

VERTEX ENHANCED INCOME FUND

Third Quarter Report 2017

The Vertex Enhanced Income Fund returned 1.51% for the month of September and 3.39% for the third quarter of 2017.

The equity component of the fund provided the bulk of our returns for the month of September. A material portion of the equity weight (currently 24.49% of the fund) is allocated to offshore drilling and other energy names. Saudi Arabia is creating an interesting dynamic as they push forward to list Saudi Aramco on a public exchange in 2018. The Saudis have always taken on the role of OPEC swing production, taking the lead in lowering production when OPEC wanted to raise prices, and raising production when OPEC wanted to keep prices in check (theoretically we might someday get to that point).

Recently, the Saudis convinced the Russians that curtailing oil production for the next 18 months is a good thing. Their goal is to counter balance the increase in production coming out of the US Permian Basin region – a pure technology play resulting in the daily production of more oil at lower costs. Over the last few years, the Saudis have tried to drown out US production with lower prices. They've now realized they were too late on this play and have resorted to a new strategy.

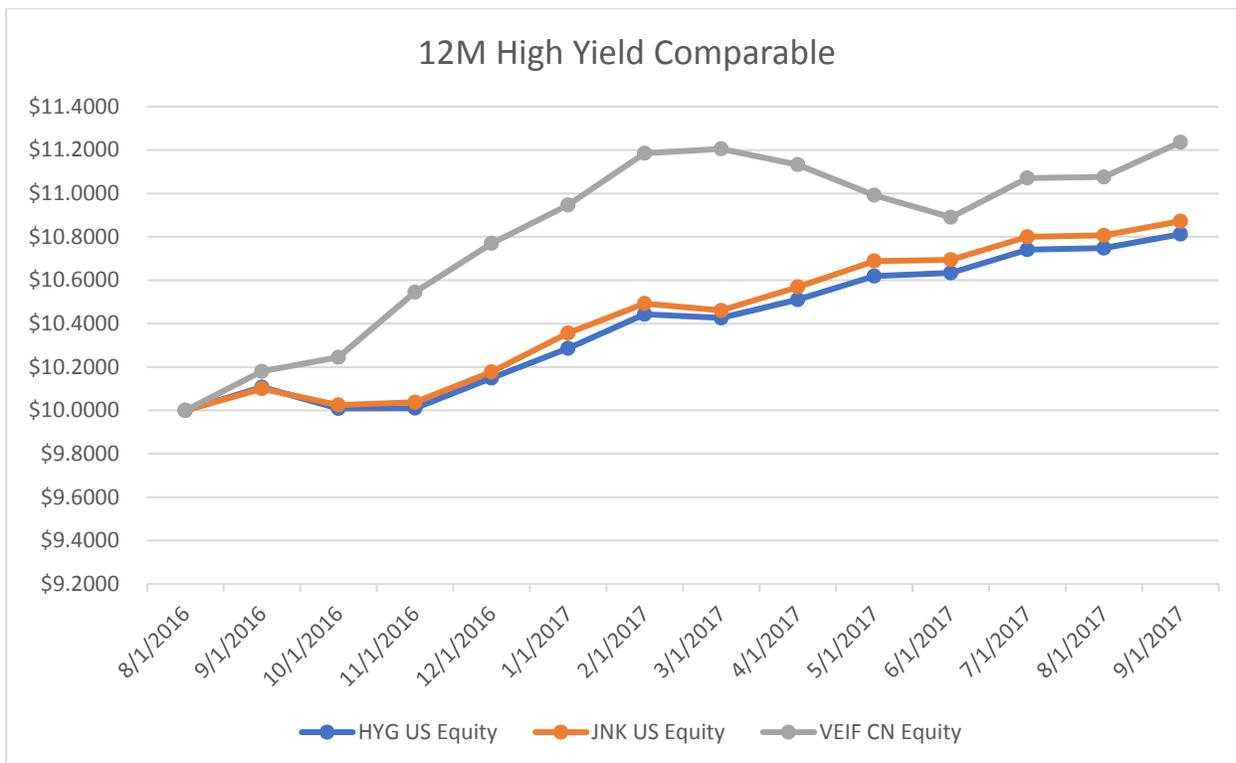
What materializes after Saudi Aramco's IPO remains to be seen, but energy basically has what amounts to a free put on oil for the next 12-15 months. The Saudis want to show profitability and keep prices up so they get the best price when the issue comes to market. They'll keep cutting to keep prices up, attempting to make Aramco looking shiny and bright.

A stable oil market should be good for offshore drilling companies. With most trading at a deep discount to replacement value, we see considerable opportunities for our offshore drilling positions.

The high-yield bond component of the portfolio was up for the quarter as well. Some restructurings have gone through, while a few have been put on hold as bondholders continue to negotiate on terms. Seadrill was the largest loser over the month and quarter. Why? The company offered terms in a restructuring that looked particularly unfair to bondholders, and bondholders are fighting back. We see this as an opening and expect a negotiation to yield better terms for our bonds.

The convertible portfolio was a big winner with returns slightly over 400bps for the month and the quarter. We added beta to the portfolio over the summer and remain bullish on the names in this segment of the portfolio.

There's a lot of talk about high-yield exposure through the ever-popular ETFs: HYG (iShares High Yield Corporate Bond ETF) and JNK (Barclays High Yield Bond ETF). Some people prefer to buy the index rather than an individual fund, so we wondered how we were doing against the ETFs lately. Below, we put together a the 12-month chart (net of fees):



Though it's a small data set, we continue to work hard to not only outperform but to provide value. We expect the fund to return an average of 6-8% per year over time and add alpha as part of your fixed income portfolio.

October is always a scary month for investors, and why not, with Halloween around the bend. Kidding aside, we don't see any cogs in the velocity flow of money that could cause immediate issues. We've listened to many of the prognosticators call the top over the last 6 months and we don't see any short-term issues in the market, beyond corrections that can happen at any time. What we do see is opportunity. Not just to keep outperforming the high-yield ETFs, but for our equities and the part of our bond portfolio that is more equity correlated.

We have added to our fixed/floating positions to hedge any correlation to rising rates. The current yield on the portfolio is over 10% (bond portfolio is 14%) and we have a duration of just over 2 years (excluding convertible bonds, it would go to less than 2 years), so if you're looking for bond alpha... look no further.

Until next time!

PERFORMANCE (Class F returns as at September 29, 2017)

Net Asset Value	1 Month	3 Month	Year-to-Date	1 Year	3 Year*	5 Year*	Since Inception*
\$ 9.6558 ⁺	1.51%	3.39%	4.97%	11.29%	0.95%	4.39%	6.08%

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.