VERTEX ONE
Asset Management Inc.

1920 – 1177 West Hastings Street
Vancouver, British Columbia V6E 2K3
www.vertexone.com
Phone: 604-681-5787
Fax: 604-681-5146

VERTEX ARBITRAGE FUND

First Quarter Report, 2015

The Vertex Arbitrage Fund returned 1.44% for the first quarter, right in line with our return expectations. In our last commentary we talked about how attractive the environment was: deal flow was strong and spreads were wide after the Shire broken deal. This was fertile ground for a solid quarter which contained few surprises. We had no failed deals in the quarter; our largest loss came from a hostile transaction (Family Dollar) that was ultimately sold to a friendly (but lower) bid. The Allergan acquisition by Actavis continued its streak of being our top quarterly performer (which will not continue, the deal closed in March). The portfolio is heavily weighted towards US situations (currency hedged as always) with only a 7% allocation to Canada. Several times in the quarter we approached our maximum leverage levels (30%) but with some big deals having closed we are now not using any leverage (but are near fully invested).

Our arbitrage commentary last quarter discussed changing US tax code interpretations that were aimed at preventing American companies from re-domiciling through “inversion” transactions. One of the great ironies of the outcry over inversions is that foreign takeovers of US companies continue without a peep from Washington about the hollowing out of the US tax base. Our two largest arbitrage positions are both being acquired by German companies: Sigma-Aldrich by Merck KGaA and TRW Automotive by ZF Friedrichshafen AG. These are solid strategic transactions with low regulatory risk offering mid- to high-single digit rates of return in highly liquid securities.

Of the roughly 40 positions in the arbitrage portfolio, only 2 have meaningful exposure to oil prices: Talisman (being acquired by Repsol) and Dresser-Rand (being acquired by Siemens). These spreads are offering 20%+ rates of return and have strong contracts with committed buyers. Nevertheless, we are mindful of the risk in the space have had sized the positions appropriately (i.e. small).

Looking forward, our general outlook remains that the environment is conducive to M&A: rates are low, equity markets are stable, and M&A-driven growth is being rewarded (look at Valeant Pharmaceuticals for an example). Canada has been disappointing in terms of activity, though it’s understandable given the volatility in the energy sector. We expect that a couple quarters of stability might lead to some interesting M&A opportunities in the oil patch as those with weak balance sheets sell to stronger hands.

PERFORMANCE (Class F returns as at March 31, 2015)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**Year**
2015	0.40%	0.52%	0.51%										1.44%
2014	0.27%	0.39%	0.43%	0.64%	0.04%	0.64%	0.26%	0.07%	0.10%	-0.28%	0.68%	0.60%	3.90%
2013											0.59%	0.78%	1.38%*

Returns are net of all fees and include reinvested distributions.