VERTEX ONE
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VERTEX ARBITRAGE FUND
VERTEX ARBITRAGE FUND PLUS

First Quarter Report, 2018

Chaos Theory

For the first quarter of 2018, the Vertex Arbitrage Fund returned 0.09% and the Vertex Arbitrage Fund Plus returned 0.23%.

One of the key components impacting arbitrage performance is the ability for the target companies to successfully and expediently complete the regulatory review process. As arbitrage managers, we benefit from the fact that global regulators have established standards and – in the case of the U.S. antitrust regime – decades of case law precedent upon which we can rely. However, this normally stable global regulatory landscape has been disrupted recently by the Trump administration. We first witnessed a shift when the Department of Justice opposed the AT&T transaction of Time Warner with a relatively novel approach. More recently we have seen the trade skirmish with China introduce chaos into many aspects of the relationship between the two countries, including national security and antitrust reviews

Performance this quarter was dominated by a handful of deals that require approval by China's Ministry of Commerce (MOFCOM). As China's antitrust regulator, MOFCOM reviews global mergers that have a combined Chinese revenues over approximately US$300mm. Therefore, a merger of two US-based companies must secure regulatory approval from MOFCOM any time their Chinese revenues exceed this threshold. While MOFCOM has imposed conditions on an increasing number of US-Chinese transactions, the last outright block was in 2009 and involved the acquisition of a Chinese company by Coca-Cola. Despite this fairly benign history, there are growing fears that heightened tensions between the US and China may spur MOFCOM to retaliate by stalling or blocking trade deals.

The three positions in the portfolio that require MOFCOM approval are: the acquisition of NXP Semiconductors by Qualcomm, Cavium by Marvell Technology, and Microsemi by Microchip. The market is currently attributing varying odds of success to these deals with 25% for NXP and 60% for Cavium and Microsemi respectively. While MOFCOM is certainly capable of blocking mergers, we don't see this as a likely option for several reasons. Firstly, outbound investment has been a cornerstone of Chinese development policy for the last decade. Despite some minor slowdowns, we don't think that Chinese regulators are interested in weakening their own international deal-making capacity (presumably the obvious retaliation for MOFCOM blocking these deals would a ban on Chinese acquisitions in the US). Secondly, blocking these deals would do little to weaken Trump politically and therefore doesn't accomplish much from a geopolitical standpoint. Finally, while NXP is a large deal with some potentially important competition implications, Cavium and Microsemi are small, straightforward deals with almost no antitrust issues whatsoever. MOFCOM would be taking an unusually dramatic stand by blocking those deals.

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Despite our view that MOFCOM is unlikely to block these three deals, we still need to size the combined positions accordingly. Merger arbitrage works so well as a strategy because it generally involves a well-diversified portfolio of independent positions. In other words, the deal risk of any one deal tends to be completely separate from the risk of any other deal in the portfolio. In this case, however, we have three deals that may all be subject to the same risk of a retaliatory block by MOFCOM. To counter this, we have sized the combined positions so that they remain well within our risk tolerances (1-2% loss in the VAF, 2-4% in the VAFP).

Our SPAC portfolio continues to generate consistent, arbitrage-like returns. One notable transaction this quarter was the announcement of an acquisition by TPG Pace Energy. Sponsored by TPG (a leading private equity firm in US with $70 billion under management), this SPAC raised $600mm in May of 2017. The issue was underwritten by Goldman Sachs, Deutsche Bank, Citigroup, and Credit Suisse, with the units (common and warrants) listed on the NYSE. As with all SPACs, IPO proceeds were put into escrow (invested in short-term government bonds) where they are held until an acquisition is completed. In March, TPG Page Energy announced a $2.7 billion (enterprise value) transaction to acquire oil producing assets in the Eagle Ford region of Texas for 5.0x EBITDA. The key to the SPAC strategy is that it is now our option to either sell, redeem our investment for what we paid for it (but keep the free warrant) or roll our shares into the new entity. In this case, we have sold a portion of our investment earning an 8% unlevered return in 10 months with our only risk exposure being US government T-Bills. This attractive return profile illustrates why we have been SPAC investors for many years.

Another bright spot in the portfolio has been the re-emergence of attractive Canadian merger arbitrage situations. For the first time in years we have sizeable positions in two Canadian deals: Pure Industrial REIT being acquired by Blackstone and CREIT being acquired by Choice Properties REIT. These are high quality transactions that offer attractive risk/return dynamics. The CREIT acquisition is particularly appealing to us, in part because a portion of the consideration will be subject to withholding tax for non-resident owners; a factor that will keep many U.S. arbs at bay. AltaGas sub-receipts (paired with a short position in AltaGas common) have been another nice win in the portfolio. $2 billion of receipts were issued at $31 to fund AltaGas's purchase of a US utility business – WGL Holdings. As the common share price has languished down to the mid-20s and the market has recognized the challenging regulatory landscape for the deal, the sub-receipts have gone from trading at a discount to trading at a material premium.

Partly because of the three MOFCOM deals already discussed, we have seen merger arbitrage spreads widen about 2% in recent weeks. With these wider spreads we are cautiously optimistic that spring is here and we have put an unusually turbulent period for merger arbitrage behind us.

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VERTEX ARBITRAGE FUND (Class F returns as at March 29, 2018):

Net Asset Value	1 Month	3 Month	Year to Date	1 Year	2 Year+	3 Year+	Since Inception+
$ 10.4240	-0.37%	0.09%	0.09%	1.50%	2.66%	3.00%	3.56%

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2018	0.20%	0.27%	-0.37%										**0.09%**
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%	**2.52%**
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
87.3	-17.5	70.0

VERTEX ARBITRAGE FUND PLUS (Class F returns as at March 29, 2018):

Net Asset Value	1 Month	3 Month	6 Month	Year to Date
$10.2384	-0.79%	0.23%	-1.36%	0.23%

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2018	0.46%	0.57%	-0.79%										**0.23%**
2017			0.43%	1.28%	0.91%	0.99%	0.47%	0.51%	0.58%	0.40%	-2.30%	0.32%	**3.60%**

Portfolio Exposure:

% Long	% Short	% Net
159.9	-33.0	126.9

*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.