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VERTEX ENHANCED INCOME FUND

Fourth Quarter Report, 2012

The Vertex Enhanced Income Fund returned 1.26% for the month of December, bringing the calendar year return to 13.28%. The fund distributed $0.1601 of income during the quarter, bringing the fund's yield for the year to 5.85%. There were no capital gains distributed in 2012.

December turned out to be more muddled than merry as investors worried about the ability of Washington politicians to get anything done. In the end they did do something, much in the same way they will for the recurring debt-ceiling debates. Despite many pundits calling the bond market overcrowded, overvalued and headed-for-a-fall, US government and corporate debt remained in favor in 2012. Walter Bigelow Wriston, Chairman of Citigroup from 1967 to 1984, famously said what is now referred to as *Wriston's Law*: "capital will always go where it's welcome and stay where it's well treated."

This statement could not be more accurate and in high yield it was never more appropriate than this year. The market saw inflows the majority of the year, splitting the affection with government bonds as investors shied away from equities and into yield. Experts' debate on how or when that is going to change with some indicating that it is going to flow the opposite way in a hurry. Others focus on the "money on the sidelines" ready to be invested as soon as some clarity returns to the markets. Talk to the average retail advisor and many believe money is moving permanently out of the market due to demographic changes. There are many opinions and probably even more variables to the outcome. Still, as is usually the case, the truth probably lies somewhere in the middle. One thing we do know is that capital now moves faster than ever, thanks in part to the invention of the ETF (Exchange Traded Fund). ETFs seem like an advantage to retail investors, but the dislocation of capital in quick order they cause creates increased volatility across all market classes and is a cause for concern.

The portfolio remains around the B+ average rating. Duration has been kept short at 2.60 years and we have refrained from participating in the slew of new issues offered lately strictly for dividend re-capitalizations. There are many good opportunities in the high yield space and time is on its side. The more time that passes with low interest rates, the more companies can lower their net-debt and right-size their capital structure. 2013 should theoretically see more upgrades than downgrades (not accounting for bad management) with more companies like Ford that returned to investment grade from high yield in 2012. Yield compression has been a welcomed problem as bond prices have increased.

We have been reallocating capital into equities, which we feel is an undervalued asset class, with the goal of reaching our maximum 25% equity weighting. Businesses focused the past year on improving their capital structures: re-financing expensive debt, re-classifying capital structure and rightsizing dividend payouts. All of this is a positive for equities moving forward and with a covered-call overlay, we expect an above average return from our equity portfolio. The portfolio has been shifting to higher grade equities and using a longer option writing program (2 to 3 months out maximum).

We continue to favour the risk/reward in our preferred equity investments, as we are seeing 7-8% yield on BB classed paper. The space has largely been ignored by investors with high yield bonds and equities stealing the spotlight. We even see potential for strong capital appreciation on select higher quality (lower yield) paper, as the sector has to price issuances in the investors favor in order to attract attention.

It is important to remember that we are evaluating risk/reward and not adopting risk for the sake of higher yield. Chasing yield can be a hazardous proposition. We studiously monitor yield, duration, rating and other metrics, but feel that one of the most important factors is looking at the inherent risk involved in a potential reward.

We wish everyone well as we look forward to a great 2013 together.

PERFORMANCE (Class F as at December 31, 2012)

Net Asset Value	3 Month	Year-to-Date	1 Year	3 Year*	Since Inception*
$11.0257+	2.69%	13.28%	13.28%	7.61%	8.94%

Distribution: $0.16014958

+Post Distribution
*Annualized