

Vertex Enhanced Income Fund

Financial Statements
December 31, 2010

March 31, 2011

Independent Auditor's Report

**To the Unitholders of
Vertex Enhanced Income Fund (the Fund)**

We have audited the accompanying financial statements of the Fund, which comprise the statement of investments as at December 31, 2010, the statements of net assets as at December 31, 2010 and 2009 and the statements of operations and changes in net assets for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2010 and 2009 and the results of its operations and the changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Vertex Enhanced Income Fund

Statements of Net Assets

As at December 31

	2010	2009
Assets		
Investments at fair value (cost - \$70,274,940; 2009 - \$12,106,725)	\$ 72,453,943	\$ 12,590,114
Cash and cash equivalents	249,127	3,414,392
Unrealized gain on forward contracts	955,235	52,438
Due from manager	-	29,482
Accrued interest and dividends receivable	673,024	84,258
Subscriptions receivable	740,599	675,638
	<u>75,071,928</u>	<u>16,846,322</u>
Liabilities		
Accrued performance fees (Note 5b)	-	53,152
Unrealized loss on options	100,962	40,426
Unrealized loss on forward contracts	-	1,132
Distributions payable	23,467	9,903
Accounts payable and accrued liabilities	49,064	29,482
Due to broker	400,000	680,621
Redemptions payable	733,731	-
	<u>1,307,224</u>	<u>814,716</u>
Net assets representing unitholders' equity	<u>\$ 73,764,704</u>	<u>\$ 16,031,606</u>
Net assets representing unitholders' equity per Class		
Class B	\$ 44,360,093	\$ 10,294,565
Class F	\$ 29,404,611	\$ 5,737,041
Net assets per unit (Note 2)		
Class B	\$ 11.45	\$ 10.55
Class F	<u>\$ 11.47</u>	<u>\$ 10.59</u>

Approved by the Fund Manager

"Signed"

Matthew A. Wood

Director

"Signed"

Jeffrey McCord

Director

(See accompanying notes to the financial statements.)

Vertex Enhanced Income Fund

Statements of Operations

For the period ended December 31, 2010 and period from September 21, 2009 (commencement of operations) to December 31, 2009

	2010	2009
Investment income		
Dividends (net of withholding tax: \$88,982 ; 2009: \$nil)	\$ 964,950	\$ 16,507
Interest	2,542,467	61,347
Other	16,092	-
	<u>3,523,509</u>	<u>77,854</u>
Expenses (Note 5)		
Performance fees (Note 5b)	647,304	53,152
Management fees	666,522	10,211
Securityholder reporting costs	164,774	22,939
Other administrative expenses	19,167	3,195
Custody fees	15,887	3,348
Audit fees	25,500	10,500
Legal fees	18,184	-
IRC fees	19,000	9,045
	<u>1,576,338</u>	<u>112,390</u>
Net investment income (loss) before absorbed expenses	1,947,171	(34,536)
Expenses absorbed by manager (Note 5)	121,734	59,238
Net investment income	2,068,905	24,702
Realized and unrealized gain (loss) on investments		
Realized gain (loss) on sale of investments	2,819,069	(21,418)
Transaction costs (Note 2)	(62,576)	(8,341)
Change in unrealized appreciation in value of investments	2,631,516	533,020
Change in unrealized depreciation in value of foreign currency	(2,393)	(975)
Net realized and unrealized gain on investments	5,385,616	502,286
Increase in net assets from operations	7,454,521	526,988
Increase in net assets from operations per Class		
Class B	\$ 4,430,676	\$ 286,598
Class F	\$ 3,023,845	\$ 240,390
Increase in net assets from operations per unit (Note 4)*		
Class B	\$ 1.60	\$ 0.95
Class F	\$ 1.78	\$ 0.83

* Based on the weighted average number of units outstanding during the period

(See accompanying notes to the financial statements.)

Vertex Enhanced Income Fund

Statements of Changes in Net Assets

For the period ended December 31, 2010 and period from September 21, 2009 (commencement of operations) to December 31, 2009

	Class B		Class F	
	2010	2009	2010	2009
Net assets, beginning of period	\$ 10,294,565	\$ -	\$ 5,737,041	\$ -
Increase in net assets from operations	4,430,676	286,598	3,023,845	240,390
Capital transactions (Note 4)				
Proceeds from issuance of units	33,745,648	10,014,561	24,275,033	5,499,960
Redemption of units	(3,744,024)	-	(3,172,358)	-
Reinvestment of distributions	2,265,942	32,265	1,471,191	18,421
	32,267,566	10,046,826	22,573,866	5,518,381
Distributions to unitholders				
From net investment income	(995,829)	(38,859)	(846,002)	(21,730)
From net realized gains	(1,636,885)	-	(1,084,139)	-
	(2,632,714)	(38,859)	(1,930,141)	(21,730)
Net assets, end of period	\$ 44,360,093	\$ 10,294,565	\$ 29,404,611	\$ 5,737,041
	Total			
	2010	2009		
Net assets, beginning of period	\$ 16,031,606	\$ -		
Increase in net assets from operations	7,454,521	526,988		
Capital transactions (Note 4)				
Proceeds from issuance of units	58,020,681	15,514,521		
Redemption of units	(6,916,382)	-		
Reinvestment of distributions	3,737,133	50,686		
	54,841,432	15,565,207		
Distributions to unitholders				
From net investment income	(1,841,831)	(60,589)		
From net realized gains	(2,721,024)	-		
	(4,562,855)	(60,589)		
Net assets, end of period	\$ 73,764,704	\$ 16,031,606		

(See accompanying notes to the financial statements.)

Vertex Enhanced Income Fund

Statement of Investments

As at December 31, 2010

Number of Shares/ Par Value	Description	Coupon Rate %	Maturity Date	Average Cost \$	Fair Value \$	% of Total
LONG						
BONDS						
Corporate Bonds						
1,045,500	Ainsworth Lumber Co., Ltd.	11.000%	29-Jul-15	900,643	976,530	
500,000	Anderson Energy Ltd.	7.500%	31-Jan-16	500,000	520,000	
400,000	APO Energy Inc.*	12.000%	30-Sep-13	406,541	397,460	
250,000	Call Genie Inc.*	12.000%	31-Oct-12	250,000	213,325	
300,000	CanWel Building Materials Group Ltd.	5.850%	30-Apr-17	285,000	295,500	
100,000	CCS Inc.	11.000%	15-Nov-15	93,129	91,416	
1,500,000	Chorus Aviation Inc.	9.500%	31-Dec-14	1,646,622	1,657,500	
900,000	Clearwater Seafoods Income Fund	7.250%	31-Mar-14	668,125	767,340	
1,000,000	Consolidated Thompson Iron Mines Ltd.	5.000%	30-Nov-17	1,055,848	1,137,730	
1,404,000	Fibretek Inc.	7.000%	31-Dec-11	1,148,409	1,405,404	
526,000	First Uranium Corp.	4.250%	30-Jun-12	372,743	415,540	
375,000	MEGA Brands Inc.	10.000%	31-Mar-15	375,000	393,101	
1,850,000	Millar Western Forest Products Ltd.	7.750%	15-Nov-13	1,718,096	1,741,745	
100,000	NAL Oil & Gas Trust	6.250%	31-Dec-14	100,000	105,020	
600,000	National Money Mart Co.	10.375%	15-Dec-16	634,963	643,886	
900,000	Paramount Resources Ltd.	8.250%	13-Dec-17	901,750	913,500	
200,000	Parkland Income Fund	6.500%	30-Nov-14	200,000	208,000	
525,000	Pembina Pipeline Corp.	5.750%	30-Nov-20	525,000	531,563	
150,000	Sable Resources Ltd.*	8.000%	1-Nov-12	150,000	150,000	
400,000	Sino-Forest Corp.	4.250%	15-Dec-16	432,521	517,692	
240,000	Sterling Shoes Inc.	6.500%	31-Oct-12	165,420	194,640	
957,000	Zarlink Semiconductor Inc.	6.000%	30-Sep-12	947,131	995,280	
	Total Corporate Bonds			13,476,941	14,272,172	19.47
Foreign Bonds						
United States of America						
1,400,000	American Casino & Entertainment Properties LLC	11.000%	15-Jun-14	1,371,879	1,411,977	
1,100,000	Appleton Papers Inc.	10.500%	15-Jun-15	1,111,903	1,082,085	
900,000	ATP Oil & Gas Corp.	11.875%	1-May-15	677,431	845,100	
200,000	Berry Plastics Corp.	9.750%	15-Jan-21	200,971	196,743	
1,500,000	Central European Media Enterprises Ltd.	3.500%	15-Mar-13	1,308,389	1,322,797	
500,000	CIT Group Inc.	7.000%	1-May-16	474,306	498,688	
1,000,000	Dynege Holdings Inc.	7.500%	1-Jun-15	857,894	750,206	
72,000	Eastman Kodak Co.	7.250%	15-Nov-13	64,223	70,291	
1,000,000	Eastman Kodak Co.	9.750%	1-Mar-18	1,039,773	1,013,524	
949,500	Fibertower Corp.	9.000%	15-Nov-12	1,079,703	1,069,660	
500,000	FirstService Corp.	6.500%	31-Dec-14	526,177	618,547	
100,000	Great-West Life & Annuity Insurance Co.	7.153%	16-May-46	93,595	99,365	
1,000,000	ING Capital Funding Trust III	3.903%	29-Dec-49	934,759	916,643	
1,363,579	Interactive Network Inc/FriendFinder Networks Inc.	14.000%	30-Sep-13	1,463,717	1,402,343	
1,850,000	iPayment Inc.	9.750%	15-May-14	1,740,750	1,727,958	
1,410,000	Jack Cooper Holdings Corp.*	12.750%	15-Dec-15	1,467,772	1,394,042	
25,000	Level 3 Communications Inc.	5.250%	15-Dec-11	23,524	24,779	
1,375,000	Level 3 Financing Inc.	10.000%	1-Feb-18	1,390,912	1,311,619	
400,000	Liberty Mutual Group Inc.	7.000%	15-Mar-37	356,967	357,023	
1,400,000	MGM Resorts International	6.750%	1-Sep-12	1,360,996	1,384,155	
250,000	Northgroup Preferred Capital Corp.	6.378%	29-Jan-49	230,953	229,069	
100,000	Patriot Coal Corp.	3.250%	31-May-13	85,970	93,776	
400,000	Pulte Group Inc.	7.875%	15-Jun-32	372,226	355,727	
1,900,000	Regions Financial Corp.	7.000%	1-Mar-11	1,927,547	1,891,712	
1,900,000	SanDisk Corp.	1.000%	15-May-13	1,810,244	1,817,138	
200,000	SLM Corp.	8.450%	15-Jun-18	198,995	206,552	
950,000	Stone Energy Corp.	6.750%	15-Dec-14	866,502	920,369	

(See accompanying notes to the financial statements.)

Vertex Enhanced Income Fund

Statement of Investments

As at December 31, 2010

Number of Shares/ Par Value	Description	Coupon Rate %	Maturity Date	Average Cost \$	Fair Value \$	% of Total
2,750,000	Synovus Financial Corp.	4.875%	15-Feb-13	2,412,892	2,477,784	
100,000	The Manitowoc Co., Inc.	7.125%	1-Nov-13	96,217	100,235	
900,000	The Manitowoc Co., Inc.	9.500%	15-Feb-18	957,967	979,243	
1,900,000	Wachovia Capital Trust III	5.800%	31-Dec-49	1,614,224	1,637,785	
1,400,000	XL Group PLC	6.500%	15-Mar-49	1,150,405	1,196,355	
1,000,000	Zions Bancorporation	6.000%	15-Sep-15	903,571	978,388	
	Total Foreign Bonds			<u>30,173,354</u>	<u>30,381,678</u>	<u>41.44</u>
	TOTAL BONDS			<u>43,650,295</u>	<u>44,653,850</u>	<u>60.91</u>
STOCKS						
ENERGY						
4,500	ATP Oil & Gas Corp.			331,683	402,987	
76,087	Avenir Diversified Income Trust			470,067	467,935	
21,000	Canadian Oil Sands Trust			605,915	555,450	
400,000	Estrella International Energy Services Ltd. Subscription Receipts *			400,000	400,000	
35,204	Fort Chicago Energy Partners LP, Class A			394,346	418,224	
38,200	Seadrill Ltd.			1,228,867	1,287,517	
	TOTAL ENERGY			<u>3,430,878</u>	<u>3,532,113</u>	<u>4.83</u>
MATERIALS						
14,800	AngloGold Ashanti Ltd., PFD			808,416	811,773	
3,500	Canfor Pulp Income Fund			34,670	50,225	
30,300	Chemtrade Logistics Income Fund			356,394	458,136	
	TOTAL MATERIALS			<u>1,199,480</u>	<u>1,320,134</u>	<u>1.80</u>
INDUSTRIALS						
Capital Goods						
51,700	Canwel Building Materials Group Ltd.			196,558	249,194	
44,400	New Flyer Industries Inc.			487,375	501,720	
	Total Capital Goods			<u>683,933</u>	<u>750,914</u>	<u>1.02</u>
Transportation						
45,000	Jazz Air Income Fund			194,900	234,000	
	Total Transportation			<u>194,900</u>	<u>234,000</u>	<u>0.32</u>
	TOTAL INDUSTRIALS			<u>878,833</u>	<u>984,914</u>	<u>1.34</u>
CONSUMER DISCRETIONARY						
Consumer Durables & Apparel						
62,800	Beazer Homes USA Inc., PFD			1,730,159	1,721,027	
300,000	MEGA Brands Inc., Warrants (30Mar15)			-	78,000	
	Total Consumer Durables & Apparel			<u>1,730,159</u>	<u>1,799,027</u>	<u>2.45</u>
Consumer Services						
1,410	Jack Cooper Holdings Corp., Warrants (15Dec17) *			-	6,305	
54,000	Whistler Blackcomb Holdings Inc.			648,000	648,540	
	Total Consumer Services			<u>648,000</u>	<u>654,845</u>	<u>0.89</u>
Media						
120,000	Call Genie Inc., Warrants (31Oct11)			-	5,150	
	Total Media			<u>-</u>	<u>5,150</u>	<u>0.01</u>

(See accompanying notes to the financial statements.)

Vertex Enhanced Income Fund

Statement of Investments

As at December 31, 2010

Number of Shares/ Par Value	Description	Coupon Rate %	Maturity Date	Average Cost \$	Fair Value \$	% of Total
	Retailing					
39,200	Chesswood Income Fund			136,457	243,040	
	Total Retailing			136,457	243,040	0.33
	TOTAL CONSUMER DISCRETIONARY			2,514,616	2,702,062	3.68
	HEALTH CARE					
	Health Care Equipment & Services					
50,000	Leisureworld Senior Care Corp.			500,000	534,500	
	Total Health Care Equipment & Services			500,000	534,500	0.73
	Pharmaceuticals & Biotechnology					
15,000	Bristol-Myers Squibb Co.			407,236	394,678	
5,000	Eli Lilly & Co.			178,674	173,988	
17,700	Merck & Co., Inc.			664,060	633,858	
	Total Pharmaceuticals & Biotechnology			1,249,970	1,202,524	1.64
	TOTAL HEALTH CARE			1,749,970	1,737,024	2.37
	FINANCIALS					
	Banks					
64,442	Banco Santander SA, ADR			642,780	681,309	
23,500	Bank of Montreal			1,454,278	1,349,840	
16,000	Canadian Imperial Bank of Commerce			1,258,685	1,251,680	
3,000	KeyCorp, PFD			266,698	318,962	
25,000	Synovus Financial Corp., PFD			673,948	612,337	
	Total Banks			4,296,389	4,214,128	5.75
	Diversified Financials					
29,700	AGF Management Ltd., Class B			495,396	578,556	
19,000	Citigroup 7.25% 2014 PFD			2,345,400	2,557,209	
33,079	ING Groep NV, PFD			789,956	750,727	
7	Union Planter			475,915	601,655	
	Total Diversified Financials			4,106,667	4,488,147	6.12
	Insurance					
9,000	Aspen Insurance Holdings Ltd., PFD			510,659	486,670	
20,000	Hartford Financial Services Group Inc., PFD			524,141	507,358	
15,000	Manulife Financial Corp.			292,580	256,500	
14,000	Sun Life Financial Inc.			410,243	420,280	
9,000	Western Financial Group Inc., PFD			1,009,035	1,314,180	
36,700	XL Group PLC, PFD			1,065,719	1,127,560	
	Total Insurance			3,812,377	4,112,548	5.61
	Real Estate					
16,600	American Capital Agency Corp.			487,879	474,055	
26,900	Annaly Capital Management Inc.			487,307	478,720	
122,150	Extendicare Real Estate Investment Trust			1,136,616	1,121,337	
2,000	FirstService Corp., 7% PFD			40,176	48,888	
22,000	Homburg Canada Real Estate Investment Trust			233,285	242,880	
6,300	Plum Creek Timber Co., Inc.			234,274	234,437	
9,400	Starwood Property Trust Inc.			191,015	200,630	
	Total Real Estate			2,810,552	2,800,947	3.83
	TOTAL FINANCIALS			15,025,985	15,615,770	21.31

(See accompanying notes to the financial statements.)

Vertex Enhanced Income Fund

Statement of Investments

As at December 31, 2010

Number of Shares/ Par Value	Description	Coupon Rate %	Maturity Date	Average Cost \$	Fair Value \$	% of Total
INFORMATION TECHNOLOGY						
Technology Hardware & Equipment						
375	Lucent Technologies Capital Trust I, PFD			305,061	330,140	
	TOTAL INFORMATION TECHNOLOGY			305,061	330,140	0.45
TELECOMMUNICATION SERVICES						
4,400	BCE Inc.			151,648	155,496	
10,200	TELUS Corp.			479,343	463,896	
	TOTAL TELECOMMUNICATION SERVICES			630,991	619,392	0.84
UTILITIES						
52,800	Capital Power Income LP			878,831	947,760	
400	CPI Preferred Equity Ltd., PFD			10,000	10,784	
	TOTAL UTILITIES			888,831	958,544	1.31
	TOTAL STOCKS			26,624,645	27,800,093	37.93
FORWARD CONTRACTS						
	Sell USD 4,000,000, Buy CAD 4,051,472 @ 1.012868 - February 28, 2011			-	71,868	
	Sell USD 3,850,000, Buy CAD 3,880,157 @ 1.007833 - March 16, 2011			-	48,168	
	Sell USD 3,500,000, Buy CAD 3,594,868 @ 1.027105 - January 27, 2011			-	114,977	
	Sell USD 3,300,000, Buy CAD 3,308,705 @ 1.002638 - February 08, 2011			-	26,945	
	Sell USD 3,100,000, Buy CAD 3,107,868 @ 1.002538 - February 08, 2011			-	25,003	
	Sell USD 3,000,000, Buy CAD 3,049,839 @ 1.016613 - January 13, 2011			-	68,028	
	Sell USD 2,500,000, Buy CAD 2,528,233 @ 1.011293 - February 03, 2011			-	42,274	
	Sell USD 2,500,000, Buy CAD 2,585,050 @ 1.03402 - January 20, 2011			-	99,788	
	Sell USD 2,400,000, Buy CAD 2,410,476 @ 1.004365 - February 07, 2011			-	23,784	
	Sell USD 2,400,000, Buy CAD 2,414,834 @ 1.006181 - February 08, 2011			-	28,086	
	Sell USD 2,000,000, Buy CAD 2,042,504 @ 1.021252 - March 02, 2011			-	52,566	
	Sell USD 2,000,000, Buy CAD 2,024,326 @ 1.012163 - March 14, 2011			-	33,767	
	Sell USD 1,800,000, Buy CAD 1,840,919 @ 1.022733 - January 24, 2011			-	51,390	
	Sell USD 1,800,000, Buy CAD 1,841,063 @ 1.022813 - February 28, 2011			-	50,200	
	Sell USD 1,550,000, Buy CAD 1,559,692 @ 1.006253 - March 17, 2011			-	16,908	
	Sell USD 1,200,000, Buy CAD 1,236,080 @ 1.030067 - January 25, 2011			-	43,025	
	Sell USD 1,000,000, Buy CAD 1,006,290 @ 1.00629 - January 18, 2011			-	12,252	
	Sell USD 950,000, Buy CAD 955,418 @ 1.005703 - January 14, 2011			-	11,164	
	Sell USD 750,000, Buy CAD 775,718 @ 1.03429 - January 20, 2011			-	30,139	
	Sell USD 725,000, Buy CAD 733,245 @ 1.011373 - February 03, 2011			-	12,317	
	Sell USD 620,000, Buy CAD 640,367 @ 1.03285 - January 28, 2011			-	23,912	
	Sell USD 600,000, Buy CAD 611,192 @ 1.018653 - March 23, 2011			-	13,863	
	Sell USD 500,000, Buy CAD 504,815 @ 1.00963 - March 07, 2011			-	7,275	
	Sell USD 500,000, Buy CAD 510,904 @ 1.021808 - February 28, 2011			-	13,443	
	Sell USD 400,000, Buy CAD 403,010 @ 1.007525 - March 14, 2011			-	4,904	
	Sell USD 350,000, Buy CAD 361,969 @ 1.034198 - January 20, 2011			-	14,033	
	Sell USD 300,000, Buy CAD 309,855 @ 1.03285 - January 28, 2011			-	11,570	
	Sell USD 200,000, Buy CAD 202,621 @ 1.013103 - March 10, 2011			-	3,586	
	TOTAL FORWARD CONTRACTS				955,235	1.30
	TOTAL LONG			70,274,940	73,409,178	100.14
	TOTAL SHORT (Schedule 1)			(96,987)	(100,962)	(0.14)
	TOTAL INVESTMENTS			70,177,953	73,308,216	100.00
	Transaction Cost (Note 2)			(35,051)		
	TOTAL INVESTMENTS			70,142,902	73,308,216	100.00

(See accompanying notes to the financial statements.)

Vertex Enhanced Income Fund

Statement of Investments

As at December 31, 2010

Schedule 1

Number of
Shares

Description

Proceed
\$

Fair
Value
\$

% of
Total

SHORT

OPTIONS

Call Options

(297)	AGF Management, Apr/19	(16,335)	(38,609)	
(640)	Banco Santander, Jan/12	(19,307)	(3,180)	
(44)	BCE Inc., Jan/36	(968)	(924)	
(150)	Bristol Myers, Mar/27	(7,750)	(8,793)	
(160)	Canadian Imperial Bank of Commerce, Jan/80	(9,928)	(7,360)	
(210)	Canadian Oil Sands Trust, Jan/29	(4,200)	(3,150)	
(73)	Manulife Financial, Jan/17	(5,037)	(4,015)	
(77)	Manulife Financial, Jan/18	(2,156)	(1,386)	
(177)	Merck & Co., Jan/37	(4,397)	(4,397)	
(63)	Plum Creek Timber, Jan/38	(3,762)	(2,698)	
(382)	Seadrill Ltd., Jan/35	(11,386)	(17,080)	
(140)	Sun Life Financial, Jan/30	(6,300)	(7,840)	
(102)	Telus Corp., Jan/48	(5,461)	(1,530)	
	Total Call Options	(96,987)	(100,962)	(0.14)
	TOTAL OPTIONS	(96,987)	(100,962)	(0.14)
	TOTAL SHORT	(96,987)	(100,962)	(0.14)

Vertex Enhanced Income Fund

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1. Establishment of trust

The Vertex Enhanced Income Fund (the "Fund") was created on September 14, 2009 under the laws of British Columbia. Vertex One Asset Management Inc. is the Investment Manager and RBC Dexia Investor Services Trust is the Trustee and Custodian of the Fund. The Fund commenced operations on September 21, 2009. The Fund currently offers an unlimited number of Class B and Class F Units.

The investment objective of the Fund is to provide preservation of capital while providing high income by investing primarily in Canadian and United States bonds and debentures. The Vertex Enhanced Income Fund's secondary objective is to provide capital growth.

2. Significant accounting policies

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual amounts could differ from those estimates.

Valuation of investments

The valuation methods adopted pursuant to Canadian Institute of Chartered Accountants (CICA) Financial Instruments – Recognition and Measurement (Section 3855), which are discussed below, differ from methods used by the Fund in striking its net asset value (NAV) used in the processing of unitholder transactions during the year. The NAV continues to be computed using the Fund's previous valuation policies for actively traded securities, which are that listed securities are valued at the last reported sales price on the principal exchange on which the security trades.

As at December 31, 2010, the Fund's net asset value per unit was:

As at December 31	Net Assets Per Unit		Net Asset Value Per Unit	
	2010	2009	2010	2009
Class B	11.45	10.55	11.50	10.59
Class F	11.47	10.59	11.52	10.64

The difference between the net asset value per unit and the net assets per unit reported in the Statement of Net Assets results from the use of different valuation methodologies discussed above.

For financial statement purposes, the fair value of the Fund's investments is determined as follows:

Investments are categorized as held for trading in accordance with Section 3855. Investments are recorded at fair value, established by the bid price for a long security and ask price for short security on the recognized exchange on which it is principally traded. The value of any security which is not listed or traded on an exchange, but which is listed or traded on another market, including an over-the-counter market, (being a marketplace other than an exchange where securities are normally purchased and sold and quotations are in common use in respect thereof), shall be determined in the same manner as a listed security by reference to prices on that market.

The value of any security or property for which, in the opinion of the Investment Manager the published market quotations are not readily available shall be the fair value as determined by the

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Investment Manager based on valuation techniques. The fair value of certain securities are determined by using valuation models that are based, in part, on assumptions that are not supported by observable market inputs. These methods and procedures may include, but are not limited to, performing comparison with prices of comparable or similar securities, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indication of value. These values are independently assessed internally to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may be materially different from the values that would have used had a ready market for the investment existed. The fair values of such securities are affected by the perceived credit risks of the issuer, predictability of cash flows and the length of time to maturity.

Investment purchase and sale transactions are recorded on trade date and realized and unrealized gains and losses on investments are determined using average cost.

Other assets and liabilities

For the purposes of categorization in accordance with Section 3862, accrued interest and dividends, subscriptions receivable and other assets are designated as loans and other receivables and recorded at cost or amortized cost. Similarly, amount due to brokers, accounts payable, accrued liabilities, redemptions payable and other liabilities are designated as other financial liabilities and reported at cost or amortized cost.

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. In accordance with Section 3855, transaction costs are expensed and are included in "Transaction costs" in the Statement of Operations. The embedded transaction costs in the cost of investment portfolio as at December 31, 2010 are disclosed in the Statement of Investments.

Recognition of income and expenses

The accrual method of recording income and expenses is followed by the Fund with dividends being recorded on the ex-dividend date. Realized gains and losses on investments and unrealized appreciation/(depreciation) in the value of investments are calculated using the average cost of the related investments. Income, realized gain/(loss) and unrealized gain/(loss) are allocated among the classes on a pro-rata basis. Distributions received from income trusts are recorded as income, capital gains or return of capital based on the best information available to the Fund. Distributions that are treated as return of capital for income tax purposes reduce the average cost of the underlying income trust.

Purchase and redemption of units

The value at which units are issued or redeemed is determined by dividing the net assets at fair value of the Fund applicable to that class by the total number of units of that class outstanding on the valuation date, which is the last business day of each month or any other business day specified by the Investment Manager from time to time. For the purposes of purchase and redemption of units, the net asset value as described above is used, which differs from the net assets per unit in the Statement of

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Net Assets. Amounts received on the issuance of units and amounts paid on the redemption of units are added to or deducted from unitholders' equity.

Forward contracts

The Fund enters into forward contracts to manage risk or to achieve desired returns. Gain or losses are realized based on the settlement term of the forward contracts and are included in the Statements of Operation. Fair values for forward contracts are based on the gain or loss that would arise as a result of closing the position at the valuation date; these values generally reflect the estimated amount that would be received or paid to terminate the contract on each valuation date.

Options

Options may be used by the Fund, but only to the extent considered appropriate by the Manager. Option premiums paid or received by the Fund are, so long as the options are outstanding, reflected in the Statement of Investments. Exchange traded options are valued at current market value and over the counter options are valued using industry-accepted modeling techniques on each valuation day.

Realized gains and losses relating to purchased options may arise from:

- i) Expiration of purchased options – realized losses will arise equal to the premium paid;
- ii) Exercise of the purchased options – realized gains will arise equal to the intrinsic value of the option; or
- iii) Closing of the purchased options – realized gains or losses will arise equal to the proceeds from selling options to close the position net of any premium paid.

Realized gains and losses relating to written options may arise from:

- i) Expiration of the written options – realized gains will arise equal to the premium received;
- ii) Exercise of the written options – realized gains or losses will arise equal to the sum of the premium received and the realized gain or loss from the disposition of the related portfolio investment at the exercise price of the option; or
- iii) Closing of the written options – realized gains or losses will arise equal to the cost of purchasing options to close the position net of any premium received.

Realized gains and losses related to options are included in “realized gain (loss) on sale of investments” in the Statement of Operations.

Foreign currency translation

Assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year end. Purchases and sales of investments and income and expenses are translated into Canadian dollars at the rate of exchange prevailing at the transaction date.

Increase (decrease) in net assets from operations for each class

Increase (decrease) in net assets from operations per unit in the Statements of Operations represents the net increase (decrease) in net assets from operations for the year, divided by the weighted average units outstanding during the period.

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Future Accounting Changes

In January 2011, the Accounting Standards Board (AcSB) of the CICA approved a further one year deferral of adoption of IFRS for investment companies, which include investment funds. Investment companies may continue to apply existing GAAP standards until fiscal years beginning on or after January 1, 2013.

Comparative figures

Certain 2009 comparative figures have been reclassified to conform with the financial statements presentation adopted per the current year.

3. Fair Value Disclosure

Financial Instruments – Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows.

Level 1-Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Investment Manager has the ability to access at the measurement date.

Level 2-Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3-Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgment or estimation.

The Fund's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with the amendment to CICA Section 3862. The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis as of December 31, 2010.

	Financial Assets at fair value as at December 31, 2010			
	Level 1	Level 2	Level 3	Total
Equities - Long	\$ 26,305,994	\$ 1,004,643	\$ 400,000	\$ 27,710,637
Bonds - Long	-	42,499,024	2,154,827	44,653,851
Warrants	78,000	5,150	6,305	89,455
Forward contracts	-	955,235	-	955,235
	<u>\$ 26,383,994</u>	<u>\$ 44,464,052</u>	<u>\$ 2,561,132</u>	<u>\$ 73,409,178</u>

There were no transfers between levels 1 and 2 during the year 2010.

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Financial Assets at fair value as at December 31, 2010

	Level 1	Level 2	Level 3	Total
Options - Short	\$ (100,962)	\$ -	\$ -	\$ (100,962)
	\$ (100,962)	\$ -	\$ -	\$ (100,962)

The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis as of December 31, 2009.

Financial Assets at fair value as at December 31, 2009

	Level 1	Level 2	Level 3	Total
Equities - Long	\$ 3,525,740	\$ 206,000	\$ 621,845	\$ 4,353,585
Bonds - Long	-	7,217,299	1,019,230	8,236,529
Forward contracts	-	52,438	-	52,438
	\$ 3,525,740	\$ 7,475,737	\$ 1,641,075	\$ 12,642,552

Financial Assets at fair value as at December 31, 2009

	Level 1	Level 2	Level 3	Total
Forward contracts - Short	\$ -	\$ (1,132)	\$ -	\$ (1,132)
Options - Short	(40,426)	-	-	(40,426)
	\$ (40,426)	\$ (1,132)	\$ -	\$ (41,558)

There were no transfers between levels 1 and 2 during the year 2009.

The following is a reconciliation of Level 3 fair value measurements from December 31, 2009 to December 31, 2010:

	Fair value measurements using level 3 inputs		
	Warrants	Equities - long	Bonds - Long
Balance at December 31, 2009	\$ -	\$ 621,845	\$ 1,019,230
Net purchases and sales	-	126,532	1,276,221
Net transfers in (out)	-	(601,655)	-
Gains (Losses)			
Realized	-	137,976	32,590
Unrealized	6,305	115,302	(173,214)
Balance at December 31, 2010	\$ 6,305	\$ 400,000	\$ 2,154,827
Total change in unrealized gain (loss) during the period for assets held at December 31, 2010	\$ 6,305	\$ -	\$ (158,486)

The following is a reconciliation of Level 3 fair value measurements from September 21, 2009 to December 31, 2009:

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	Fair value measurements using level 3 inputs	
	Equities - long	Bonds - Long
Balance at September 21, 2009 (Commencement of Operations)	\$ -	\$ -
Net purchases and sales		
Net transfers in (out)	621,845	250,000
Gains (Losses)		
Realized	-	769,230
Unrealized	-	-
Balance at December 31, 2009	\$ 621,845	\$ 1,019,230
Total change in unrealized gain (loss) during the period for assets held at December 31, 2010	\$ -	\$ -

Level 3 sensitivity analysis

The Fund applies judgment in determining unobservable inputs to calculate the fair value of Level 3 financial instruments of \$2,561,132 as of December 31, 2010 (2009 - \$1,641,075). Included in the Fund's Level 3 financial instruments are equity investments in private placements. The unobservable inputs used in the valuation of these financial instruments primarily include key variables, current market conditions and recent financing by the company, if any. These securities are affected by market activity in their relevant sectors and therefore generally fluctuate similarly.

If relevant market-related inputs increased or decreased by 5% with all other variables remaining constant, net assets would have possibly increased or decreased by approximately \$128,056 (2009 - \$82,054)

4. Unitholders' equity

Unitholders' equity includes amounts representing net Fund unit subscriptions, undistributed net income, undistributed realized gains (losses) on sale of investments and unrealized appreciation (depreciation) in value of investments. The Fund generally has no restrictions or specific capital requirements on the subscription and redemptions of units. In accordance with the objectives and the risk management policies outlined in the Financial Risk Management notes (Note 10), the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being managed by investing the majority of assets in investments that can be readily disposed. The following table summarizes the changes in the number of units during the year:

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	2010		2009	
	Class B	Class F	Class B	Class F
Units-Beginning of period	975,778	541,719	-	-
Units issued	3,031,102	2,170,896	972,733	539,987
Units reinvested	199,593	129,287	3,045	1,732
Units redeemed	(331,436)	(277,863)	-	-
Units-End of period	3,875,037	2,564,039	975,778	541,719

Certain directors and/or related parties of the fund held greater than 10% of the fund units at December 31, 2010

5. Fees and expenses

a) *Management fees*

Pursuant to the terms of a management agreement, the Fund pays to the Investment Manager, monthly in arrears, a base management fee. The management fee may vary from class to class and for each of the existing classes of units is as follows:

Class B: 1.5% per annum of the Net Asset Value of class B units of the Fund on the last business day of the preceding month.

Class F: 0.75% per annum of the Net Asset Value of class F units of the Fund on the last business day of the preceding month.

b) *Performance fees*

The Fund also pays the Investment Manager an annual performance fee (the “performance fee”) equal to 20% of the amount by which the cumulative total return of the Fund exceeds the cumulative total percentage increase or decrease of the following benchmarks having the following components and provided that the net asset value per unit for each class of units exceeds a high-water mark. Performance fees will be calculated and accrued daily and payable by the Fund quarterly.

20% weighting – S&P/TSX Preferred Share Total Return Index (or its successor indices, as applicable)

20% weighting – S&P/TSX Composite Total Return Index (or its successor indices, as applicable)

60% weighting – Scotia McLeod Mid Term Bond Index (or its successor indices, as applicable)

If at any time the performance of the Fund is less than its benchmark, then no performance fee will be payable until the performance of this Fund relative to its benchmark has exceeded the amount of the deficiency and the deficiency will carry forward for one year. In addition, the highest daily net asset

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value per unit for each class of units establishes a high-water mark for each class of units which must be exceeded in subsequent days for the performance fee applicable to each class of units to be payable.

The performance fees incurred for the year ended December 31, 2010 were \$647,304 (2009 – \$53,152) of which \$nil was outstanding as at year-end (2009 – \$53,152).

c) Fees and expenses

The Fund is responsible for the payment of all fees and expenses relating to its operation, including registrar and transfer agent fees and expenses, audit, accounting, administration (other than advertising and promotional expenses which are paid for by the Investment Manager), IRC fees, record keeping and legal fees and expenses, custody and safekeeping charges.

Vertex One Asset Management, manager to the Fund, absorbed certain administrative expenses, securityholder reporting costs, custody fees, audit fees, IRC fees and also waived certain management and performance fees due to the size of the Fund.

6. Distribution of net investment income and capital gains

Net investment income and net capital gains of the Fund are distributed to unitholders of record as of the close of business on the last valuation day in the year. Unless unitholders have requested cash, all distributions are reinvested automatically in additional units of the Fund immediately following the valuation date.

7. Income taxes

The Fund is a mutual fund trust as defined by the Income Tax Act. No provisions for income taxes are included in the financial statements as the net income and net capital gains are distributed to the unitholders and immediately reinvested in the Fund. As of December 31, 2010, there were \$nil (2009 – \$20,601) of capital losses and no non capital losses to be carried forward.

8. Soft dollar commissions

Soft dollar commissions relate to amounts paid to brokers in exchange for research or other services provided to the investment manager. There were \$10,285 soft dollar commissions paid during the year (2009 – \$2,087).

9. Securities Lending Transactions

The Fund lends portfolio securities from time to time in order to earn additional income. Income from securities lending is recorded in investment income in the Statements of Operations of the Fund.

The Fund has entered into a securities lending program with its custodian, the RBC Dexia Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 100% of the assets of the Fund. The Fund receives collateral of at least 105% of the value of securities on loan. Collateral may comprise cash, shares, and obligations of or guaranteed by the Government of Canada or a province thereof, by the United States government or its agencies, or by other Organization for Economic Coordination & Development (OECD) member countries' governments.

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As at December 31, 2010, there were no securities on loan (2009 – nil) and no collateral (2009 – nil) held under securities lending.

10. Financial Risk Management

The Fund's financial instruments consist of investments, accrued interest and dividends, amounts due from broker, subscriptions receivable, and other assets designated as loans and other receivables, accounts payable and accrued liabilities and redemptions payable. As a result, the Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The Investment Manager maintains a risk management practice that includes quarterly monitoring of the returns based risk profile of the Fund. The purpose of such practices is to minimize the potential adverse effect of each risk on the Fund's financial performance while being consistent with the Fund's investment objective. The most important risks include market risk (including other price risk, interest rate risk and currency risk), credit risk and liquidity risk. These risks and related risk management practices employed by the Fund are discussed below:

(a) *Other price risk*

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The investments of the Fund are subject to normal market fluctuations and the risks inherent in investment in financial markets. The maximum risk resulting from financial instruments held by the Fund is determined by the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities within specified limits and the Fund's market price risk is managed through diversification of the investment portfolio. The Investment Manager monitors the Fund's overall market positions on a daily basis and positions are maintained within established ranges.

As of December 31, 2010, if the Fund's Investments had increased or decreased by 5%, with all other variables held constant, this would have approximately increased or decreased net assets to amount in difference of \$1,384,957 (2009 – \$217,679). Actual results may differ from this sensitivity analysis and those results could be material.

(b) *Interest rate risk*

As at December 31, 2010, 60.91% (2009 – 65.36%) of the Funds' investment portfolio consists of interest bearing corporate bonds, as well as cash and cash equivalents and foreign bonds. As a result, the Fund was subject to interest rate risk due to fluctuations in the prevailing level of market interest rates which could impact the Fund's cash flows.

The table below summarizes the Fund's exposure to interest rate risk. It includes the Fund's assets and trading liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

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	Less than 1 year	1 - 5 years	More than 5 years	Non Interest bearing	Total
As at December 31, 2010					
Assets					
Financial assets held for trading					
Equities	\$ -	\$ -	\$ -	\$ 27,800,093	\$ 27,800,093
Bonds	3,321,895	27,773,752	13,558,203	-	44,653,850
Forward contracts	955,235	-	-	-	955,235
Cash and cash equivalents	249,127	-	-	-	249,127
Accrued interest and dividend receivable	673,024	-	-	-	673,024
Subscriptions receivable	740,599	-	-	-	740,599
Total Assets	5,939,880	27,773,752	13,558,203	27,800,093	75,071,928
Liabilities					
Option contracts	100,962	-	-	-	100,962
Accounts payable and accrued liabilities	49,064	-	-	-	49,064
Due to broker	400,000	-	-	-	400,000
Distributions payable	23,467	-	-	-	23,467
Redemptions payable	733,731	-	-	-	733,731
Total Liabilities	1,307,224	-	-	-	1,307,224
Total Interest sensitivity gap	\$ 4,632,656	\$ 27,773,752	\$ 13,558,203	\$ 27,800,093	\$ 73,764,704

	Less than 1 year	1 - 5 years	More than 5 years	Non Interest bearing	Total
As at December 31, 2009					
Assets					
Financial assets held for trading					
Equities	\$ -	\$ -	\$ -	\$ 4,353,585	\$ 4,353,585
Bonds	-	4,516,520	3,720,009	-	8,236,529
Forward contracts	52,438	-	-	-	52,438
Cash and cash equivalents	3,414,392	-	-	-	3,414,392
Accrued interest and dividend receivable	84,258	-	-	-	84,258
Subscriptions receivable	675,638	-	-	-	675,638
Total Assets	4,226,726	4,516,520	3,720,009	4,353,585	16,816,840
Liabilities					
Option contracts	40,426	-	-	-	40,426
Forward contracts	1,132	-	-	-	1,132
Accounts payable and accrued liabilities	29,482	-	-	-	29,482
Due to broker	680,621	-	-	-	680,621
Total Liabilities	751,661	-	-	-	751,661
Total Interest sensitivity gap	\$ 3,475,065	\$ 4,516,520	\$ 3,720,009	\$ 4,353,585	\$ 16,065,179

At December 31, 2010, should interest rates have increased or decreased by 25 basis points with all other variables remaining constant, the decrease or increase in net assets for the year would amount to

Vertex Enhanced Income Fund

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approximately \$315,294 (December 31, 2009 – \$31,249). Actual results may differ from this sensitivity analysis and those results could be material. The Fund’s managers review the interest rate exposure on a regular basis.

(c) Currency risk

Currency risk is the risk that the value of investments denominated in currencies, other than Canadian Dollar, the functional currency of the Fund, will fluctuate due to changes in foreign exchange rates. The Fund holds assets and liabilities, including cash, short-term investments, equities, and options that are denominated in currencies other than the Canadian Dollar. It is therefore exposed to currency risk, as the value of the securities denominated in other currencies fluctuate due to changes in exchange rates. The Fund’s managers review the currency positions of the Fund on a regular basis and the Fund may enter into foreign exchange forward contracts for hedging purposes to reduce its foreign currency exposure or to establish exposure to foreign currencies.

The table below summarizes the Fund’s exposure to currency risks.

	December 31, 2010	December 31, 2009
Currency	Exposure	Exposure
U.S. Dollar	\$ 3,754,798	\$ 5,865,181

As at December 31, 2010, if the exchange rate between the Canadian Dollar and the US Dollar the Fund was exposed to increased or decreased by 5%, with all other variables held constant, the increase or decrease respectively in net assets would approximately amount to values \$187,740 (2009 – \$293,260). Actual results may differ from this sensitivity analysis and those results could be material.

(d) Credit risk

Credit risk is the risk that a loss could arise when a security issuer or counterparty to a financial instrument is unable to meet its financial obligations. The Fund’s main credit risk is from bonds and derivative contracts. To maximize the credit quality of its investments, the Fund’s managers perform ongoing credit evaluations based upon factors surrounding the credit risk of customers, historical trends and other information.

The Fund invests in financial assets which have an investment grade as rated primarily by Dominion Bond Rating Service and Standard & Poor’s. Ratings for securities that subject the Fund to credit risk are noted below:

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Portfolio by rating category		
Rating	December 31, 2010	December 31, 2009
A/A	2.67%	4.01%
BBB/Bbb	1.90%	0.63%
BB/Bb	9.27%	5.39%
B/B	19.74%	9.32%
CCC/Ccc	8.91%	2.61%
N/R	18.05%	29.42%
Total	60.54%	51.38%

All transactions in listed securities are settled for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold/lent is only made once the broker has received payment. Payment is made on securities purchased/borrowed once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

As at December 31, 2010 and 2009, the Fund's net assets were also exposed to credit risk arising from derivative contracts. The credit rating of the counterparties as at December 31, 2010 and 2009 were:

Portfolio by rating category		
Rating	December 31, 2010	December 31, 2009
AA/A/A-	1.16%	0.07%
Total	1.16%	0.07%

(e) Liquidity risk

Liquidity risk is the risk that a Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund's exposure to liquidity risk is concentrated in the cash redemptions of units at the monthly valuation date. The Fund invests primarily in securities that are traded in active markets and can be readily disposed. The Fund may, from time to time, invest in derivative contracts traded over the counter or in unlisted securities, which are not traded in an organized market and may be illiquid. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer. The Fund retains sufficient cash and cash equivalents to maintain liquidity. Liquidity risk is considered negligible

The liabilities of the Fund become due within the next three months.