflect price fluctuations in a group of securities or a segment of the securities market rather than price fluctuations in a single security and are similar to options on single securities, except that the exercise of securities index options requires cash settlement payments and does not involve the actual purchase or sale of securities. The Fund will not write (sell) "naked" or

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uncovered options. If certain equity securities held in the Fund's portfolio are not covered by a related call option on the individual equity security, securities index options may be written on all or a portion of such uncovered securities. By writing (selling) options, the Fund seeks to generate additional income, in the form of premiums received, for writing (selling) the options, and to provide a partial hedge against a market decline in the underlying equity security. Options are marked-to-market daily and their value will be affected by changes in the value and dividend rates of the underlying equity securities, changes in interest rates, changes in the actual or perceived volatility of the securities markets and the underlying equity securities and the remaining time to the options' expiration. The value of options may also be adversely affected if the market for the options becomes less liquid or trading volume diminishes.

Options the Fund writes (sells) will either be exercised, expire or be cancelled pursuant to a closing transaction. If the price of the underlying equity security exceeds the option's exercise price, it is likely that the option holder will exercise the option. If an option written (sold) by the Fund is exercised, the Fund would be obligated to deliver the underlying equity security to the option holder upon payment of the exercise price. In this case, the option premium received by the Fund will be added to the amount realized on the sale of the underlying equity security for purposes of determining gain or loss. If the price of the underlying equity security is less than the option's exercise price, the option will likely expire without being exercised. The option premium received by the Fund will, in this case, be treated as short-term capital gain on the expiration date of the option. The Fund may also elect to close out its position in an option prior to its expiration by purchasing an option of the same series as the option written (sold) by the Fund.

The options that the Fund writes (sells) give the option holder the right, but not the obligation, to purchase a security from the Fund at the strike price on or prior to the option's expiration date. The ability to successfully implement the Fund's covered call investment strategy depends on the ability of Chartwell 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 value, which may limit the amount of appreciation the Fund can realize on an investment, or may cause the Fund to hold a security that it might otherwise sell. As the writer (seller) of a covered option, the Fund forgoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the option above the sum of the premium and the exercise price of the option, but has retained the risk of loss should the price of the underlying security decline. Once an option writer (seller) has received an exercise notice, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver the underlying security to the option holder at the exercise price.

The Fund is subject to equity price risk in the normal course of pursuing its investment objective. Over-the-Counter ("OTC") options have the risk of the potential inability of counterparties to meet the terms of their contracts. The Fund's maximum equity price risk for purchased options is limited to the premium initially paid. In addition, certain risks may arise upon entering into option contracts including the risk that an illiquid secondary market will limit the Fund's ability to close out an option contract prior to the expiration date and that a change in the value of the option contract may not correlate exactly with changes in the value of the securities hedged.

### C. SECURITIES TRANSACTIONS:

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

Distributions received from the Fund's investments in Master Limited

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Partnerships ("MLPs") generally are comprised of return of capital from the MLP to the extent of the cost basis of such MLP investments.

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NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS - (CONTINUED)

FIRST TRUST ENHANCED EQUITY INCOME FUND  
SEPTEMBER 30, 2009 (UNAUDITED)

### 2. WRITTEN OPTION ACTIVITY

Written option activity for the nine months ended September 30, 2009 was as follows:

|   | NUMBER<br>OF<br>CONTRACTS | PREMIUMS     |
|---|---------------------------|--------------|
|   | -----                     | -----        |
| WRITTEN OPTIONS                               |                           |              |
| Options outstanding at January 1, 2009 .....  | 58,717                    | \$ 8,449,321 |
| Options written .....                         | 579,383                   | 69,153,452   |
| Options expired .....                         | (166,413)                 | (12,325,924) |
| Options exercised .....                       | (15,958)                  | (1,314,911)  |
| Options closed .....                          | (428,602)                 | (61,094,457) |
|   | -----                     | -----        |
| Options outstanding at September 30, 2009 ... | 27,127                    | \$ 2,867,481 |
|   | =====                     | =====        |

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#### ITEM 2. CONTROLS AND PROCEDURES.

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

#### ITEM 3. EXHIBITS.

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

SIGNATURES

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

(Registrant) FIRST TRUST ENHANCED EQUITY INCOME FUND

By (Signature and Title)\* /S/ JAMES A. BOWEN

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

Date NOVEMBER 23, 2009  
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Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)\* /S/ JAMES A. BOWEN

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

Date NOVEMBER 23, 2009  
-----

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

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

Date NOVEMBER 23, 2009  
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\* Print the name and title of each signing officer under his or her signature.