

MANAGEMENT REPORT OF FUND PERFORMANCE

December 31, 2018

VERTEX ENHANCED INCOME FUND

Active | Unconstrained | Opportunistic | Absolute



This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-866-681-5787, by writing to us at:

Vertex One Asset Management Inc.
Suite 3200 – 1021 West Hastings Street
Vancouver, BC
V6E 0C3

or by visiting our website at

www.vertexone.com

or

SEDAR at www.sedar.com

Security holders may also contact us using one of these methods to request a copy of the investments fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

MANAGEMENT DISCUSSION AND FUND PERFORMANCE

Investment Objective and Strategies

The Fundamental investment objective of the Vertex Enhanced Income Fund (the “Fund”) is to provide preservation of capital while providing high income by investing primarily in Canadian and United States bonds, debentures, and equities. The secondary objective is to provide capital growth. The Fund will invest largely in high yield and convertible bonds, preferred shares, high-yielding equities (up to a 25% weighting) and government debt including federal, provincial, state and municipal issues. One of the unique features of the Fund is the use of covered call writing. It is used to enhance yield derived from the equity component of the Fund and decrease volatility. The covered call writing strategy consists of the sale of a call option while simultaneously owning the underlying security. Returns are generated from both the collection of option premiums and increases in the underlying stock held. Protection to the downside is equal to the amount of the option premium collected. The investments of the Fund are subject to the following restrictions:

- No more than 50% of the Fund will be exposed to foreign currencies.
- No more than 25% will be invested in common high yield equities.
- The Fund will hold a minimum of 25 securities.
- There will be no short selling of equities.
- The Fund will not invest more than 25% of the market value of its net assets in common equities.
- The Fund will not invest more than 25% of the market value of its net assets in preferred shares.

The Fund was created on September 14, 2009 and commenced operation on September 21, 2009.

Risks

The risks remain as disclosed in the simplified prospectus. There is a credit risk associated with the high yield bonds should a company not be able to meet its commitments. High yield bonds have a higher correlation to equity markets and may decrease in value during an equity market selloff. There is a risk of a lack of liquidity in high yield bonds, convertible bonds and convertible preferred shares during times of market turmoil. At the end of 2018, the percentage of privately held securities (defined as “level 3 securities”) in the fund continues to exceed 15% of the NAV at December 31st. Management continues to take commercially reasonable steps to reduce the percentage to be below 15%. The Fund has an asset mix of 55% Bond, 25% common equity and 15% preferred equity.

Results of Operation

The Fund ended the year of 2018 with returns of -7.69% for Class B shares and -6.93% for Class F shares.

The last year appeared relatively uneventful until the fourth quarter of 2018. The perceived impact of eight interest rate increases over a two-year period, combined with the reduction of the U.S. Federal Reserve Board's balance sheet, initiated a global equity sell-off beginning in October. These factors, combined with concern over the U.S.-China trade dispute, led to a significant decline in equities.

Rising interest rates had a dramatic effect in percentage terms on the interest-rate-related costs for consumers and corporations. Globally, nearly all asset classes (over 90%) sold off during the fourth quarter in the most correlated correction since 1901. Higher interest rates also had the effect of shutting down the high-yield bond market for the month of December, with no new bonds being issued.

The Fund's equity component was the largest contributor to performance during the year. Top individual contributors included holdings in Catalyst Paper Corp. and Core Gold Inc. Fixed income and preferred share holdings detracted from the Fund's performance. Individual fixed income detractors from performance included Ambac Assurance Corp. (5.1%, 06/07/2020) and Imperial Metals Corp. (7.0%, 03/15/2019). Within the Fund's preferred shares segment, holdings in Community Vehicle Financing and Leasing Inc. and Atlantic Power Corp. were the largest detractors from performance.

Recent Developments

During the period, Tim Logie departed from his role as one of the Fund's Portfolio Managers, but Matthew Wood remains the Fund's lead Portfolio Manager. This development had no impact on the Fund's performance and there were no significant changes to the operation of the Fund.

Going forward, the Fund will continue to be focused in bond and preferred share investments priced at a discount, and for which the Portfolio Manager believes the balance sheet is strengthening through improving business fundamentals, equity infusions or refinancing.

The Fund's holdings are well diversified in order to reduce risk. The equity component of the Fund consists of 20 holdings, while the bond and preferred share components have significantly more holdings. Currently, the portfolio mix is approximately 55% bonds, 25% high-yielding equities, 15% preferred shares and the remainder in cash to be deployed into bonds and preferred shares. The Fund is positioned with a very short duration (interest rate sensitivity) in order to mitigate interest rate risk, should interest rates continue to rise.

Related Party Transactions

During the year ended December 31, 2018, the Fund incurred management fees in the amount of \$665,815 payable to its manager, Vertex One Asset Management Inc. There was no performance fee paid by the Fund during the year.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the years ending December 31.

The Fund's Net Assets per Unit ⁽³⁾

Class B	2018	2017	2016	2015	2014
Net Assets, beginning of year ⁽¹⁾	\$9.38	\$9.56	\$9.03	\$11.11	\$11.73
Increase (decrease) from operations:					
Total revenue	0.57	0.60	0.82	0.91	1.02
Total expenses	(0.23)	(0.21)	(0.21)	(0.21)	(0.28)
Realized gains (losses) for the year	(1.93)	0.70	(0.11)	(1.14)	(0.21)
Unrealized gains (losses) for the year	0.99	(0.74)	0.60	(0.74)	(0.59)
Total increase (decrease) from operations ⁽¹⁾	(0.60)	0.35	1.10	(1.18)	(0.06)
Distributions :					
From income (excluding dividends)	0.30	0.40	0.65	0.71	0.69
From dividends	0.07	0.03	0.03	0.04	0.04
From capital gains	-	-	-	-	-
Return of capital	0.09	0.05	-	-	-
Total annual distributions ⁽¹⁾⁽²⁾	0.46	0.48	0.68	0.75	0.73
Net Assets, end of year	8.23	9.38	9.56	9.03	\$11.11

Class F	2018	2017	2016	2015	2014
Net Assets, beginning of year ⁽¹⁾	\$9.45	\$9.55	\$8.95	\$8.95	\$11.77
Increase (decrease) from operations:					
Total revenue ⁽⁴⁾	0.58	0.61	0.82	0.92	1.03
Total expenses	(0.16)	(0.13)	(0.13)	(0.13)	(0.20)
Realized gains (losses) for the year	(1.96)	0.70	(0.11)	(1.15)	(0.21)
Unrealized gains (losses) for the year	0.99	(0.83)	0.66	(0.70)	(0.61)
Total increase (decrease) from operations ⁽¹⁾	(0.55)	0.35	1.24	(1.06)	0.01
From income (excluding dividends)	0.36	0.40	0.65	0.88	0.77

cont'd Class F	2018	2017	2016	2015	2014
From dividends	0.07	0.04	0.03	0.05	0.05
From capital gains	-	-	-	-	-
Return of capital	0.02	0.04	-	-	-
Total annual distributions ⁽¹⁾⁽²⁾	0.45	0.48	0.68	0.93	0.82
Net Assets, end of year	\$8.36	\$9.45	\$9.55	\$8.95	\$8.95

- (1) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.
- (2) Distributions were paid in cash/reinvested in additional units of the Fund, or both.
- (3) This information is derived from the Fund's audited annual financial statements. The net assets presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in Note 2 of the notes to the financial statements.
- (4) The Fund engages in securities lending transactions. The Fund will receive collateral of at least 102% of the value of securities on loan. Collateral will generally be comprised of securities guaranteed by the Government of Canada or a province or territory of Canada, or by other governments with appropriate credit ratings, or by financial institutions, but may include commercial paper with an approved credit rating and or convertible securities. As at December 31, 2018, the aggregate dollar value of portfolio securities lent and the collateral held under securities transactions were \$1,775,930 and \$2,182,213 respectively. Income earned from securities lending is included in securities lending income in the Statement of Operations.

Ratios and Supplemental Data

Class B	2018	2017	2016	2015	2014
Total net asset value (\$ 000's) ⁽¹⁾	14,982	27,991	47,727	64,495	140,664
Number of units outstanding ⁽¹⁾	1,820,922	2,985,253	4,993,155	7,141,563	12,695,949
Management expense ratio (%) ⁽²⁾	2.36	2.07	2.18	1.89	1.97
Management expense ratio before waivers/absorption (%)	2.36	2.07	2.18	1.89	1.97
Portfolio turnover rate (%) ⁽³⁾	53.48	77.82	39.7	26.8	102.01
Trading expense ratio (%) ⁽⁴⁾	0.12	0.08	0.07	0.07	0.18
Net asset value per unit (\$)	8.23	9.38	9.56	9.03	11.08

Class F	2018	2017	2016	2015	2014
Total net asset value (\$ 000's) ⁽¹⁾	27,365	53,280	54,685	57,767	127,773
Number of units outstanding ⁽¹⁾	3,274,932	5,640,943	5,725,384	6,452,840	11,497,692
Management expense ratio (%) ⁽²⁾	1.55	1.26	1.37	1.08	1.23
Management expense ratio before waivers or absorptions (%)	1.55	1.26	1.37	1.08	1.23
Portfolio turnover rate (%) ⁽³⁾	53.48	77.48	39.7	26.8	102.01

cont'd Class F	2018	2017	2016	2015	2014
Trading expense ratio (%) ⁽⁴⁾	0.12	0.08	0.07	0.07	0.18
Net asset value per unit (\$)	8.36	9.45	9.55	8.95	11.11

- (1) The information is provided as at December 31 of the period shown.
- (2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the year.
- (3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.
- (4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

Management Fees

In consideration of the services provided by Vertex One Asset Management Inc., the Fund pays Vertex One Asset Management Inc a management fee, monthly in arrears, and calculated daily, on each business day, as a percentage of the net asset value of each class of Units that comprise the Fund.

The management fee may vary from Class to Class and will be deducted as an expense of the Class in the calculation of the net profits of such Class. The management fee for each of the existing classes of Units is as follows:

Class B: 1/365 of 1.5% (1.5% per annum) of the net asset value of the Class B Units on the preceding business day plus applicable taxes.

Class F: 1/365 of 0.75% (0.75% per annum) of the net asset value of the Class F Units on the preceding business day plus applicable taxes.

The Fund received services in consideration of the management fees as follows:

Services Provided	Class B	Class F
Distribution related costs	50.00%	0.00%
Portfolio Advisor and Management Services	50.00%	100.00%

Performance Fees

Each class of Units will pay to Vertex One Asset Management Inc., a performance fee equal to 20% of the amount by which the total return of the class of Units exceeds the total percentage increase or decrease of the following benchmarks having the following components, for the year since the performance fee was last paid.

- 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 – DEX Mid-Term Total Return Bond Index (or its successor indices, as applicable)

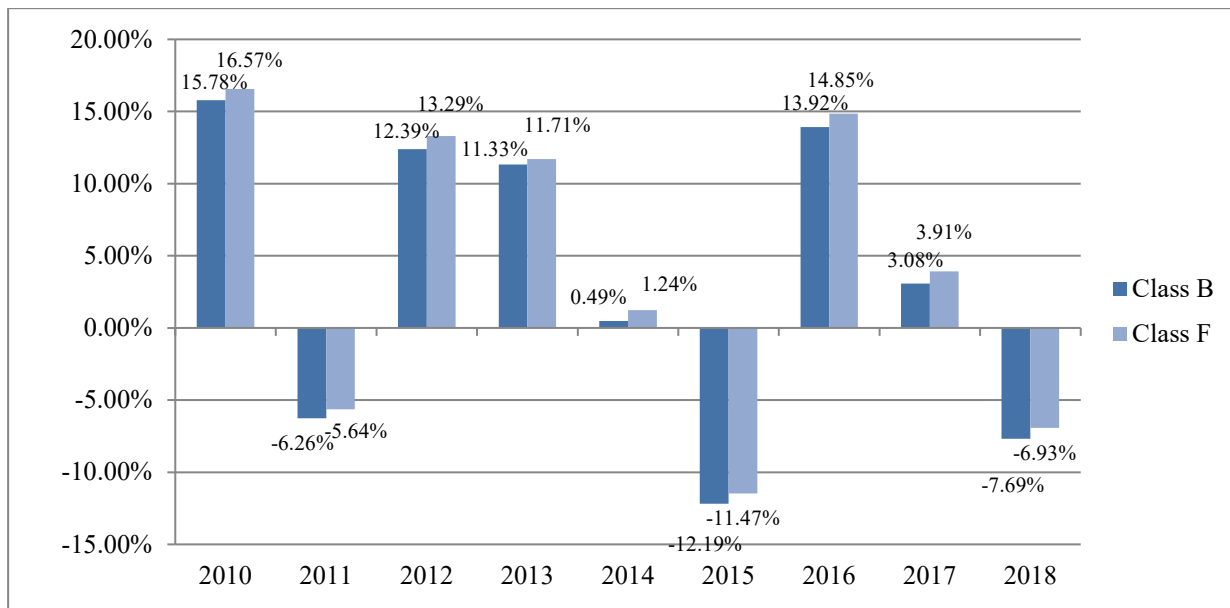
If at any time the performance of a class is less than its benchmark, then no performance fee will be payable until the performance of such class relative to its benchmark has exceeded the amount of the deficiency.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the years shown were reinvested in additional securities of the Fund. Note that the performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. How the Fund has performed in the past does not necessarily indicate how it will perform in the future.

Year-by-Year Returns

The following chart shows the performance of the Fund for the eight-year period December 2010 to 2018. The charts show you the Fund's annual historical return and how it changes each year. Annual return is the percentage change in the value of an investment from January 1 to December 31, unless otherwise noted. The charts show, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year. The returns are cumulative and include all distributions.



Annual Compound Return

The following table illustrates the annual compound total return for Class B and F units of the Fund for the years shown. As a basis of performance comparison, the annual compound return of the Fund is compared to that of its Benchmark consisting of 20% S&P/TSX Composite Total Return Index, 20% S&P/TSX Preferred Share Index and 60% PC Mid-Term Overall Bond Index. Since the Fund does not necessarily invest in the same securities or in the same proportion as the Index, the performance of the Fund is not expected to equal the performance of the Index.

	1-Year	3-Year	Since Inception
Enhanced Income Fund Class B	-7.69%	2.72%	3.55%
Enhanced Income Fund Class F	-6.93%	3.56%	4.31%
Benchmark	-2.90%	3.35%	3.37%

The Fund was created on September 14, 2009 and commenced operations on September 21, 2009. Return since the date operations commenced is not an annualized number.

During the year ended December 31, 2018, your investment in the Fund's Class B experienced a return below that of its Benchmark for the 1-Year and 3-Year period but above the Benchmark since inception of the Fund. The Fund's Class F experienced a return below 1-Year, but above the Benchmark for the 3-Year and since inception. Performance will vary by class largely due to the extent that fees and expenses may differ between classes. Index returns are displayed for references purposes only and are not meant to be a proxy for the returns of the Fund. The Fund does not aim to replicate the composition of either Index and as such its performance may differ.

Summary of Investment Portfolio

The major portfolio categories and top holdings (up to 25) of the Fund at the end of the year are indicated in the following tables. The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund and the next quarterly update will be in the Quarterly Portfolio Disclosure as at March 31, 2019.

Top 25 Holdings	
Issuers	% of Net Asset Value
Catalyst Paper Corp.	6.60%
Agawa Investments Ltd., 10.000%, 2025/08/07	4.06%
Community Vehicle Financing & Leasing Inc., Preferred, Series '1'	3.94%
Catalyst Paper Corp., Term Loan, 12.000%, 2021/10/31	3.24%
Seagate HDD Cayman, Callable, 4.250%, 2022/03/01	3.08%
Core Gold Inc.	2.98%
Tgc Lending Inc., 6.000%, 2020/05/31	2.85%
Imperial Metals Corp., Callable, 7.000%, 2019/03/15	2.77%
Hornbeck Offshore Services Inc., Callable, 5.875%, 2020/04/01	2.66%
Taseko Mines Ltd., Callable, 8.750%, 2022/06/15	2.62%
BCE Inc.	2.55%
ILFC E-Capital Trust II, Variable Rate, Callable, 4.820%, 2065/12/21	2.53%

Voya Financial Inc., Variable Rate, Callable, 5.650%, 2053/05/15	2.43%
Rio Tinto PLC, ADR	2.34%
Textron Financial Corp., Variable Rate, Callable, 4.080%, 2067/02/15	2.33%
ERD Express Financial Services Inc., Variable Rate, 12.000%, 2019/11/01	2.06%
Surge Energy Inc.	2.04%
Lloyds Bank PLC, Perpetual, Variable Rate, Callable, 12.000%, 2024/12/16	1.89%
Core Gold Inc.	1.86%
TORC Oil & Gas Ltd.	1.83%
AM Castle & Co., Payment-In-Kind, Convertible, 5.000%, 2022/08/31	1.69%
Atlantic Power Preferred Equity Ltd., Preferred, Series '2', Variable Rate, Perpetual	1.64%
Wells Fargo & Co., 7.50%, Preferred, Class 'A', Series 'L', Convertible	1.63%
Hecla Mining Co., Callable, 6.875%, 2021/05/01	1.58%
Seadrill New Finance Ltd., Payment-In-Kind, Callable, 12.000%, 2025/07/15	1.52%

Net Asset Value = \$42,346,253

The following chart sets out the sector allocations of the Fund’s portfolio as at December 31, 2018.

