

**VERTEX ARBITRAGE FUND**  
**VERTEX ARBITRAGE FUND PLUS**

Fourth Quarter Report, 2017

The Vertex Arbitrage Fund and the Vertex Arbitrage Fund Plus returned -0.92% and -1.59% (F Class) respectively in the fourth quarter. For the calendar year 2017, the funds were up 2.52% and 3.60% respectively.

The most significant event in the quarter was the widening of the Time Warner/AT&T merger arbitrage spread. Time Warner was a significant weight in the portfolios owing to an attractive spread (over 15% annualized), which was more than fair compensation for what we originally saw as a relatively straightforward regulatory review. The reason for the wide spread was the \$70 billion deal size: too many sellers relative to the amount of merger arbitrage capital in the market. Coming into the quarter we had a 6% weight in the VAF, with about one third of that protected with some puts. Our confidence in the deal was supported by the vertical nature of the transaction. Time Warner and AT&T don't directly compete with one another – Time Warner creates content and AT&T distributes it; a vertical merger has not been challenged by the Department of Justice for decades. The transaction is conceptually very similar to the Comcast/NBCU merger the DOJ approved in 2011. Unfortunately, it became clear in November that the DOJ is changing tack on its review and is demanding structural remedies, requiring significant divestitures. We'll likely never know if this was due to political pressures from the White House (Trump is an avowed CNN-hater) or a genuine change of heart on the part of Makan Delrahim (the recently-appointed head of the DOJ who was previously on record as saying the merger faced very little antitrust risk).

The impact of Time Warner in the quarter was approximately 60bps in the VAF (and roughly double that in the VAFP). The deal is now before the courts with an expected resolution in April/May 2018. With Time Warner only trading slightly above its standalone price (our estimate of where it would trade if the deal is blocked), the market is implying scant odds of approval. We think this is overly pessimistic and offers good risk/reward for your capital. We are maintaining a 1.5% weight in the VAF.

After a quiet period in merger arbitrage (our first quasi-deal break in 18 months), the impact of Time Warner was felt in other areas of the portfolio as risk was reduced in arbitrage across the board. The time of year didn't help – portfolio managers are prone to being overly defensive late in the year. As a result, we saw some spread widening in several large merger situations. Some of this is justified as vertical mergers that were previously considered low-risk now need to be repriced. Other spreads widened for no justifiable reason and we expect to harvest those in the coming months.

The outlook for North American M&A activity is much rosier now that US tax reform has been finalized. We felt that the uncertainty over changes in tax policy was acting as a drag on the overall levels of merger activity. Now that CEOs and CFOs can look into the future with greater certainty, they'll be more likely to make large strategic acquisitions. While there are minor negatives for some aspects of deal-making (highly leveraged LBOs may be less attractive with limits on interest-deductibility), overall we are pleased to be putting tax reform behind us.

The fourth quarter was the largest quarter for SPAC issuance in history. We continue to selectively participate in issues with great management teams and attractive terms, replacing SPACs that are expiring or have traded up to unattractive levels.

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

**VERTEX ARBITRAGE FUND** (Class F returns as at December 29, 2017):

Net Asset Value	1 Month	3 Month	Year to Date	1 Year	2 Year <sup>+</sup>	3 Year <sup>+</sup>	Since Inception <sup>+</sup>						
<b>\$ 10.4142</b>	0.14%	-0.92%	2.52%	2.52%	3.88%	3.46%	3.75%						
	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%	0.28%	0.21%	0.28%	0.18%	-1.24%	0.14%	<b>2.52%</b>
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%	<b>5.27%</b>
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%	<b>2.60%</b>
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%	<b>3.92%</b>
2013											0.59%	0.78%	<b>1.38%</b>

**Portfolio Exposure:**

% Long	% Short	% Net
72.9	-20.4	52.6



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**VERTEX ARBITRAGE FUND PLUS** (Class F returns as at December 29, 2017):

<b>Net Asset Value</b>	<b>1 Month</b>	<b>3 Month</b>	<b>6 Month</b>	<b>Year to Date</b>									
<b>\$10.2148</b>	0.32%	-1.59%	-0.05%	3.60%									
	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Year</b>
2017			0.43%	1.28%	0.91%	0.99%	0.47%	0.51%	0.58%	0.40%	-2.30%	0.32%	<b>3.60%</b>

**Portfolio Exposure:**

<b>% Long</b>	<b>% Short</b>	<b>% Net</b>
138.5	-39.3	99.2

\*Note: VAF Plus inception date is February 28, 2017.

Returns are net of all fees and include reinvested distributions.

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 do 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.