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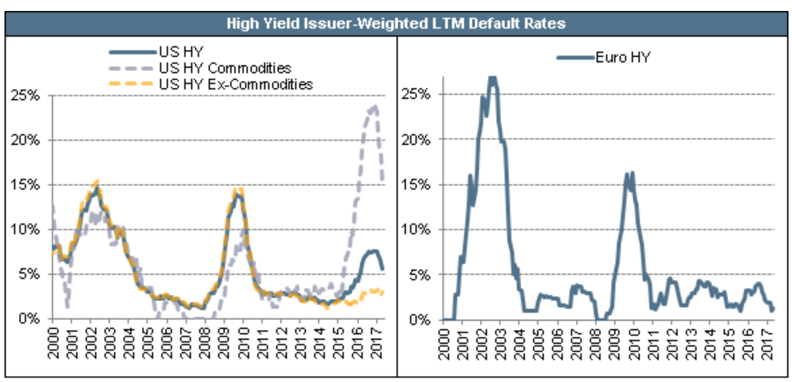
VERTEX ENHANCED INCOME FUND

Second Quarter Report 2017

The Vertex Enhanced Income Fund returned -2.63% (Class F) for the 2nd Quarter of 2017. Despite the weakness in the equity portfolio, the high-yield bond portfolio remained flat over the quarter, with the help of five bonds being called. A good example is Taseko Mines: bonds we were able to buy with an average price of $77 when they were out of favour. They were recently called at par, giving us a double-digit, annualized return due to the mispriced opportunity of which we took advantage.

We are anticipating that a number of our bond issues will go through a restructuring – either through a bankruptcy process or negotiation. Energy restructurings have been all the rage over the past 12 months. The securities that emerge from this tend to be low leverage (something we haven't seen since 2008). Typically, if these securities trade, they are orphaned by a market waiting to see 2-3 quarters of good earnings before getting any attention. Going forward, more opportunities will arise from these restructurings.

Default rates in the high-yield market have been low, save for the commodity sector (see below image). With historically low interest rates and investor demand for debt, many commodity companies took on more debt (risk) than they should have. The rewards far outweighed the risk and management teams literally bet the farm. A strategy that worked until commodity prices crashed and crippled cash flow. What emerged from the wreckage were situations where new, conservative management teams have taken over asset-rich companies, and this is where we think the opportunity lies. New management will rebuild companies to be profitable in the current pricing environment, while their securities are still valued by the old regime's failure.



Source: CreditSights
Commodities includes Energy, Metals and Mining

Energy high-yield was beaten over the quarter (above chart) with oil trading near a 9-month low. Most of our energy exposure is centered in the Permian Basin region, which at this point is a technology play. Day-by-day costs are decreasing, making the area more profitable and the securities more valuable. The dislocation between price and perceived value makes fertile ground for investing as investors are slow to pick up on a shifting paradigm. It's extremely tough to forecast oil prices; instead, we focus on the bottom-up picture. There's much to like about the current energy sector.

As we touched on earlier, the losses over the quarter were dominated by the equity portfolio – commodity price softness caused mark-to-market losses in offshore drillers and copper miners. We bought these commodity-related securities when the value of securities was well disconnected from the value of the assets. We didn't expect to catch the bottom (and the ride's lasted longer than we'd like), but the reality is that any new oil discoveries are likely to be offshore. Despite what you may read, the alternative energy segment can't grow fast enough to replace demand, so the economy is going to need these assets.

We've added to our convertible-bond portfolio to bring the weight above 6%. We've nimbly added to names that carry yield and equity upside. Aside from the energy exposure, this asset class had a good quarter.

Other than everyone, who thinks there's a housing bubble? Home Capital dominated second quarter headlines in Canada and was widely touted as the first shoe to drop in the Canadian housing "bubble". But, just because the masses will it, doesn't make it true. Count Warren Buffett as a nonbeliever. He bought close to 40% of Home Capital's equity and gave them a $2 Billion line of credit. What does he know that we don't? Perhaps nothing, but it's hard to argue with his track record for success with moves like this in the past (think of his Goldman Sachs investment right after Lehman's collapse). Home Capital has been widely known as the last resort for lending in Canadian housing. We're not sure how much will change under Buffet's influence, but the velocity of capital is important. The more friction money-flow has, the higher the probability of a problem. Buffet's investment should keep the money flowing.

PERFORMANCE (Class F returns as at June 30, 2017)

Net Asset Value	**1 Month**	**3 Month**	**Year-to-Date**	**1 Year**	**3 Year***	**5 Year***	**Since Inception***
$ 9.4569+	-0.86%	-2.63%	1.52%	12.29%	-0.78%	4.71%	5.83%

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.