

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

FIRST TRUST ENHANCED EQUITY INCOME FUND

Form N-Q

November 26, 2012

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

120 East Liberty Drive, Suite 400  
Wheaton, IL 60187  
-----

(Address of principal executive offices) (Zip code)

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

(Name and address of agent for service)

Registrant's telephone number, including area code: (630) 765-8000  
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Date of fiscal year end: December 31  
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Date of reporting period: September 30, 2012  
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Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (ss.ss. 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

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

ITEM 1. SCHEDULE OF INVESTMENTS.

The Schedule(s) of Investments is attached herewith.

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FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS  
 SEPTEMBER 30, 2012 (UNAUDITED)

SHARES	DESCRIPTION	VALUE
-----		
COMMON STOCKS - 95.3%		
AEROSPACE & DEFENSE - 2.7%		
37,000	Boeing (The) Co. ....	\$ 2,575,940
80,000	Honeywell International, Inc. ....	4,780,000
		-----
		7,355,940
		-----
AIR FREIGHT & LOGISTICS - 1.6%		
60,000	United Parcel Service, Inc., Class B .....	4,294,200
		-----
BEVERAGES - 3.4%		
175,000	Coca-Cola (The) Co. ....	6,637,750
35,000	PepsiCo, Inc. ....	2,476,950
		-----
		9,114,700
		-----
CAPITAL MARKETS - 1.1%		
16,000	BlackRock, Inc. ....	2,852,800
		-----
CHEMICALS - 2.3%		
80,000	E.I. Du Pont de Nemours & Co. ....	4,021,600
20,000	PPG Industries, Inc. ....	2,296,800
		-----
		6,318,400
		-----
COMMERCIAL BANKS - 2.0%		
40,000	PNC Financial Services Group, Inc. ....	2,524,000
80,000	Wells Fargo & Co. ....	2,762,400
		-----
		5,286,400
		-----
COMMUNICATIONS EQUIPMENT - 3.6%		
190,000	Cisco Systems, Inc. ....	3,627,100
100,000	QUALCOMM, Inc. ....	6,249,000
		-----
		9,876,100
		-----
COMPUTERS & PERIPHERALS - 5.8%		
20,000	Apple, Inc. ....	13,345,200
90,000	EMC Corp. (a).....	2,454,300
		-----
		15,799,500
		-----
CONSUMER FINANCE - 1.3%		
60,000	Capital One Financial Corp. ....	3,420,600

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	DIVERSIFIED FINANCIAL SERVICES - 3.5%	
187,900	JPMorgan Chase & Co. ....	7,606,192
77,000	NYSE Euronext .....	1,898,050
		-----
		9,504,242
-----		
	DIVERSIFIED TELECOMMUNICATION SERVICES - 2.7%	
130,000	AT&T, Inc. ....	4,901,000
50,000	Verizon Communications, Inc. ....	2,278,500
		-----
		7,179,500
-----		
	ELECTRIC UTILITIES - 0.9%	
85,000	PPL Corp. ....	2,469,250
		-----

See Notes to Quarterly Portfolio of Investments

FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS - (CONTINUED)  
 SEPTEMBER 30, 2012 (UNAUDITED)

SHARES	DESCRIPTION	VALUE
-----		
COMMON STOCKS - (CONTINUED)		
	ENERGY EQUIPMENT & SERVICES - 1.7%	
65,000	Schlumberger Ltd. ....	\$ 4,701,450
		-----
	FOOD PRODUCTS - 1.8%	
110,000	Kraft Foods Group, Inc. (b).....	4,911,500
		-----
	HEALTH CARE EQUIPMENT & SUPPLIES - 1.9%	
87,900	Covidien PLC .....	5,223,018
		-----
	HOTELS, RESTAURANTS & LEISURE - 4.9%	
55,000	Carnival Corp. ....	2,004,200
63,000	McDonald's Corp. ....	5,780,250
45,000	Starwood Hotels & Resorts Worldwide, Inc. ...	2,608,200
25,000	Wynn Resorts Ltd. ....	2,886,000
		-----
		13,278,650
-----		
	HOUSEHOLD DURABLES - 1.0%	
145,000	Newell Rubbermaid, Inc. ....	2,768,050
		-----
	INDUSTRIAL CONGLOMERATES - 3.4%	
400,000	General Electric Co. ....	9,084,000

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-----		
	INSURANCE - 5.7%	
115,000	Lincoln National Corp. ....	2,781,850
50,000	Marsh & McLennan Cos., Inc. ....	1,696,500
120,000	MetLife, Inc. ....	4,135,200
100,000	Travelers (The) Cos., Inc. ....	6,826,000
		-----
		15,439,550
		-----
	IT SERVICES - 4.1%	
20,000	Accenture PLC, Class A ....	1,400,600
52,000	Automatic Data Processing, Inc. ....	3,050,320
32,500	International Business Machines Corp. ....	6,742,125
		-----
		11,193,045
		-----
	LIFE SCIENCES TOOLS & SERVICES - 1.5%	
105,000	Agilent Technologies, Inc. ....	4,037,250
		-----
	MACHINERY - 2.5%	
37,000	Caterpillar, Inc. ....	3,183,480
45,000	Deere & Co. ....	3,712,050
		-----
		6,895,530
		-----
	MEDIA - 2.7%	
150,000	Regal Entertainment Group, Class A ....	2,110,500
25,000	Viacom, Inc., Class B ....	1,339,750
75,000	Walt Disney (The) Co. ....	3,921,000
		-----
		7,371,250
		-----
	METALS & MINING - 1.0%	
65,000	Freeport-McMoRan Copper & Gold, Inc. ....	2,572,700
		-----
	MULTILINE RETAIL - 0.8%	
35,000	Target Corp. ....	2,221,450
		-----

See Notes to Quarterly Portfolio of Investments

FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS - (CONTINUED)  
 SEPTEMBER 30, 2012 (UNAUDITED)

SHARES	DESCRIPTION	VALUE
-----		
COMMON STOCKS - (CONTINUED)		
	OIL, GAS & CONSUMABLE FUELS - 8.2%	

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25,000	Apache Corp. ....	\$	2,161,750
40,000	Chevron Corp. ....		4,662,400
45,000	ConocoPhillips ....		2,573,100
90,000	Kinder Morgan, Inc. ....		3,196,800
120,000	Marathon Oil Corp. ....		3,548,400
72,000	Occidental Petroleum Corp. ....		6,196,320
			-----
			22,338,770
			-----
	PAPER & FOREST PRODUCTS - 0.7%		
50,000	International Paper Co. ....		1,816,000
			-----
	PHARMACEUTICALS - 8.1%		
132,500	Bristol-Myers Squibb Co. ....		4,471,875
130,000	Merck & Co., Inc. ....		5,863,000
50,000	Novartis AG, ADR ....		3,063,000
345,000	Pfizer, Inc. ....		8,573,250
			-----
			21,971,125
			-----
	REAL ESTATE INVESTMENT TRUSTS (REITS) - 1.7%		
225,000	MFA Mortgage Investments, Inc. ....		1,912,500
90,000	National Retail Properties, Inc. ....		2,745,000
			-----
			4,657,500
			-----
	ROAD & RAIL - 0.7%		
50,000	Ryder System, Inc. ....		1,953,000
			-----
	SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT - 2.2%		
197,500	Intel Corp. ....		4,479,300
47,000	Microchip Technology, Inc. ....		1,538,780
			-----
			6,018,080
			-----
	SOFTWARE - 3.5%		
157,500	Microsoft Corp. ....		4,690,350
155,000	Oracle Corp. ....		4,880,950
			-----
			9,571,300
			-----
	SPECIALTY RETAIL - 1.5%		
80,000	Limited Brands, Inc. ....		3,940,800
			-----
	TOBACCO - 3.2%		
55,000	Altria Group, Inc. ....		1,836,450
77,000	Philip Morris International, Inc. ....		6,925,380
			-----
			8,761,830
			-----
	WATER UTILITIES - 0.9%		
65,000	American Water Works Co., Inc. ....		2,408,900
			-----

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	WIRELESS TELECOMMUNICATION SERVICES - 0.7%	
70,000	Vodafone Group PLC, ADR .....	1,994,650
		-----
	TOTAL COMMON STOCKS .....	258,601,030
	(Cost \$227,487,741)	-----

See Notes to Quarterly Portfolio of Investments

FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS - (CONTINUED)  
 SEPTEMBER 30, 2012 (UNAUDITED)

SHARES/ UNITS	DESCRIPTION	VALUE
-----		
MASTER LIMITED PARTNERSHIPS - 3.3%		
	OIL, GAS & CONSUMABLE FUELS - 3.3%	
90,000	Energy Transfer Partners, L.P. ....	\$ 3,831,300
40,000	Enterprise Products Partners, L.P. ....	2,144,000
35,000	Magellan Midstream Partners, L.P. ....	3,061,100
		-----
	TOTAL MASTER LIMITED PARTNERSHIPS .....	9,036,400
	(Cost \$3,496,104)	-----
COMMON STOCKS - BUSINESS DEVELOPMENT COMPANIES - 1.3%		
	CAPITAL MARKETS - 1.3%	
210,000	Ares Capital Corp. ....	3,599,400
		-----
	TOTAL COMMON STOCKS - BUSINESS DEVELOPMENT COMPANIES .....	3,599,400
	(Cost \$3,392,499)	-----
	TOTAL INVESTMENTS - 99.9% .....	271,236,830
	(Cost \$234,376,344) (c)	-----

NUMBER OF CONTRACTS	DESCRIPTION	VALUE
-----		
CALL OPTIONS WRITTEN - (0.2%)		
	Accenture PLC, Class A Calls	
100	@ 65 due October 12 .....	(51,000)
100	@ 67.5 due October 12 .....	(28,200)
		-----
		(79,200)
		-----
	Apache Corp. Call	
250	@ 92.5 due October 12 .....	(6,250)
		-----
	AT&T, Inc. Call	
1,100	@ 39 due October 12 .....	(6,600)
		-----
	BlackRock, Inc. Call	
160	@ 190 due October 12 .....	(5,600)
		-----

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300	Capital One Financial Corp. Call @ 62.5 due October 12 .....	(2,400)
100	Carnival Corp. Calls @ 38 due October 12 .....	(2,000)
200	@ 39 due October 12 .....	(1,400)
		(3,400)
400	Chevron Corp. Call @ 120 due October 12 .....	(18,400)

See Notes to Quarterly Portfolio of Investments

FIRST TRUST ENHANCED EQUITY INCOME FUND  
PORTFOLIO OF INVESTMENTS - (CONTINUED)  
SEPTEMBER 30, 2012 (UNAUDITED)

NUMBER OF CONTRACTS	DESCRIPTION	VALUE
CALL OPTIONS WRITTEN - (CONTINUED)		
500	Cisco Systems, Inc. Call @ 20 due October 12 .....	\$ (4,500)
300	EMC Corp. Call @ 29 due October 12 .....	(4,200)
200	Freeport-McMoRan Copper & Gold, Inc. Call @ 43 due October 12 .....	(4,400)
4,000	General Electric Co. Call @ 23 due October 12 .....	(116,000)
200	Honeywell International, Inc. Call @ 62.5 due October 12 .....	(6,600)
500	Intel Corp. Call @ 24 due October 12 .....	(6,000)
150	International Business Machines Corp. Call @ 215 due October 12 .....	(16,200)
250	International Paper Co. Call @ 36 due October 12 .....	(27,750)
300	JPMorgan Chase & Co. Call @ 43 due October 12 .....	(5,100)
200	Lincoln National Corp. Call @ 27 due October 12 .....	(1,100)
	Marathon Oil Corp. Call	

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300	@ 32 due October 12 .....	(2,700)
	McDonald's Corp. Call	
130	@ 95 due October 12 .....	(3,510)
	Merck & Co., Inc. Call	
1,300	@ 46 due October 12 .....	(31,200)
	Newell Rubbermaid, Inc. Call	
1,000	@ 20 due October 12 .....	(15,000)

See Notes to Quarterly Portfolio of Investments

FIRST TRUST ENHANCED EQUITY INCOME FUND  
 PORTFOLIO OF INVESTMENTS - (CONTINUED)  
 SEPTEMBER 30, 2012 (UNAUDITED)

NUMBER OF CONTRACTS	DESCRIPTION	VALUE
CALL OPTIONS WRITTEN - (CONTINUED)		
	NYSE Euronext Call	
300	@ 27 due October 12 .....	\$ (750)
	Oracle Corp. Call	
500	@ 33 due October 12 .....	(6,000)
	Pfizer, Inc. Call	
1,000	@ 25 due October 12 .....	(26,000)
	Philip Morris International, Inc. Call	
270	@ 95 due October 12 .....	(3,510)
	PNC Financial Services Group, Inc. Call	
400	@ 67.5 due October 12 .....	(3,200)
	PPG Industries, Inc. Call	
100	@ 120 due October 12 .....	(7,500)
	QUALCOMM, Inc. Call	
200	@ 67.5 due October 12 .....	(2,400)
	Regal Entertainment Group, Class A Call	
1,500	@ 15 due January 13 .....	(45,000)
	S&P 500 Index Calls (d)	
200	@ 1480 due October 12 .....	(55,000)
400	@ 1495 due October 12 .....	(44,000)
		(99,000)
	Starwood Hotels & Resorts Worldwide, Inc. Call	
300	@ 62.5 due October 12 .....	(5,250)



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350	Target Corp. Call @ 67.5 due October 12 .....	(1,750)
		-----
500	Travelers (The) Cos., Inc. Call @ 70 due October 12 .....	(27,500)
		-----
200	Viacom, Inc., Class B Call @ 52.5 due October 12 .....	(35,000)
		-----
350	Walt Disney (The) Co. Call @ 55 due October 12 .....	(3,150)
		-----
	TOTAL CALL OPTIONS WRITTEN .....	(632,120)
	(Premiums received \$918,613)	-----

See Notes to Quarterly Portfolio of Investments

FIRST TRUST ENHANCED EQUITY INCOME FUND  
PORTFOLIO OF INVESTMENTS - (CONTINUED)  
SEPTEMBER 30, 2012 (UNAUDITED)

DESCRIPTION	VALUE
-----	-----
NET OTHER ASSETS AND LIABILITIES - 0.3% .....	\$ 728,952
	-----
NET ASSETS - 100.0% .....	\$ 271,333,662
	=====

- (a) Non-income producing security.
- (b) This security is trading on a "when-issued" basis. It will begin "regular-way" trading on October 2, 2012, following the completion of the company's spin-off from Kraft Foods Inc.
- (c) Aggregate cost for financial reporting purposes, which approximates the aggregate cost for federal income tax purposes. As of September 30, 2012, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$41,610,688 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$4,750,202.
- (d) Call options on securities indices were written on a portion of the common stock positions that were not used to cover call options written on individual equity securities held in the Fund's portfolio.

ADR American Depositary Receipt

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VALUATION INPUTS

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A summary of the inputs used to value the Fund's investments as of September 30, 2012 is as follows (see Note 1A - Portfolio Valuation in the Notes to Quarterly Portfolio of Investments):

ASSETS TABLE			
	TOTAL VALUE AT 9/30/2012	LEVEL 1 QUOTED PRICES	LEVEL 2 SIGNIFICANT OBSERVABLE INPUTS
	-----	-----	-----
Common Stocks*.....	\$ 258,601,030	\$ 258,601,030	\$ --
Master Limited Partnerships*.....	9,036,400	9,036,400	--
Common Stocks - Business Development Companies*.....	3,599,400	3,599,400	--
	-----	-----	-----
TOTAL INVESTMENTS.....	\$ 271,236,830	\$ 271,236,830	\$ --
	=====	=====	=====

  

LIABILITIES TABLE			
	TOTAL VALUE AT 9/30/2012	LEVEL 1 QUOTED PRICES	LEVEL 2 SIGNIFICANT OBSERVABLE INPUTS
	-----	-----	-----
Call Options Written.....	\$ (632,120)	\$ (632,120)	\$ --
	=====	=====	=====

\* See the Portfolio of Investments for industry breakdown.

There were no transfers between levels at September 30, 2012.

See Notes to Quarterly Portfolio of Investments

### NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS

#### FIRST TRUST ENHANCED EQUITY INCOME FUND SEPTEMBER 30, 2012 (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. If the NYSE closes early on a valuation day, the NAV is determined as of that time. 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 in accordance with valuation procedures

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adopted by the Fund's Board of Trustees, and in accordance with provisions of the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund's securities will be valued as follows:

Common stocks, master limited partnerships ("MLPs"), exchanged-traded funds and other securities listed on any national or foreign exchange (excluding the NASDAQ National Market ("NASDAQ") and the London Stock Exchange Alternative Investment Market ("AIM")) are valued at the last sale price on the exchange on which they are principally traded. If there are no transactions on the valuation day, the securities are valued at the mean between the most recent bid and asked prices.

Securities listed on the NASDAQ or the AIM are valued at the official closing price. If there is no official closing price on the valuation day, the securities are valued at the mean between the most recent bid and asked prices.

Securities traded in the over-the-counter market are valued at their closing bid prices.

Exchange-traded options and futures contracts are valued at the closing price in the market where such contracts are principally traded. If no closing price is available, exchange-traded options and futures contracts are valued at the mean between the most recent bid and asked prices. Over-the-counter options and futures contracts are valued at their closing bid prices.

Short-term investments that mature in less than 60 days when purchased are valued at amortized cost.

All market quotations used in valuing the Fund's securities are obtained from a third party pricing service. If no quotation is received from a pricing service, attempts will be made to obtain one or more broker quotes for the security. In the event the pricing service does not provide a valuation, broker quotations are not readily available, or the valuations received are deemed unreliable, the Fund's Board of Trustees has designated First Trust Advisors L.P. ("First Trust") to use a fair value method to value the Fund's securities. Additionally, if events occur after the close of the principal markets for certain securities that could materially affect the Fund's NAV, First Trust will use a fair value method to value the Fund's securities. The use of fair value pricing is governed by valuation procedures adopted by the Fund's Board of Trustees, and in accordance with the provisions of the 1940 Act. As a general principle, the fair value of a security is the amount which the Fund might reasonably expect to receive for the security upon its current sale. However, in light of the judgment involved in fair valuations, there can be no assurance that a fair value assigned to a particular security will be the amount which the Fund might be able to receive upon its current sale. Fair valuation of a security will be based on the consideration of all available information, including, but not limited to the following:

- 1) the type of security;
- 2) the size of the holding;
- 3) the initial cost of the security;
- 4) transactions in comparable securities;
- 5) price quotes from dealers and/or pricing services;
- 6) relationships among various securities;

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- 7) information obtained by contacting the issuer, analysts, or the appropriate stock exchange;
- 8) an analysis of the issuer's financial statements; and
- 9) the existence of merger proposals or tender offers that might affect the value of the security.

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

- o Level 1 - Level 1 inputs are quoted prices in active markets for identical investments. An active market is a market in which transactions for the investment occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- o Level 2 - Level 2 inputs are observable inputs, either directly or indirectly, and include the following:
  - o Quoted prices for similar investments in active markets.

### NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS - (CONTINUED)

#### FIRST TRUST ENHANCED EQUITY INCOME FUND SEPTEMBER 30, 2012 (UNAUDITED)

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

The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments. A summary of the inputs used to value the Fund's investments as of September 30, 2012, is included with the Fund's Portfolio of Investments.

#### B. OPTION CONTRACTS:

The Fund is subject to equity price risk in the normal course of pursuing its

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investment objective and may write (sell) options to hedge against changes in the value of equities. Also, the Fund seeks to generate additional income, in the form of premiums received, from writing (selling) the options. The Fund may write (sell) covered call options ("options") on all or a portion of the equity securities held in the Fund's portfolio and on securities indices as determined to be appropriate by Chartwell Investment Partners, L.P. ("Chartwell" or the "Sub-Advisor"), consistent with the Fund's investment objective. The number of options the 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 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. Options are marked-to-market daily and their value will be affected by changes in the value and dividend rates of the underlying equity securities, changes in interest rates, changes in the actual or perceived volatility of the securities markets and the underlying equity securities and the remaining time to the options' expiration. The value of options may also be adversely affected if the market for the options becomes less liquid or trading volume diminishes.

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

The options that the Fund writes (sells) give the option holder the right, but not the obligation, to purchase a security from the Fund at the strike price on or prior to the option's expiration date. The ability to successfully implement the writing (selling) of covered call options depends on the ability of the Sub-Advisor 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 foregoes, 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 strike price of the option, but has retained the risk of loss should the price of the underlying security decline. The writer (seller) of an option has no control over the time when it may be required to fulfill its obligation as a writer (seller) of the option. 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.

Over-the-counter options have the risk of the potential inability of counterparties to meet the terms of their contracts. The Fund's maximum equity price risk for purchased options is limited to the premium initially paid. In

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addition, certain risks may arise upon entering into option contracts including the risk that an illiquid secondary market will limit the Fund's ability to close out an option contract prior to the expiration date and that a change in the value of the option contract may not correlate exactly with changes in the value of the securities hedged.

### NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS - (CONTINUED)

#### FIRST TRUST ENHANCED EQUITY INCOME FUND SEPTEMBER 30, 2012 (UNAUDITED)

#### 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.

The Fund may hold publicly-traded MLPs and real estate investment trusts ("REITs"). Distributions from such investments may include a return of capital component from the MLP or REIT to the extent of the cost basis of such MLP or REIT investments.

Securities purchased on a when-issued, delayed-delivery or forward purchase commitment basis may have extended settlement periods. The value of the security so purchased is subject to market fluctuations during this period. The Fund maintains liquid assets with a current value at least equal to the amount of its when-issued, delayed-delivery or forward purchase commitments until payment is made. At September 30, 2012, the Fund had when-issued, delayed-delivery or forward purchase commitments with a cost of \$5,051,948 and a value of \$4,911,500.

#### 2. OPTION ACTIVITY

Written option activity for the Fund for the period ended September 30, 2012 was as follows:

WRITTEN OPTIONS	NUMBER OF CONTRACTS	PREMIUMS
Options outstanding at December 31, 2011...	9,150	\$ 1,132,711
Options written.....	210,227	17,849,235
Options expired.....	(82,680)	(5,187,159)
Options exercised.....	(6,417)	(471,727)
Options closed.....	(111,670)	(12,404,447)
	-----	-----
Options outstanding at September 30, 2012..	18,610	\$ 918,613
	=====	=====

#### ITEM 2. CONTROLS AND PROCEDURES.

- (a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the

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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  
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By (Signature and Title)\* /s/ Mark R. Bradley  
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Mark R. Bradley, President and Chief Executive Officer  
(principal executive officer)

Date November 19, 2012  
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Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)\* /s/ Mark R. Bradley  
-----  
Mark R. Bradley, President and Chief Executive Officer  
(principal executive officer)

Date November 19, 2012  
-----

By (Signature and Title)\* /s/ James M. Dykas  
-----  
James M. Dykas, Treasurer, Chief Financial Officer and  
Chief Accounting Officer  
(principal financial officer)

Date November 19, 2012  
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\* Print the name and title of each signing officer under his or her signature.