

VERTEX ARBITRAGE FUND

First Quarter Report, 2016

A Traditional Hedge Fund

“Wall Street has worst start to year ever”- Reuters, January 8th, 2016

In 2016 both the Dow Jones and S&P 500 had their worst five-day starts *in history*, with the Dow falling 6.2% for the week and S&P 500 sliding 6%. And it only got worse from there before finally starting to turn.

Despite the gut-wrenching volatility, the Vertex Arbitrage Fund performed well and posted positive performance for each month in the first quarter without any notable volatility. It is important to remember that the performance of the arbitrage strategy is not dependent on getting the direction of markets right – either up or down – but rather the simple premise that announced Mergers and Acquisitions (M&A) transactions will close successfully.

It is at times like these that the worth of the Fund’s investment strategy really shines:

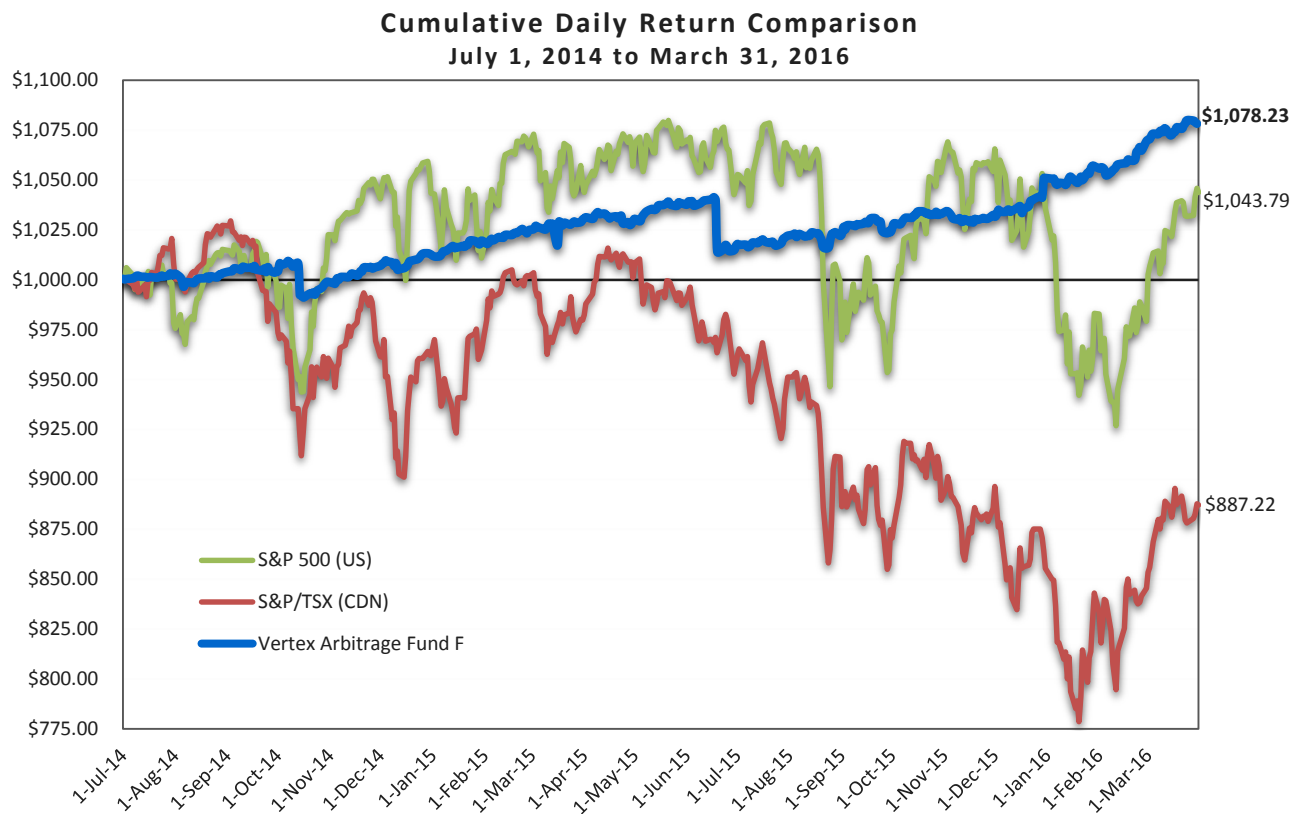
- low volatility
- uncorrelated returns
- protection of capital

Risk management warrants a premium nowadays. The paralyzing volatility that has gripped investors for the last few years is scaring individuals from entrusting their savings to any vehicle with perceivable risk. Unfortunately, there are few reliable options available to risk-averse investors. Globally, many funds catering to this demographic struggled to mitigate volatility through the downturn that began in July 2014.

Our intention when creating the Vertex Arbitrage Fund in 2013 was to offer a product that provides investors access to the diversification benefits of an absolute return strategy that is not dependent on market direction. With this fund, we limit leverage and concentrate its strategy on a repeatable process that provides a predictable outcome, regardless of what is going on in the broader markets.

Our first responsibility to Vertex Arbitrage Fund unit holders is to protect their capital over calendar year periods. Our second responsibility is to provide unit holders an annual return exceeding one-year GICs and savings accounts. We expect returns 4-6% above rates but will not sacrifice rule #1 in doing so.

But that’s all talk and results are what matter. The following chart shows the cumulative daily return* of the Vertex Arbitrage Fund (Class F) versus the US stock market (S&P 500) and the Canadian stock market (S&P/TSX) since the beginning of July 2014, when the markets started to get choppy.



The largest events to impact the fund over this time were the deal failures of Shire and Williams Partners. When comparing to the market they are barely distinguishable. Over the long run the merger arbitrage strategy has proved to provide returns close to equities with volatility closer to bonds. When looking out over the next 10 years, the likelihood for rate increases exists and long bond investors will need a hiding place.

The first quarter of 2016 represented the best period of outperformance in the fund’s history, thus far, finishing March up 2.50% year-to-date and posting positive returns for each month. In our recent *Live From the Desk* email (“[A Closer Look: Vertex Arbitrage Fund](#)”), we highlighted two deals that were partly attributable to the positive return. Although we detailed two deals, the results were derived from a broad basket of deals, each unrelated to the others. Diversification is the primary risk management tool in merger arbitrage, as deals which fail to close will occur and limiting their impact on the overall portfolio is where position sizing and selection become so important.



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A significant but overlooked feature of the Fund’s strategy is its tax efficiency. With the primary source of return being capital gains, the Fund is taxed significantly less than an income fund. For example, a 5% capital gain return in the Vertex Arbitrage Fund is equivalent to a 7.3% income fund return on an after-tax basis (using a 48% marginal tax rate in BC).

We don’t know what the future will bring, but we will continue investing the portfolio’s assets in the same manner regardless of who is in the White House, what the Federal Reserve does, where the price of oil is, or what global growth is showing. Our mission is to manage volatility, providing investors a sound night’s sleep and a reprieve from statement shock.

As always, please feel free to contact us if you have any questions or concerns.

*Vertex Arbitrage Fund cumulative daily return is reported using our Portfolio Management System which reconciles daily and shadows the custodial NAV monthly. The returns are unaudited.

PERFORMANCE (Class F returns as at March 31, 2016)

Returns are net of all fees and include reinvested distributions.

Net Asset Value	1 Month	3 Month	6 Month	Year to Date	1 Year ⁺	2 Year ⁺	Since Inception ⁺
\$10.8279	1.20%	2.50%	4.18%	2.50%	3.68%	3.97%	4.33%

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2016	0.60%	0.69%	1.20%										2.50%
2015	0.40%	0.52%	0.51%	-0.03%	0.91%	-2.11%	0.54%	0.24%	0.00%	0.93%	-0.25%	0.95%	2.60%
2014	0.27%	0.39%	0.43%	0.64%	0.04%	0.64%	0.26%	0.07%	0.10%	-0.28%	0.68%	0.61%	3.92%
2013											0.59%	0.78%	1.38%

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.