

VERTEX ENHANCED INCOME FUND

Third Quarter Report, 2012

September was one of the largest new issue bond markets on record. Issuers took advantage of low interest rates by refinancing their balance sheets at lower rates, a real positive for the businesses as they move forward with a lower cost of capital. During the quarter, the focus moved away from mergers and acquisitions with companies improving their own balance sheets instead of looking at external opportunities. This is important because it will allow them to have strong balance sheets going forward when looking at future opportunities.

The high yield component of the portfolio continues to show correlation to the equity market and performed well as a result. We extended the gradual increase of credit rating in the portfolio, looking for risk-reward discrepancies at a lower risk rating. We have moved the portfolio from close to B- in the spring to a B+ average currently. We added to our hybrid portfolio (fixed-to-floating securities) to protect us against inflation in the longer term and deflation in the short term. We expect this theme to continue.

We were not as active writing calls over the summer as volatility declined but expect more activity into the fall as market volume improves. August was one of the quietest, least volatile months in recent memory. We remained active in equities and increased our exposure throughout the month of September.

A recent focus has been mortgage REITs in the US. The sector was given the green light, with the US Fed signaling rates will remain low for years to come and the announcement of QE3 (although the benefits of this point are debatable as the US Government is now in competition with these companies to buy back Mortgage Back Securities). Historically, the sector would periodically issue equity at a discount to the current market but recently these companies have been able to issue preferred shares with around an 8% coupon. The common equities yield 12-15%, so issuing paper at 8% is accretive to the common shareholders and investors don't have to worry about the volatility of below market equity issuance. It's a win-win for equity holders and we view this as a positive for companies in the space.

The preferred shares portfolio continued to be a focus over the quarter as we uncovered a number of opportunities with attractive yield. Preferred shares performed well over the quarter.

Breakdown of the portfolio:

Credit Stats	
AA	1.18%
A	2.26%
BBB	13.03%
BB	21.81%
B	29.35%
CCC	10.47%
CC	0.00%
C	0.30%
NR	21.59%
Average	B+

Modified Duration	
High Yield	3.12
Converts	1.61
Total	2.67

PERFORMANCE (Class F as at September 30, 2012)

Net Asset Value	3 Month	Year-to-Date	1 Year	3 Year*	Since Inception*
\$10.8925 ⁺	5.01%	10.31%	12.46%	9.02%	8.76%

Distribution: \$0.161249

⁺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.