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VERTEX ARBITRAGE FUND

Fourth Quarter Report, 2013

The Vertex Arbitrage Fund launched on October 31st and we are very grateful for the support of our early investors. The fund got off to a good start with returns in November and December of 0.59% and 0.78%, respectively, meeting our expectations for steady returns. The fund finished the year almost fully invested in over 20 deals. A significant number of our more meaningful positions are Canadian opportunities that are slightly off the radar and offer an attractive risk/reward.

An interesting deal that recently worked out extremely well for us was Lender Processing Services (LPS) being acquired by Fidelity National Financial (FNF), two companies involved in mortgage processing and title insurance. The deal was incredibly strategic, and in fact LPS was once owned by a predecessor company of FNF. However, the arbitrage community was put off by potential antitrust risk and the fact that FNF had the right to substitute cash for stock prior to the filing of the proxy, and even then the stock portion would be dependent on FNF trading prices prior to the close. We got comfortable with the antitrust risk by reviewing past regulatory action in the title insurance space; the hedging risk we approached by modelling sensitivities to a wide range of outcomes. In the end we captured a relatively wide spread because the complexity kept some others away. We now own some of the LPS bonds since they are guaranteed by FNF but are trading at a wider credit spread than FNF paper.

A current deal we like in our motherland is the pending deal for Shoppers Drug Mart to be acquired by Loblaw's. This is a very strategic deal that has been in discussions between the parties for years. The grocery space in Canada has grown increasingly competitive with the arrival of American retailers such as Target, Costco, Wal-Mart, etc. and the acquisition of Shoppers provides a new channel for growth in pharmacy as well as an interesting urban footprint for offering new concepts in grocery. The deal is currently being reviewed by the competition authorities, but we take comfort that the merger agreement contains a "hell-or-highwater" clause requiring Loblaw's to take whatever action is required to secure antitrust approval. The deal spread has been relatively attractive considering the risks and we also like that there is the potential to benefit from the opportunity to elect cash or stock where others may make inefficient elections.

We believe that conditions are ripe for strong M&A activity in 2014, and as 2013 drew to a close we saw a flurry of new deals announced with speculation of some very large deals in the pipeline. Equity markets are buoyant and financing markets remain open to deals. While CEO confidence might remain somewhat muted until we are through the initial phases of Fed tapering, we also expect management teams to realize that the era of cheap money "forever" might be closing. This may encourage potential buyers to act sooner rather than later. Additionally, we have seen some very positive stock price reactions for acquiring companies doing accretive deals and this should support confidence and spur stronger activity.

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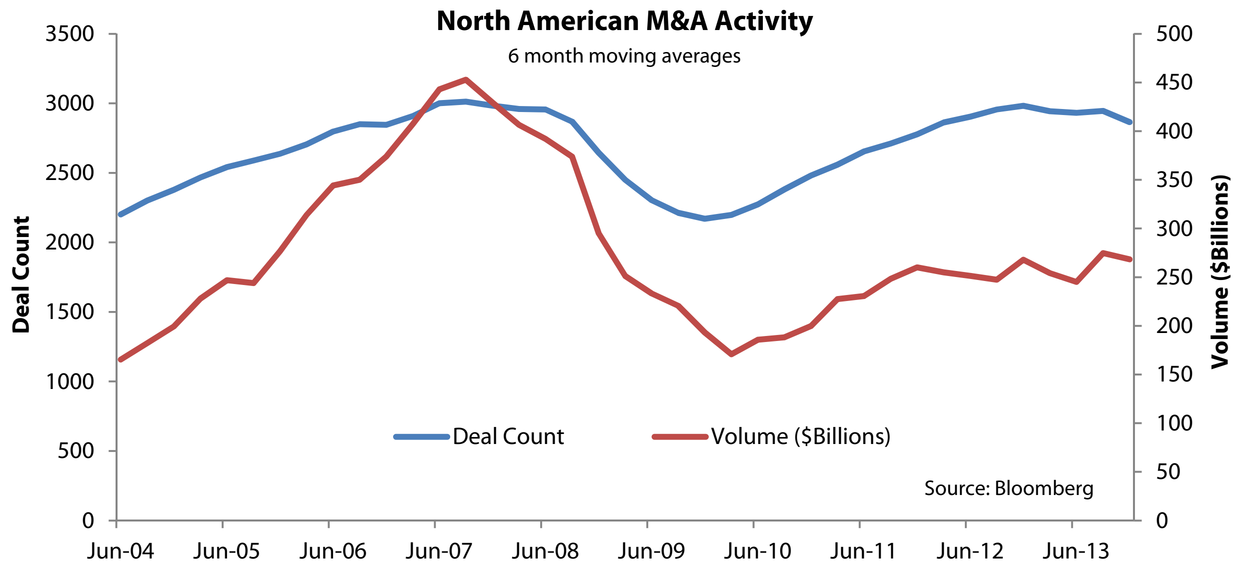

Demonstrated above, the quantity of deals remains high but volume continues to lag. Although we would welcome an increase in the value of deals announced, there is always enough activity for us to find opportunities. We'll consider it a bonus when activity and volume rise substantially.

The Vertex Arbitrage Fund is eligible for registered accounts (RRSP, TFSA) and would make a suitable complement to any RRIF plan seeking predictable returns.

For more information on the fund and how merger arbitrage investing works, please visit our website www.vertexone.com