

## **VERTEX ENHANCED INCOME FUND**

### Second Quarter Report, 2012

The Fund returned -1.35% (F Class) for the second quarter of 2012, but has returned 5.04% (F Class) year-to-date. The annualized distribution for the first six months of 2012 was 6.20% of NAV (F Class). This was derived from interest and dividends earned over the first two quarter (not including capital gains which are distributed at year end, if generated).

One of the advantages of the fund is that our mandate is flexible in terms of security type and credit scale. With the problems all around us we have transitioned the bottom 10% of the portfolio in terms of credit grade and moved higher on the credit scale. As a result, the average credit for the fund has moved from the negative side of B to the positive side.

Central banks continue to signal that interest rates will remain low for a prolonged period of time. This has left many investors seeking avenues to generate income for their portfolios. In order for us to generate substantial yield over that of the risk free rate and our competitors we have used the strategy of investing in lower credit quality companies. Much of the time these companies have healthy balance sheets and are undeserving of the ratings applied. In other words, we look for security mispricing which skew the risk/reward in our favour.

That being said, we have greatly diffused the risk of a default to the portfolio by keeping weights in the 1% range. We also keep the maturities and duration short on the bonds we invest in.

As we have written in the past, small themes have developed within the bond portfolio including: financial institutions announcing liability management exercises (LME), cheque cashing stores and casino based businesses. Other ideas in the portfolio include:

- **Hybrid securities including:** Northgroup Preferred Capital Corp, Royal Bank of Scotland, XL Group, ZFS Finance USA and Aegon.
- **Local TV Finance:** Operators of TV and radio stations in the USA. TV stations are turning EBITDA positive and Local TV has the ability to easily add new stations with original Hispanic content which is a growth market.
- **Sorenson Communication Inc:** Over-the-phone services for the hearing impaired. There are strong political/social pressures to keep these businesses profitable so that they can continue to provide these necessary services.
- **Stratus Technologies:** They provide server and software solutions to protect mission critical systems from downtime.

We are maintaining a 5% weight in gold securities through position in bonds, convertible bonds and preferred shares. The sector can be volatile depending on price movement of the commodity but we remain convinced that some exposure to gold is prudent. Two of the companies we like are Detour Gold which will be going into production in the next year and Allied Nevada which we anticipate to triple production in the next few years.

Many banks are continuing to announce LMEs. We had one security called this month and expect this activity to continue going into 2013. Banks have attractive bonds because at the core they are a cash flow business which is important for paying down ones debt.

On the equity front, just as in fixed income we continue to search for excess yield. This has led us to increase our REIT exposure. Some examples include: HealthLease Properties, Artis, Cominar, Pure Multi-Family and Morguard North American.

Please enjoy the rest of your summer.

#### **PERFORMANCE (Class F as at June 30, 2012)**

<b>Net Asset Value</b>	<b>3 Month</b>	<b>Year-to-Date</b>	<b>1 Year</b>	<b>2 Year*</b>	<b>Total Cumulative</b>
\$10.5260 <sup>†</sup>	-1.35%	5.04%	-3.86%	6.21%	23.35%

Distribution: \$0.162546

<sup>†</sup>Post Distribution

\*Annualized

This statistical information is intended to provide you with information about the Vertex Enhanced Income Fund. Important information about the Fund is contained in the Simplified Prospectus which should be read carefully before investing. You can obtain an offering memorandum from Vertex One Asset Management Inc. The Simplified Prospectus for Vertex One Asset Management Inc.'s Investment Funds does not constitute an offer or solicitation to anyone in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. The funds are not guaranteed; their values change frequently and past performance may not be repeated.