

VERTEX ENHANCED INCOME FUND

Fourth Quarter Report, 2013

The Vertex Enhanced Income Fund (Class F) finished the month of December up 1.05%, up 3.56% for the fourth quarter and up 11.69% for the full calendar year of 2013.

It was another month where interest rates backed up and thus bond prices went down in North America, continuing a trend that started in earnest back in May (see below chart).

CBOE Interest Rate 10-Year T-No



All the while, high-yield bonds bucked the trend yet again and finished December and the quarter positive. Much of this can be contributed to the correlation of the high yield market towards equity markets. In an orderly market and to a point, high yield will have some correlation with the equity markets. Even in a down market for government and investment grade bonds, high yield can remain resilient alongside a rising equity market. That said, at some point significantly higher rates can have an impact on the prices of the high yield market.

We stand by a central theme we've had the past few years of LMEs (Liability Management Exercises). We have rotated more of the portfolio into floating rate securities which we feel offer good risk/reward opportunity. If you recall, we prefer investments that offer secondary catalysts and we feel the time has come to invest in select low-price, low-coupon securities. These securities not only have low duration (coupon resets quarterly) but are nice to hold in a rising-rate environment. Expectations of rising rates may actually push floaters up in price even in a rising rate environment. If they include a secondary catalyst that makes them the subject of an LME we would consider the investment a win-win. The investor holds a bond that is called at a premium to market price and the company lowers its debt outstanding.

We still have a substantial portfolio weight in the other side of that theme: companies looking to refinance and take advantage of lower rates (while still available) by refinancing high-

coupon debt. These are securities trading above par with a large carry (coupon) that the company could refinance at lower rates to cut interest costs moving forward. The past few years have been ripe with companies refinancing high-coupon debt at lower rates, leaving the few high-coupon bonds which remain with targets on their back. As interest rates increase, so does a company's incentive to look at the value in refinancing and we think that could be catalyst some of these companies need to actually make the decision. In December we saw two more bonds be called away from us at a premium.

Another bond we own emerged from Chapter 11 bankruptcy with a fresh balance sheet and the process has made our senior secured bond even more valuable. The fixed income portfolio returned about 31 bps for the month.

The covered call portfolio continued to push forward as the equity markets remained resilient. Despite not seeing as many calls finish in the money for the month, we managed to balance the incoming option premium with the good equity markets, selling calls all the way up. As such, we still see a benefit in covering 70-80% of the equity portfolio with options.

In the preferred portfolio we further reduced the straight preferred equity holdings while adding to floating rate or convertible preferred shares.

2014 marks a change for the fund moving forward. In response to our clients we have instituted a fixed 5.00% annual distribution instead of its previous variable distribution.

It is important to remember that our focus is on risk/reward of investments. We do not absorb risk for the sake of higher yield. Chasing yield can be a risky business that can turn on your very quickly. We look forward to a prosperous 2014 and wish everyone well in the New Year.

PERFORMANCE (Class F as at December 31, 2013)

Net Asset Value	1 Month	3 Month	Year-to-Date	1 Year	2 Year*	3 Year*	Since Inception*
\$11.7699 ⁺	1.05%	3.56%	11.69%	11.69%	12.48%	6.08%	9.57%

Class F December 16th Distribution: \$0.12707 (income)

Class B December 16th Distribution: \$0.12615 (income)

⁺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.