VERTEX ONE
Asset Management Inc.

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# VERTEX ARBITRAGE FUND

Second Quarter Report, 2014

M&A activity in the second quarter continued to accelerate with the first half of 2014 representing the strongest pace of deal flow since the 2008 financial crisis. While the level of activity is certainly helpful to our merger arbitrage strategies, we are quick to point out that the headlines belie the true nature of the current arbitrage opportunity set:

- Many of the largest deals have significant regulatory risk: AT&T for DirecTV ($50 billion), Comcast for Time Warner Cable ($45 billion),
- Other deals are hostile or still at the proposal stage: Valeant for Allergan ($48 billion), AbbVie for Shire ($48 billion),
- There are private deals: Facebook for WhatsApp ($19 billion),
- Some deals have a common risk that hurts our ability to diversify: Medtronic for Covidien ($45 billion) is a tax-inversion deal which congress may attempt to deny, particularly if we see other large inversion deals such as the proposed Pfizer for AstraZeneca transaction ($100 billion)

We are certainly pleased with the pace of merger activity (particularly after expecting it for the last 2-3 years) but continue to be extremely selective with the situations we are adding to the portfolio. Many of the new situations do offer the attractive return potential that comes with added risk; we are finding opportunities to deploy capital prudently using our value-added risk management process.

The fund is currently invested in 32 situations, with the largest position representing 11% of the fund's capital. The most significant contributor to the fund's performance this quarter was the positive resolution of Goldcorp's hostile bid for Osisko Mining. The emergence of joint white knight bidders (Agnico Eagle and Yamana) as well as an under-valued spinco we purchased in the "grey market" led to an outsized return. Other notable deals that closed in the quarter were Forest Labs by Actavis, Aurora by Baytex (we had a large position in the Baytex subscription receipts), and Beam by Suntory. Notably, we were short Ainsworth Lumber and profited when that deal collapsed due to anti-trust issues. On the negative side of the ledger, we experienced losses in 3 transactions: Hillshire for Pinnacle Foods (see our Live From the Desk email "Risk Management in Arbitrage"), Sirius XM (withdrawn proposal), and Nicholas Financial (extremely small position where the buyer had an ill-timed accounting investigation).

The Vertex Arbitrage Fund is a suitable complement to any investor seeking predictable returns. For more information on the fund and how merger arbitrage investing works, please visit our website: www.vertexone.com

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## **PERFORMANCE** (Class F as at June 30, 2014)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | **Year** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2014 | 0.27% | 0.39% | 0.43% | 0.64% | 0.04% | 0.64% | | | | | | | 2.43% |
| 2013 | | | | | | | | | | | 0.59% | 0.78% | 1.38%* |

*Return does not represent a full calendar year.

Advertised performance is based on Class F shares. Returns are net of all fees. 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 compounded 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.