

VERTEX ARBITRAGE FUND
VERTEX ARBITRAGE FUND PLUS

Second Quarter Report, 2018

For the second quarter of 2018, the Vertex Arbitrage Fund returned 2.03% and the Vertex Arbitrage Fund Plus returned 3.99%.

We spent some time in last quarter's commentary talking about three deals (NXP Semiconductors by Qualcomm, Cavium by Marvell Technology, and Microsemi by Microchip) that required approval by China's Ministry of Commerce (MOFCOM). In the second quarter, two of those deals were approved and closed on original terms. Only NXPI remained outstanding at the end of the quarter (update: the NXPI acquisition "timed out" in July and was terminated). We are looking forward to putting this turbulent period in arbitrage behind us and returning to an environment where the rule of law can be relied upon once again.

We've received a number of questions about the impact of higher interest rates on arbitrage and the Vertex Arbitrage Fund Plus (which borrows money to generate a higher return, with a commensurate increase in volatility/risk). Merger arbitrage returns historically have offered a spread over short-term interest rates. As interest rates go up, merger arbitrage returns tend to increase as well. The simple reason for this is that arbitrage investors always have the alternative of investing in the short-term risk-free rate; we wouldn't invest in arbitrage if we didn't earn a higher return than short-term T-bills. Similarly, most arbitrage investors use leverage in their funds; it would be irrational for an investor to borrow at 4% to invest in spreads offering a 3% return. Short-term interest rates, therefore, act as a natural hurdle rate for the strategy: as interest rates go up, arbitrage returns tend to go up as well. This happens very quickly as the average life of a merger arbitrage position is only three or four months.

As a reminder, the VAF Plus is designed to mimic the portfolio of the VAF using a 2x leverage factor. In other words, it borrows money to offer investors twice the risk exposures of the VAF. The return of the VAF Plus should be double the return of the VAF, minus the cost of leverage*. If interest rates were zero and the VAF returned 5%, we would expect the VAF Plus to earn about 10%. If interest rates were 5% and the VAF returned 10% (the same 5% spread over the interest rate as in the prior example), we would expect the VAF Plus to return about 15% (twice the VAF return minus the 5% cost of borrow). The return per unit of risk is the same: the first 5% comes from the risk-free rate (i.e. doesn't have risk), the next 5% comes from unlevered arbitrage return (historically ~2% volatility), and the next 5% comes from borrowing money to buy more arbitrage return (an additional ~2% volatility).

SPAC returns continued to be very healthy; earning about 3% (unlevered, taxed as capital gain) in the first 6 months of the year. We think this is an attractive return for putting our capital in short-term U.S. T-Bills. Four of our SPACs announced acquisitions in this recent quarter and we continue to see strong new issuances of SPACs with impressive management teams. Recently, these new issues have tended to have very investor-friendly terms, like additional warrants or rights, shorter terms with cash payments for extensions, and additional capital (above the \$10.00 IPO price) being placed into escrow. In April we



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invested in Pure Acquisition Corp. which is the first SPAC we are aware of that explicitly guarantees the value of the warrant (via a tender offer at \$1.00 upon business combination or wind-up). Pure is currently our largest SPAC position (1.5% weight).

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

*This isn't exactly correct because investors do not pay a management fee on the borrowed capital in the VAF Plus.

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

Net Asset Value	1 Month	3 Month	Year to Date	1 Year	2 Year ⁺	3 Year ⁺	Since Inception ⁺
\$ 10.6359	0.74%	2.03%	2.13%	1.96%	3.80%	4.12%	3.81%

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2018	0.20%	0.27%	-0.37%	0.39%	0.88%	0.74%							2.13%
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
101.5	-34.5	67.1

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

Net Asset Value	1 Month	3 Month	6 Month	Year to Date
\$10.6470	1.44%	3.99%	4.23%	4.23%

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2018	0.46%	0.57%	-0.79%	0.75%	1.75%	1.44%							4.23%
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
203.2	-70.3	132.8

*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.