VERTEX ONE
Asset Management Inc.

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VERTEX ARBITRAGE FUND
VERTEX ARBITRAGE FUND PLUS

Second Quarter Report, 2017

In the second quarter the Vertex Arbitrage Fund and the Vertex Arbitrage Fund Plus returned 1.6% and 3.2%, respectively. The funds were up each month and there were no deal breaks.

A notable event this quarter was the bidding war that broke out for Straight Path Communications. Straight Path is a holder of US wireless spectrum that had been targeted by a short seller as near worthless. With the stock trading at $35, AT&T disagreed with the short seller and decided to acquire the company for $95. While owning merger situations with big downside in non-operating companies targeted by short sellers is not at the top of our list of attractive places to deploy capital, we felt the spread was wide enough to justify doing some work. After engaging with industry experts, we learned that the only question mark around the spectrum was its value (not interference with other spectrum bands or other operational issues that would concern the FCC). If AT&T thinks it's valuable, that's good enough for us. Perhaps more importantly, we could spend some of the $6 arbitrage spread on put options that would limit our downside to a loss of roughly $15 per share (much better than a full deal break loss of $60 per share).

Roughly a week after the deal was announced, things got a lot more interesting; it became apparent that another buyer was lurking and might make a higher bid. The buyer turned out to be Verizon, and after multiple rounds of bidding, AT&T increased their price to $184 per share. The VAF had a small position that resulted in approximately 20 basis points (40 basis points in the VAFP) of this quarter's profit.

This event is an exceptional type of windfall in a merger arbitrage deal – it does happen, but it's exceedingly rare. We might see one every 3-5 years. What is far more common is that the market gets excited about the potential for another bidder and tightens the spread to a level that doesn't adequately compensate us for the risk that the deal could fail. Fortunately, we have a tool to capture the market's irrational optimism: the selling of options. In circumstances where the market views that a higher price will be paid for a merger target, the call options are more expensive. We can sell these options to capture additional return for our arbitrage position. If the "over-bid" doesn't emerge, the option will expire worthless, and we'll have fully captured its value by selling it. In the rare event that the merger in consideration is increased, we'll lose money on the option (it will increase in value and we are short), but we'll make money on our stock position (we own the stock that has gone up in value). By selling call options, we are effectively selling the upside on the stock tomorrow for a certain amount today.

This strategy is relevant to two significant positions in the portfolio today: the acquisition of NXP Semiconductors by Qualcomm and Amazon's purchase of Whole Foods. In both scenarios, the market is pricing in a sizeable probability of an increase in the deal price (or the emergence of Wal-Mart as a bidder in the case of Whole Foods). This has left the spreads with a near-zero return for a standard arbitrage position. By selling the upside call options, however, we are able to earn a more typical 6-7% annualized rate of return.

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Looking forward, merger arbitrage spreads are currently tighter than they've been in the last year or so as we await a new crop of mega-deals to harvest. Canadian sub-receipts have been wider than recent years, so we're re-deploying capital there. Our SPAC positions continue to earn attractive risk-adjusted returns; we are pruning some of those that have traded particularly well in order to make room for new issues we see coming this quarter.

As always, please reach out with any questions or concerns.

VERTEX ARBITRAGE FUND:

Net Asset Value	1 Month	3 Month	Year to Date	1 Year	2 Year+	3 Year+	Since Inception+
$10.8762	0.46%	1.57%	2.69%	5.68%	5.23%	4.01%	4.33%

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017	0.32%	0.61%	0.17%	0.68%	0.41%	0.46%							**2.69%**
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%**

Portfolio Exposure:

% Long	% Short	% Net
95.29	-30.59	64.83

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VERTEX ARBITRAGE FUND PLUS:

Net Asset Value	1 Month	3 Month	Year to Date
$10.3656	0.99%	3.21%	3.66%

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017			0.43%	1.28%	0.91%	0.99%							**3.66%**

Portfolio Exposure:

% Long	% Short	% Net
153.43	-50.43	103.03

Class F returns as at June 30, 2017.
Returns are net of all fees and include reinvested distributions.