VERTEX ONE
Asset Management Inc.

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VERTEX ARBITRAGE FUND

Second Quarter Report, 2015

Following a strong start to the year, the Arbitrage Fund had a disappointing second quarter as a result of our position in Williams Partners (WPZ).

In May, Williams Companies (WMB) announced they were going to buy the 40% of Williams Partners (WPZ) that they didn't own. This transaction was the latest example in a trend of large pipeline/midstream energy companies simplifying their corporate structures by bringing in their related partnerships. We considered this transaction to be an extremely low-risk and straightforward merger arbitrage situation: a company acquiring a related entity that it already effectively controlled with no regulatory risk. The market agreed with this assessment and priced the spread to yield a plain-vanilla 5% annualized rate of return.

Our approach to sizing every position is to ensure that in the event of a deal failure, the loss to the fund is contained to 1-2% of NAV. WPZ was no different and we carefully analyzed its complexities. Despite the relatively pedestrian return profile, we felt the risk was extremely low and thus warranted a full position; a 7% weight meant we thought we had 1.5% of NAV at risk on a full deal-break.

However, on Father's Day, June 21st, Energy Transfer (ETE) surprisingly announced a proposal to acquire WMB for a 33% premium, contingent on them not completing the WPZ transaction. The original deal didn't break but was disrupted by an outside bid for the acquirer (WMB). This was a complete blindside: WMB and ETE are roughly the same size and M&A between the two of them was viewed as an extremely remote possibility. When the markets opened on Monday, WPZ traded down to our expected break price but WMB (which we were short) also now traded higher to incorporate a significant takeover premium. The resulting spread was almost double our worst-case scenario. The fund lost almost 2.5%.

There is meaningful upside risk remaining in WMB so we fully covered the short position. The fund has a minimal position remaining in WPZ, as we think the selling is overdone but recognize the need to be smaller. In over 20 years of merger arbitrage investing at Vertex and elsewhere, this stands as one of our single worst outcomes. We've had deals break before but for reasons that were well understood in advance and hence sized appropriately. Going forward, blindside hostile bid risk on acquirers will be factored into our position sizing decisions for stock deals.

Unlike your typical equity or bond fund where drawdowns can last for a period of time, each deal is usually independent of the portfolio and market. To put it in context, a deal break is similar to blowing a tire on an otherwise dull trip through the Prairies - ten minutes is lost to a tire change before your trip continues and you calmly reach your destination. In the end, it was merely a pit stop. Whereas with traditional asset classes, it's best to keep your eyes on the road ahead.

Position sizing and risk management are the cornerstones of merger arbitrage investing. We worry about circumstances which may prevent a deal's completion. Bond managers worry about interest rates and credit quality. Equity managers worry about earnings growth, dividends and the economy. Merger arbitrage funds will encounter deal failures; bond funds will encounter defaults and rate hikes; equity funds will encounter earnings misses and economic contractions. Although we are disappointed that the magnitude of the William's deal exceeded our expectations, it was a unique event which doesn't alter

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the charted course. Our objective is to provide you positive returns over calendar-year periods. The fund remains positive on the year and no capital has been permanently impaired as a result of this outlier event. Bonds which are generally viewed as conservative allocations for investors, are actually rather susceptible to capital loss. As recent examples, the 10-year US Treasury Bond returned -11.1% in 2009 and -9.1% in 2013 to investors*. With the outlook murky for bonds, amidst interest rate uncertainty, we remain favourable to the steadfast quality of merger arbitrage investing.

Looking ahead there is a lot to be excited about. The pace of M&A activity in the US continues to be frenzied, which aids our discerning approach to deploying your capital. While we welcome the activity, many of the deals have complex regulatory risks (e.g. Charter buying Time Warner, Intel buying Altera, AT&T buying DIRECTV, etc.). Thus, we are firmly sticking to our process and not extending ourselves on the risk spectrum. Still, the fund is fully invested with approximately 40 positions. In the end, we'll reach your destination but with hopefully less pit stops.

*source: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html

We Are Moving

In order to accommodate the continued growth of our team we are moving offices. As of July 27th, our new office will be located in the MNP Tower. We welcome visitors.

Change of Address:
Suite 3200
1021 West Hastings Street
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PERFORMANCE (Class F returns as at June 30, 2015)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**Year**
2015	0.40%	0.52%	0.51%	-0.03%	0.91%	-2.11%							0.17%
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.

*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.