

FIRST TRUST ENHANCED EQUITY INCOME FUND

Form N-Q

November 26, 2008

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

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-21586

First Trust Enhanced Equity Income Fund  
(Exact name of registrant as specified in charter)

120 East Liberty Drive  
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: December 31

Date of reporting period: September 30, 2008

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

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

ITEM 1. SCHEDULE OF INVESTMENTS.

The Schedule(s) of Investments is attached herewith.

FIRST TRUST ENHANCED EQUITY INCOME FUND  
PORTFOLIO OF INVESTMENTS (A)  
SEPTEMBER 30, 2008 (UNAUDITED)

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

SHARES	DESCRIPTION	VALUE
COMMON STOCKS - 100.4%		
AEROSPACE & DEFENSE - 5.1%		
150,000	Honeywell International, Inc.....	\$ 6,232,500
85,800	Rockwell Collins, Inc.....	4,126,122
64,200	United Technologies Corp.....	3,855,852
		14,214,474
AIR FREIGHT & LOGISTICS - 1.2%		
40,200	FedEx Corp.....	3,177,408
BEVERAGES - 5.2%		
100,000	Coca-Cola (The), Company.....	5,288,000
65,000	Diageo PLC, SP ADR.....	4,475,900
66,025	PepsiCo, Inc.....	4,705,602
		14,469,502
CAPITAL MARKETS - 4.3%		
120,000	AllianceBernstein Holding, LP (b).....	4,441,200
150,000	Bank of New York Mellon (The) Corp.....	4,887,000
11,500	Goldman Sachs Group (The), Inc.....	1,472,000
20,000	Merrill Lynch & Co., Inc.....	506,000
60,000	Och-Ziff Capital Management Group, Class A ....	701,400
		12,007,600
CHEMICALS - 3.7%		
100,000	Dow Chemical (The), Company.....	3,178,000
120,000	PPG Industries, Inc.....	6,998,400
		10,176,400
COMMUNICATIONS EQUIPMENT - 2.4%		
295,200	Cisco Systems, Inc. (c).....	6,659,712
COMPUTERS & PERIPHERALS - 1.0%		
24,000	International Business Machines Corp.....	2,807,040
CONSUMER FINANCE - 0.5%		
25,000	Capital One Financial Corp.....	1,275,000
DIVERSIFIED FINANCIAL SERVICES - 6.4%		
192,500	Bank of America Corp.....	6,737,500
420,000	CIT Group, Inc.....	2,923,200
170,000	JPMorgan Chase & Company.....	7,939,000
		17,599,700
DIVERSIFIED TELECOMMUNICATION SERVICES - 8.7%		
300,000	Alaska Communications Systems Group, Inc.....	3,669,000
200,000	AT&T, Inc.....	5,584,000
249,600	Consolidated Communications Holdings, Inc.....	3,763,968
204,179	FairPoint Communications, Inc.....	1,770,232
200,000	Frontier Communications Corp.....	2,300,000
221,620	Verizon Communications, Inc.....	7,111,786
		24,198,986

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

See Notes to Quarterly Portfolio of Investments

Page 1

FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS (A) - (CONTINUED)  
 SEPTEMBER 30, 2008 (UNAUDITED)

SHARES	DESCRIPTION	VALUE
COMMON STOCKS - (CONTINUED)		
100,000	ELECTRIC UTILITIES - 1.4% Southern Company.....	\$ 3,769,000
180,000	ELECTRICAL EQUIPMENT - 2.7% Emerson Electric Company.....	7,342,200
108,800	FOOD & STAPLES RETAILING - 1.2% Walgreen Company.....	3,368,448
30,000	HEALTHCARE PROVIDERS & SERVICES - 0.2% Brookdale Senior Living, Inc.....	659,700
225,000	HOTELS, RESTAURANTS & LEISURE - 2.9% Carnival Corp.....	7,953,750
190,000	INDUSTRIAL CONGLOMERATES - 1.8% General Electric Company.....	4,845,000
20,000	INSURANCE - 3.4% ACE Ltd.....	1,082,600
200,000	Genworth Financial, Inc., Class A.....	1,722,000
30,000	Hartford Financial Services Group, Inc.....	1,229,700
35,000	Lincoln National Corp.....	1,498,350
220,000	XL Capital Ltd., Class A .....	3,946,800
		9,479,450
145,700	INTERNET SOFTWARE & SERVICES - 1.2% eBay, Inc. (c).....	3,260,766
100,000	IT SERVICES - 1.2% Paychex, Inc.....	3,303,000
131,000	MACHINERY - 2.8% Caterpillar, Inc.....	7,807,600
323,051	MARINE - 1.4% FreeSeas, Inc.....	1,327,739
140,000	Seaspan Corp.....	2,532,600
		3,860,339

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

	MEDIA - 1.6%	
350,000	Entercom Communications Corp., Class A.....	1,757,000
175,000	Regal Entertainment Group, Class A.....	2,761,500
		-----
		4,518,500
		-----
	MULTILINE RETAIL - 2.1%	
121,000	Target Corp.....	5,935,050
		-----

See Notes to Quarterly Portfolio of Investments

Page 2

FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS (A) - (CONTINUED)  
 SEPTEMBER 30, 2008 (UNAUDITED)

SHARES	DESCRIPTION	VALUE
-----	-----	-----
COMMON STOCKS - (CONTINUED)		
	OIL, GAS & CONSUMABLE FUELS - 17.5%	
60,000	BP PLC, SP ADR.....	\$ 3,010,200
110,800	Chevron Corp.....	9,138,784
120,000	ConocoPhillips .....	8,790,000
100,000	Copano Energy, LLC.....	2,446,000
135,000	Exxon Mobil Corp.....	10,484,100
130,000	Occidental Petroleum Corp.....	9,158,500
60,000	Total SA, SP ADR .....	3,640,800
54,800	Valero Energy Corp.....	1,660,440
		-----
		48,328,824
		-----
	PHARMACEUTICALS - 8.8%	
170,000	Abbott Laboratories .....	9,788,600
375,000	Bristol-Myers Squibb Company.....	7,818,750
373,100	Pfizer, Inc.....	6,879,964
		-----
		24,487,314
		-----
	REAL ESTATE INVESTMENT TRUSTS (REITS) - 2.4%	
230,000	Annaly Capital Management, Inc.....	3,093,500
550,000	MFA Mortgage Investments, Inc.....	3,575,000
		-----
		6,668,500
		-----
	SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT - 4.3%	
334,800	Intel Corp.....	6,270,804
100,000	Microchip Technology, Inc.....	2,943,000
124,400	Texas Instruments, Inc.....	2,674,600
		-----
		11,888,404
		-----
	SOFTWARE - 1.1%	
110,000	Microsoft Corp.....	2,935,900

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

	THRIFTS & MORTGAGE FINANCE - 0.3%	
200,000	Sovereign Bancorp, Inc.....	790,000
		-----
	TOBACCO - 2.9%	
113,435	Altria Group, Inc.....	2,250,550
30,000	Philip Morris International, Inc.....	1,443,000
90,000	Reynolds American, Inc.....	4,375,800
		-----
		8,069,350
		-----
	TRADING COMPANIES & DISTRIBUTORS - 0.7%	
200,000	Aircastle Ltd.....	1,982,000
		-----
	TOTAL COMMON STOCKS.....	277,838,917
	(Cost \$357,982,278)	-----
	TOTAL INVESTMENTS - 100.4%.....	277,838,917
	(Cost \$357,982,278) (d)	

See Notes to Quarterly Portfolio of Investments

Page 3

FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS (A) - (CONTINUED)  
 SEPTEMBER 30, 2008 (UNAUDITED)

NUMBER OF CONTRACTS	DESCRIPTION	VALUE
-----	-----	-----
	CALL OPTIONS WRITTEN - (1.7%)	
	Abbott Laboratories Calls	
1,300	@ 60 due Oct 08.....	\$ (84,500)
400	@ 62.5 due Oct 08.....	(8,000)
		-----
		(92,500)
		-----
	Ace Ltd. Call	
200	@ 60 due Oct 08.....	(10,000)
		-----
	Altria Group, Inc. Call	
1,134	@ 22 due Oct 08.....	(9,072)
		-----
	Annaly Capital Management, Inc. Call	
2,300	@ 16 due Oct 08.....	(46,000)
		-----
	AT&T, Inc. Calls	
800	@ 31 due Oct 08.....	(12,000)
1,200	@ 32.5 due Oct 08.....	(8,400)
		-----
		(20,400)
		-----
	Bank of America Corp. Call	
1,925	@ 35 due Oct 08.....	(446,600)
		-----

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

	Bank of New York Mellon (The) Corp. Calls	
300	@ 32.5 due Oct 08.....	(90,300)
400	@ 37.5 due Oct 08.....	(40,000)
800	@ 35 due Oct 08.....	(168,000)
		-----
		(298,300)
		-----
	BP PLC, SP ADR Call	
600	@ 55 due Oct 08.....	(36,000)
		-----
	Bristol-Myers Squibb Company Call	
3,250	@ 22.5 due Oct 08.....	(39,000)
		-----
	Brookdale Senior Living, Inc. Call	
300	@ 20 due Oct 08.....	(60,000)
		-----
	Capital One Financial Corp. Calls	
100	@ 55 due Oct 08.....	(21,200)
150	@ 50 due Oct 08.....	(72,000)
		-----
		(93,200)
		-----
	Carnival Corp. Calls	
2,050	@ 40 due Oct 08.....	(51,250)
200	@ 37.5 due Oct 08.....	(12,000)
		-----
		(63,250)
		-----
	Caterpillar, Inc. Call	
1,310	@ 70 due Oct 08.....	(30,130)
		-----

See Notes to Quarterly Portfolio of Investments

Page 4

FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS (A) - (CONTINUED)  
 SEPTEMBER 30, 2008 (UNAUDITED)

NUMBER OF CONTRACTS	DESCRIPTION	VALUE
-----	-----	-----
CALL OPTIONS WRITTEN - (CONTINUED)		
	Chevron Corp. Calls	
500	@ 85 due Oct 08.....	\$ (88,500)
608	@ 85 due Nov 08.....	(204,896)
		-----
		(293,396)
		-----
	Cisco Systems, Inc. Call	
2,950	@ 25 due Oct 08.....	(47,200)
		-----
	CIT Group. Inc. Calls	
2,200	@ 10 due Oct 08.....	(55,000)

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

2,000	@ 12.5 due Oct 08.....	(20,000)
		-----
		(75,000)
		-----
	ConocoPhillips Calls	
300	@ 75 due Oct 08.....	(73,500)
600	@ 80 due Oct 08.....	(51,000)
300	@ 85 due Oct 08.....	(6,000)
		-----
		(130,500)
		-----
	Consolidated Communications Holdings, Inc. Call	
2,496	@ 17.5 due Oct 08.....	(24,960)
		-----
	Diageo PLC, SP ADR Calls	
400	@ 75 due Oct 08.....	(20,000)
250	@ 80 due Oct 08.....	(3,750)
		-----
		(23,750)
		-----
	Dow Chemical (The) Company Call	
1,000	@ 40 due Dec 08.....	(20,000)
		-----
	eBay, Inc. Calls	
500	@ 24 due Oct 08.....	(32,500)
957	@ 25 due Oct 08.....	(36,366)
		-----
		(68,866)
		-----
	Exxon Mobil Corp. Calls	
850	@ 80 due Oct 08.....	(154,700)
500	@ 85 due Oct 08.....	(20,000)
		-----
		(174,700)
		-----
	FairPoint Communications, Inc. Call	
2,041	@ 10 due Oct 08.....	(40,820)
		-----
	FedEx Corp. Call	
402	@ 85 due Oct 08.....	(40,200)
		-----
	General Electric Company Calls	
950	@ 27 due Oct 08.....	(66,500)
950	@ 28 due Oct 08.....	(28,500)
		-----
		(95,000)
		-----

See Notes to Quarterly Portfolio of Investments

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

NUMBER OF CONTRACTS	DESCRIPTION	VALUE
CALL OPTIONS WRITTEN - (CONTINUED)		
	Genworth Financial, Inc., Class A Calls	
1,000	@ 10 due Oct 08.....	\$ (155,000)
1,000	@ 7.5 due Oct 08.....	(260,000)
		----- (415,000) -----
	Goldman Sachs Group (The), Inc. Calls	
100	@ 125 due Oct 08.....	(104,000)
15	@ 135 due Oct 08.....	(8,325)
		----- (112,325) -----
	Hartford Financial Services Group, Inc. Calls	
100	@ 55 due Oct 08.....	(7,000)
200	@ 60 due Oct 08.....	(4,000)
		----- (11,000) -----
	Honeywell International, Inc. Calls	
500	@ 45 due Oct 08.....	(43,000)
1,000	@ 50 due Oct 08.....	(15,000)
		----- (58,000) -----
	International Business Machines Corp. Call	
240	@ 120 due Oct 08.....	(67,200)
		-----
	JPMorgan Chase & Company Call	
1,700	@ 45 due Oct 08.....	(544,000)
		-----
	Lincoln National Corp. Calls	
150	@ 50 due Oct 08.....	(24,000)
200	@ 55 due Oct 08.....	(10,000)
		----- (34,000) -----
	Merrill Lynch & Company, Inc. Call	
200	@ 29 due Oct 08.....	(12,000)
		-----
	Microchip Technology, Inc. Call	
1,000	@ 35 due Oct 08.....	(10,000)
		-----
	Microsoft Corp. Call	
1,100	@ 28 due Oct 08.....	(48,400)
		-----
	Occidental Petroleum Corp. Calls	
900	@ 80 due Oct 08.....	(94,500)
400	@ 85 due Oct 08.....	(18,000)
		----- (112,500) -----
	Paychex, Inc. Call	
1,000	@ 35 due Oct 08.....	(32,500)
		-----
	PepsiCo, Inc. Call	
660	@ 75 due Oct 08.....	(33,000)



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

	Pfizer, Inc. Call	
3,731	@ 20 due Oct 08.....	(59,696)

See Notes to Quarterly Portfolio of Investments

Page 6

FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS (A) - (CONTINUED)  
 SEPTEMBER 30, 2008 (UNAUDITED)

NUMBER OF CONTRACTS	DESCRIPTION	VALUE
CALL OPTIONS WRITTEN - (CONTINUED)		
300	Philip Morris International, Inc. Call @ 55 due Oct 08.....	\$ (3,000)
500	PPG Industries, Inc. Calls @ 65 due Oct 08.....	(13,750)
700	@ 70 due Oct 08.....	(7,000)
		(20,750)
900	Reynolds American, Inc. Call @ 55 due Oct 08.....	(9,000)
100	S&P 500 Index Calls @ 1275 due Oct 08.....	(50,000)
192	@ 1300 due Oct 08.....	(51,840)
100	@ 1195 due Oct 08.....	(270,000)
		(371,840)
1,000	Southern Company Call @ 40 due Oct 08.....	(15,000)
2,000	Sovereign Bancorp, Inc. Call @ 5 due Oct 08.....	(170,000)
510	Target Corp. Calls @ 52.5 due Oct 08.....	(57,120)
700	@ 55 due Oct 08.....	(32,900)
		(90,020)
1,240	Texas Instruments, Inc. Call @ 25 due Oct 08.....	(7,440)
600	Total SA, SP ADR Call @ 70 due Oct 08.....	(9,000)
	United Technologies Corp. Call	

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

642	@ 70 due Oct 08.....	(9,630)
	Valero Energy Corp. Call	
548	@ 40 due Oct 08.....	(6,028)
	Verizon Communications, Inc. Calls	
1,000	@ 35 due Oct 08.....	(16,000)
400	@ 32.5 due Oct 08.....	(28,800)
816	@ 37.5 due Nov 08.....	(16,320)
		(61,120)
	Walgreen Company Calls	
588	@ 35 due Oct 08.....	(5,880)
500	@ 37.5 due Nov 08.....	(5,000)
		(10,880)

See Notes to Quarterly Portfolio of Investments

Page 7

FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS (A) - (CONTINUED)  
 SEPTEMBER 30, 2008 (UNAUDITED)

NUMBER OF CONTRACTS	DESCRIPTION	VALUE
CALL OPTIONS WRITTEN - (CONTINUED)		
	XL Capital Ltd. Calls	
1,900	@ 20 due Oct 08.....	\$ (104,500)
300	@ 17.5 due Oct 08.....	(37,500)
		(142,000)
	TOTAL CALL OPTIONS WRITTEN - (1.7)%.....	(4,754,173)
	(Premiums received \$7,613,693)	
	NET OTHER ASSETS AND LIABILITIES - 1.3%.....	3,704,299
	NET ASSETS - 100.0%.....	\$276,789,043

(a) All percentages shown in the Portfolio of Investments are based on net assets.

(b) Master Limited Partnership ("MLP")

(c) Non-income producing security.

(d) Aggregate cost for federal income tax and financial reporting purposes. As of September 30, 2008, the aggregate unrealized appreciation for all

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

securities in which there was an excess of value over tax cost was \$368,021 and the gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$80,511,382.

SP ADR Sponsored American Depositary Receipt

### SECURITY VALUATION INPUTS

A summary of the inputs used to value the Fund's net assets as of September 30, 2008 is as follows (See Note 1A-Portfolio Valuation in the Notes to Quarterly Portfolio of Investments):

VALUATION INPUTS -----	INVESTMENTS IN SECURITIES -----
Level 1 - Quoted Prices - Investments	\$277,838,917
Level 1 - Quoted Prices - Written Options	(4,754,173)
Level 2 - Other Significant Observable Inputs	--
Level 3 - Significant Unobservable Inputs	--
	-----
TOTAL	\$273,084,744 =====

See Notes to Quarterly Portfolio of Investments

Page 8

### NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS

#### FIRST TRUST ENHANCED EQUITY INCOME FUND SEPTEMBER 30, 2008 (UNAUDITED)

##### 1. VALUATION AND INVESTMENT PRACTICES

###### A. PORTFOLIO VALUATION:

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

The Fund's investments are valued daily at market value or, in the absence of market value with respect to any portfolio securities, at fair value in accordance with valuation procedures adopted by the Fund's Board of Trustees. Portfolio securities listed on any exchange other than the NASDAQ National Market ("NASDAQ") and the London Stock Exchange Alternative Investment Market ("AIM") are valued at the last sale price on the business day as of which such value is being determined. Securities listed on the NASDAQ or the AIM are valued at the official closing price on the business day as of which such value is being determined. If there has been no sale on such day, or no official closing price in the case of securities traded on the NASDAQ or the AIM, the securities are valued at the mean of the most recent bid and ask prices on such day.

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

Portfolio securities traded on more than one securities exchange are valued at the last sale price or official closing price, as applicable, on the business day as of which such value is being determined at the close of the exchange representing the principal market for such securities. Portfolio securities traded in the over-the-counter market, but excluding securities trading on the NASDAQ and the AIM, are valued at the closing bid prices. Short-term investments that mature in less than 60 days when purchased are valued at amortized cost.

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

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("FAS 157"), effective for fiscal years beginning after November 15, 2007. This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. FAS 157 became effective for the Fund as of January 1, 2008, the beginning of its current fiscal year. The three levels of the fair value hierarchy under FAS 157 are described below:

- Level 1 - quoted prices in active markets for identical securities
- Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 - significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. A summary of the inputs used to value the Fund's net assets as of September 30, 2008 is included with the Fund's Portfolio of Investments.

### B. OPTION CONTRACTS:

COVERED OPTIONS. The Fund may write (sell) covered call options ("options") on all or a portion of the equity securities held in the Fund's portfolio and on securities indices as determined to be appropriate by Chartwell Investment Partners, L.P (the "Sub-Advisor" or "Chartwell"), consistent with the Fund's investment objective. The number of options the Fund can write (sell) is limited by the amount of equity securities the Fund holds in its portfolio. Options on securities indices are designed to reflect price fluctuations in a group of securities or a segment of the securities market rather than price fluctuations in a single security and are similar to options on single securities, except that the exercise of securities index options requires cash settlement payments and does not involve the actual purchase or sale of securities. The Fund will not write (sell) "naked" or uncovered options. If certain equity securities held in the Fund's portfolio are not covered by a related call option on the individual equity security, securities index options may be written on all or a portion of such uncovered securities. By writing (selling) options, the Fund seeks to generate additional income, in the form of premiums received for writing (selling) the options, and to provide a partial hedge against a market decline in the underlying equity security. Options are marked-to-market daily and their value will be affected by changes in the value and dividend rates of the underlying equity securities,

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

NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS - (CONTINUED)

FIRST TRUST ENHANCED EQUITY INCOME FUND  
SEPTEMBER 30, 2008 (UNAUDITED)

changes in interest rates, changes in the actual or perceived volatility of the securities markets and the underlying equity securities and the remaining time to the options' expiration. The value of options may also be adversely affected if the market for the options becomes less liquid or smaller.

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

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

## C. SECURITIES TRANSACTIONS:

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

### 2. WRITTEN OPTION ACTIVITY

Written option activity for the nine months ended September 30, 2008 was as follows:

NUMBER OF CONTRACTS	PREMIUMS
-----	-----

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

WRITTEN OPTIONS

Options outstanding at December 31, 2007...	68,218	\$ 5,622,371
Options written.....	737,054	72,302,635
Options expired.....	(208,477)	(14,334,472)
Options exercised.....	(31,788)	(2,775,056)
Options closed.....	(494,802)	(53,201,785)
	-----	-----
Options outstanding at September 30, 2008..	70,205	\$ 7,613,693
	=====	=====

Page 10

ITEM 2. CONTROLS AND PROCEDURES.

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

ITEM 3. EXHIBITS.

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

SIGNATURES

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

(Registrant) First Trust Enhanced Equity Income Fund

By (Signature and Title)\* /s/ James A. Bowen

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

Date November 24, 2008  
 -----

Pursuant to the requirements of the Securities Exchange Act of 1934 and the

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

Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)\* /s/ James A. Bowen

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

Date November 24, 2008  
-----

By (Signature and Title)\* /s/ Mark R. Bradley

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

Date November 24, 2008  
-----

\* Print the name and title of each signing officer under his or her signature.