

VERTEX ENHANCED INCOME FUND

Third Quarter Report, 2014

The Vertex Enhanced Income F Class finished the 3rd quarter down 1.81%. This is the first down quarter in some time and it all came in the last two weeks amid a global securities correction.

There was considerable market disruption which culminated in high-yield being re-priced behind a major drop in equity markets over the same time frame. The equity correction may have precipitated high-yield but news that Bill Gross was leaving PIMCO compounded cross-market movement. Many PIMCO clients aren't waiting around to assess the fallout and instead rushed to exit PIMCO's outsized funds. These massive redemptions without offsetting purchases have created a dislocation but, fear not, this money is not going away. Redeemed assets will flow back into yield product as soon as markets show some stability; whether that is into Gross' new fund or to other yield products ("Have you met my friend, Vertex?") it is a translocation nonetheless.

We also witnessed large exchange traded funds (JNK, HYG) redemptions, causing dislocations because of the relative illiquid nature of this market. The mechanics are complicated but let's just say that many large high-yield traders were shorting S&P futures, as the only hedge mechanism available to them, accentuating a broader equity market selloff. Not to say there is a liquidity concern with high-yield, but like many markets, there is just not equity-like liquidity that can handle billions of dollars per day moves.

A few of our companies were taken over as Healthlease Properties (equity), Chiquita Brands (convert) and Move Inc (convert) all received acquisition bids. We have owned Healthlease Properties since its IPO and participated in every offering and never understood why we were one of the only institutions participating in the name. It generated an outsized return for the fund.

Our ongoing investment thesis continues to play out with 2-3 bonds being called per month due to refinancing, liability management exercises or conversion as they trade well above par. A perfect example of one of our strategies is Travelport. We bought Travelport's 13.875% bonds in the spring after it was announced they wanted to undertake a global refinancing and IPO. Whether or not they completed this IPO, the company was well positioned for an IPO, had free cash flow and needed to right size their capital structure. Using equity proceeds to pay down debt seemed the most efficient use of funds but we knew if the equity markets were not open for IPOs, the company would be able to refinance their bonds at a much lower coupon. That being the case, we purchased their bonds with a 12% annualized return to October 2014. When the company IPO did occur in September, they immediately called the bonds effective October 2nd, resulting in an outsized return for the risk assumed.

We are seeing some great opportunities in both high-yield and hard hit equities. This mini equity market correction has led us to add to positions with juicy yields coupled with larger option premiums as volatility increased. Further, during the quarter, a number of positions have been added to our direct negotiated note portfolio. Banks are generally not lending to smaller firms with immediate capital requirements. This is a great opportunity as these issues are first mortgage guarantee with terms and yields far superior to debt underwritten by Wall St. and Bay St. It's only a small component but every security enhancing yield and diversifying our sources of cash flow serves to increase yield and reduce overall portfolio risk.

PERFORMANCE (Class F returns as at September 30, 2014)

Net Asset Value	1 Month	3 Month	Year-to-Date	1 Year	3 Year*	5 Year*	Since Inception*
\$11.9042 ⁺	-2.66%	-1.81%	5.01%	8.75%	10.65%	9.31%	9.15%

Net of all fees and includes reinvested distributions.

⁺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.