

VERTEX FUND

First Quarter Report, 2012

The European Central Bank's Long-Term Refinancing Operations (or LTROs, also known as printing money or offering low interest rate loans for 3 years) provided a trillion euros to over 800 banks in Europe (over 100 banks in Germany alone) and has put a dent in the 2.6 trillion euros of European debt that needs to be rolled over in 2012. Only time will tell if it was enough. We witnessed the markets rally in conjunction with this printing press up until the last LTRO stopped on February 29, after which equity markets (especially in Canada) turned decidedly south. This time, unlike in 2008 and 2011, we were ready for the market to sell-off. On a relative basis to our competitors and to the stock market, March may have been one of our best months ever with a return of 1.61% for the month and 7.93% for the first quarter.

Considering the combination of money printing and coordinated eurozone policies, they may soon rename the continent the United States of Europe. Following in America's footsteps since 2008, European banks now need to de-lever. As a result, they will be challenged to find any economic growth and current commodity prices are suggesting that some strong challenges will persist. Elsewhere in China, housing prices are declining for the first time in recent memory. Accordingly, real estate lemmings will be quick to jump ship giving way finally to the housing price correction that Vancouver, Toronto, etc. are due. The downside is that this is causing deflation in most commodity prices.

One commodity, in particular, has been especially hard done-by. Due to technological changes and a landlocked market, we are seeing a slaughtering of natural gas (natgas) prices. Our negative view on natgas provided over half of the positive attribution in the month of March. Some industry pundits have even suggested that Alberta spot prices for gas could hit zero in the next quarter. Imagine their next heating bill in 2013!! Similarly, peak oil theory is also proving doubtful due to a bounty of shale oil. A recent study from Raymond James suggested that America could be a net exporter of oil by 2020; perhaps a membership to OPEC for the US is just around the corner. That said, I am not sure why Canada has not joined.

Moving from commodities to precious metals, we hedged most of our gold and silver convertible positions in the last quarter. This move allowed us to avoid much of the carnage that Bay Street saw in March.

The first quarter of 2012 also proved to be an excellent start to the year for merger arb. We have benefited from the closing of many high return situations, most notably the acquisitions of Pharmasset by Gilead Sciences and of Inhibitex by Bristol-Myers Squibb. Also, Ruggedcom received a white-knight bid from Siemens that was 50% higher than our initial purchases. In Canadian REITs, we had two successful deals close: Whiterock was acquired by Dundee and Canmarc was acquired by Cominar. Both deals had cash/stock elections which imparted some optionality that enhanced the visible spread. As we go to press the largest deal in the US, Medco being acquired by Express Scripts, just received FTC approval to close. This deal offered inordinately high returns as it received a lot of regulatory scrutiny and some opposition due to possible antitrust complications. Nevertheless, we were able to get comfortable with notion that the antitrust risk was manageable and that the signals from the regulators towards the end were supportive.

If we were to highlight a negative for the merger arb environment it is that very few new deals, of meaningful size, were announced where we could redeploy capital. Furthermore, this has caused the remaining spreads to tighten as other M&A capital seeks a home. While this is good in the near-term, as we benefit from the spread tightening on our existing positions, it creates unattractive returns and risk/reward relationships. It is our expectation that if the equity and credit markets remain stable for some period of time we will eventually see an uptick in new M&A activity.

We see a small bubble occurring in the social media space with Groupon, Zynga, LinkedIn, Pandora, etc. trading at extreme valuations. People may be paying up for exposure to social media since it has been difficult to transact in Facebook (FB), the market leader. Well, after nine unsuccessful months of trying to trade in FB ourselves, we think we squeaked one in just ahead of the last allowable trading day to acquire a 2.5% weight in the fund. Our shares will be locked-up for six months after the IPO and are subject to Facebook's 30 day right of first refusal to purchase them. To be conservative we will be using a six-month sliding scale to value the shares versus the market price following the listing.

Our favourite investment theme for 2012 is our hybrid bonds and preferred share investments. We doubled our position in hybrids this year as the murky crystal ball is showing a world of either deflation or inflation on the horizon. Since we don't know which will win, we hedge. With a ringside seat to the action, we will happily watch both forces duke it out as we consider hybrid bonds a win regardless of the outcome. This is due to their convertible option of interest rates floating to a pre-set rate over Libor. We have also acquired sizeable weights in multiple series of RBS Tier 1 preferred shares over the quarter. The schedule differs depending on the series, but each is under a mandatory two-year dividend suspension. The earliest suspension will be lifted this coming May. The market has over-penalized these securities for their suspension and we have already seen strong returns in the aforementioned series as it draws closer to May. We see the risk/reward in these two themes versus other sectors in the market as the best potential for returns in 2012.

As always, please call us if you would like more details on the previous analysis.

PERFORMANCE (Class A shares as at March 31, 2012)

Net Asset Value	3 Month	1 Year	3 Year⁺	5 Year⁺	10 Year⁺	Since Inception⁺
\$61.5689	7.93%	-9.89%	24.65%	5.08%	12.70%	17.17%

⁺annualized returns

Vertex One Asset Management, Inc.

This statistical information is intended to provide you with information about the Vertex Fund. Advertised performance is based on Class A shares. Important information about the Fund is contained in the Offering Memorandum which should be read carefully before investing. You can obtain an offering memorandum from Vertex One Asset Management Inc. The Offering Memorandum 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 indicated rates of return are the historical annual compounded total returns for the period indicated, including changes in security value and the reinvestment of all distributions and do not take into account income taxes payable that would have reduced returns. The funds are not guaranteed; their values change frequently and past performance may not be repeated.