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FIRST TRUST/FIDAC MORTGAGE INCOME FUND
Form N-CSR
January 09, 2009

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 811-21727

FIRST TRUST/FIDAC MORTGAGE INCOME FUND

(Exact name of registrant as specified in charter)

120 East Liberty Drive
Wheaton, IL 60187

(Address of principal executive offices) (Zip code)

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

(Name and address of agent for service)

registrant's telephone number, including area code: 630-765-8000

Date of fiscal year end: October 31

Date of reporting period: October 31, 2008

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.

ITEM 1. REPORTS TO STOCKHOLDERS.

The Report to Shareholders is attached herewith.

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(FIRST TRUST LOGO)

(FIDAC LOGO)
Fixed Income Discount Advisory Company

FIRST TRUST/FIDAC
MORTGAGE INCOME FUND

ANNUAL REPORT
FOR THE YEAR ENDED
OCTOBER 31, 2008

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OCTOBER 31, 2008

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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 Fixed Income Discount Advisory Company ("FIDAC" 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 other factors that may cause the actual results, performance or achievements of First Trust/FIDAC Mortgage Income 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 FIDAC and their respective representatives only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to

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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 objective. 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 shares may therefore be less than what you paid for them. Accordingly, you can lose money investing in the Fund. See "Risk Considerations" in the Notes to Financial Statements for a discussion of 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 the personnel of FIDAC 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 regulatory filings.

SHAREHOLDER LETTER

FIRST TRUST/FIDAC MORTGAGE INCOME FUND (FMY)
ANNUAL REPORT
OCTOBER 31, 2008

Dear Shareholders:

The year ended October 31, 2008 has been challenging for the financial markets and for many investors. Yet, First Trust Advisors L.P. ("First Trust") believes that regardless of the market, in order to be successful in reaching your financial goals, you should be invested for the long-term. First Trust also believes that investors should seek professional help from a financial advisor who has been through many types of markets, knows the range of investments available, and is committed to bringing you investments suitable to your particular situation.

Our goal at First Trust has always been to offer a wide range of investment products, including our family of closed-end funds, to help financial advisors give you the opportunity to meet your financial objectives. First Trust has continued to expand our product line to ensure that you have many choices to fit your investment needs.

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The report you hold contains detailed information about your investment in the First Trust/FIDAC Mortgage Income Fund (the "Fund"). It contains a portfolio commentary from the Fund's portfolio management team that provides a market recap for the period, a performance analysis and a market and Fund outlook. Additionally, the report provides the Fund's financial statements for the year ended October 31, 2008. I encourage you to read this document and discuss it with your financial advisor.

First Trust has been through many types of markets and remains committed to bringing you quality investment solutions regardless of the inevitable ups and downs experienced in the market. First Trust offers a variety of products that may fit many financial plans to help those investors seeking long-term investment success. As well, we are committed to giving you up-to-date reports about your investments so you and your financial advisor have current information on your portfolio.

We continue to value our relationship with you, and we thank you for the opportunity to assist you in achieving your financial goals.

Sincerely,

/s/ James A. Bowen
James A. Bowen
President of First Trust/FIDAC Mortgage Income Fund

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FIRST TRUST/FIDAC MORTGAGE INCOME FUND
"AT A GLANCE"
AS OF OCTOBER 31, 2008 (UNAUDITED)

FUND STATISTICS

Symbol on New York Stock Exchange		FMY
Common Share Price	\$	15.71
Common Share Net Asset Value ("NAV")	\$	18.03
Premium (Discount) to NAV		(12.87)%
Net Assets Applicable to Common Shares		\$72,955,627
Current Monthly Distribution per Common Share (1)	\$	0.110
Current Annualized Distribution per Common Share	\$	1.320
Current Distribution Rate on Closing Common Share Price (2)		8.40%
Current Distribution Rate on NAV (2)		7.32%

COMMON SHARE PRICE & NAV (WEEKLY CLOSING PRICE)

(PERFORMANCE GRAPH)

	Mkt	NAV
	-----	-----
10/31/07	16.32	18.66
11/2/07	16.35	18.74
11/9/07	16.1	18.87

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11/16/07	16.13	18.81
11/23/07	16.49	18.84
11/30/07	16.45	18.64
12/7/07	16.49	18.7
12/14/07	16.22	18.77
12/21/07	16.47	18.75
12/28/07	16.98	18.62
1/4/08	16.63	18.35
1/11/08	16.72	18.23
1/18/08	16.68	18.26
1/25/08	16.56	18.38
2/1/08	16.74	18.39
2/8/08	16.85	18.62
2/15/08	16.77	19
2/22/08	17.25	19.19
2/29/08	17.46	18.93
3/7/08	17.16	19.29
3/14/08	16.83	18.76
3/20/08	16.33	18.49
3/28/08	16.69	18.69
4/4/08	16.99	18.58
4/11/08	16.92	18.61
4/18/08	17.22	19.04
4/25/08	17.28	19.01
5/2/08	17.18	18.83
5/9/08	17.42	18.81
5/16/08	17.43	18.89
5/23/08	17.25	19.01
5/30/08	17.67	19.1
6/6/08	17.27	19.11
6/13/08	17.13	18.99
6/20/08	16.97	19.04
6/27/08	17.1	19.13
7/3/08	16.87	19.09
7/11/08	16.87	19.07
7/18/08	16.69	19.09
7/25/08	16.89	19.03
8/1/08	16.9	19.25
8/8/08	17.04	19.15
8/15/08	16.95	19.23
8/22/08	16.9	19.07
8/29/08	17.05	18.94
9/5/08	16.88	18.87
9/19/08	16.98	18.16
9/26/08	16.15	18.1
10/3/08	16.18	18.08
10/10/08	13.59	18.08
10/17/08	15.57	18.05
10/24/08	15.4	18.09
10/31/08	15.71	18.04

PORTFOLIO CHARACTERISTICS

Duration	2.40
Average Credit Rating	AAA
Weighted Average Life	7.34

PERFORMANCE AS OF OCTOBER 31, 2008

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	1 Year Ended 10/31/2008	Average Annual Total Return Inception (5/25/05) to 10/31/2008
	-----	-----
Fund Performance		
NAV (3)	3.38%	4.60%
Market Value (4)	2.94%	-0.87%
Index Performance		
Barclays Capital MBS Fixed Rate Index (5)	4.57%	4.55%

ASSET CLASSIFICATION	% OF TOTAL INVESTMENTS
-----	-----
U.S. Government Agency Mortgage-Backed Securities	54.2%
U.S. Government Agency and Non-Agency Collateralized Mortgage Obligations	37.4
U.S. Government Agency Obligations	8.2
Preferred Securities	0.1
Asset-Backed Securities	0.1

Total	100.0%
	=====

SECURITY TYPE	% OF TOTAL INVESTMENTS
-----	-----
Fixed Rate Securities	64.2%
Interest Only Securities	21.2
Adjustable Rate Securities	14.6

Total	100.0%
	=====

- (1) Most recent distribution paid or declared through 10/31/2008. Subject to change in the future.
- (2) Distribution rates are calculated by annualizing the most recent distribution paid or declared through the year ended 10/31/2008 and then dividing by Common Share price or NAV, as applicable, as of 10/31/2008.
- (3) Total return based on NAV is the combination of reinvested dividend distributions and reinvested capital gain distributions, if any, at prices obtained by the Dividend Reinvestment Plan and changes in NAV per share and does not reflect sales load. Past performance is not indicative of future results.
- (4) Total return based on market value is the combination of reinvested dividend distributions and reinvested capital gains distributions, if any,

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at prices obtained by the Dividend Reinvestment Plan and changes in Common Share price. Past performance is not indicative of future results.

(5) Previously known as Lehman Brothers MBS Fixed Rate Index.

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PORTFOLIO COMMENTARY

SUB-ADVISOR

FIDAC (FIXED INCOME DISCOUNT ADVISORY COMPANY)

Fixed Income Discount Advisory Company ("FIDAC") is the Investment Sub-Advisor to First Trust/FIDAC Mortgage Income Fund (NYSE: FMY) (the "Fund"). FIDAC is the wholly-owned registered investment advisor of Annaly Capital Management Inc. ("Annaly"), a publicly-traded real estate investment trust that trades on the New York Stock Exchange (NYSE: NLY). Formed in 1994, FIDAC has become one of the leading fixed-income management companies in the world specializing in mortgage-backed securities and interest rate sensitive strategies.

FIDAC manages numerous investment vehicles that are marketed globally through distributor relationships. Its principal business objective is the generation of income for distribution to investors, derived from the spread between interest income earned on mortgage-backed securities and the cost of financing their acquisition. FIDAC's team of investment professionals has built a successful long-term track record through some of the most challenging fixed-income markets in memory.

PORTFOLIO MANAGEMENT TEAM

ERIC SZABO, CFA, PRM

EXECUTIVE VICE PRESIDENT, INVESTMENT STRATEGIST

Mr. Szabo is an Executive Vice President and Investment Strategist for Annaly and FIDAC. Prior to joining the companies in April 2004, he worked for Times Square Capital Management as a Mortgage Analyst and Trader. Mr. Szabo has a Bachelor's Degree from The College of New Jersey and a Master's Degree in Finance from Boston College. Mr. Szabo is a certified Professional Risk Manager as designated by PRMIA, the Professional Risk Managers' International Association, and a CFA charterholder.

ROSE-MARIE LYGHT

MANAGING DIRECTOR, CO-HEAD OF PORTFOLIO MANAGEMENT

Mrs. Lyght is a Managing Director and Co-Head of Portfolio Management of Annaly and FIDAC. She joined both companies in April 1999. Since that time she has been involved in the asset selection and financing for funds to which FIDAC serves as investment advisor and for high net worth separate accounts, and has been a portfolio manager on FIDAC's offshore funds since December 2000. Mrs. Lyght has a Bachelor's of Science Degree in Finance and a Master's Degree in Business Administration from Villanova University.

WELLINGTON J. DENAHAN-NORRIS

VICE CHAIRMAN, CHIEF INVESTMENT OFFICER AND CHIEF OPERATING OFFICER

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Ms. Denahan-Norris was a founder of FIDAC and has served as its Chief Operating Officer since January 2006. Ms. Denahan-Norris has served as FIDAC's Senior Vice President since March 1995, Treasurer since July 1994 and Chief Investment Officer since February 1997. From July 1994 through March 1995 she was a Vice President of FIDAC. Prior to joining FIDAC, from March 1992 to July 1994, Ms. Denahan-Norris had been Vice President responsible for asset selection and financing at Citadel Funding Corporation. Prior to joining Citadel, she had been a trader on the mortgage-backed securities desk at Schroder Wertheim and Co., Inc. She attended the New York Institute of Finance for intense mortgage-backed securities studies.

JAMES P. FORTESCUE

MANAGING DIRECTOR, HEAD OF LIABILITIES

Mr. Fortescue started with FIDAC in June of 1995 where he was in charge of finding financing on mortgage-backed and corporate bonds for regional dealers, as well as maintaining a pricing service for a major broker dealer. Mr. Fortescue has been in charge of liability management for Annaly since its inception, and continues to oversee all financing activities for FIDAC. Mr. Fortescue has a Bachelor's Degree in Finance from Siena College.

KRISTOPHER KONRAD

MANAGING DIRECTOR, CO-HEAD OF PORTFOLIO MANAGEMENT

Mr. Konrad is a Portfolio Manager for Annaly and has served in this capacity since December of 2000. He has been with FIDAC since 1997. Mr. Konrad has a Bachelor's Degree in Business from Ithaca College and attended the New York Institute of Finance for intense mortgage-backed securities studies.

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PORTFOLIO COMMENTARY - (CONTINUED)

MOHIT MARRIA

SENIOR VICE PRESIDENT

Mr. Marria is a Senior Vice President and Portfolio Manager for Annaly and FIDAC. Prior to joining the companies in August 2005, Mr. Marria worked at both AIG and MetLife, trading mortgage-backed securities for their General Account portfolios. Mr. Marria has a Bachelor's Degree and a Master's Degree in Business Administration from Rutgers University.

NANCY MURTHA

SENIOR VICE PRESIDENT

Ms. Murtha is a Senior Vice President and Portfolio Manager for Annaly and FIDAC. She started with both companies in October of 2002. From 2000 to 2002, she was a Senior Accountant at Deloitte & Touche LLP where she worked within the Banking and Securities Group. Ms. Murtha has a Bachelor's Degree in Accounting and Management Information Systems from Manhattan College.

COMMENTARY

FIRST TRUST/FIDAC MORTGAGE INCOME FUND

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The First Trust/FIDAC Mortgage Income Fund (NYSE: FMY) commenced trading on May 25, 2005. The Fund's primary investment objective is to seek a high level of current income, with a secondary objective of capital preservation. The Fund pursues 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 FIDAC, offer an attractive combination of credit quality, yield and maturity. The Fund purchases securities issued by government agencies or by private originators or issuers, generally in the form of pass-through certificates, collateralized mortgage obligations, residential mortgage-backed securities or commercial mortgage-backed securities. The Fund may use leverage to an aggregate amount of up to 33-1/3% of the Fund's Managed Assets(1), primarily through the use of reverse repurchase agreements.

MARKET RECAP

Similar to the beginning of 2008, the latter half of the year has brought about substantial change in the marketplace as liquidity and solvency concerns at major financial institutions continued to suppress asset prices across fixed-income and equity markets. Investors today find themselves in an environment where market liquidity is fitful even for the best assets, credit is tight for all manner of borrowers, and governments have stepped in as lenders and investors of last resort. The pervasive risk adversity in the marketplace today is perhaps no better evidenced than by the significant rally in Treasury rates, especially in the short-end of the yield curve. For example, the 3-month Treasury bill yield at the end of October 2008 was 347basis points ("bps") lower than one year earlier, while the yield on the 2-year Treasury bond dropped about 240 bps over the same period. Such risk aversion was not unfounded as the following events, among others, occurred in September: Fannie Mae and Freddie Mac put into conservatorship; the bankruptcy of Lehman Brothers; the proposed acquisition of Merrill Lynch by Bank of America; and an emergency loan of US \$85 billion from the Federal Reserve to AIG in an effort to stave off bankruptcy. As a result, the governments and central banks of the world have remained aggressive in their actions to stem the ever worsening credit crisis. The United States most notably saw the Federal Reserve lower the Federal Funds target rate by a total of 100 bps to 1.00% while simultaneously expanding and creating new liquidity facilities to support the short-term lending markets. Also, The Emergency Economic Stabilization Act of 2008, or EESA, and the Troubled Asset Relief Program or TARP, which permits the government to make up to US\$700 billion in direct capital injections into financial institutions and permits the purchase of a wide range of assets including residential or commercial mortgages and securities, were enacted in October 2008. Also directly impacting the mortgage market was Housing and Economic Recovery Act of 2008 resulting in the aforementioned conservatorship of Fannie Mae and Freddie Mac by the Federal Housing Finance Agency, or FHFA, their federal regulator. Additionally, the U.S. Department of Treasury 1) entered into preferred stock purchase agreements pursuant to which it will ensure that Fannie Mae and Freddie Mac maintain a positive net worth, 2) established a new secured lending credit facility which will be available to Fannie Mae and Freddie Mac, and is intended to serve as a liquidity backstop, and 3) initiated a temporary program to purchase U.S. Agency mortgage-backed securities. In our opinion, these measures effectively provide explicit U.S. government backing for U.S. Agency debt and mortgage-backed securities.

(1) The Fund's Managed Assets are the value of the securities and other investments the Fund holds plus cash or other assets, including interest accrued but not yet received minus accrued liabilities other than the principal amount of borrowings.

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PORTFOLIO COMMENTARY - (CONTINUED)

FUND PERFORMANCE

For the twelve-month period ended October 31, 2008, the Fund had a total net asset value ("NAV") return of 3.38% and a market value return of 2.94%. As of October 31, 2008, the Fund traded at \$15.71, a 12.87% discount to its NAV. The Fund's benchmark, the Barclays Capital MBS Fixed Rate Index, had a return of 4.57% for the twelve-month period ended October 31, 2008.

For the twelve-month period ended October 31, 2008, the Fund paid \$1.115 in dividends and the Fund's NAV declined (3.38)% to \$18.03 from \$18.66. Contributing to the decline in NAV and the underperformance relative to its benchmark for the period was the serious impairment of the Fund's small position in Agency preferred securities. The recent policy actions putting Fannie Mae and Freddie Mac into conservatorship forced an indefinite suspension of the dividends on these securities, resulting in a considerable drop in their market value. In addition, the market values for the Interest Only and the AAA Non-Agency portion of the portfolio came under pressure as spreads became volatile and extremely wide towards the end of the period. The widening of spreads was largely attributable to reduced liquidity and an abundance of sellers as the funding and asset markets across most spread product sectors came under tremendous pressure in response to unprecedented company failures and government rescue plans. As a result, the NAV experienced further deterioration. Nevertheless, despite negative market movements, the Fund's income remained strong. During the twelve-month period, the Fund increased its dividend three times, ranging from \$0.085 per share at the beginning of the year to \$0.11 per share at year end. Slower prepayments and lower financing costs helped the Fund return more income than would have been expected from a portfolio of only fixed-rate mortgage-backed securities utilizing no leverage, as represented by the Fund's benchmark.

MARKET AND FUND OUTLOOK

Looking ahead, we believe that the actions taken by policymakers should help stabilize market conditions over time and provide a better operating environment. As one can surmise, the six months leading up to the end of October 2008 will most likely go down as one of the most volatile periods in financial market history. The efforts by the world governmental authorities have been wide-ranging and unprecedented and eventually should instill confidence back into financial markets. Nevertheless, it remains to be seen whether or not these efforts will provide long-term relief or prevent a further slowdown for the world economy.

Given the recent credit turmoil, we continue to explore ways to take advantage of the tremendous increase in yields available in the mortgage credit space to boost the income of the Fund. The Fund does have the ability to buy securities rated A or above and loss-adjusted yields in this arena can be at double-digit levels, even at the AAA rating level. We may prudently continue to allocate more of the Fund's assets into mortgage credit space over the coming quarters as the possibility of an extended interest rate rally has increased and a resulting spike in mortgage prepayment speeds will adversely impact the earning power of the interest-only portion of the Fund and hence the Fund's income. The recent governmental effort to get credit flowing freely again within the economy creates a risk that mortgage rates could drop and be sustained at significantly lower levels. Most recently, in the middle of December, the Federal Reserve cut the federal funds target rate by 75 basis points, to a range of zero to 0.25%, the lowest level ever. The Federal Reserve also signaled they will keep rates "exceptionally low" for some time to "preserve price stability" and reaffirmed its November 25th announcement to purchase agency and mortgage-back debt to

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"reduce the cost and increase the availability of credit for the purchase of houses". Thus, it is currently beneficial to trade some of the interest rate risk in the Fund for credit risk.

* * *

INFORMATION CONTAINED HEREIN IS BASED ON DATA OBTAINED FROM UNAUDITED FINANCIAL AND PORTFOLIO INFORMATION FROM SOURCES BELIEVED TO BE ACCURATE AND RELIABLE. HOWEVER, SUCH INFORMATION IS PRESENTED "AS IS" WITHOUT WARRANTY OF ANY KIND, AND FIDAC MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, OR COMPLETENESS OF ANY SUCH INFORMATION OR WITH REGARD TO THE RESULTS TO BE OBTAINED FROM ITS USE. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RETURNS AND NO REPRESENTATION IS MADE THAT RESULTS COMPARABLE TO THOSE SHOWN WILL BE ACHIEVED. NOTHING CONTAINED HEREIN CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY SECURITIES. SUCH AN OFFER CAN ONLY BE MADE BY A PROPERLY AUTHORIZED OFFERING DOCUMENT, WHICH ENUMERATES THE RISKS ASSOCIATED WITH INVESTING IN THIS STRATEGY, INCLUDING THE LOSS OF SOME OR ALL PRINCIPAL.

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FIRST TRUST/FIDAC MORTGAGE INCOME FUND
 PORTFOLIO OF INVESTMENTS (A)
 OCTOBER 31, 2008

PRINCIPAL VALUE	DESCRIPTION	COUPON	STATED MATURITY
U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES - 68.4%			
\$ 4,672,635	Federal Home Loan Mortgage Corporation (FHLMC) Gold, Pool A38042	6.00%	10/01/35
	Federal National Mortgage Association (FNMA)		
7,364,242	Pool 256182	6.00%	03/01/36
10,068,515	Pool 256328 (b)	6.50%	07/01/36
7,642,944	Pool 831145	6.00%	12/01/35
7,127,305	Pool 843971 (b)	6.00%	11/01/35
5,310,245	Pool 872303 (b)	6.00%	05/01/36
7,863,806	Pool 880203	6.00%	02/01/36
	TOTAL U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES		
	(Cost \$50,084,202)		
U.S. GOVERNMENT AGENCY AND NON-AGENCY COLLATERALIZED MORTGAGE OBLIGATIONS - 47.1%			
	Banc of America Mortgage Securities		
146,221	Series 2002-L, Class 1A1 (c)	6.64%	12/25/32
4,225,131	Series 2007-3, Class 2A3	7.00%	09/25/37
	Federal Home Loan Mortgage Corp.		
6,783,090	Series 2676, Class IK, IO	5.00%	02/15/20
338,495	Series 2716, Class CI, IO	5.00%	05/15/19
3,673,838	Series 2737, Class IG, IO	5.00%	08/15/27
12,112,153	Series 2807, Class SB, IO (d)	2.86%	11/15/33
1,036,712	Series 2836, Class PI, IO	5.00%	09/15/22
4,739,600	Series 2870, Class JI, IO	5.00%	10/15/27
792,000	Series 2888, Class OI, IO	5.00%	01/15/27
1,774,808	Series 2921, Class IQ, IO	5.00%	01/15/29
1,396,984	Series 2938, Class PI, IO	5.00%	11/15/28
1,529,595	Series 2943, Class JI, IO	5.00%	01/15/24

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955,810	Series 2961, Class IP, IO	5.50%	07/15/28
6,027,080	Series 2964, Class IA, IO	5.50%	02/15/26
1,373,879	Series 3069, Class LI, IO	5.50%	08/15/32
502,673	Series 3171, Class CS (d)	11.77%	06/15/36
1,170,395	Series 3195, Class SX (d)	16.33%	07/15/36
Federal Home Loan Mortgage Corp., STRIP			
25,564,805	Series 227, Class IO, IO	5.00%	12/01/34
4,999,241	Series 231, Class IO, IO	5.50%	08/01/35
9,614,368	Series 232, Class IO, IO	5.00%	08/01/35
2,713,983	Series 235, Class IO, IO	5.50%	02/01/36
4,015,152	Series 240, Class IO, IO	5.50%	07/15/36
4,448,358	Series 248, Class IO, IO	5.50%	07/15/37
Federal National Mortgage Association			
3,501,492	Series 2005-122, Class SN (d)	15.57%	01/25/36
1,407,592	Series 2005-39, Class BI, IO	5.00%	06/25/28
Federal National Mortgage Association, STRIP			
9,673,034	Series 360, Class 2, IO	5.00%	08/01/35
GSR Mortgage Loan Trust			
6,373,765	Series 2007-1F, Class 3A10, IO	6.00%	01/25/37

See Notes to Financial Statements

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FIRST TRUST/FIDAC MORTGAGE INCOME FUND
 PORTFOLIO OF INVESTMENTS (A) - (CONTINUED)
 OCTOBER 31, 2008

PRINCIPAL VALUE	DESCRIPTION	COUPON	STATED MATURITY
U.S. GOVERNMENT AGENCY AND NON-AGENCY COLLATERALIZED MORTGAGE OBLIGATIONS - (CONTINUED)			
	Wells Fargo Mortgage Backed Securities Trust		
\$ 7,010,693	Series 2006-9, Class 1A32	6.00%	08/25/36
TOTAL U.S. GOVERNMENT AGENCY AND NON-AGENCY COLLATERALIZED MORTGAGE OBLIGATIONS			
(Cost \$34,324,387)			
ASSET-BACKED SECURITIES - 0.1%			
	Countrywide Asset-Backed Certificates		
6,016	Series 2005-12, Class 1A1 (c)	3.41%	02/25/36
72,082	Series 2006-12, Class 2A1 (c)	3.33%	12/25/36
TOTAL ASSET-BACKED SECURITIES			
(Cost \$77,913)			
U.S. GOVERNMENT AGENCY OBLIGATIONS - 10.4%			
5,000,000	Federal Home Loan Mortgage Corp., Series 1 (c)	7.50%	12/27/21
3,000,000	Federal Home Loan Mortgage Corp. (c)	7.00%	07/11/22
TOTAL U.S. GOVERNMENT AGENCY OBLIGATIONS			
(Cost \$7,960,605)			

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SHARES	DESCRIPTION
PREFERRED SECURITIES - 0.1%	
20,000	Fannie Mae, 8.25% (e)
40,000	Freddie Mac, Series Z, 8.38% (e)
	TOTAL PREFERRED SECURITIES
	(Cost \$1,500,000)
	TOTAL INVESTMENTS - 126.1%
	(Cost \$93,947,107) (f)

PRINCIPAL VALUE	DESCRIPTION
REVERSE REPURCHASE AGREEMENT - (28.4%)	
\$(20,715,000)	With UBS Securities 0.35% dated 10/31/08, to be repurchased at \$20,715,604 on 11/03/08
	NET OTHER ASSETS AND LIABILITIES - 2.3%
	NET ASSETS - 100.0%

See Notes to Financial Statements

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FIRST TRUST/FIDAC MORTGAGE INCOME FUND
 PORTFOLIO OF INVESTMENTS (A) - (CONTINUED)
 OCTOBER 31, 2008

-
- (a) All percentages shown in the Portfolio of Investments are based on net assets.
 - (b) Security or a portion of the security is segregated as collateral for the reverse repurchase agreement.
 - (c) Floating rate security. The interest rate shown reflects the rate in effect at October 31, 2008.
 - (d) Inverse floating rate instrument. The interest rate shown reflects the rate in effect at October 31, 2008.
 - (e) The U.S. Government took control over this company in September 2008, and it has since suspended its dividend.
 - (f) Aggregate cost for federal income tax purposes is \$95,118,832. As of

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October 31, 2008, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$1,910,835 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$4,997,671.

IO Interest Only

STRIP Separate trading of registered interest and principal of securities

See Notes to Financial Statements

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FIRST TRUST/FIDAC MORTGAGE INCOME FUND
STATEMENT OF ASSETS AND LIABILITIES
OCTOBER 31, 2008

ASSETS:

Investments, at value
(Cost \$93,947,107)
Cash
Prepaid expenses
Interest receivable
Dividends receivable

Total Assets

LIABILITIES:

Reverse repurchase agreements
Payables:
Interest on reverse repurchase agreements
Investment advisory fees
Audit and tax fees
Printing fees
Administrative fees
Legal fees
Transfer agent fees
Trustees' fees and expenses
Custodian fees
Accrued expenses

Total Liabilities

NET ASSETS

NET ASSETS CONSIST OF:

Paid-in capital
Par value
Accumulated net realized gain (loss) on investments
Accumulated net investment income (loss)
Net unrealized appreciation (depreciation) on investments

NET ASSETS

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

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

See Notes to Financial Statements

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FIRST TRUST/FIDAC MORTGAGE INCOME FUND
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED OCTOBER 31, 2008

INVESTMENT INCOME:	
Interest	\$ 7,962,341
Dividends	86,121

Total investment income	8,048,462

EXPENSES:	
Investment advisory fees	988,036
Interest expense on reverse repurchase agreements	658,645
Administrative fees	100,437
Audit and tax fees	55,589
Trustees' fees and expenses	38,751
Transfer agent fees	36,770
Printing fees	29,138
Legal fees	21,181
Custodian fees	13,512
Other	99,861

Total expenses	2,041,920

NET INVESTMENT INCOME	6,006,542

NET REALIZED AND UNREALIZED GAIN (LOSS):	
Net change in unrealized appreciation (depreciation) on investments	(4,027,883)

Net realized and unrealized gain (loss) on investments	(4,027,883)

NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	\$ 1,978,659
	=====

See Notes to Financial Statements

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FIRST TRUST/FIDAC MORTGAGE INCOME FUND
STATEMENTS OF CHANGES IN NET ASSETS

YEAR ENDED YEAR ENDED

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	10/31/2008	10/31/2007
	-----	-----
OPERATIONS:		
Net investment income (loss)	\$ 6,006,542	\$ 4,215,99
Net realized gain (loss)	--	11,38
Net change in unrealized appreciation (depreciation)	(4,027,883)	928,03
	-----	-----
Net increase (decrease) in net assets resulting from operations	1,978,659	5,155,40
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net investment income	(4,510,438)	(4,126,14
	-----	-----
Total distributions to shareholders	(4,510,438)	(4,126,14
	-----	-----
Total increase (decrease) in net assets	(2,531,779)	1,029,26
NET ASSETS:		
Beginning of year	75,487,406	74,458,14
	-----	-----
End of year	\$72,955,627	\$75,487,40
	=====	=====
Accumulated net investment income (loss) at end of year	\$ 1,678,984	\$ 280,40
	=====	=====

See Notes to Financial Statements

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FIRST TRUST/FIDAC MORTGAGE INCOME FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net increase (decrease) in net assets resulting from operations		\$ 1
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by operating activities		
Purchases of investments		(10
Sales and paydowns of investments		10
Net amortization/accretion of premium/discount of investments		3
Net change in unrealized appreciation/depreciation on investments		4
CHANGES IN ASSETS AND LIABILITIES:		
Increase in interest receivable		
Decrease in dividends receivable		
Increase in prepaid expenses		
Decrease in interest expense on reverse repurchase agreements		
Decrease in investment advisory fees payable		
Increase in audit and tax fees payable		
Decrease in legal fees payable		
Decrease in printing fees payable		
Increase in administrative fees payable		
Decrease in custodian fees payable		
Increase in transfer agent fees payable		
Decrease in Trustees' fees and expenses payable		
Increase in accrued expenses and other liabilities		

CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS USED BY FINANCING ACTIVITIES:		

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Distributions to Common Shareholders from net investment income	(4
Maturities of reverse repurchase agreements	(5,776
Sales of reverse repurchase agreements	5,773

CASH USED BY FINANCING ACTIVITIES

Increase in cash	
Cash at beginning of year	

Cash at end of year	
---------------------------	--

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for interest	
--	--

See Notes to Financial Statements

FIRST TRUST/FIDAC MORTGAGE INCOME FUND
FINANCIAL HIGHLIGHTS
FOR A COMMON SHARE OUTSTANDING THROUGHOUT EACH PERIOD

	YEAR ENDED 10/31/2008	YEAR ENDED 10/31/2007	YEAR ENDED 10/31/2006
Net asset value, beginning of period	\$ 18.66	\$ 18.41	\$ 19.02
INCOME FROM INVESTMENT OPERATIONS:			
Net investment income (loss)	1.49	1.04	1.03
Net realized and unrealized gain (loss)	(1.00)	0.23	(0.58)
Total from investment operations	0.49	1.27	0.45
DISTRIBUTIONS PAID TO SHAREHOLDERS FROM:			
Net investment income	(1.12)	(1.02)	(1.06)
Total from distributions	(1.12)	(1.02)	(1.06)
Common Shares offering costs charged to paid-in capital	--	--	--
Net asset value, end of period	\$ 18.03	\$ 18.66	\$ 18.41
Market value, end of period	\$ 15.71	\$ 16.32	\$ 16.58
TOTAL RETURN BASED ON NET ASSET VALUE (C) (D)	3.38%	7.80%	3.30%
TOTAL RETURN BASED ON MARKET VALUE (D) (E)	2.94%	4.69%	7.89%
RATIOS TO AVERAGE NET ASSETS/SUPPLEMENTAL DATA:			
Net assets, end of period (in 000's)	\$72,956	\$75,487	\$74,458
Ratio of total expenses to average net assets	2.69%	3.24%	3.10%
Ratio of net expenses to average net assets	2.69%	3.24%	3.06%

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Ratio of net expenses to average net assets			
excluding interest expense	1.83%	1.71%	1.69%
Ratio of net investment income to average net assets ...	7.93%	5.70%	5.55%
Portfolio turnover rate	10%	22%	76%

- (a) Initial seed date of May 17, 2005. The Fund commenced operations on May 25, 2005.
- (b) Net of sales load of \$0.90 per share on initial shares issued.
- (c) Total return based on net asset value is the combination of reinvested dividend distributions and reinvested capital gains distributions, if any, at prices obtained by the Dividend Reinvestment Plan and changes in net asset value per share and does not reflect sales load.
- (d) Total return is not annualized for periods less than one year.
- (e) Total return based on market value is the combination of reinvested dividend distributions and reinvested capital gains distributions, if any, at prices obtained by the Dividend Reinvestment Plan and changes in Common Share market price.
- (f) Annualized.

See Notes to Financial Statements

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NOTES TO FINANCIAL STATEMENTS

FIRST TRUST/FIDAC MORTGAGE INCOME FUND OCTOBER 31, 2008

1. FUND DESCRIPTION

First Trust/FIDAC Mortgage Income Fund (the "Fund") is a diversified closed-end management investment company organized as a Massachusetts business trust on February 22, 2005, 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 FMY on the New York Stock Exchange ("NYSE").

The Fund's primary investment objective is to seek a high level of current income. As a secondary objective, the Fund seeks to preserve capital. The Fund pursues these objectives by investing in mortgage-backed securities that, in the opinion of Fixed Income Discount Advisory Company ("FIDAC" or the "Sub-Advisor"), offer an attractive combination of credit quality, yield and maturity. There can be no assurance that the Fund's investment objectives will be achieved. The Fund may not be appropriate for all investors.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in

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the financial statements. Actual results could differ from those estimates.

A. PORTFOLIO VALUATION:

The net asset value ("NAV") of the Common Shares of the Fund is determined daily, as of the close of regular trading on the NYSE, normally 4:00 p.m. Eastern time, on each day the NYSE is open for trading. Domestic debt securities and foreign securities are priced using data reflecting the earlier closing of the principal markets for those securities. The NAV per Common Share is calculated by dividing the value of all assets of the Fund (including accrued interest and dividends), less all liabilities (including accrued expenses, the dividends declared but unpaid and any borrowings of the Fund), by the total number of Common Shares outstanding.

The Fund's investments are valued daily at market value or, in the absence of market value with respect to any portfolio securities, at fair value according to valuation procedures adopted by the Fund's Board of Trustees. Securities for which market quotations are readily available are valued at market value, which is currently determined using the last reported sale price or, if no sales are reported (as in the case of some securities traded over-the-counter), the last reported bid price, except that certain U.S. government securities are valued at the mean between the last reported bid and asked prices. The Fund values Mortgage-Backed Securities ("MBS") and other debt securities not traded in an organized market on the basis of valuations provided by dealers or by an independent pricing service, approved by the Fund's Board of Trustees, which uses information with respect to transactions in such securities, quotations from dealers, market transactions for comparable securities, various relationships between securities and yield to maturity in determining value. Debt securities having a remaining maturity of less than sixty days when purchased are valued at amortized cost. In the event that market quotations are not readily available, the pricing service does not provide a valuation for a particular asset, or the valuations are deemed unreliable, First Trust Advisors L.P. ("First Trust") may use a fair value method to value the Fund's securities and other investments. Additionally, if events occur after the close of the principal markets for particular securities (e.g., domestic debt and foreign securities), but before the Fund values its assets, that could materially affect NAV, First Trust may use a fair value method to value the Fund's securities and other investments. The use of fair value pricing by the Fund is governed by valuation procedures adopted by the Fund's Board of Trustees, and in accordance with the provisions of the 1940 Act.

B. SECURITIES TRANSACTIONS AND INVESTMENT INCOME:

Securities transactions are recorded as of the trade date. Realized gains and losses from securities transactions are recorded on the identified cost basis. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis. Amortization of premiums and the accretion of discounts are recorded using the effective interest method.

The Fund follows provisions of Emerging Issues Task Force No. 99-20 ("EITF 99-20") "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" for certain lower credit quality securitized assets that have contractual cash flows (for example, asset-backed securities, collateralized mortgage obligations and commercial mortgage-backed securities).

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FIRST TRUST/FIDAC MORTGAGE INCOME FUND
OCTOBER 31, 2008

Under EITF 99-20, if there is a change in the estimated cash flows for any of these securities, based on an evaluation of current information, then the estimated yield is adjusted on a prospective basis over the remaining life of the security. Investment income is recorded net of foreign taxes withheld where recovery of such taxes is uncertain. Debt obligations may be placed on non-accrual status and related interest income may be reduced by ceasing current accruals and writing off interest receivables when the collection of all or a portion of interest has become doubtful based on consistently applied procedures. A debt obligation is removed from non-accrual status when the issuer resumes interest payments or when collectibility of interest is reasonably assured.

C. REVERSE REPURCHASE AGREEMENTS:

The Fund utilizes leverage through the use of reverse repurchase agreements. A reverse repurchase agreement, although structured as a sale and repurchase obligation, acts as a financing under which the Fund pledges its assets as collateral to secure a short-term loan. Generally the other party to the agreement makes the loan in an amount equal to a percentage of the market value of the pledged collateral. At the maturity of the reverse repurchase agreement, the Fund will be required to repay the loan and will correspondingly receive back its collateral. While used as collateral, the assets continue to pay principal and interest which are for the benefit of the Fund.

Information for the year ended October 31, 2008:

Maximum amount outstanding on any day during the year ..	\$26,448,000
Average amount outstanding during the year*	\$23,045,123
Average monthly shares outstanding during the year	4,045,236
Average debt per share outstanding during the year	\$ 5.70

* The average amount outstanding during the year was calculated by adding the borrowings at the end of each day and dividing the sum by the number of days in the year ended October 31, 2008.

During the year ended October 31, 2008, interest rates ranged from 0.35% to 4.94%, with a weighted average interest rate of 2.81%, on borrowings by the Fund under reverse repurchase agreements, which had interest expense that aggregated \$658,645.

D. INVERSE FLOATING-RATE INSTRUMENTS:

An inverse floating-rate security is one where the coupon is inversely indexed to a short-term floating interest rate multiplied by a specific factor. As the floating rate rises, the coupon is reduced. Conversely, as the floating rate declines, the coupon is increased. The price of these securities may be more volatile than the price of a comparable fixed-rate security. These instruments are typically used to enhance the yield of the portfolio. These investments are identified on the Portfolio of Investments.

E. DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS:

The Fund will distribute to holders of its Common Shares monthly dividends of all or a portion of its net income after the payment of interest and dividends in connection with leverage. Distributions will automatically be reinvested into

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additional Common Shares pursuant to the Fund's Dividend Reinvestment Plan unless cash distributions are elected by the shareholder.

Distributions from income and capital gains are determined in accordance with income tax regulations, which may differ from accounting principles generally accepted in the United States of America. These differences are primarily due to differing treatments of income and gains on various investment securities held by the Fund, timing differences and differing characterization of distributions made by the Fund. Permanent differences incurred during the fiscal year ended October 31, 2008, resulting in book and tax accounting differences, have been reclassified at year end to reflect a decrease in accumulated net investment income (loss) by \$97,523, an increase in accumulated net realized gain (loss) on investments by \$124,631 and a decrease to paid-in capital of \$27,108. Net assets were not affected by this reclassification.

The tax character of distributions paid during the fiscal years ended October 31, 2008 and October 31, 2007 was as follows:

	2008 -----	2007 -----
Distributions paid from:		
Ordinary Income	\$4,510,438	\$4,126,141

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NOTES TO FINANCIAL STATEMENTS - (CONTINUED)

FIRST TRUST/FIDAC MORTGAGE INCOME FUND OCTOBER 31, 2008

As of October 31, 2008, the components of distributable earnings on a tax basis are as follows:

Undistributed Ordinary Income	\$ 2,850,709
Net Unrealized Appreciation (Depreciation) ..	\$(3,086,836)

F. INCOME TAXES:

The Fund intends to continue to qualify as a regulated investment company by complying with the requirements under Subchapter M of the Internal Revenue Code of 1986, as amended, which includes distributing substantially all of its net investment income and net realized gains to shareholders. Accordingly, no provision has been made for federal or state income taxes.

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." FIN 48 establishes a minimum threshold for recognizing, and a system for measuring, the benefits of a tax position taken or expected to be taken in a tax return, and is effective for the Fund's current fiscal year. As of October 31, 2008, management has evaluated the application of FIN 48 to the Fund, and has determined that no provision for income tax is required in the Fund's financial statements.

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As of October 31, 2008, the Fund had a capital loss carryforward for federal income tax purposes of \$3,816,321 expiring on October 31, 2014. During the fiscal year ended October 31, 2008, the Fund utilized \$124,631 of its capital loss carryforward.

G. EXPENSES:

The Fund pays all expenses directly related to its operations.

H. ACCOUNTING PRONOUNCEMENTS:

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("FAS 157"), effective for fiscal years beginning after November 15, 2007. FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Disclosure will include fair value measurement at the reporting date and the assignment of levels within the hierarchy in which the fair value measurements fall. At this time, management is evaluating the implications of FAS 157 and its impact on the Fund's financial statements, if any, has not been determined.

In March 2008, FASB released Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("FAS 161"). FAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit risk-related contingent features in derivative agreements. The application of FAS 161 is required for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. Management is currently evaluating the impact the adoption of FAS 161 will have on the Fund's financial statement disclosures, if any.

3. INVESTMENT ADVISORY FEE AND OTHER AFFILIATED TRANSACTIONS

First Trust is a limited partnership with one limited partner, Grace Partners of DuPage L.P., and one general partner, The Charger Corporation. First Trust serves as investment advisor to the Fund pursuant to an Investment Management Agreement. First Trust is responsible for the ongoing monitoring of the Fund's investment portfolio, managing the Fund's business affairs and providing certain administrative services necessary for the management of the Fund. For these investment management services, First Trust is entitled to a monthly fee calculated at an annual rate of 1.00% of the Fund's Managed Assets (the value of the securities and other investments the Fund holds plus cash or other assets, including interest accrued but not yet received minus accrued liabilities other than the principal amount of borrowings).

FIDAC serves as the Fund's Sub-Advisor and manages the Fund's portfolio subject to First Trust's supervision. The Sub-Advisor receives a portfolio management fee of 0.50% of Managed Assets that is paid monthly by First Trust from its investment advisory fee.

PNC Global Investment Servicing (U.S.) Inc., formerly known as PFPC Inc., an indirect, majority-owned subsidiary of The PNC Financial Services Group, Inc., serves as the Fund's Administrator and Transfer Agent in accordance with certain fee arrangements. PFPC Trust Company, also an indirect, majority-owned subsidiary of The PNC Financial Services Group, Inc., serves as the Fund's Custodian in accordance with certain fee arrangements.

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NOTES TO FINANCIAL STATEMENTS - (CONTINUED)

FIRST TRUST/FIDAC MORTGAGE INCOME FUND OCTOBER 31, 2008

Each Trustee who is not an officer or employee of First Trust, any sub-advisor or any of their affiliates ("Independent Trustee") is paid an annual retainer of \$10,000 per trust for the first 14 trusts of the First Trust Fund Complex and an annual retainer of \$7,500 per trust for each subsequent trust in the First Trust Fund Complex. The annual retainer is allocated equally among each of the trusts. No additional meeting fees are paid in connection with board or committee meetings.

Additionally, the Lead Independent Trustee is paid \$10,000 annually and the Audit Committee Chairman is paid \$5,000 annually, with such compensation paid by the trusts in the First Trust Fund Complex and divided among those trusts. Trustees are also reimbursed by the trusts in the First Trust Fund Complex for travel and out-of-pocket expenses in connection with all meetings. Effective January 1, 2008, each of the chairmen of the Nominating and Governance Committee and the Valuation Committee are paid \$2,500 annually to serve in such capacities, with such compensation paid by the trusts in the First Trust Fund Complex and divided among those trusts. Also effective January 1, 2008, the Lead Independent Trustee and each Committee chairman will serve two-year terms. The officers and Interested Trustee receive no compensation from the trusts for serving in such capacities.

4. PURCHASES AND SALES OF SECURITIES

The cost of purchases of U.S. government securities and non-U.S. government securities, excluding short-term investments, for the year ended October 31, 2008 aggregated \$1,037,298 and \$9,406,352, respectively. The proceeds from sales and paydowns of U.S. government securities and non-U.S. government securities, excluding short-term investments, for the year ended October 31, 2008 aggregated \$7,259,062 and \$2,972,601, respectively.

5. COMMON SHARES

As of October 31, 2008, 4,045,236 of \$0.01 par value Common Shares were issued. An unlimited number of Common Shares has been authorized pursuant to the Fund's Dividend Reinvestment Plan.

6. RISK CONSIDERATIONS

Risks are inherent in all investing. The following summarizes some of the risks that should be considered for the Fund. For additional information about the risks associated with investing in the Fund, please see the Fund's prospectus and statement of additional information, as well as other Fund regulatory filings.

INVESTMENT AND MARKET RISK: An investment in the Fund's Common Shares is subject to investment risk, including the possible loss of the entire principal invested. An investment in Common Shares represents an indirect investment in the securities owned by the Fund. The value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. Common Shares at any point in time may be worth less than the original investment, even after taking into account the reinvestment of Fund dividends and distributions. Security prices can fluctuate for several reasons including the general condition of the securities market, or when political or economic events affecting the issuers occur, including the risks that borrowers do not pay their mortgages.

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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 pay-through 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.

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NOTES TO FINANCIAL STATEMENTS - (CONTINUED)

FIRST TRUST/FIDAC MORTGAGE INCOME FUND OCTOBER 31, 2008

LEVERAGE RISK: The Fund may borrow an amount up to 33-1/3% (or such other percentage as permitted by law) of its assets (including the amount borrowed) less liabilities other than borrowings. The Fund may use leverage for investment purposes and to meet cash requirements. Its leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. These include the possibility of higher volatility of the NAV of the Fund. The Fund leverages its assets through the use of reverse repurchase agreements. Reverse repurchase agreements are subject to the risks that the market value of the securities sold by the Fund may decline below the price of the securities the Fund is obligated to repurchase, and that the securities may not be returned to the Fund. The Fund may from time to time consider changing the amount of the leverage in response to actual or anticipated changes in interest rates or the value of the Fund's investment portfolio. There can be no assurance that the leverage strategies will be successful.

7. INDEMNIFICATION

The Fund has a variety of indemnification obligations under contracts with its service providers. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

8. SUBSEQUENT EVENTS

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On October 20, 2008, the Fund declared a dividend of \$0.110 per share to Common Shareholders of record November 5, 2008, payable November 17, 2008.

On November 20, 2008, the Fund declared a dividend of \$0.110 per share to Common Shareholders of record December 3, 2008, payable December 12, 2008.

On December 22, 2008, the Fund declared dividends totaling \$0.160 per share to Common Shareholders of record December 31, 2008, payable January 15, 2009. Of this amount, \$0.110 per share represents the Fund's regular monthly dividend and \$0.050 per share represents a special distribution.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF TRUSTEES AND SHAREHOLDERS OF FIRST TRUST/FIDAC MORTGAGE INCOME FUND:

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of First Trust/FIDAC Mortgage Income Fund (the "Fund") as of October 31, 2008, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for the two years then ended, and the financial highlights for the periods presented. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2008, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of First Trust/FIDAC Mortgage Income Fund as of October 31, 2008 and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years then ended, and the financial highlights for the periods presented, in conformity with accounting principles generally accepted in the United States of America.

(Deloitte & Touche LLP)
Chicago, Illinois
December 22, 2008

ADDITIONAL INFORMATION

FIRST TRUST/FIDAC MORTGAGE INCOME FUND
OCTOBER 31, 2008 (UNAUDITED)

DIVIDEND REINVESTMENT PLAN

If your Common Shares are registered directly with the Fund or if you hold your Common Shares with a brokerage firm that participates in the Fund's Dividend Reinvestment Plan (the "Plan"), unless you elect, by written notice to the Fund, to receive cash distributions, all dividends, including any capital gain distributions, on your Common Shares will be automatically reinvested by PNC Global Investment Servicing (U.S.) Inc. (the "Plan Agent"), in additional Common Shares under the Plan. If you elect to receive cash distributions, you will receive all distributions in cash paid by check mailed directly to you by the Plan Agent, as the dividend paying agent.

If you decide to participate in the Plan, the number of Common Shares you will receive will be determined as follows:

- (1) If Common Shares are trading at or above net asset value ("NAV") at the time of valuation, the Fund will issue new shares at a price equal to the greater of (i) NAV per Common Share on that date or (ii) 95% of the market price on that date.
- (2) If Common Shares are trading below NAV at the time of valuation, the Plan Agent will receive the dividend or distribution in cash and will purchase Common Shares in the open market, on the NYSE or elsewhere, for the participants' accounts. It is possible that the market price for the Common Shares may increase before the Plan Agent has completed its purchases. Therefore, the average purchase price per share paid by the Plan Agent may exceed the market price at the time of valuation, resulting in the purchase of fewer shares than if the dividend or distribution had been paid in Common Shares issued by the Fund. The Plan Agent will use all dividends and distributions received in cash to purchase Common Shares in the open market within 30 days of the valuation date except where temporary curtailment or suspension of purchases is necessary to comply with federal securities laws. Interest will not be paid on any uninvested cash payments.

You may elect to opt-out of or withdraw from the Plan at any time by giving written notice to the Plan Agent, or by telephone at (800) 331-1710 in accordance with such reasonable requirements as the Plan Agent and the Fund may agree upon. If you withdraw or the Plan is terminated, you will receive a certificate for each whole share in your account under the Plan and you will receive a cash payment for any fraction of a share in your account. If you wish, the Plan Agent will sell your shares and send you the proceeds, minus brokerage commissions.

The Plan Agent maintains all Common Shareholders' accounts in the Plan and gives written confirmation of all transactions in the accounts, including information you may need for tax records. Common Shares in your account will be held by the Plan Agent in non-certificated form. The Plan Agent will forward to each participant any proxy solicitation material and will vote any shares so held only in accordance with proxies returned to the Fund. Any proxy you receive will include all Common Shares you have received under the Plan.

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There is no brokerage charge for reinvestment of your dividends or distributions in Common Shares. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases.

Automatically reinvesting dividends and distributions does not mean that you do not have to pay income taxes due upon receiving dividends and distributions. Capital gains and income are realized, although cash is not received by you. Consult your financial advisor for more information.

If you hold your Common Shares with a brokerage firm that does not participate in the Plan, you will not be able to participate in the Plan and any dividend reinvestment may be effected on different terms than those described above.

The Fund reserves the right to amend or terminate the Plan if in the judgment of the Board of Trustees the change is warranted. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. Additional information about the Plan may be obtained by writing PNC Global Investment Servicing (U.S.) Inc., 301 Bellevue Parkway, Wilmington, Delaware 19809.

PROXY VOTING POLICIES AND PROCEDURES

A description of the policies and procedures that the Fund uses to determine how to vote proxies and information on how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available (1) without charge, upon request, by calling (800) 988-5891; (2) on the Fund's website located at <http://www.ftportfolios.com>; and (3) on the Securities and Exchange Commission's website at <http://www.sec.gov>.

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ADDITIONAL INFORMATION - (CONTINUED)

FIRST TRUST/FIDAC MORTGAGE INCOME FUND
OCTOBER 31, 2008 (UNAUDITED)

PORTFOLIO HOLDINGS

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available (1) by calling (800) 988-5891; (2) on the Fund's website located at <http://www.ftportfolios.com>; (3) on the SEC's website at <http://www.sec.gov>; and (4) for review and copying at the SEC's Public Reference Room ("PRR") in Washington, DC. Information regarding the operation of the PRR may be obtained by calling (800) SEC-0330.

TAX INFORMATION

Of the ordinary income (including short-term capital gain) distributions made by the Fund during the year ended October 31, 2008, none qualifies for the corporate dividends received deduction available to corporate shareholders or as qualified dividend income.

NYSE CERTIFICATION INFORMATION

In accordance with Section 303A-12 of the New York Stock Exchange ("NYSE") Listed Company Manual, the Fund's President has certified to the NYSE that, as of May 14, 2008, he was not aware of any violation by the Fund of NYSE corporate

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governance listing standards. In addition, the Fund's reports to the SEC on Forms N-CSR and N-Q contain certifications by the Fund's principal executive officer and principal financial officer that relate to the Fund's public disclosure in such reports and are required by Rule 30a-2 under the 1940 Act.

SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS

The Joint Annual Meetings of Shareholders of the Common Shares of Macquarie/First Trust Global Infrastructure/Utilities Dividend & Income Fund, Energy Income and Growth Fund, First Trust Enhanced Equity Income Fund, First Trust/Aberdeen Global Opportunity Income Fund, First Trust/FIDAC Mortgage Income Fund, First Trust Strategic High Income Fund, First Trust Strategic High Income Fund II, First Trust/Aberdeen Emerging Opportunity Fund, First Trust Specialty Finance and Financial Opportunities Fund (formerly known as First Trust/Gallatin Specialty Finance and Financial Opportunities Fund) and First Trust Active Dividend Income Fund and shareholders of the Preferred Shares of First Trust Tax-Advantaged Preferred Income Fund was held on April 14, 2008. At the Annual Meeting, Trustee Keith was elected as a Class I Trustee for a three-year term. The number of votes cast in favor of Robert F. Keith was 3,676,019, the number of votes against was 18,222 and the number of abstentions was 350,995. James A. Bowen, Richard E. Erickson, Thomas R. Kadlec and Niel B. Nielson are the current and continuing Trustees.

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BOARD OF TRUSTEES AND OFFICERS

FIRST TRUST/FIDAC MORTGAGE INCOME FUND OCTOBER 31, 2008 (UNAUDITED)

NAME, ADDRESS, DATE OF BIRTH AND POSITION WITH THE FUND	TERM OF OFFICE AND LENGTH OF SERVICE(1)	PRINCIPAL OCCUPATIONS DURING PAST 5 YEARS	NUMBER OF PORT IN THE FIRST FUND COMP OVERSEEN BY TR

INDEPENDENT TRUSTEES			
Richard E. Erickson, Trustee c/o First Trust Advisors L.P. 120 E. Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 04/51	- Two Year Term - Since Fund Inception	Physician; President, Wheaton Orthopedics; Co-owner and Co- Director (January 1996 to May 2007), Sports Med Center for Fitness; Limited Partner, Gundersen Real Estate Partnership; Limited Partner, Sportsmed LLC	60
Thomas R. Kadlec, Trustee c/o First Trust Advisors L.P. 120 E.Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 11/57	- Two Year Term - Since Fund Inception	Senior Vice President and Chief Financial Officer (May 2007 to Present), Vice President and Chief Financial Officer (1990 to May 2007), ADM Investor Services, Inc. (Futures Commission Merchant); President (May 2005 to Present), ADM Derivatives, Inc.; Registered Representative (2000 to	60

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Present), Segerdahl & Company, Inc., a FINRA member (Broker-Dealer)

Robert F. Keith, Trustee c/o First Trust Advisors L.P. 120 E. Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 11/56	- Three Year Term - Since June 2006	President (2003 to Present), Hibs Enterprises (Financial and Management Consulting); President (2001 to 2003), Aramark Service Master Management; President and Chief Operating Officer (1998 to 2003), Service Master Management Services	60
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 (1) Currently, Robert F. Keith, as a Class I Trustee, is serving as a trustee until the Fund's 2011 annual meeting of shareholders. Richard E. Erickson and Thomas R. Kadlec, as Class II Trustees, are each serving as trustees until the Fund's 2009 annual meeting of shareholders. James A. Bowen and Niel B. Nielson, as Class III Trustees, are each serving as trustees until the Fund's 2010 annual meeting. Officers of the Fund have an indefinite term.

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BOARD OF TRUSTEES AND OFFICERS - (CONTINUED)

FIRST TRUST/FIDAC MORTGAGE INCOME FUND
 OCTOBER 31, 2008 (UNAUDITED)

NAME, ADDRESS, DATE OF BIRTH AND POSITION WITH THE FUND	TERM OF OFFICE AND LENGTH OF SERVICE(1)	PRINCIPAL OCCUPATIONS DURING PAST 5 YEARS	NUMBER OF PORT IN THE FIRST FUND COMPL OVERSEEN BY T
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INDEPENDENT TRUSTEES - (CONTINUED)

Niel B. Nielson, Trustee c/o First Trust Advisors L.P. 120 E. Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 03/54	- Three Year Term - Since Fund Inception	President (June 2002 to Present), Covenant College	60
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INTERESTED TRUSTEE

James A. Bowen(2), Trustee, President, Chairman of the Board and CEO 120 E. Liberty Drive, Suite 400	- Three Year Trustee Term and Indefinite Officer Term	President, First Trust Advisors L.P. and First Trust Portfolios L.P.; Chairman of the Board of Directors, BondWave LLC (Software Development Company/Broker-	60
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Wheaton, IL 60187 - Since Fund Dealer/Investment Advisor) and
D.O.B.: 09/55 Inception Stonebridge Advisors LLC
(Investment Advisor)

NAME, ADDRESS AND DATE OF BIRTH	POSITION AND OFFICES WITH FUND	TERM OF OFFICE AND LENGTH OF SERVICE	PRINCIPAL OCCUPATION DURING PAST 5 YEARS
OFFICERS WHO ARE NOT TRUSTEES (3)			
Mark R. Bradley 120 E. Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 11/57	Treasurer, Controller, Chief Financial Officer and Chief Accounting Officer	- Indefinite Term - Since Fund Inception	Chief Financial Officer, First Trust Advisors and First Trust Portfolio L.P.; Chief Financial Officer, BondWave (Software Development Company/Broker- Dealer/Investment and Stonebridge Advisors (Investment Advisor)

- (1) Currently, Robert F. Keith, as a Class I Trustee, is serving as a trustee until the Fund's 2011 annual meeting of shareholders. Richard E. Erickson and Thomas R. Kadlec, as Class II Trustees, are each serving as trustees until the Fund's 2009 annual meeting of shareholders. James A. Bowen and Niel B. Nielson, as Class III Trustees, are each serving as trustees until the Fund's 2010 annual meeting. Officers of the Fund have an indefinite term.
- (2) Mr Bowen is deemed an "interested person" of the Fund due to his position as President of First Trust Advisors L.P., investment advisor of the Fund.
- (3) The term "officer" means the president, vice president, secretary, treasurer, controller or any other officer who performs a policy making function.

BOARD OF TRUSTEES AND OFFICERS - (CONTINUED)

FIRST TRUST/FIDAC MORTGAGE INCOME FUND
OCTOBER 31, 2008 (UNAUDITED)

NAME, ADDRESS AND DATE OF BIRTH	POSITION AND OFFICES WITH FUND	TERM OF OFFICE AND LENGTH OF SERVICE	PRINCIPAL OCCUPATION DURING PAST 5 YEARS
OFFICERS WHO ARE NOT TRUSTEES (3) - (CONTINUED)			
James M. Dykas 120 E. Liberty Drive, Suite 400 Wheaton, IL 60187	Assistant Treasurer	- Indefinite Term - Since Fund Inception	Senior Vice President (2007 to Present), Vice President (January to April 2007), Fir

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D.O.B.: 01/66

Advisors L.P. and F
Trust Portfolios L.
Executive Director
2002 to January 200
President (December
December 2002), Van
Asset Management an
Stanley Investment
Management

Christopher R. Fallow Assistant Vice President - Indefinite Term
120 E. Liberty Drive, - Since Fund Inception
Suite 400
Wheaton, IL 60187
D.O.B.: 04/79

Assistant Vice Pres
(August 2006 to Pre
Associate (January
August 2006), First
Advisors L.P. and F
Trust Portfolios L.
Municipal Bond Trad
2001 to January 200
BondWave LLC (Softw
Development Company
Dealer/Investment A

W. Scott Jardine Secretary and Chief - Indefinite Term
120 E. Liberty Drive, Compliance Officer - Since Fund Inception
Suite 400
Wheaton, IL 60187
D.O.B.: 05/60

General Counsel, Fi
Trust Advisors L.P.
First Trust Portfol
Secretary, BondWave
(Software Developme
Company/Broker-
Dealer/Investment A
and Stonebridge Adv
(Investment Advisor

(3) The term "officer" means the president, vice president, secretary, treasurer, controller or any other officer who performs a policy making function.

BOARD OF TRUSTEES AND OFFICERS - (CONTINUED)

FIRST TRUST/FIDAC MORTGAGE INCOME FUND
OCTOBER 31, 2008 (UNAUDITED)

NAME, ADDRESS AND DATE OF BIRTH	POSITION AND OFFICES WITH FUND	TERM OF OFFICE AND LENGTH OF SERVICE	PRINCIPAL OCCUPATION DURING PAST 5 YEARS
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OFFICERS WHO ARE NOT TRUSTEES(3) - (CONTINUED)

Daniel J. Lindquist 120 E. Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 02/70	Vice President	- Indefinite Term - Since Fund Inception	Senior Vice Preside (September 2005 to Present), Vice Pres (April 2004 to Sept 2005), First Trust L.P. and First Trus
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				Portfolios L.P.; Chief Operating Officer (2004 to April 2004), Capital Management, Chief Operating Officer (April 2000 to January 2004), Samaritan Asset Management Services
Coleen D. Lynch 120 E. Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 07/58	Assistant Vice President	-	Indefinite Term - Since July 2008	Assistant Vice President (January 2008 to Present), First Trust Advisor and First Trust Portfolio L.P.; Vice President 1998 to January 2000, Kampen Asset Management, Morgan Stanley Investment Management
Kristi A. Maher 120 E. Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 12/66	Assistant Secretary	-	Indefinite Term - Since Fund Inception	Deputy General Counsel (2007 to Present), Assistant General Counsel (March 2004 to May 2007), First Trust Advisor and First Trust Portfolio L.P.; Associate (December 1995 to March 2004) and Cutler LLP

 (3) The term "officer" means the president, vice president, secretary, treasurer, controller or any other officer who performs a policy making function.

PRIVACY POLICY

FIRST TRUST/FIDAC MORTGAGE INCOME FUND
 OCTOBER 31, 2008 (UNAUDITED)

PRIVACY POLICY

The open-end and closed-end funds advised by First Trust (each a "Fund") consider your privacy an important priority in maintaining our relationship. We are committed to protecting the security and confidentiality of your personal information.

SOURCES OF INFORMATION

We may collect nonpublic personal information about you from the following sources:

- Information we receive from you or your broker-dealer, investment advisor or financial representative through interviews, applications, agreements or other forms;
- Information about your transactions with us, our affiliates or others;

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- Information we receive from your inquiries by mail, e-mail or telephone; and
- Information we collect on our website through the use of "cookies." For example, we may identify the pages on our website that your browser requests or visits.

INFORMATION COLLECTED

The type of data we collect may include your name, address, social security number, age, financial status, assets, income, tax information, retirement and estate plan information, transaction history, account balance, payment history, investment objectives, marital status, family relationships and other personal information.

DISCLOSURE OF INFORMATION

We do not disclose any nonpublic personal information about our customers or former customers to anyone, except as permitted by law. The permitted uses include the disclosure of such information to unaffiliated companies for the following reasons:

- In order to provide you with products and services and to effect transactions that you request or authorize, we may disclose your personal information as described above to unaffiliated financial service providers and other companies that perform administrative or other services on our behalf, such as transfer agents, custodians and trustees, or that assist us in the distribution of investor materials such as trustees, banks, financial representatives and printers.
- We may release information we have about you if you direct us to do so, if we are compelled by law to do so, or in other legally limited circumstances (for example to protect your account from fraud).

In addition, in order to alert you to our other financial products and services, we may share your personal information with affiliates of the Fund. Please note, however, that the California Financial Information Privacy Act contains an "opt out" mechanism that California consumers may use to prevent us from sharing nonpublic personal information with affiliates.

CONFIDENTIALITY AND SECURITY

With regard to our internal security procedures, the Fund restricts access to your nonpublic personal information to those individuals who need to know that information to provide products or services to you. We maintain physical, electronic and procedural safeguards to protect your nonpublic personal information.

POLICY UPDATES AND INQUIRIES

As required by federal law, we will notify you of our privacy policy annually. We reserve the right to modify this policy at any time; however, if we do change it, we will tell you promptly.

For questions about our policy, or for additional copies of this notice, please contact us at (800) 621-1675.

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(First Trust LOGO)

INVESTMENT ADVISOR

First Trust Advisors L.P.
120 E. Liberty Drive, Suite 400
Wheaton, IL 60187

INVESTMENT SUB-ADVISOR

Fixed Income Discount Advisory Company
1211 Avenue of the Americas, Suite 2902
New York, NY 10036

ADMINISTRATOR,

FUND ACCOUNTANT,

TRANSFER AGENT &

BOARD ADMINISTRATOR

PNC Global Investment Servicing (U.S.) Inc.
301 Bellevue Parkway
Wilmington, DE 19809

CUSTODIAN

PFPC Trust Company
8800 Tinicum Boulevard
Philadelphia, PA 19153

INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP

111 S. Wacker Drive

Chicago, IL 60606

LEGAL COUNSEL

Chapman and Cutler LLP

111 W. Monroe Street

Chicago, IL 60603

ITEM 2. CODE OF ETHICS.

- (a) The registrant, as of the end of the period covered by this report, has adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party.
- (c) There have been no amendments, during the period covered by this report, to a provision of the code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party, and that relates to any element of the code of ethics description.

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- (d) The registrant has not granted any waivers, including an implicit waiver, from a provision of the code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party, that relates to one or more of the items set forth in paragraph (b) of this item's instructions.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

As of the end of the period covered by the report, the Registrant's board of trustees has determined that Thomas R. Kadlec and Robert F. Keith are qualified to serve as audit committee financial experts serving on its audit committee and that each of them is "independent," as defined by Item 3 of Form N-CSR.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

- (A) AUDIT FEES (REGISTRANT) -- The aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years were \$25,000 for the fiscal year ended October 31, 2007 and \$41,000 for the fiscal year ended October 31, 2008.

- (B) AUDIT-RELATED FEES (REGISTRANT) -- The aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit of the registrant's financial statements and are not reported under paragraph (a) of this Item were \$2,400 for the fiscal year ended October 31, 2007 and \$0 for the fiscal year ended October 31, 2008. These fees were for additional audit work.

AUDIT-RELATED FEES (INVESTMENT ADVISOR) -- The aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit of the registrant's financial statements and are not reported under paragraph (a) of this Item were \$2,400 for the fiscal year ended October 31, 2007 and \$0 for the fiscal year ended October 31, 2008. These fees were for additional audit work.

- (C) TAX FEES (REGISTRANT) -- The aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning were \$4,125 for the fiscal year ended October 31, 2007 and \$5,000 for the fiscal year ended October 31, 2008. These fees were for tax return preparation.

TAX FEES (INVESTMENT ADVISOR) -- The aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning were \$0 for the fiscal year ended October 31, 2007 and \$0 for the fiscal year ended October 31, 2008.

- (D) ALL OTHER FEES (REGISTRANT) -- The aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant to the Registrant, other than the services reported in paragraphs (a) through (c) of this Item were \$484.00 for the fiscal year ended October 31, 2007 and \$0 for the fiscal year ended October 31, 2008. These fees were for compliance consulting services.

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ALL OTHER FEES (INVESTMENT ADVISER) The aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant to the Registrant, other than the services reported in paragraphs (a) through (c) of this Item were \$23,303 for the fiscal year ended October 31, 2007 and \$0 for the fiscal year ended October 31, 2008. These fees were for compliance consulting services.

- (e) (1) Disclose the audit committee's pre-approval policies and procedures described in paragraph (c) (7) of Rule 2-01 of Regulation S-X.

Pursuant to its charter and its Audit and Non-Audit Services Pre-Approval Policy, the Audit Committee (the "COMMITTEE") is responsible for the pre-approval of all audit services and permitted non-audit services (including the fees and terms thereof) to be performed for the registrant by its independent auditors. The Chairman of the Committee authorized to give such pre-approvals on behalf of the Committee up to \$25,000 and report any such pre-approval to the full Committee.

The Committee is also responsible for the pre-approval of the independent auditor's engagements for non-audit services with the registrant's adviser (not including a sub-adviser whose role is primarily portfolio management and is sub-contracted or overseen by another investment adviser) and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant, if the engagement relates directly to the operations and financial reporting of the registrant, subject to the DE MINIMIS exceptions for non-audit services described in Rule 2-01 of Regulation S-X. If the independent auditor has provided non-audit services to the registrant's adviser (other than any sub-adviser whose role is primarily portfolio management and is sub-contracted with or overseen by another investment adviser) and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to its policies, the Committee will consider whether the provision of such non-audit services is compatible with the auditor's independence.

- (e) (2) The percentage of services described in each of paragraphs (b) through (d) for the Registrant and the Registrant's investment adviser of this Item that were approved by the audit committee pursuant to the pre-approval exceptions included in paragraph (c) (7) (i) (c) or paragraph (c) (7) (ii) of Rule 2-01 of Regulation S-X are as follows:

(b) 0%

(c) 0%

(d) 0%

- (f) The percentage of hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees was less than fifty percent.

- (g) The aggregate non-audit fees billed by the registrant's accountant for services rendered to the registrant, and rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by,

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or under common control with the adviser that provides ongoing services to the registrant for the Registrant's fiscal year ended October 31, 2007 were \$4,609 for the Registrant and \$30,303 for the Registrant's investment adviser and for the Registrant's fiscal year ended October 31, 2008 were \$5,000 for the Registrant and \$12,143 for the Registrant's investment adviser.

- (h) The registrant's audit committee of the board of directors has considered whether the provision of non-audit services that were rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

- (a) The Registrant has a separately designated audit committee consisting of all the independent directors of the Registrant. The members of the audit committee are: Thomas R. Kadlec, Niel B. Nielson, Richard E. Erickson and Robert F. Keith.

ITEM 6. INVESTMENTS.

- (a) Schedule of Investments in securities of unaffiliated issuers as of the close of the reporting period is included as part of the report to shareholders filed under Item 1 of this form.
- (b) Not applicable.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

The Proxy Voting Policies are attached herewith.

FIRST TRUST ADVISORS, L.P.
FIRST TRUST FUNDS
PROXY VOTING GUIDELINES

First Trust Advisors, L.P. (the "ADVISER") serves as investment adviser providing discretionary investment advisory services for several open or closed-end investment companies (the "FUNDS"). As part of these services, the Adviser has full responsibility for proxy voting and related duties. In fulfilling these duties, the Adviser and Funds have adopted the following policies and procedures:

1. It is the Adviser's policy to seek to ensure that proxies for securities held by a Fund are voted consistently and solely in the best economic interests of the respective Fund.
2. The Adviser shall be responsible for the oversight of a Fund's proxy voting process and shall assign a senior member of its staff to be responsible for this oversight.
3. The Adviser has engaged the services of Institutional Shareholder Services, Inc. ("ISS") to make recommendations to the Adviser on

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the voting of proxies related to securities held by a Fund. ISS provides voting recommendations based on established guidelines and practices. The Adviser has adopted these ISS Proxy Voting Guidelines.

- 4. The Adviser shall review the ISS recommendations and generally will vote the proxies in accordance with such recommendations. Notwithstanding the foregoing, the Adviser may not vote in accordance with the ISS recommendations if the Adviser believes that the specific ISS recommendation is not in the best interests of the respective Fund.
- 5. If the Adviser manages the assets or pension fund of a company and any of the Adviser's clients hold any securities in that company, the Adviser will vote proxies relating to such company's securities in accordance with the ISS recommendations to avoid any conflict of interest. In addition, if the Adviser has actual knowledge of any other type of material conflict of interest between itself and the respective Fund with respect to the voting of a proxy, the Adviser shall vote the applicable proxy in accordance with the ISS recommendations to avoid such conflict of interest.
- 6. If a Fund requests the Adviser to follow specific voting guidelines or additional guidelines, the Adviser shall review the request and follow such guidelines, unless the Adviser determines that it is unable to follow such guidelines. In such case, the Adviser shall inform the Fund that it is not able to follow the Fund's request.
- 7. The Adviser may have clients in addition to the Funds which have provided the Adviser with discretionary authority to vote proxies on their behalf. In such cases, the Adviser shall follow the same policies and procedures.

Dated: September 15, 2003

(RISKMETRICS GROUP LOGO)

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2008 U.S. Proxy Voting Guidelines Summary

ISS Governance Services

December 17, 2007

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ISS GOVERNANCE SERVICES
2008 U.S. PROXY VOTING GUIDELINES SUMMARY

EFFECTIVE FOR MEETINGS ON OR AFTER FEB 1, 2008
UPDATED DEC 17, 2007

The following is a condensed version of the proxy voting recommendations contained in the ISS Governance Services ("ISS") Proxy Voting Manual.

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