VERTEX ONE
Asset Management Inc.

3200-1021 West Hastings Street
Vancouver, British Columbia V6E 0C3
www.vertexone.com
Phone: 604-681-5787

VERTEX ENHANCED INCOME FUND

Half-Time Report 2018

When we created the Enhanced Income Fund back in 2009, our idea was to have a fund providing income above what traditional bonds generate, while avoiding the large drawdowns seen in equities over full cycles. Further, we built the fund with a very short duration in order to mitigate interest rate risk, should rates turn upwards. What's interesting is since the fund commenced, none of these risks materialized to any degree. Interest rates continued to decline leading to very positive returns from traditional bonds and due to the massive forces of declining interest rates and complacency, equities have only risen while market volatility declined. What did become a little more volatile was the non-traditional bond market (our wheelhouse) as regulatory changes led to an orphaned high-yield market where lesser rated bonds now trade by appointment. This is both a blessing and a curse for us in that yields are high and opportunities abound, however, an investor must buy well and be prepared to hold to maturity. As die hard long term investors, this is not problematic for us especially since our tendency is to keep maturities very short overall. In fact, the largest risk we've experienced is investor risk. The Fund has had two down calendar years since inception. The first, a mild decline of 5.6% in 2011, and the second, a decline of about 12% in 2015, a year when the high-yield market went on strike. On this second drawdown, I personally went to the bank, borrowed some funds, and invested $1 million. The following year, your fund was up 15%, followed by 4% the next. Why I mention investor risk is even as the fund recovered, we were redeemed by investors to the extent that our $300 million fund is now $56 million. The fact that the fund has performed very well, despite these large redemptions, is a proof statement to the architecture of this investment trust. It is an excellent fund. Revisiting investor risk, the issue is a mismatch in timing. We are not traders of bonds but investors. So, if we make an investment with a maturity of 2.5+ years but investors leave sooner, it places us in the pickle of being forced to sell bonds at a discount. With this in mind, the potential for investor skittishness now informs the investments placed. This is true, even when superior investments exist but at a cost of reduced liquidity. Experience has taught us to compromise between the optimal investment and the potential that we'll have to sell prior to maturity.

As it stands today, your fund is very well positioned for both income and capital gains. Recently, Emily Wheeler and I had a meeting with the management of Core Gold, a 5% weight and the largest gold miner in Ecuador. The investment consists of both equity, debt and warrants subsequent to a restructuring in 2017. We left the meeting very encouraged by the progress management has made cleaning up the balance sheet, streamlining operations, undertaking new exploration, and delineation of their substantial resource.

Our current portfolio mix consists of 60%, bonds, 23% high yield equities, 8% Preferred Shares and the remainder in cash being redeployed into bonds and preferred shares. We would like to immediately put these funds to work however in our market of high yield bonds, price paid has a large impact on ROI. We are patient buyers. Last week good fortune did smile upon us as a short attack was perpetrated against Farmland Partners in the US allowing us to purchase their 6% preferred shares at a price of $18.32 (par at $25). There are many bonds trading at a discount that we believe are heading towards par. An example is our Hornbeck Offshore 5.875% of 2020 (a 3% weight). This bond was purchased at $67 and now trades at $80. On the stock front, of the 23% in equities, the overall yield is a very healthy 4.88% yet the real return we believe will come from a rise in stock prices. There is tremendous value in our equity portfolio and each stock has been chosen for value, safety, and capital gains, as much as for yield.

For existing and new unitholders, a gift has been bestowed upon us in the form of a very large realized and unrealized tax loss carry forward position. We do have investments that don't work out from time to time, either a note defaults or a stock falls in price. Sometimes our assessment suggests a temporary impairment and we retain the investment for a recovery or if there is little chance of recovery, the loss is realized. Unit-holders who redeem forfeit these tax benefits to those who remain or new investors who subsequently purchase units. In an era of rising tax burdens, provincially and federally, reducing tax is one of the safest ways to increase return. From my rudimentary math, we won't be distributing capital gains for a very long time.

A quick note on unit price and book vs market value on statements. We often have clients comment on how they haven't made money in the fund. This is simply not the case. As it is with many funds that generate a lot of income, CRA requires the fund to pay out all interest, dividend and capital gains to unit holders as a distribution at year end. Since our first full year 2009, your fund has paid out annually an average 6.37% and 5.76% on F and B class units respectively. This reduces the unit price of the fund by this same percentage and thus creates an illusion on paper of losses not gains over the period. Please visit www.vertexone.com under the menu Funds>Compare Funds>Taxes to view annual distributions.

Going forward, our research will be directed towards uncovering bonds and preferred shares priced at a discount where we believe balance sheets are strengthening through either improving fundamentals of the business, equity infusions, or refinancing. Your fund continues to be well diversified as this is the best method of reducing risk. Your equity portfolio consists of 20 holdings with your bonds and preferred shares having many more. If you don't already own this fund, now is a great time to add it. You get a yield of 7% plus without taking on much interest rate risk, coupled with the potential for capital gains generated from rising stocks and bonds moving towards par.

PERFORMANCE (Class F returns as at June 30, 2018)

NAV	1 Month	3 Month	Year-to-Date	1 Year	2 Year*	3 Year*	5 Year*	Inception*
$ 9.0973+	0.52%	0.10%	-1.18%	1.14%	6.57%	1.43%	2.16%	5.28%

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.