

VERTEX ENHANCED INCOME FUND

Second Quarter Report 2016

The Vertex Enhanced Income Fund was up 3.41% (Class F) for the second quarter of 2016. We often speak to the importance of the velocity of money to the marketplace and in particular, high yield bonds. When the velocity is healthy, money is moving through the system with little friction; generally referred to as *risk on*. In a *risk on* state, money is recycled regularly, Venture Capitalists and Private Equity firms are able to move in, and importantly, out of stocks without issue. IPOs abound, as do secondary bond and equity issues, mergers and acquisitions. Everyone is happy.

For the past 18 months, the market has been plagued by the poor velocity of money, also known as *risk off*. IPO's slowed to the point of being virtually nonexistent during the first three months of 2016, high yield bonds were priced as if they couldn't refinance within the next three years, and secondary equity issues fell dormant. Fortunately, this state of atrophy does not last forever. Eventually, a large IPO comes along and spurs investor enthusiasm. In this case, we saw Twilio test the water towards the end of Q2 - the first tech Unicorn IPO (a start-up valued over \$1 Billion) since November 2015. And it was received favourably by the market. As the result, more companies filed IPO papers, there was the highest primary and secondary issuance of bonds in six months, and a multitude of large cap equities issued new shares. There is a "waterfall" effect as the velocity of money improves for large-cap, then mid-cap, and then finally small-cap equities. Each step is a higher level of comfort for riskier assets.

This spurt in capital activity bodes well for mergers and acquisitions, as companies feel more secure that they will be able to raise either secondary market debt or equity. Private Equity is a big player in this market and without stable markets, these firms are not able to invest their capital. A healthy market for capital flow is essential for riskier assets like high-yield bonds to perform. A shift in sentiment, like we are seeing, pressures high-yield prices back towards par as investors' gain confidence in companies' ability to refinance and repay creditors.

The Fund's equity weight currently stands at 20%, diversified across: financials, mining, oil & gas, insurance, and telecommunications. We continue to hold a reduced allocation to preferred equity. With an asset mix of 75% high-yield bonds, 20% equity, and 5% preferred equity, the Fund is well positioned for recovering credit and equity markets.

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

PERFORMANCE (Class F returns as at June 30, 2016)

Net Asset Value	1 Month	3 Month	Year-to-Date	1 Year	3 Year*	5 Year*	Since Inception*
\$9.0656 ⁺	-1.06%	3.41%	3.83%	-8.13%	-0.68%	1.51%	4.90%

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.