

VERTEX ENHANCED INCOME FUND

Second Quarter Report, 2010

The Enhanced Income Fund was down 1.8% for the second quarter of 2010, while the TSX was down 2.8% and the S&P was down 6.7%. At the end of the quarter the fund distributed income of 12.81 cents (B class) and 14.99 cents (F class). The rapid growth of the fund over the first six months of operation absorbed much of the overall portfolio yield, but now that a critical mass has been reached, you should start to see the yield increase considerably.

We have been very pleased with the execution of our investment strategy over the first nine months of operation. We are happy to report that dividend yield on common stocks in the portfolio was over 6% and 6.31% for convertible preferreds. The convertible preferred portfolio not only provides a healthy yield, but it also gives us upside to rising stock prices and rising markets. Our option strategy of consistently writing covered calls is running nearly full tilt with 90% of the equity in the portfolio having associated covered call options. There are plenty of opportunities right now for options with volatility running high and this is adding an additional 11% of yield to the equity portfolio, bringing the total equity yield to 17%.

Our strategy with corporate bonds is to analyze the credit quality of a company to determine its ability to ultimately pay back a bond. We do not limit ourselves to Canadian bonds and with plenty of opportunities existing from the aftermath of the 2008 credit crisis, approximately 47% of the portfolio holds U.S. corporate bonds. This has been a benefit to the fund with bond yields averaging just over 11% in the portfolio. Although credit ratings are not of high concern to us (because of the unreliable agencies giving them), we can say that our bonds are averaging a BB rating while producing very attractive yields.

Thanks to the recent market turmoil over lax sovereign debt policies in southern European countries, we are continuing to see a wealth of new opportunities in the fixed income space. This means new money is put to work as soon as it is received. So, while our comrades in the equity markets are keeping an eye on their blood pressure, we're enjoying the high yield. Looking forward there has never been a better time to be invested in fixed income.

ASSET MIX

Cash	4%	Canadian Equities	18%
Fixed Income		Foreign Equities	6%
Canadian	10%	Preferred Shares	15%
Foreign	47%		