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VERTEX ENHANCED INCOME FUND

First Quarter Report 2017

The Vertex Enhanced Income Fund (Class F) finished the first quarter of 2017 up 4.26%, putting the one-year return at 19.25%.

The boost in Q1 came from five bonds being called – a new record for us. Of these bonds, Prospect Holdings (a mortgage provider) delivered a healthy profit in the month of February. Back in March 2016, Prospect Holdings ran a Dutch auction, wherein they asked bondholders to tender between a price of $54 and $60 to buy back $120 million out of $150 million outstanding. We assessed the offer and believed the bonds to be worth at least $76, but with the small amount of issue left outstanding, we knew liquidity would be tight; so, we tendered our bonds at $60. The auction resulted in Prospect buying the $120 million at $57. That left us holding $2 million of the now $30 million outstanding. Being that there was a small amount left outstanding, the bond traded just once over the following nine months and fell to $41. Then in February, the company announced they were calling the bonds (buying them back) as they were better off simply clearing them from their books. The price? $102.66. An overnight gain of 250% and indicative of the peculiar nature of the high-yield market. The Prospect investment reinforces why our bottom-up process focuses on a company's solvency to pay us back rather than its agency-rating or a viewpoint on interest rates.

The rest of the high-yield portfolio was up about 3.5% for the quarter, diversified across the portfolio as the corporate bond market followed the equity markets higher. The S&P 500 finished Q1 up 6.1% and the TSX up 2.4%, while the Barclays US Corporate High Yield Total Return Index finished up 2.7%.

The equity portfolio finished up about 2.2% as tech and financial stocks moved up, while our offshore drilling stocks moved down with the price of oil late in the quarter. Energy will be an interesting space over the next few years as North American shale continues to ramp up, and technology continues to exponentially drive down costs. In the Permian Basin – the de facto technological "Silicon Valley of oil" (if there was one) – companies have extended drilling a single hole by a factor of 3; they are drilling more holes from the same pad, contributing to massive cost savings. Companies are learning, and across North America the story continues to be the decreased costs, making US production a bigger story moving forward.

Elsewhere, it looks like Saudi Arabia's national oil and gas company, Saudi Aramco, wants to IPO in 2018 or early 2019. While on the surface listing just 5% of this $2 Trillion (with a "T") company may sound innocuous, the impact could be material. The Saudi Kingdom would like to diversify some of its' assets away from energy and into technology, but Aramco has been the balancing act for the last six months in leading production cuts to balance supply & demand, and stabilize the price of oil. Questions remain about the probability of cutting production once they trade publicly; the liability of potentially not optimizing production for public investors could put them at legal risk, depending on what exchange they choose to list their shares.

We have been adding to securities in the process of going through a restructuring, coming out of Chapter 11, with fresh capital, new management, and reduced or sometimes no debt. We're very excited about these underfollowed and unloved securities which offer a unique risk/reward proposition.

Alas, no market commentary right now would be complete without talking about Mr. Trump. While we won't comment on his politics, the market has gone up steadily since his 2016 election. Even his failed attempt at Healthcare reform barely affected the Trump rally. One thing the Trump diversion has done, is shift focus off the Fed and their attempts to thread the needle – raising rates to keep the economy from overheating but not so much as to falter its progress. So far, the Fed has done a great job at raising rates and telegraphing a decreased balance sheet moving forward, without much more than a hiccup from the markets. An act many pundits and observers thought impossible just a few short years ago. Once again, no surprise there.

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

PERFORMANCE (Class F returns as at March 31, 2017)

Net Asset Value	1 Month	3 Month	Year-to-Date	1 Year	3 Year*	5 Year*	Since Inception*
$9.8342+	0.26%	4.26%	4.26%	19.25%	1.18%	4.99%	6.40%

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