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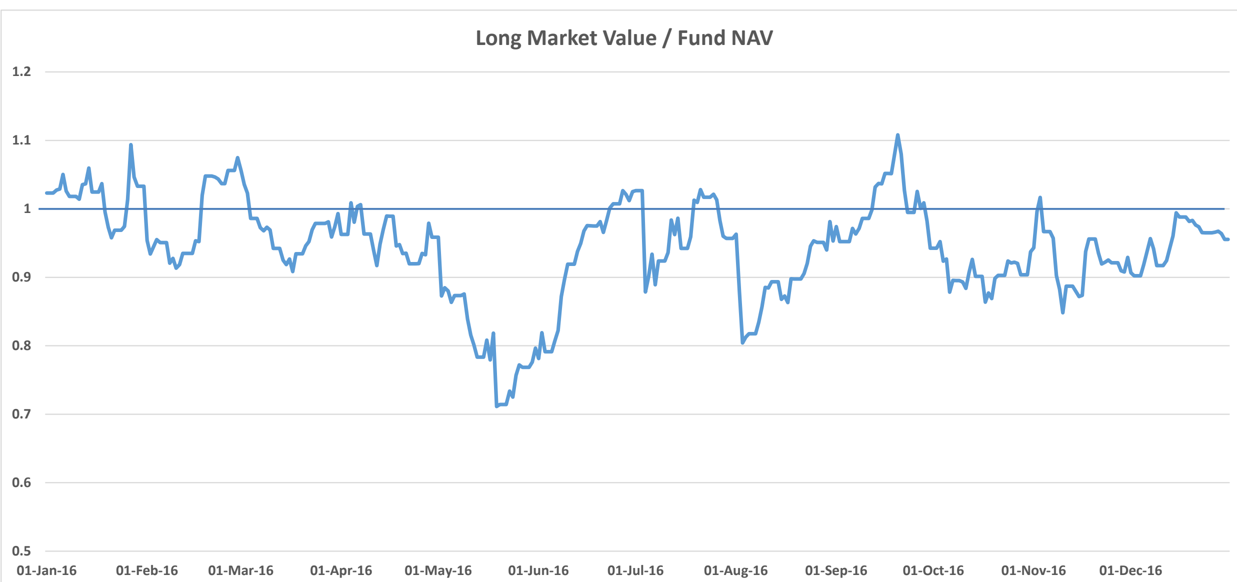
VERTEX ARBITRAGE FUND

Fourth Quarter Report, 2016

The Vertex Arbitrage Fund Class F returned 1.51% for the quarter and 5.27% for the year. The fund held positions in over 40 arbitrage situations at year-end. While the fund remains near fully-invested, merger arbitrage spreads are currently tighter than they have been in the past 12-18 months. We attribute this to somewhat slower deal flow as CEOs and bankers digest the potential implications of a Trump presidency. There are many new unknowns in Washington related to prospective Trump policies, but many are seen as potentially positive for deal making: pro-business initiatives; a lighter touch regulatory environment; low-tax repatriation of offshore cash by US companies. Above it all, with continued strength in the US economy, we expect M&A activity to pick up over the year as there is more visibility into the policy implications of a Trump presidency.

We are pleased with the fund's results this year as they were accomplished with exceptionally low levels of risk. Since inception, the fund's annualized standard deviation of monthly returns is 2%, compared to the broader market (S&P 500) at 14%. The beta (systematic risk) to the market is 0.06. While useful, these statistics don't necessarily tell the whole story of risk. They are more mathematical concepts relating to the volatility of returns, as opposed to the likelihood of a permanent impairment of capital (what we really worry about).

One simple risk measure, particularly for alternative funds, is how much leverage is used. Alternative funds often borrow money to invest (leverage) and we permit the fund to borrow up to 30% of the NAV. The below chart displays the daily leverage for the year in terms of the Long Market Value as a fraction of the Fund's NAV (1.10 would mean we are using 10% leverage, 0.90 means we are holding 10% net cash).



The average for the year is 0.94, meaning on average we held 6% cash (using no leverage). An obvious question is why don't we use more leverage, particularly when the fund is permitted to use up to 30%. The answer is that our use of leverage is really an <u>output</u> of our risk management practices, not an input.

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We are focussed on the NAV-at-risk of each deal (i.e. the potential impairment of capital), which we limit to 1-2%. As this drives the position sizing, it also drives our use of leverage (or holding of cash). In order to use more leverage, we'd need to increase the NAV-at-risk of deals we like or broaden the portfolio to include deals we don't particularly like. So, instead of compromising our risk guidelines to inflate returns, we believe there is a more constructive way to utilize leverage, which we'll speak more to at a later date.

There was lots of activity with our SPACs (Special Purpose Acquisition Companies) this quarter as two of our larger positions (Alignvest and Acasta) announced acquisitions. Both deals involve exceptional management teams acquiring well-established businesses and creating new publicly traded companies with enterprise values near $1 billion. Alignvest is acquiring Trilogy International Partners, an international wireless company with leading positions in New Zealand and Bolivia. Trilogy was founded by John Stanton, a very successful US wireless entrepreneur who sits on the board of Microsoft and Costco and is an owner of the Seattle Mariners baseball team. Joining the Trilogy board will be Nadir Mohamed (former CEO of Rogers) and Anthony Lacavera (founder and former CEO of Wind Mobile). Other investors include Joe Natale, the incoming CEO of Rogers. Acasta announced three simultaneous acquisitions: two in the consumer product space and one in aviation finance. With directors and advisors including Anthony Melman (Onex), Gord Nixon (RBC), Rick Waugh (Bank of Nova Scotia), and Calin Rovinescu (Air Canada), this SPAC acquisition is another example of A-list Canadian deal making.

Getting low-risk exposure to potentially participate in such high quality deals is the cornerstone of the SPAC strategy, which continues to generate attractive low-risk returns. We are seeing an uptick in new SPAC issuance in the US and would expect some new Canadian deals in 2017 as well. The fund has 14% of the portfolio in SPACs spread across 15 positions.

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

Note: the fund distributed $0.526302 in capital gains or 4.7% of NAV at year-end.

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

Returns are net of all fees and include reinvested distributions.

Net Asset Value	1 Month	3 Month	Year to Date	1 Year	2 Year+	3 Year+	Since Inception+
$10.5915	0.48%	1.51%	5.27%	5.27%	3.93%	3.92%	4.15%

	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%	-0.17%	1.21%	0.48%	**5.27%**
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%**