

## **VERTEX ENHANCED INCOME FUND**

First Quarter Report, 2014

The Vertex Enhanced Income Fund F returned 0.67% for the month of March and is now up 3.61% for the Quarter and for the year.

The bond portfolio continued to benefit from catalysts coming to fruition over the quarter:

- JC Penney better earnings and cash flow bumped up their short dated bonds 10 points over the Quarter.
- A Time Warner deal with Central European Media Enterprises (they own close to 50% of the equity) to invest more cash bumped the debt by 8 points over the quarter.
- Stratus Technologies signed a deal with a private equity company to take the company private and refinancing the bonds at a 10 point premium.
- We are seeing at least 2 bonds called every month.

One of our current strategies is holding high-coupon, short-duration bonds which have call optionality built into their indentures. These features not only reduce interest rate risk but provide a catalyst for capital gain. When bonds are called, it is usually at a premium to the market price. The bond portfolio finished March up 45 bps while the Barclays High Yield Bond Index was up 22 bps. Also of note is that our portfolio of Pay-Day Lenders has turned around nicely and was up almost 7% for the Quarter. Improved regulation has been a positive for these companies as it weeds out the fringe players who give the sector a bad name.

Covered call writing continues to be an effective contributor to the portfolio's yield. Writing calls on dividend paying stocks in the portfolio generates surplus income. The key is consistency as volatility and assignments affect the outcome. For that reason, we write options month-after-month which produces a consistent income stream to augment dividend payments. The result is the yield on a stock can turn from 4% into 10%.

We are pleased to see more equity IPOs both for the year so far and expected moving forward. IPOs are positive for a number of reasons:

- Indication of market stability
- Right sizing of capital structure

Of course, Candy Crush's (King Digital) IPO which sold off sharply upon trading may give other companies pause but we think this won't be enough to slow the IPO pipeline. After all, mobile gaming is in a bubble of its own. IPOs are the canary in the coal mine and if the market for them remains favourable, we expect to see companies begin raising growth capital. Growth capital is an important part of the market that has been overlooked in recent years with investors clamoring to attain yield. The market needs a healthy influx of growth capital in

order to build new businesses. It's normal for the market to be closed to growth capital for a few years but it is important that periodic windows open up. Income is great in the short term but the economy is stronger with a balance of income and growth.

Starting this quarter, the distribution on the Vertex Enhanced Income Fund changed from a variable distribution to a fixed 5% per annum distribution. Each quarter the fund will distribute 1.25% of its NAV, with any excess (to 5%) income or capital gains distributed in Q4.

## **PERFORMANCE** (Class F as at March 31, 2014)

<b>Net Asset Value</b>	<b>1 Month</b>	<b>3 Month</b>	<b>Year-to-Date</b>	<b>1 Year</b>	<b>2 Year*</b>	<b>3 Year*</b>	<b>Since Inception*</b>
\$12.0431 <sup>+</sup>	0.67%	3.61%	3.61%	9.68%	10.96%	5.70%	9.87%

Class F March 15<sup>th</sup> Distribution: \$0.151733

Class B March 15<sup>th</sup> Distribution: \$0.150975

<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.