



First Trust Advisors L.P.

Leveraged Finance Investment Team

1Q 2012

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Section 1: Leveraged Finance Investment Team

Leveraged Finance Team Overview

The First Trust Advisors L.P. Leveraged Finance Team was formed in June 2010 when six experienced credit professionals from Morgan Stanley Investment Management joined the firm. Since that time, three additional professionals have joined the team creating a robust team specializing in below investment grade securities. The team is comprised of portfolio management, trading, and operations.

Several principals have worked together for over a decade.

- Leveraged Finance Investment Committee has combined experience of over 90 years.
- Each senior member holds:
 - Chartered Financial Analyst (CFA) Designation
 - MBA degrees from highly regarded institutions

Team has proven results over time.

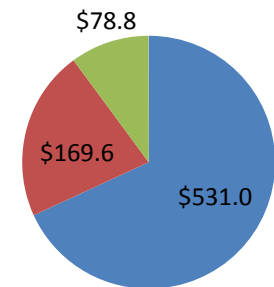
- Demonstrated success in managing assets across vehicle type
 - Retail: open-end funds, closed-end funds, asset selection for unit investment trusts
 - Institutional: separate accounts, structured products (CLO's), commingled institutional funds

Varied and successful experience includes:

- Rigorous fundamental credit analysis of high yield credit, including bonds, broadly syndicated and middle market loans in both the US and Europe
- Work-out/restructuring experience

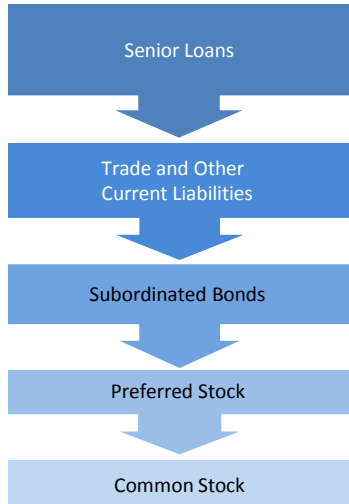
The First Trust Leveraged Finance Team currently manages just over \$700 million in senior secured bank loans. These assets are spread across a retail closed-end fund and two institutional separate accounts. The team also supervises approximately \$80M of high yield assets.

Assets under Management and Supervision as of March 2012 in Millions



- Retail Bank Loans
- Institutional Separate Accounts
- Retail High Yield Bonds

Section 2: Characteristics of Senior Loans

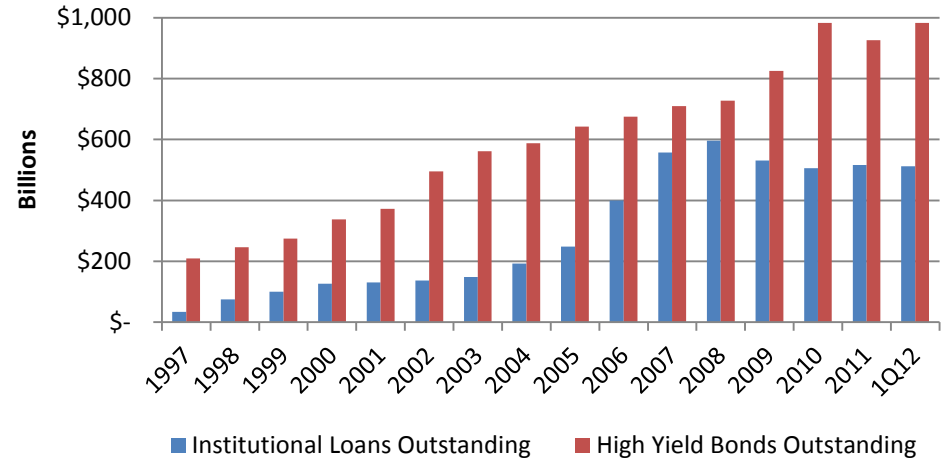


- Senior secured**
- Typically Have Protective Covenants**
- Floating interest rate**
- Typically Publicly Rated**
- Typically Callable**
- Amortization/Cash Flow Sweeps**

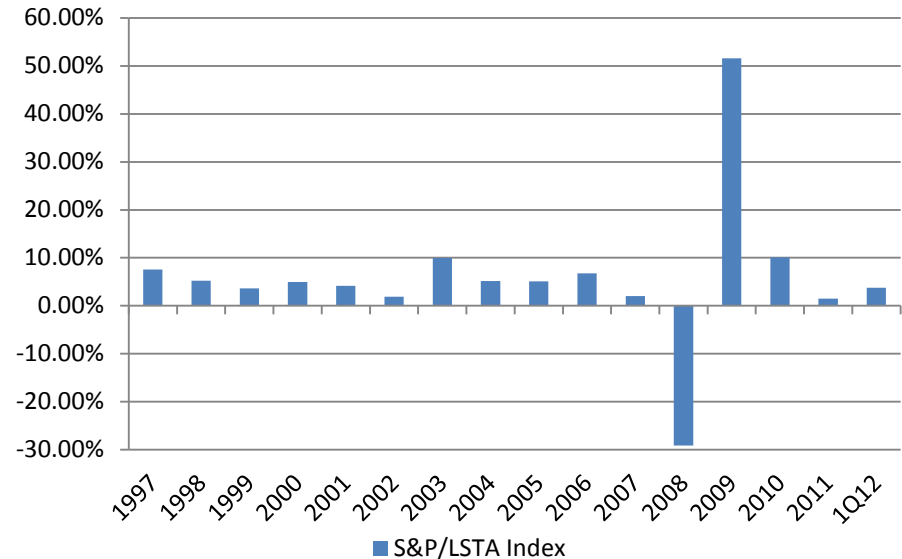
Long Term Correlation Correlation of Monthly Returns January 1999 to March 2012

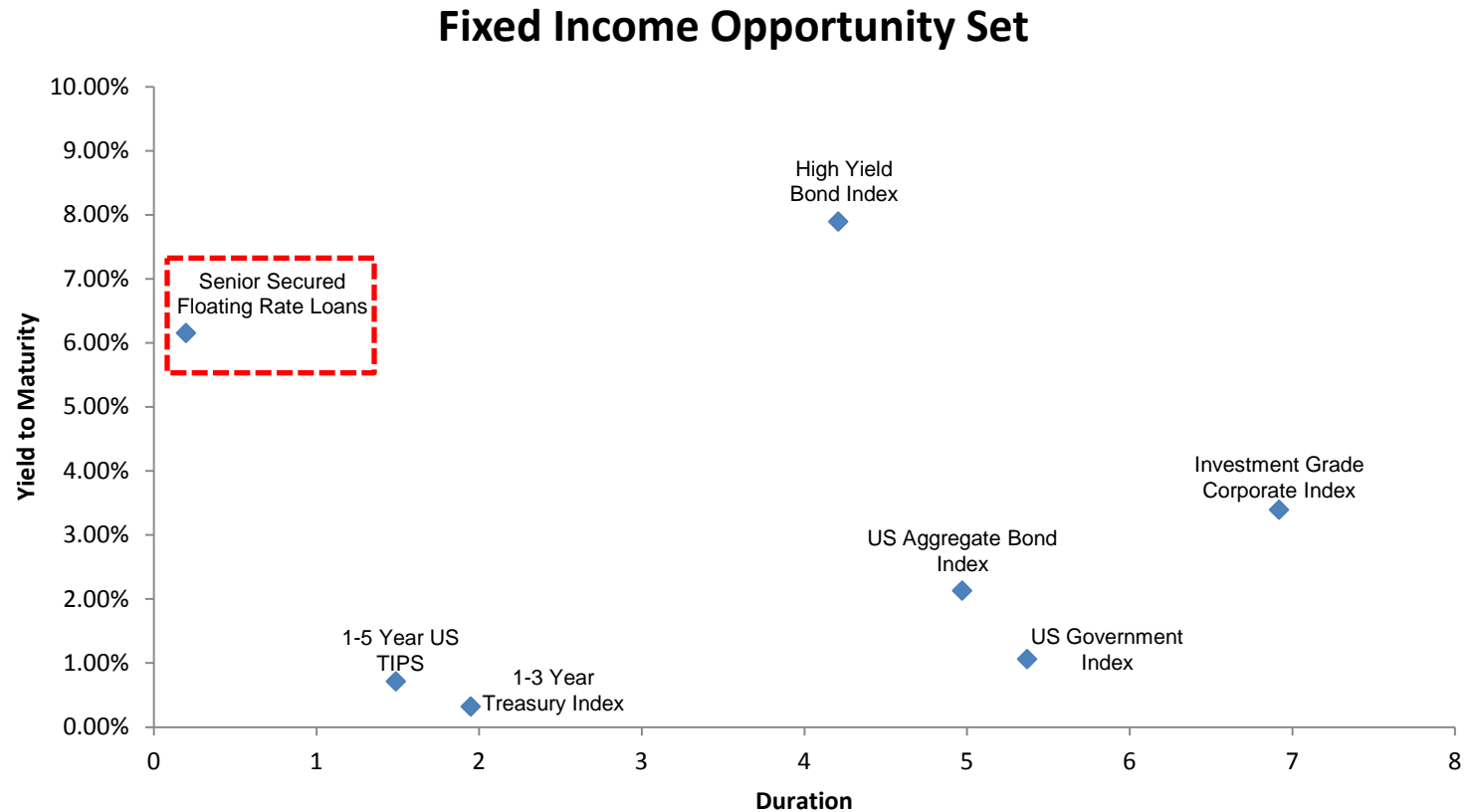
	S&P LSTA Index	BarCap High Yield Index
S&P LSTA Index	1.00	0.78
Barclays Capital High Yield Index	0.78	1.00
Barclays Capital Aggregate Index	-0.05	0.16
Barclays Capital Intermediate Treasury Index	-0.43	-0.26
Barclays Capital Corporate Bond Index	0.34	0.55
Russell 1000 Index	0.48	0.65

Total Par Amount Outstanding



US Senior Loan Performance 1997 - 2012





Source: Barclays Capital, S&P LCD, First Trust Advisors

Data as of: April 11, 2012 (March 30, 2012 for Senior Loans)

Senior Secured Floating Rate Loans represented by the S&P LSTA Index

1-5 Year US TIPS represented by the Barclays Capital 1-5 Year US TIPS Index

1-3 Year Treasury Index represented by the Barclays Capital 1-3 Year Treasury Index

High Yield Bond Index represented by the Barclays Capital High Yield Bond Index

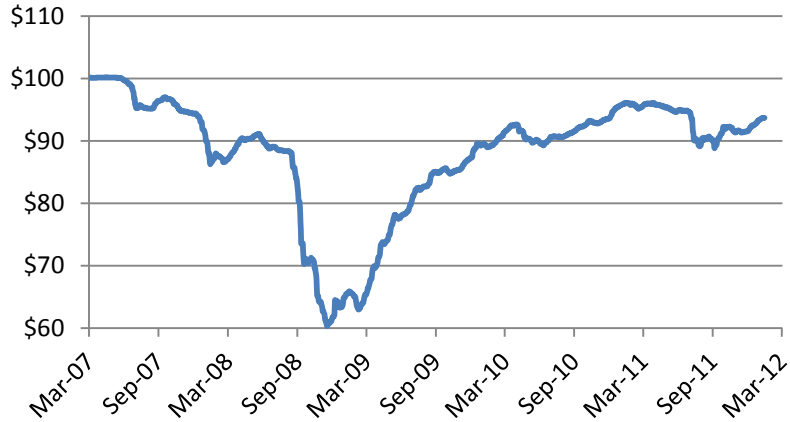
US Aggregate Bond Index represented by the Barclays Capital US Aggregate Bond Index

US Government Index represented by the Barclays Capital US Government Index

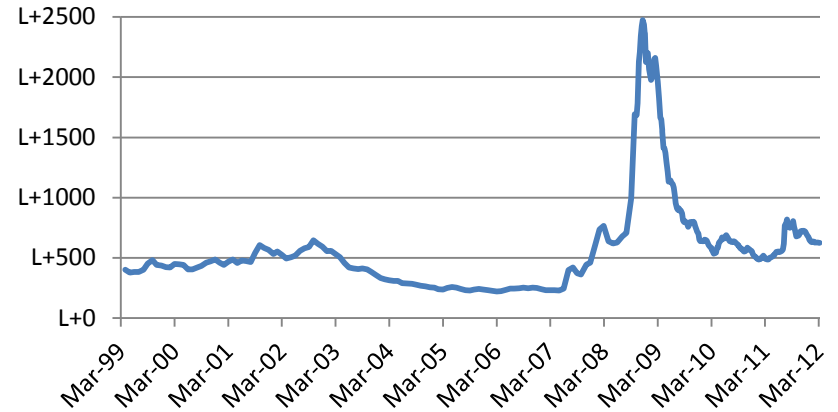
Investment Grade Corporate Index represented by the Barclays Capital Investment Grade Corporate Index

Section 3: Current State of the Senior Loan Market

S&P LSTA Index Average Price
Mar 2007 - Mar 2012



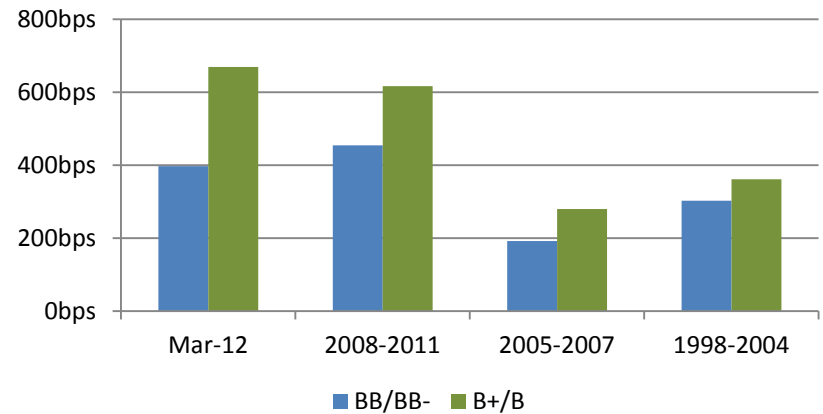
S&P LSTA Average Spread over LIBOR
Mar 1999 - Mar 2012



Lagging 12-month Default Rate by Principal Amount
Mar 2000 - Mar 2012

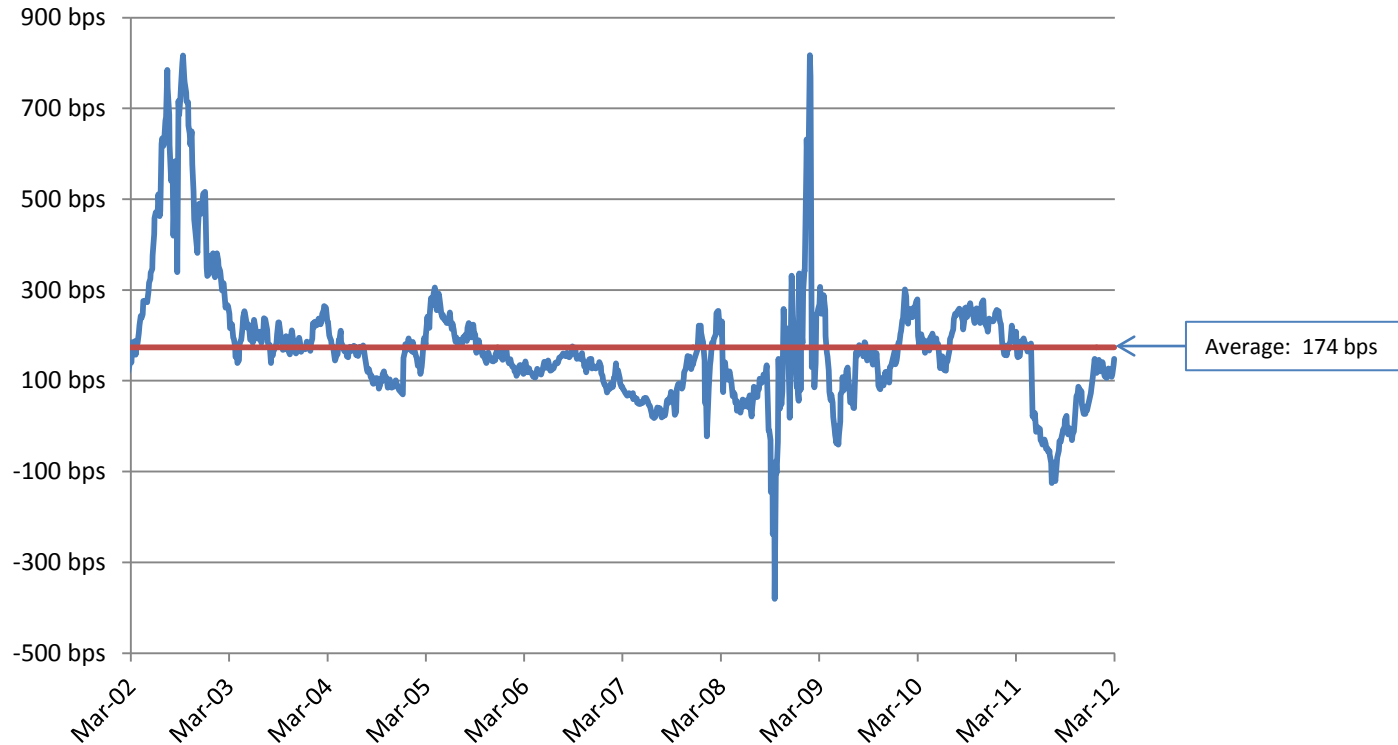


Average New Issue Spread



Source: Standard & Poor's Leveraged Commentary and Data March 2012. Average spread over LIBOR is discounted spread to three-year life.

Average Difference between Actively Traded High Yield Bond & Institutional Loan Spreads



Source: Standard & Poor's Leveraged Commentary and Data March 2012. Average spread over LIBOR is discounted spread to three-year life.

Year-to-date inflows into high-yield are \$15.5 billion. Last year, total inflows were \$10.9 billion.

In contrast, year-to-date inflows into senior loans are \$520 million. Inflows to U.S. bank loan mutual funds totaled \$9.2 billion for 2011, according to Lipper.

From a relative value basis, high yield bonds appear to be trading tight to senior loans. Historically, high yield bonds have provided 174 basis points more spread compared to senior loans. At quarter end, this spread premium was 148 basis points.

Fund flow data as of April 6, 2012.
Source: S&P LCD

Section 4: Senior Loan Market Outlook

Senior Loan Market Outlook

Credit Quality

- Credit quality remains robust with very little default activity in the market. Given the liquidity in the market, many issuers have been able to refinance near term maturities, thereby reducing one potential catalyst for defaults over the near term.
- The trailing twelve month default rate ended the first quarter at 0.21%, which is in-line with the 2011 year end rate of 0.17%.
- Given a slow growth economic backdrop, modest near term maturities, and the 2008-2009 default spike which restructured many of the weakest issuers, we are optimistic that the default rate will remain at a modest level in the near future.

Valuations

- Senior loan spreads to LIBOR remain wide of the historical average, with the March 31, 2012 quarter end spread at L+625 compared to the long term average of L+550.
- From a relative value basis, high yield bonds appear to be trading tight to senior loans. Historically, high yield bonds have provided 174 basis points more spread compared to senior loans. At quarter end, this spread premium was 148 basis points.
- We believe that there will be further spread compression in 2012 as senior loan prices migrate towards par.

Market Technical Conditions

- In the senior loan market, the supply/demand dynamic was supportive of a loan market rally in the first quarter as new money demand helped lead loan prices higher. In the first quarter, new senior loan issuance totaled \$68 billion which was over twice that of the prior quarter.
- We believe the technical balance will remain supportive of senior loan returns based on renewed interest on the part of retail and institutional investors after a brief pause in 3Q11 and 4Q11.

Sources: Standard & Poor's Leveraged Commentary and Data; Lipper FMI.

We believe the loan default rate for 2012 will remain inside the historical average of approximately 3.50%, driven by improved fundamental corporate health, and the ability of borrowers to access liquidity via the capital markets. Our base case assumption is that we will not see the default rate increase above 2% throughout 2012. While we perceive the risk of a double-dip recession to be very low at this point, if the US economy were to suffer a double-dip recession, we would not anticipate defaults increasing above 6%.

William Housey, CFA – Senior Vice President, Senior Portfolio Manager

William is the Senior Portfolio Manager for the Leveraged Finance Investment Team at First Trust Advisors. William has nearly 16 years of investment experience, most recently as Executive Director and co-portfolio manager at Van Kampen Funds, Inc., a wholly-owned subsidiary of Morgan Stanley (“Morgan Stanley/Van Kampen”). William has extensive experience in portfolio management of both leveraged and unleveraged credit products, including senior loans, high-yield bonds, credit derivatives (CDS/LCDS) and corporate restructurings. Prior to joining First Trust Advisors, William served as a Portfolio Manager of structured products and as a Senior Analyst in the Senior Loan Group. William has managed two collateralized loan obligations (CLOs): MSIM Croton (\$300 million) and MSIM Peconic Bay (\$400 million) and an unlevered comingled institutional fund: Zodiac (\$180 million). William also has extensive retail fundraising experience, having actively participated in the successful \$1.1 billion launch of the Van Kampen Dynamic Credit Opportunities Fund, and extensive institutional fundraising experience, having assisted in the CLO and comingled fund marketing effort. William received a B.S. in finance from Eastern Illinois University and an M.B.A. in finance as well as management and strategy from Northwestern University’s Kellogg School of Business. William holds the Chartered Financial Analyst designation and is a member of the CFA Institute and the CFA Society of Chicago.

Gregory Olsen, CFA – Senior Vice President, Portfolio Specialist and Senior Credit Analyst

Gregory is a Senior Credit Analyst and Portfolio Specialist for the Leveraged Finance Investment Team at First Trust Advisors. Gregory has 18 years of investment experience, most recently as Executive Director and Portfolio Specialist in leveraged finance for Morgan Stanley/Van Kampen. His professional experience is concentrated within the credit markets including senior secured loans, high-yield bonds, and convertible securities. Gregory has traveled extensively throughout the world to work with a broad range of institutional and retail clients. His client experience spans sovereign wealth funds, pension plans, foundations, corporations, family offices, high net worth retail, and traditional retail investors in North America, Europe and Asia. Gregory has led many successful retail product launches such as the Van Kampen Dynamic Credit Opportunities Fund, which raised \$1.1 billion in June 2007. Additionally, he has created and successfully implemented strategic activities to support various products. Gregory has extensive portfolio attribution and construction experience, which is critical in optimizing portfolios to meet individual mandate goals. Gregory received a B.S. in business administration from Illinois Wesleyan University and an M.B.A. with a concentration in finance from DePaul University. He holds the Chartered Financial Analyst designation and is a member of the CFA Institute and the CFA Society of Chicago.

Scott D. Fries, CFA – Vice President, Portfolio Manager

Scott is Co-Portfolio Manager for the Leveraged Finance Investment Team at First Trust Advisors. Scott began his career at Morgan Stanley/Van Kampen in 1994 and has 16 years of investment industry experience, most recently as Executive Director and co-portfolio manager of institutional separately managed accounts. He was responsible for managing three SMAs representing over \$1 billion of AUM. In addition to portfolio management, client interaction and reporting responsibilities, Scott was a Senior Credit Analyst with Morgan Stanley/Van Kampen. Scott joined the Morgan Stanley Van Kampen Senior Loan Group in 1998 as a member of the Operations Team. His roles included closing trades, back-office operations and implementing industry leading IT systems, including Wall Street Office. Scott received a B.A. in international business from Illinois Wesleyan University and an M.B.A. in finance from DePaul University. In addition, Scott holds the Chartered Financial Analyst Designation. Scott is a member of the CFA Institute and the CFA Society of Chicago.

Peter Fasone, CFA – Vice President, Senior Credit Analyst

Peter has 24 years of industry experience, most recently as Senior Global Credit Analyst with BNP Paribas Asset Management. Since 1996, his focus has been primarily on investing in high yield and investment grade bonds for total return and structured credit portfolios. Prior to BNP, Peter served as Portfolio Manager and Senior Analyst for Fortis Investments. From 2001 to 2008 he was Vice President and Senior Analyst at ABN ANRO Asset Management where he assumed a leadership role in designing and implementing a disciplined investment process for ABN’s \$1bb global high yield fund. Peter received a B.S. degree from Arizona State University and an M.B.A. degree from DePaul University’s Kellstadt Graduate School of Business. Peter holds a Chartered Financial Analyst designation and a Certified Public Accountant designation. He is a member of the CFA Institute and the CFA Society of Chicago.

Jeffrey Scott, CFA– *Vice President, Chief Credit Officer*

Jeffrey is Chief Credit Officer for the Leveraged Finance Investment Team at First Trust Advisors. Jeff has over 21 years of experience in the investment management industry and has extensive experience in credit analysis, product development, and product management. Prior to joining First Trust Advisors, Jeff served as an Assistant Portfolio Manager and as a Senior Credit Analyst for Morgan Stanley/Van Kampen from October 2008 to June 2010. As Assistant Portfolio Manager, Jeff served on a team that managed over \$4.0 billion of Senior Loan assets in three separate funds: Van Kampen Senior Loan Fund; Van Kampen Senior Income Trust; and Van Kampen Dynamic Credit Opportunities Fund. His responsibilities included assisting with portfolio construction, buy and sell decision making, and monitoring fund liquidity and leverage. Jeff earned a B.S. in finance and economics from Elmhurst College and an M.B.A. with specialization in analytical finance and econometrics and statistics from the University of Chicago. Jeff also holds the Chartered Financial Analyst designation and is a member of the CFA Institute and the CFA Society of Chicago.

Andy Rybak, CFA– *Vice President, Trader, Assoc. Credit Analyst*

Andy is the Trader and an Associate Credit Analyst for the Leveraged Finance Investment Team at First Trust Advisors. Andy has over 11 years of investment industry experience. Andy served as a Senior Associate, team leader overseeing Portfolio Management Support within the Morgan Stanley / Van Kampen Senior Loan Operations Group. Previously at Morgan Stanley / Van Kampen, Andy worked in the Financial Control group, as well as in the Non-Financial Data and Reporting Group. Andy has a B.S. in marketing and an M.B.A. in finance from Lewis University.

Brian Kessler – *Vice President, Assoc. Credit Analyst*

Brian Kessler is an Associate Credit Analyst for the Leveraged Finance Investment Team at First Trust Advisors. Brian is a Generalist, providing research support to the team. Brian has approximately 7 years of financial experience, all of which has been at First Trust. Brian received his B.A. from Western Michigan University. Brian is a candidate for Level III of the CFA exam.

Ryan Kommers – *Vice President, Manager of Operations*

Ryan is Manager of Operations for the Leveraged Finance Investment Team at First Trust Advisors. Ryan has over 14 years of investment industry experience. He served as Vice President, co-manager and compliance officer of structured products in the Senior Loan Group at Morgan Stanley / Van Kampen. Prior to his role as Co-manager of Operations, Ryan was an operations specialist for the Senior Loan Group. Ryan received a B.A. in history from University of Illinois.

Ashley Luse – *Associate, Assoc. Credit Analyst*

Ashley Luse is an Associate Credit Analyst for the Leveraged Finance Investment Team at First Trust Advisors. Ashley is a Generalist, providing research support to the team. Ashley has approximately 2 years of financial experience, which has been at First Trust. She also has prior internship experience in investment banking and private wealth management. Ashley graduated with honors from Calvin College, where she received a B.A. in Business and Mathematics. Ashley holds Series 7 and Series 63 licenses and is a candidate for Level I of the CFA exam.