

VERTEX ARBITRAGE FUND

Third Quarter Report, 2016

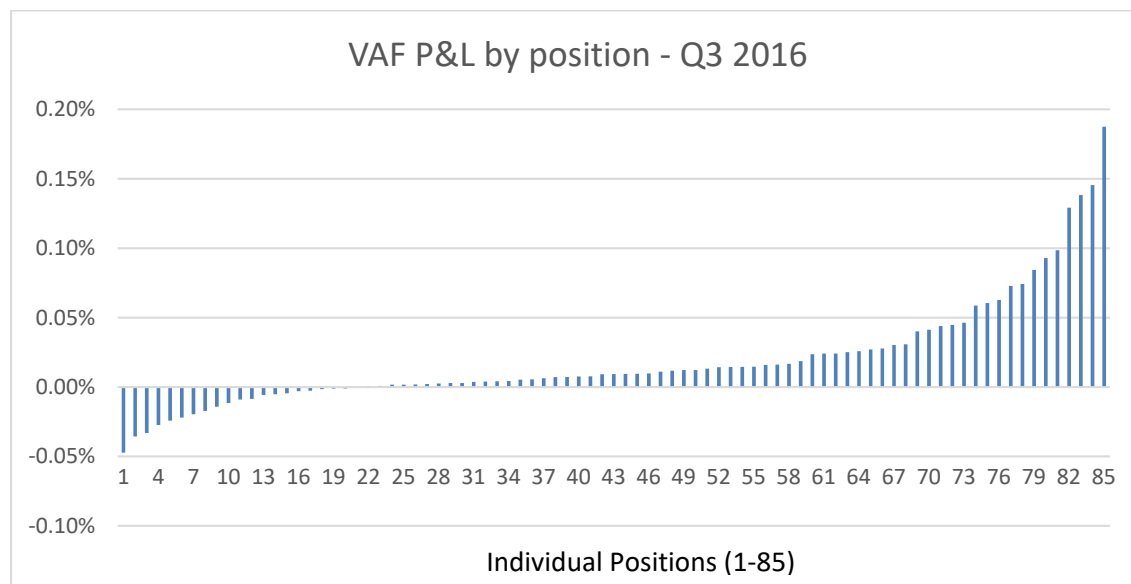
The VAF returned 1.38% in the third quarter. There were no deal breaks and the fund was up each month.

One notable transaction in the quarter was the acquisition of Whistler Blackcomb by Vail Resorts. While a relatively straightforward transaction from a regulatory perspective, the deal structure had a small wrinkle: the number of shares of Vail to be received was dependent on the CAD/USD currency exchange rate just prior to close. This quirk was enough to disproportionately widen the spread and we were able to earn an annualized return over 10% for a low-risk merger situation. This serves to highlight the attractive inefficiencies we often see in Canadian merger arbitrage; while the portfolio is predominantly invested in the US at the moment, we are always poised to capture Canadian opportunities as they arise – Whistler was one of our largest winners in the quarter.

The most attractive feature of our merger arbitrage strategy is the predictability of returns. Roughly a year ago, we expected annualized returns to be on the higher end of our typical range of 4-6% over risk free rates (which are near zero). As of September 30, 2016, our 1 year return is 5.39%. Where do our predictions come from? One component is that we have over 20 years of experience in the strategy and have seen these kinds of returns time and again. Another important element is the *dispersion* of returns.

Picture two portfolios both consisting of ten separate investments. Both funds' return 10% annualized over a 5 year hold period. One fund does it by having all ten of their investments return 10% a year (or 60% over 5 years due to compounding). The other fund has nine investments that return 0 (they don't make or lose money) and one homerun investment that ends up being a seven bagger, bringing the entire fund up to 10% annualized return. When each firm comes to you asking for investments in their next funds, which do you think will likely replicate their past success? We'd certainly argue that the first fund, with 10 modestly successful investments, is much more likely to repeat their performance. It is this concept that's at the heart of dispersion of returns.

The following chart illustrates returns in the fund from our 85 positions held over the quarter, highlighting its diversification:



As seen above, our returns are not generated by simply one or two big outliers. Our biggest loser cost us 0.05%, while our biggest winner generated 0.19% (or roughly 1/7th of the fund's return for the quarter). This low dispersion of returns is ultimately what leads to our low volatility and high repeatability of returns. Merger arbitrage is about generating a large number of consistent small returns, not having the occasional big winner that drives the fund's return. It is a game of hitting many, many singles, at the expense of never hitting any homeruns. This approach allows for a much more predictable return stream.

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

PERFORMANCE (Class F returns as at September 30, 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⁺
\$10.9544	0.73%	1.38%	1.17%	3.70%	5.39%	3.67%	3.99%

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2016	0.60%	0.69%	1.20%	-1.29%	1.13%	-0.03%	0.20%	0.45%	0.73%				3.70%
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.