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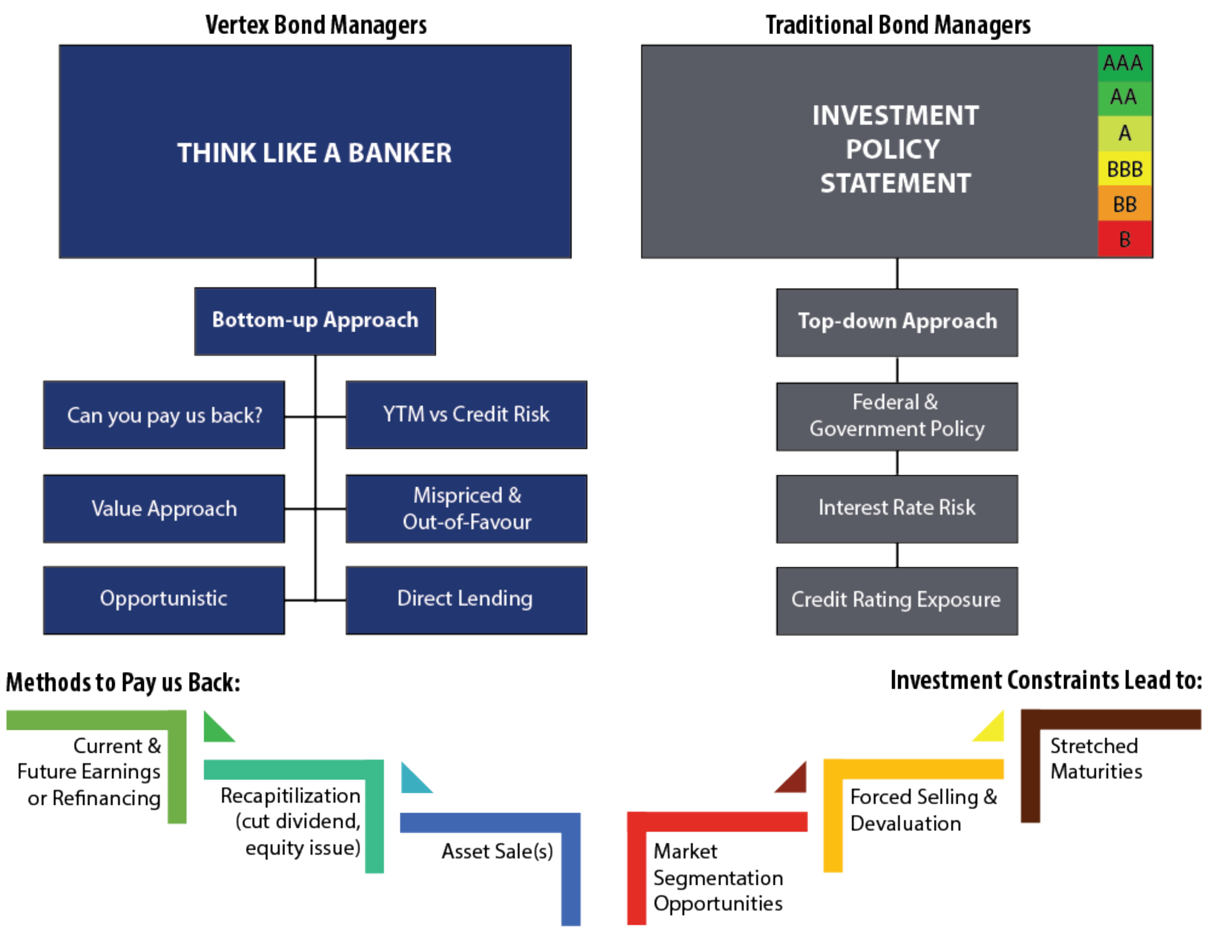
VERTEX ENHANCED INCOME FUND

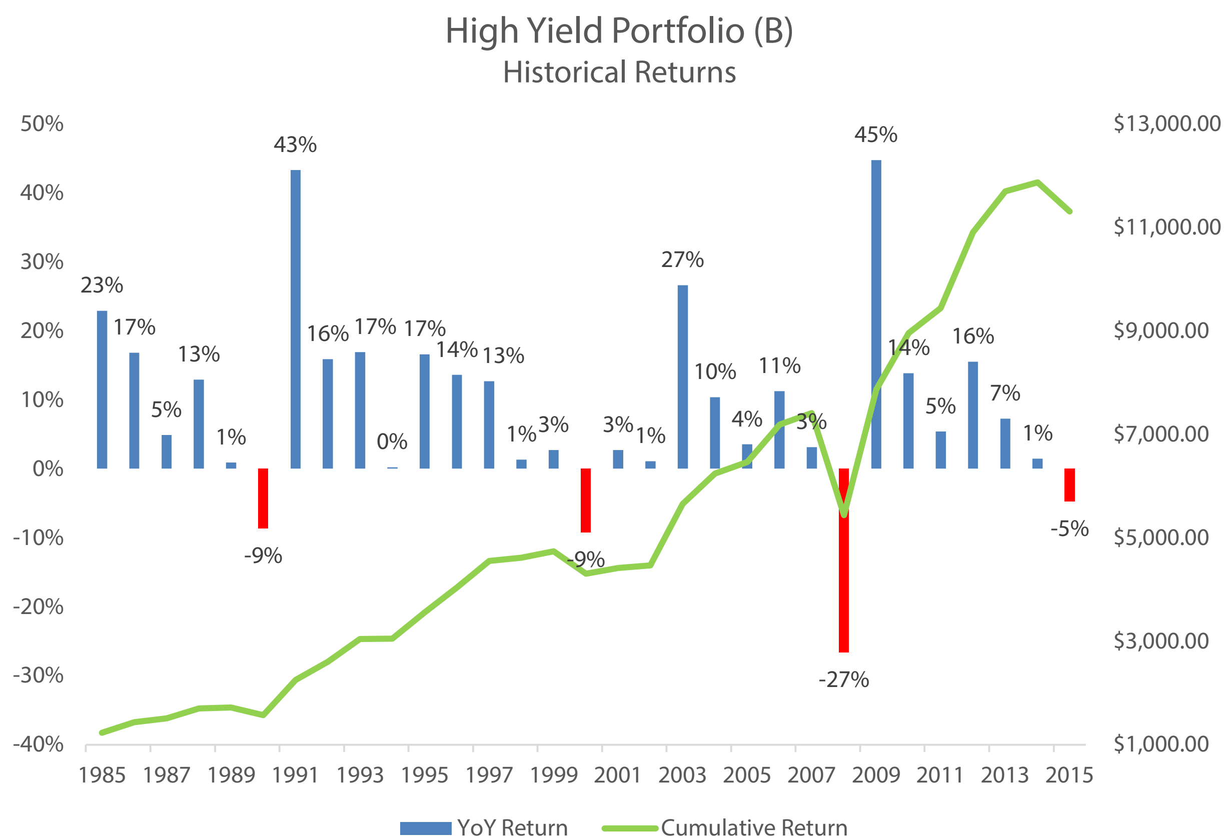
Fourth Quarter Report, 2015

Volatility has certainly been high these days with seemingly no escape from it. To a large extent, this is something that's up to the market. With interest rates at 1.3% for a Government of Canada 10-year bond, future returns are pretty uncertain. At best, a saver will earn 1.3% but with a rise to 3%, this bond will suffer a loss of 14%. If the yield on a Government of Canada 30-year bond rises from 2% today to 4%, the price will fall from 132 today to 91. That's a decline of 31%. Therefore, we really like how we're positioned when thinking more like a banker lending money than a bond trader buying and selling bonds in a portfolio. It forces us to consider the credit worthiness of our borrowing company and their ability to pay rather than something completely out of our control, like the direction of interest rates. The below diagram describes our decision making process when investing in a bond, with a comparison to the traditional approach.



The Fund (F Class) was down 3.41% in the fourth quarter and down 11.47% for the calendar year. Although a disappointing result, rest assured that your investment portfolio is not impaired. Here's what happened. The high-yield bond market was down last year (only its fourth down year in 30 years). A B-rated portfolio was down 5% last year, which is comparable to your portfolio's average credit rating of B+. When isolating the performance of the Fund's bonds they were in line with the market – down approximately 5.5%. This is a good time to remind investors that the Vertex Enhanced Income Fund is not a pure bond fund. We invest in bonds, convertible bonds, preferred equity, convertible preferred equity, common equity and write covered-call options. This diversification provides your fund with multiple sources of income, as well as liquidity, which is important when investing in a potentially illiquid high-yield market. We continue to favour high-yield bonds over traditional bonds due to the long-term valuation risk in government and treasury bonds.

During 2015 the stocks we held fell. First, it was the decline of energy prices and concerns over the debt-levels of energy companies, then, worries regarding China began to circulate. At 20% of the Fund, the equity component of the portfolio accounted for a disproportionate part of the decline in 2015. At the end of 2014, we transitioned the equity holdings from financial companies to value stocks, paying large dividends. Unfortunately, so far that has not worked out. We bought these equities for their attractive dividend yield at a time when their stocks had already been punished, thinking that we would collect an income premium while their prices stabilized. While we were too early getting in, the pendulum has certainly swung too far. The large disconnect between price and value, or, as in the case of our bonds, price and par, has not been this high since the financial crisis of 2008/2009. Therefore, we continue to own these investments and have full confidence that their prices will rebound.



Source: Bloomberg, Barclays Research

As seen in the above chart, high-yield bonds have been remarkably resilient following down years. Once the dust settles, we believe 2016 will be no different. We are continually assessing the balance sheets of our companies and from these levels we expect them to account for a disproportionate part of positive returns going forward. As investors, we realize the premium for liquidity has increased substantially, but also realize the incredible opportunity in front of us. Some of these bonds have moved down over 50 points (66%) without a fundamental change in their underlying business from 6-12 months ago. It isn't hyperbole to say this opportunity is reminiscent of 2009. The yield on your fund has reached a whopping 12.5%, with a very low modified duration of 1.94 years!

To put this in perspective, the duration of a "safe" 2-year Treasury bond is 1.92 years but carries a yield of only 0.87%! It returned 0.9% annualized over the last five years, while the average inflation rate was 1.84%. A typical core bond fund (iShares Canadian Universe Bond Index ETF) has a duration of 7.36 years and a yield of 2.02%. We therefore reiterate that with double digit yields and a very short duration, your bond portfolio is well positioned for the next five years. Note: duration is the sensitivity of a bond's price to changes in interest rates (lower duration = less sensitivity).

Earlier, we discussed our investment process is based around "thinking like a banker" and here's what that means. We've had two companies pay back their debt in the past two weeks (with another poised to pay off all its debt in the first half of 2016). Yet, their bonds were trading with over a 25% discount-to-par when it was announced! The following table of metrics on some of our top bond holdings illustrates just how soon (maturity date) we'll be paid back from our investee companies:

Bond Name	Maturity Date	Yield-to-Maturity	Duration (years)
DYNASTY METALS & MINING	5/31/2016	16.00%	0.63
BPA LABORATORIES	4/1/2017	12.25%	0.22
CONIFEX TIMBER	9/18/2017	8.00%	1.50
CATALYST PAPER	10/30/2017	11.00%	1.46
CENT EURO MEDIA	12/1/2017	15.00%	1.70
INVENTIV HEALTH	8/15/2018	10.00%	2.41
REAL ALLOY HOLD	1/15/2019	10.00%	2.08
IMPERIAL METALS	3/15/2019	7.00%	2.69
HUB HOLDINGS LLC	7/15/2019	8.13%	2.82
COMMUNITY VEHICLE	8/1/2019	12.00%	0.82
1784761 ALBERTA LTD	8/1/2019	18.00%	0.82
HD SUPPLY INC	7/15/2020	11.50%	0.72
TGC LENDING INC	7/27/2020	12.00%	3.56
FUERSTENBERG	12/29/2049	10.25%	0.46
ILFC E-CAP TRUST	12/21/2065	6.25%	0.50

As you can see, the vast majority of the bonds that your fund holds will be paid back <u>within three years</u>. Meaning, these depressed bonds priced at a discount to their maturity value (par) will provide a good return as they rise back to par.

To conclude, there is nowhere to hide in today's world of ultra-low interest rates. A saver/investor's only choice is to diversify into different asset classes. But, buyer beware. Treasury bonds, those perceived to have upmost safety, could have tremendous losses in the future. Equities, those perceived to have greatest risk, could have tremendous gains. The reason:

- The Canada 10-year Bond trades at a whopping 76 times earnings.
  - Its earnings yield is 1.3%.
- The Canadian Stock Market trades at 14 times estimated earnings.
  - Its earnings yield is 7%.

Quite simply, this is why your fund is constructed of a diversified portfolio of companies paying much higher rates than Government bonds and equities producing much higher earnings.

A Note on Distributions

Income from the portfolio is distributed to unitholders on a monthly basis at a rate of 5% per annum. If the portfolio generates income exceeding 5% of the NAV, the surplus income is distributed on December 15th. This occurred in 2015 with the portfolio yield rising well above 5%, the Fund had a large income distribution. Unitholders have the option of receiving these distributions in the form of cash payments or as a reinvestment in additional units.

Please be advised that distributions decrease the NAV (price) of a fund. Thus, when gauging the performance of your fund it is necessary to add-back distributions to the NAV (as they are part of your return on investment). All of our advertised performance figures use reinvested distributions.

As always, please call us if you have any questions or concerns.

PERFORMANCE (Class F returns as at December 31, 2015)

Net Asset Value	1 Month	3 Month	Year-to-Date	1 Year	3 Year*	5 Year*	Since Inception*
$8.9521+	-2.93%	-3.41%	-11.47%	-11.47%	0.04%	1.37%	4.67%

Net of all fees and includes reinvested distributions.
+Post Distribution *Annualized

2015 DISTRIBUTION

	Capital Gains	Income	Total
Class F	-	$0.935203	$0.935203
Class B	-	$0.748443	$0.748443