VERTEX ONE
Asset Management Inc.

1920 – 1177 West Hastings Street
Vancouver, British Columbia V6E 2K3
www.vertexone.com
Phone: 604-681-5787
Fax: 604-681-5146

VERTEX ENHANCED INCOME FUND

Fourth Quarter Report, 2011

In many ways, 2011 was a tougher market than 2008; it was harder to trade and just as tough to make money. Many funds have posted disappointing numbers relative to the market. Fortunately, after a tough second and third quarter your fund finished the fourth quarter up 1.74% (Class B).

The risk/reward in high yield bonds was especially appealing over the year as yields have stayed high thanks to European and US leverage concerns. With regard to corporate financings, there were some poor new issues albeit for every bad issue there were more than 40 great issues. This is a reality in the high yield space and it is why we have taken a diversified approach to marginalize any minefields we may step on. The numbers say that if the yield on 40 good issues averages 12% and we lose 80% on one, we are still up over 10% on that basket.

For those of you not familiar, both Eastman and Fibertower are on the edge of Chapter 11. Eastman is suffering from failing to keep up in the new digital world but they had a lot of cash and a growing digital services business with a deep patent portfolio with excellent protection. In 2011, Eastman put some of their patents up for sale; however, without going into too much detail, legalities delayed patent sales as rumors about the company's problems mounted. Turns out, all their cash wasn't accessible and the markets have harshly punished all components of Eastman's capital structure.

Another bump in the road was Fibertower. The company lost a major customer in a battle between Sprint and Clearwire. Sprint threatened to pull their Clearwire financings and Clearwire had to cut back on services, of which Fibertower was one. This cancelled contract paid cash to Fibertower and as of this fall they had over $20m in cash in the bank with a $35m 2nd lien bond issue coming due next year and room on their line of credit. The first lien bonds saw the writing on the wall and didn't want the company to pay interest on the smaller 2nd lien issue even though they had the means to not only pay the interest but to fund the maturity. It was a reminder that markets aren't always so black and white; there is a need for understanding psychology as well.

The tough year in equities affected our preferred equity portfolio, mostly with a decline in Citigroup convertible and Beazer Homes, a US homebuilder. We are receiving yield with the shares, but mark-to-market losses hurt us in 2011. The equity portfolio was buffered by writing call options on about 80% of our equity positions. The other 20% were high dividend paying corporations that used to be income trusts and pay a good yield but don't have an option market. The largest decline came from Extendicare Real Estate Investment Trust. We expect our equity and preferred portfolio to continue the recovery commencing in the past few months.

On the positive front, we have a number of high yield bonds earning great yield as we await money to flow back into the market. The high yield space can be more correlated to equities than to bonds, a somewhat counterintuitive notion. So, it will benefit from rising investor confidence alongside equity markets. As indicated earlier, over 80 different bond issues are included in our holdings - well diversified in different sectors, averaging a yield of almost 15%. We remain especially bullish about our cheque cashing store bonds. As covered in a recent Live from the Desk (please visit www.vertexone.com if you don't receive these commentaries), we continue to believe, with stable markets we will see a wave of IPO's from these type of firms. As of late, equity markets haven't exactly been friendly to many initial public offerings (outside of some notable tech names). The silver lining is a backlog of companies waiting for market conditions more conducive for IPOs. Companies will eventually find an IPO window (possibly as early as 2012). They will use the opportunity to pay off some debt, and improve their capital structure. This in turn makes it easier to refinance at lower rates and further improves their credit profile. As a bondholder, this can be great news as most high-yield bonds have an 'equity claw' in the indenture, allowing 35% of a bond issue to be called at a premium-to-par upon an equity offering. So, not only would we sell our bonds at a premium, but the company would go through a large one time deleveraging.

We continue to find great ideas with appealing yields in high yield and preferred equities. Volatility remains high, allowing us to capture good premium in our call writing portfolio. 2011 was highlighted by a large flight out of high yield bonds, preferred and common equity in favour of low yield treasury bonds. As the economy recovers, our view is this trend will reverse lifting our portfolios value. Furthermore, bonds should rise towards par value as time closes towards maturity date. Writing this prose around the 10th of January it seems the positive trend is already underway.

PERFORMANCE (Class F)

Net Asset Value	1 Month	3 Month	1 Year	2 Year*	Total Cumulative
$10.3309+	0.13%	1.95%	-5.64%	4.88%	17.43%

Distribution: $0.162546

+Post Distribution
*Annualized