VERTEX ONE
Asset Management Inc.

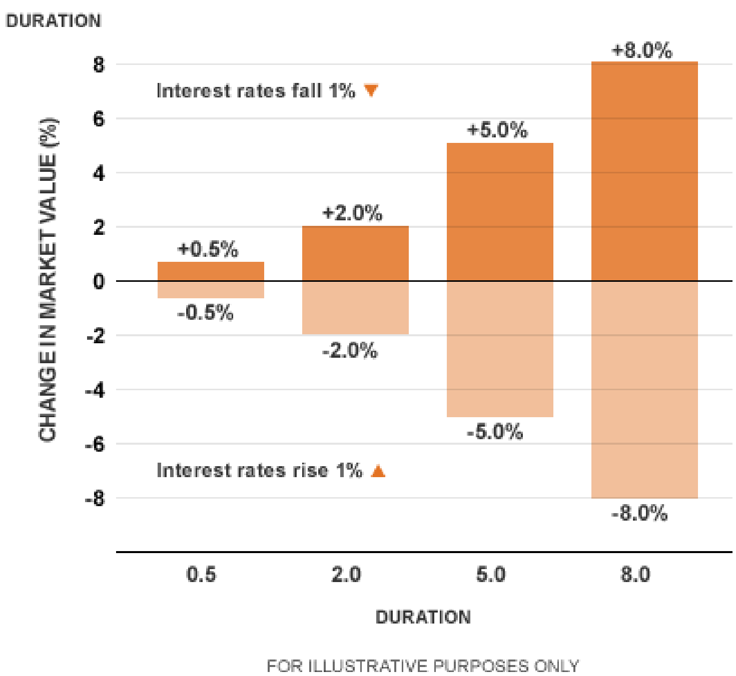
1920 – 1177 West Hastings Street
Vancouver, British Columbia V6E 2K3
www.vertexone.com
Phone: 604-681-5787
Fax: 604-681-5146

VERTEX ENHANCED INCOME FUND

Third Quarter Report, 2013

The Vertex Enhanced Income Fund finished the month of September up 0.90%. The fund is now up 1.65% for the 3rd quarter and 7.85% year-to-date.

It is worthwhile highlighting those returns for the Fund. They are a testament to our investing focus based upon the credit merits of a company, which tends to keep durations to the short-end of the yield curve (excluding Hybrid bonds which we've written previously about). We then look for bonds with higher-coupons which provide better returns and an interest rate buffer. Conversely, a focus on interest rates forces managers to stretch duration in order to capture higher yields at the longer end of the yield curve. This method exposes investments to duration risk: as interest rates increase, yield curve flattens and bond prices decrease.



Our concern is credit-risk, which we mitigate through careful analysis of a company's ability to fulfill its debt agreements and position diversification. We do not rely on rating agencies or interest-rate forecasts to dictate investment decisions. As such, the fund is capable of providing absolute returns through changing interest-rates. Case in point, the Scotia McLeod Mid-Term Total Return Bond Index is -1.03% year-to-date.

That said, we continue to point to the US Federal Reserve's policy of low interest rates to be transformational for the North American economy. It allows companies to refinance debt at lower rates, thereby right-sizing their capital structure and ridding the financial burden of 2008. Just last week, General Motors brought a new bond to market which allowed them to buy-back expensive preferred debt that was on their books, saving the company $100 million in annual interest payments.

Bond yields may still be near record lows and the stock market near record highs but the supply of growth capital is incredibly tight which is creating opportunities. Companies needing to raise growth capital in this environment are finding they need to pay a hefty price to attract capital. Private companies or private debt, carry a large premium and we are finding good opportunities in this market. There is a real disconnect between risk and the cost of capital.

Many pundits were dismayed that the Fed did not act a few weeks ago to reign in QE3 but with growth capital so tight, we think the Fed is rightly worried about the forward-looking economy. Companies like Apple and Verizon can raise debt at record low levels, companies can refinance debt to lower their cost-of-capital but what the Fed sees is the reality that economic growth needs to come from smaller companies. Smaller companies need access to capital to innovate and disrupt markets, in so doing they provide new sources of growth to the economy. It is still challenging for small companies to access affordable capital, a situation we are actively taking advantage of.

There are a lot of companies that can't wait for looser lending standards and need to come to the market to raise debt, creating opportunities for us. However, in today's lending environment the public market isn't as hospitable as the private market. Many public companies are utilizing relationships with private entities to raise debt because the terms are more favourable than the bank or public market. An example is a recent deal we entered with Conifex Timber where we purchased notes with an 8% coupon which included warrants. Smaller cap deals can offer between 10-12% coupon on convertible bonds or up to 20% in straight debt. Of course, we are cognizant to keep this part of the portfolio small as there is little to no liquidity in privately held debt.

The high yield portfolio was up 1.6% for the quarter. We started adding a few new positions to it as the Fed has provided the security that the 3% rate is now a cap they will defend on the US 10-year bond. Notably, we have started adding some energy exposure after largely staying away the last few years.

We continue to reduce the preferred portfolio. It was up 0.30% for the quarter.

The covered-call/equity portfolio returned around 3.8% for the quarter as we continues to take advantage of above average market volatility by selling calls on up to 80% of the equity portfolio.

PERFORMANCE (Class F as at September 30, 2013)

Net Asset Value	**1 Month**	**3 Month**	**Year-to-Date**	**1 Year**	**2 Year***	**3 Year***	**Since Inception***
$11.4884+	0.90%	1.65%	7.85%	10.76%	11.61%	6.98%	9.24%

September 13th Distribution: $ 0.096629

+Post Distribution
*Annualized