

VERTEX ENHANCED INCOME FUND

Second Quarter Report, 2014

The Vertex Enhanced Income Fund Class F returned 1.19% for the month and 3.23% for the second quarter of 2014. It certainly didn't come easy but the result was satisfying. Year-to-date the fund is now up 6.95%.

The bond portfolio continued to perform well as we identified some favourable investment themes. Early in the quarter we came to the conclusion that the US energy renaissance was finally upon us and that US energy bonds were being mispriced. The risk/reward was skewed in our favour. Reservoirs were to the point where companies understood how many fracs they needed, how many pounds per frac and how long each horizontal well needed to be. It was no longer a science experiment but a cookie-cutter operation, bringing the risk curve way down. Technology was also helping improve companies cost curves. As a result, the time-per-well and cost-per-well were decreasing while the internal rate-of-return per well was going up. We dove in and added an 8% weight in select US energy bonds to the portfolio. Less than a few weeks later, the sector started to move and we have tightened nicely since.

We continue to see a rotation with at least 1-2 bonds per month being called. We look for bonds that are candidates for refinancing which helps to keep the portfolio duration low and decrease interest rate risk. These are high-coupon, short-duration bonds that trade above par for companies with positive, free cash flow and good management. This quarter we saw two of our convertible bonds get called, as their price had moved so much that the companies were allowed to exercise a call function to convert them into equity. Losing a winning position is a welcomed problem under these circumstances. We also have added a few names to our private bond portfolio that have outsized coupons. Note here that these are very short dated and we keep the weight in the portfolio small.

We are starting to rebuild our preferred equity portfolio, mostly on the back of what we talked about in bonds. There are some US energy names that have high-yielding preferred shares which we view to have attractive risk adjusted return profiles. Many names come with a 9+% yield, some even above 10%. There are also other catalyst type preferred names that work well for our portfolio. None of these should have much correlation to interest rates.

Call-option writing continues to take place on 75-80% of the equity portfolio, generating consistent income. Most of the opportunities in equity are in the US but there have been some standouts in Canada, including a few IPOs that we were delighted to participate in this quarter - Prairie Sky Resources and Callidus Capital. Both names were amazing first day performers, contributing nicely to the portfolio's profits. We have rotated out of pharma names like Merck, Bristol Myers and Eli Lilly for the first time in years and into more industrial names along with some oil & gas drillers.

One of our equity positions is the Sea to Sky Gondola in Squamish, BC. They had a successful Grand opening in early May where they sold more food and beverage at the top restaurant than “The Roundhouse” atop Whistler in January! Needless to say, actual results so far are blowing away projections and every time we drive by the parking lot is full. If you live out west or are coming to Whistler, consider stopping by for a trip to the top, it really is breathtaking.

We continue to see no shortage of opportunities in the market to deploy capital. Until next quarter...may the yield-curve be with you.

NOTE: As of July 15th, 2014 the Vertex Enhanced Income Fund will begin distributing income at a fixed monthly rate of 1/12 of 5%. Any applicable capital gains will be distributed at year end (December 15th).

PERFORMANCE (Class F as at June 30, 2014)

Net Asset Value	1 Month	3 Month	Year-to-Date	1 Year	2 Year*	3 Year*	Since Inception*
\$12.2773 ⁺	1.19%	3.23%	6.95%	12.58%	13.50%	7.39%	10.06%

Class F June 15th Distribution: \$0.154333

Class B June 15th Distribution: \$0.153343

⁺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.