

**VERTEX ARBITRAGE FUND**  
**VERTEX ARBITRAGE FUND PLUS**  
Fourth Quarter Report, 2018

The Vertex Arbitrage Fund and the Vertex Arbitrage Fund Plus returned 0.39% and 0.75% respectively for the fourth quarter of 2018.

We were pleased with the resiliency of our strategies in a turbulent quarter that saw both the TSX Composite and S&P 500 indices fall over 10%. Arbitrage is inherently low-volatility because we are relying on a legally-binding merger agreement joining two companies together. This is very different than “mean reversion” strategies like equity market neutral or long/short that rely on historical relationships reasserting themselves (not a great bet when investors are skittish).

The biggest theme in the arbitrage portfolio this quarter was the closing of several large cap M&A deals that we have held in the portfolio for most of the year. The acquisitions of Aetna, Express Scripts, Shire, and Pinnacle Foods all closed last quarter. While we are obviously happy to have these transactions successfully close, it has left a bit of a hole in our portfolio as we seek places to redeploy the capital. Fortunately, the M&A gods have smiled on us early in 2019 with some new large cap deals announced like Bristol-Myers Squibb acquiring Celgene (\$90 billion market cap), Eli Lilly buying Loxo Oncology, Newmont Mining buying Goldcorp, and Fiserv acquiring First Data Corporation.

On the SPAC side of the portfolio, we continue to be pleased with the pace of “de-SPACs” (i.e. SPACs finding an acquisition) being announced. While SPACs generally have a 2-year life, we are seeing more and more de-SPAC announcements within a year of IPO. In fact, we had a record quick de-SPAC announced in January by Churchill Capital (US\$700mm SPAC) that only IPOed 4 months earlier. Another notable de-SPAC announcement was Cannabis Strategies Acquisition (CSA). Recall that in the SPAC structure, our risk capital is invested in government securities sitting in an escrow account. Hence, we didn’t have direct exposure to the ultra-high-risk cannabis space by investing in CSA. Rather, we had very cheap optionality to cannabis by investing in this SPAC. Option Pricing 101 tells us that the more volatile the underlying asset, the more valuable the option. In this case, the option proved to be extremely valuable as the market loved their announced deal and we were able to earn close to 100% on our capital in less than a year for taking short-term government bond risk.

The US government shutdown is having a small impact on the fund in two ways. We expect some deals that require US regulatory approvals to drag on longer than they might have otherwise. Additionally, the issuance of new SPACs is being hindered as the SEC is delaying the review of new IPO filings. While a minor nuisance at this point, we are continuing to monitor the situation.

While we are happy with the early 2019 deal flow discussed above, we do have a smaller deal universe than we would like. When markets experience volatility like the fourth quarter, potential acquisitions tend to get moved down a CEO's priority list. In addition, we saw a 40-day drought between new issues of junk bonds, indicative of a market that is less willing to finance new M&A transactions. As always, when our deal universe shrinks, we end up holding more cash. Our cash weight in the VAF at the end of the quarter was about 25%, while we would typically hold about 5-10% cash in that fund. We expect this high cash weight to be short-lived, but it is worth noting.

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

**VERTEX ARBITRAGE FUND** (Class F returns as at December 31, 2018):

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>\$ 10.7656</b>	-0.11%	0.39%	3.37%	3.37%	2.94%	3.71%	3.68%						
	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%	-0.09%	0.44%	0.48%	0.05%	0.45%	-0.11%	<b>3.37%</b>
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
72.65	-6.09	66.58

**VERTEX ARBITRAGE FUND PLUS** (Class F returns as at December 31, 2018):

<b>Net Asset Value</b>	<b>1 Month</b>		<b>3 Month</b>		<b>6 Month</b>		<b>Year to Date</b>						
<b>\$10.8330</b>	-0.27%		0.75%		2.36%		6.69%						
	<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>
2018	0.46%	0.57%	-0.79%	0.75%	1.75%	1.44%	-0.22%	0.90%	0.93%	0.10%	0.92%	-0.27%	<b>6.69%</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>
144.89	-12.76	132.16

\*Year-End Distributions of \$0.0657 (Capital Gains) for the Vertex Arbitrage Fund Plus (Class F).

\*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.