FIRST TRUST HIGH INCOME LONG/SHORT FUND
Form N-CSR
January 04, 2019

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 811-22442

First Trust High Income Long/Short Fund
(Exact name of registrant as specified in charter)

120 East Liberty Drive, Suite 400
Wheaton, IL 60187
(Address of principal executive offices) (Zip code)

W. Scott Jardine, Esq.
First Trust Portfolios L.P.
120 East Liberty Drive, Suite 400
Wheaton, IL 60187
(Name and address of agent for service)

registrant's telephone number, including area code:N30-765-8000

Date of fiscal year end: October 31

Date of reporting period: October 31, 2018

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. § 3507.

Item 1. Reports to Stockholders.

The Report to Shareholders is attached herewith.

First Trust
High Income Long/Short Fund (FSD)
Annual Report
For the Year Ended
October 31, 2018

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First Trust High Income Long/Short Fund (FSD)
Annual Report
October 31, 2018

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 MacKay Shields LLC (“MacKay” 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 High Income Long/Short 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 Sub-Advisor and their respective representatives only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to 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 objectives. 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 by investing in the Fund. See "Risk Considerations" in the Additional Information section of this report for a discussion of certain 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 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.

The Advisor may also periodically provide additional information on Fund performance on the Fund's web page at www.ftportfolios.com.

How to Read This Report

This report contains information that may help you evaluate your investment in the Fund. 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 a relevant market benchmark.

It is important to keep in mind that the opinions expressed by personnel of First Trust and MacKay 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 material risks of investing in the Fund are spelled out in the prospectus, the statement of additional information, this report and other Fund regulatory filings.

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Shareholder Letter

First Trust High Income Long/Short Fund (FSD)

Annual Letter from the Chairman and CEO

October 31, 2018

Dear Shareholders,

First Trust is pleased to provide you with the annual report for the First Trust High Income Long/Short Fund (the “Fund”), which contains detailed information about the Fund for the twelve months ended October 31, 2018, including a market overview and a performance analysis. We encourage you to read this report carefully and discuss it with your financial advisor.

As I mentioned in my April 2018 letter, 2017 was a very strong year for U.S. and global markets. Investors were rewarded with rising markets and very little volatility. As 2018 began, investors were hoping for another strong year in the markets. For the entire first quarter, however, increased market volatility was the norm for U.S. and global markets. The markets continued their volatility throughout the second quarter. During April and May, the Dow Jones Industrial Average (“DJIA”) closed out each month slightly down, but ended both June and July slightly up. August was a strong month for stocks, and the DJIA finished August just under its previous high in January of 2018. At the close of the third quarter in September, the markets had moved higher into positive territory. In fact, all three major U.S. indices (the Nasdaq Composite Index, the DJIA and the S& P 500® Index) hit record levels during the third quarter. In October, markets were again very volatile, surprising analysts and investors alike. Both global and U.S. markets fell on fears of slowing growth, trade wars and higher interest rates. The DJIA was down 5% for October and the MSCI EAFE Index, an index of stocks in 21 developed markets (excluding the U.S. and Canada), was down 9% for the same period.

Based on continued strong job growth and the economic outlook in the U.S., the Federal Reserve (the “Fed”) raised interest rates in March, June and September. At their September meeting, the Fed also indicated the possibility of one more rate hike in 2018 as well as three more rate hikes in 2019.

Trade tensions have had an impact on markets around the world and could continue to do so in the future. However, our economists believe that the long-term impact of U.S. tariffs will be to encourage countries to come back to the table and talk about more equal trade. Despite market volatility, we continue to believe that the combination of low interest rates, low inflation and strong corporate earnings still point to a positive economic environment and further growth, though we understand that past performance can never guarantee future performance.

We continue to believe that you should invest for the long term and be prepared for market movements, which can happen at any time. You can do this by keeping current on your portfolio and by speaking regularly with your investment professional. Markets go up and they also go down, but savvy investors are prepared for either through careful attention to investment goals.

Thank you for giving First Trust the opportunity to be a part of your financial plan. We value our relationship with you and will report on the Fund again in six months.

Sincerely,

James A. Bowen

Chairman of the Board of Trustees

Chief Executive Officer of First Trust Advisors L.P.

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First Trust High Income Long/Short Fund (FSD)
"AT A GLANCE"
As of October 31, 2018 (Unaudited)

Fund Statistics	
Symbol on New York Stock Exchange	FSD
Common Share Price	$13.91
Common Share Net Asset Value ("NAV")	$16.57
Premium (Discount) to NAV	(16.05)%
Net Assets Applicable to Common Shares	$578,360,175
Current Monthly Distribution per Common Share[1]	$0.1050
Current Annualized Distribution per Common Share	$1.2600
Current Distribution Rate on Common Share Price[2]	9.06%
Current Distribution Rate on NAV[2]	7.60%

Common Share Price & NAV (weekly closing price)

Performance			
		Average Annual Total Return	
	1 Year Ended 10/31/18	5 Years Ended 10/31/18	Inception (9/27/10) to 10/31/18
Fund Performance[3]			
NAV	-0.82%	4.69%	6.45%
Market Value	-10.24%	3.30%	3.58%
Index Performance			
ICE BofAML US High Yield Constrained Index	0.86%	4.69%	6.55%

(1) Most recent distribution paid or declared through 10/31/2018. Subject to change in the future.

(2) Distribution rates are calculated by annualizing the most recent distribution paid or declared through the report date and then dividing by Common Share Price or NAV, as applicable, as of 10/31/2018. Subject to change in the future.

(3) Total return is based on the combination of reinvested dividend, capital gain, and return of capital distributions, if any, at prices obtained by the Dividend Reinvestment Plan and changes in NAV per share for NAV returns and changes in Common Share Price for market value returns. Total returns do not reflect sales load and are not annualized for periods of less than one year. Past performance is not indicative of future results.

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First Trust High Income Long/Short Fund (FSD)
"AT A GLANCE" (Continued)
As of October 31, 2018 (Unaudited)

Asset Classification	%of Long-Term Investments (4)
Corporate Bonds and Notes	73.0%
Foreign Corporate Bonds and Notes	20.3
Capital Preferred Securities	4.7
Senior Floating-Rate Loan Interests	1.2
Mortgage-Backed Securities	0.6
Asset-Backed Securities	0.1
Equity	0.1
Total	100.0%

Industry Classification	% of Long-Term Investments(4)
Basic Industry	12.1%
Energy	10.5
Telecommunications	10.0
Services	8.9
Healthcare	8.5
Capital Goods	8.4
Leisure	7.0
Consumer Goods	6.7
Media	6.1
Technology & Electronics	5.0
Banking	3.9
Automotive	3.0
Retail	2.3
Insurance	1.9
Financial Services	1.9
Transportation	1.7
Utility	1.3
Commercial Mortgage-Backed Securities	0.5
Collateralized Mortgage Obligations	0.1
Real Estate	0.1
Asset-Backed Securities	0.1
Total	100.0%

Country Exposure	% of Long-Term Investments(4)
United States	79.6%
Canada	5.8
Netherlands	3.0
Luxembourg	2.2
United Kingdom	2.0
Cayman Islands	1.5

Ireland	1.2
Bermuda	0.9
Multinational	0.7
France	0.7
Liberia	0.5
Australia	0.4
Finland	0.4
Austria	0.4
Denmark	0.3
Mexico	0.2
Jersey	0.2
Total	100.0%

Credit Quality [5]	% of Total Fixed-Income Investments[4]
BBB- and above	11.3%
BB	54.4
B	28.6
CCC+	5.7
Total	100.0%

(4) Percentages are based on long positions only. Short positions are excluded.

(5) The credit quality and ratings information presented above reflect the ratings assigned by one or more nationally recognized statistical rating organizations (NRSROs), including Standard & Poor's Ratings Group, a division of the McGraw Hill Companies, Inc., Moody's Investors Service, Inc., Fitch Ratings or a comparably rated NRSRO. For situations in which a security is rated by more than one NRSRO and the ratings are not equivalent, the highest rating is used. Sub-investment grade ratings are those rated BB+/Ba1 or lower. Investment grade ratings are those rated BBB-/Baa3 or higher. The credit ratings shown relate to the creditworthiness of the issuers of the underlying securities in the Fund, and not to the Fund or its shares. Credit ratings are subject to change.

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Portfolio Commentary
First Trust High Income Long/Short Fund (FSD)
Annual Report
October 31, 2018 (Unaudited)

Advisor

First Trust Advisors L.P. (“First Trust” or the “Advisor”) is the investment advisor to the First Trust High Income Long/Short Fund (the “Fund”). 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.

Sub-Advisor

MacKay Shields LLC is a registered investment advisor founded in 1938, and is Sub-Advisor to the Fund. The Fund trades under the ticker symbol FSD on the New York Stock Exchange. As of October 31, 2018, MacKay had approximately $111.8 billion in assets under management.

Portfolio Management Team

Dan Roberts, PhD – Executive Managing Director, Head of Global Fixed Income Division and Chief Investment Officer
Louis N. Cohen, CFA – Senior Managing Director, Global Fixed Income Division
Joseph Cantwell – Managing Director, Global Fixed Income Division
Matthew Jacob – Managing Director, Global Fixed Income Division
Shu-Yang Tan, CFA – Managing Director, Global Fixed Income Division

Market Recap

This report covers the Fund for the 12-month period ending October 31, 2018.

Reflecting on the last quarter of 2017, U.S. stocks and corporate bonds closed the year benefitting from investors’ optimism about the Republican tax plan, an increase in oil prices, and an overall positive economic backdrop.

The Federal Open Market Committee (“FOMC”) raised its target Fed Funds interest rate as expected in December and announced the doubling of its balance sheet reduction program starting in January 2018. Tapering initially began in October 2017 with the reduction of U.S. Treasury holdings by $6 billion per month and agency mortgage-backed securities by $4 billion per month. Early 2018 also marked a shift in the Federal Reserve (the “Fed”) leadership with Jerome Powell succeeding previous chairperson, Janet Yellen. In 2018, the Fed raised its target Fed Funds interest rate three times by a total of 75 basis points (“bps”) to between 2.00 – 2.25%. At the FOMC’s September 2018 meeting, the committee removed language in its statement that referenced accommodative policy, but cited strong labor conditions, sustained economic expansion, and stable inflation measures near the Fed’s 2% target as reasons for supporting further gradual rate hikes. The next scheduled meeting is set for December 2018.

Trump’s imposed tariffs on $50 billion of Chinese imports earlier in the year was not well-received by global markets nor China, which retaliated with a variety of potential trade sanctions against U.S. exports primarily produced in states that supported Trump in the election. Trade war rhetoric has intensified with 10% tariffs on an additional $200 billion of Chinese exports, with a threat to further impose tariffs on practically all remaining Chinese imports. Meanwhile, negotiations among the U.S., Mexico and Canadian governments have produced the United States-Mexico-Canada Agreement (“USMCA”), a new trade agreement among the three North American countries, which will replace the North American Free Trade Agreement (“NAFTA”) if passed by all three governments.

Greater attention by investors is being paid to the mid-term elections[1]. We believe recent attacks by President Trump against the Fed can be construed as political rhetoric ahead of the elections rather than dogma. The consensus view is that the Democratic party will win the House of Representatives but not secure the Senate. In such a scenario, we believe gridlock will increase and any additional tax reform will likely fail. Credit spreads should remain firm in this scenario.

Indicators continue to signal that the U.S. economy is in good health. Gross domestic product (“GDP”) growth increased to 3.5% in the third quarter of 2018, according to estimates released by the Bureau of Economic Analysis in late October, from 2.3% at the end of 2017. The jobs picture continues to improve; the unemployment rate declined from 4.1% to 3.7% year to date through October. The U.S. dollar strengthened against most currencies, in particular the Euro and the British Sterling.

U.S. interest rates rose and the yield curve flattened over the last year. The 2-year Treasury rose 128 bps to 2.87% while the benchmark 10-year rate rose 79 bps to 3.16% (source: Bloomberg).

Commodity prices pushed higher led by strength in crude oil. Over the last year, oil prices gained over 30%.

In the recent months, the European Central Bank ("ECB") announced that it would remain committed to ending its bond purchases by year-end although the ECB was more reticent towards raising the target interest rate. The ECB's divergent policies from the Fed appear to be leading to less synchronized global growth than previously experienced.

[1] The elections are now behind us and the results were as expected.

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Portfolio Commentary (Continued)
First Trust High Income Long/Short Fund (FSD)
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Emerging markets debt sold off during the year resulting from idiosyncratic risks emanating from Argentina, Turkey and Brazil. Emerging markets are also vulnerable to a stronger U.S. dollar given that many tend to borrow in USD. Economic growth in China is slowing as government spending slows and policy makers look to crackdown on shadow banking and other speculative forms of debt financing. Although real GDP growth is still a healthy 6.5%, it is at its lowest level in years. Meanwhile, trade wars between China and the U.S. could exacerbate the decline.

Performance Analysis

The U.S. high yield market returned 0.86% for the 12-month period ended October 31, 2018 (as measured by the ICE BofAML US High Yield Index), outperforming several other fixed income asset classes. U.S. high-yield ("HY") bond market spreads widened overall by 30 bps from 351 to 381 bps over Treasuries over the year. The lowest quality segment of the market rallied for the last year, driven by a search for yield; CCC-rated bonds gained 4.56% and U.S. HY distressed issues returned 3.31%, whereas higher quality BB's declined by 0.82% and single-B rated bonds returned 1.66%.

In our opinion, the rally in the lower quality part of the market has been driven by investors seeking returns in industries and credits that are subject to high levels of business and technological disruption such as telecom (wirelines and satellites), energy, hospitals and retail. Healthcare, transportation, and energy were the top performing sectors for the year, while other sectors that continue to face headwinds, banking and automotive specifically, underperformed. The worst performing sector for the period was automotive as investors believe that the production cycle has already passed its peak and growth in new production is expected to slow. Additionally, bonds issued by American Tire Distributors, Inc., an automotive tire distributor, lost approximately 75% of their value as Bridgestone Corporation decided to exit a supply agreement with the company. The banking sector experienced weakness during the period; bonds issued by foreign banks were under pressure in part due to political developments in Europe.

The Fund underperformed its benchmark, the ICE BofAML US High Yield Constrained Index (the "benchmark"), for the 12-month period ended October 31, 2018, with a return of -10.24% on a share price basis and -0.82% on a net asset value ("NAV") basis, compared with the benchmark, which returned 0.86% for the period. The Fund's underperformance is primarily attributed to the underweight to the lower quality segment of the market as well as those sectors experiencing high levels of disruption, which outperformed during the period; this includes the Fund's underweight positioning within energy, a telecommunications subsector, and a healthcare subsector. Note that these are the same underweights that generally benefitted the Fund in 2017. Additionally, the Fund's overweight to high quality issuers, such as services, and basic industry subsectors, detracted from results as higher quality bonds underperformed. Alternatively, avoiding uncompensated risks in the automotive (American Tire Distributors, Inc.) and the banking (foreign banks) sectors benefitted the portfolio. Positioning in pharmaceuticals with an overweight in Bausch Health Companies, Inc. was also a positive contributor for the year. As we previously shared, given that high yield spreads are near their tightest for this current economic cycle, we have reduced credit and idiosyncratic risks in the Fund as spread compensation, in many cases, is inadequate. Although the credit fundamentals of the non-investment grade market are broadly sound, we are concerned that low return on capital, an uptick in leverage, and rapid technological changes have led to an increase in idiosyncratic risk.

We maintained a short position in U.S. Treasury bonds within the Fund, expressed in the belly of the curve, and used the short to reduce the portfolio's exposure to interest rate risk, while at the same time purchasing additional high yield securities to lever up the portfolio. The Fund benefited from its additional long exposure to high yield bonds, offset slightly by the borrowing costs involved, as the high yield market experienced a positive return during the period. U.S. Treasury yields increased during the year; as a result, the short U.S. Treasury position added to performance.

Finally, as you may be aware, on June 25, 2018, another closed-end fund, the First Trust Strategic High Income Fund II ("FHY"), merged into the Fund. The merger was completed successfully, with no material repositioning required within the Fund.

Outlook

Although U.S. economic growth slowed in the most recent quarter, output continues to be very healthy relative to most other markets, in our opinion. The Fed appears committed to normalizing policy rates with some wind in its sails. We continue to monitor risks in the system by way of elevated leverage in both the public and private markets. Since the Great Recession, we have observed a re-leveraging process unfold among high quality issuers while consumers generally de-levered[2]. A sustained period of ultra-low interest rates contributed to significant growth in debt capital. More recently, loose fiscal policy has provided additional fuel to an environment already flush with liquidity. Consequently, we believe compensation to investors is very limited, and thus the margin for error at this stage in the cycle is quite low.

As investors, we believe corporate fundamentals and central bank policies should be the dominant drivers of market sentiment over the near-term. While we do not foresee a recession on the immediate horizon, we are mindful of the aforementioned risk factors at play.

[2] Based on the Federal Reserve's U.S. consumer financial obligation ratio, a measure of the household debt payments relative to total disposable income.

Importantly, we continue to reaffirm our less aggressive targeted risk profile across portfolio styles. We believe downside protection will continue to be paramount in the current environment.

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First Trust High Income Long/Short Fund (FSD)
Portfolio of Investments
October 31, 2018

Principal Value	Description	Stated Coupon	Stated Maturity	Value
CORPORATE BONDS AND NOTES – 92.7%				
	Automotive – 2.6%			
$287,000	American Axle & Manufacturing, Inc.	6.63%	10/15/22	$291,664
4,025,000	Dana, Inc. (a)	5.50%	12/15/24	3,898,212
2,080,000	Gates Global LLC/Gates Global Co. (b)	6.00%	07/15/22	2,074,800
1,175,000	Goodyear Tire & Rubber (The) Co.	5.13%	11/15/23	1,155,613
1,275,000	Goodyear Tire & Rubber (The) Co.	5.00%	05/31/26	1,165,031
2,125,000	Goodyear Tire & Rubber (The) Co. (a)	4.88%	03/15/27	1,901,875
2,599,000	Navistar International Corp. (b)	6.63%	11/01/25	2,663,975
1,970,000	Tenneco, Inc. (a)	5.00%		