

VERTEX FUND

Second Quarter Report, 2012

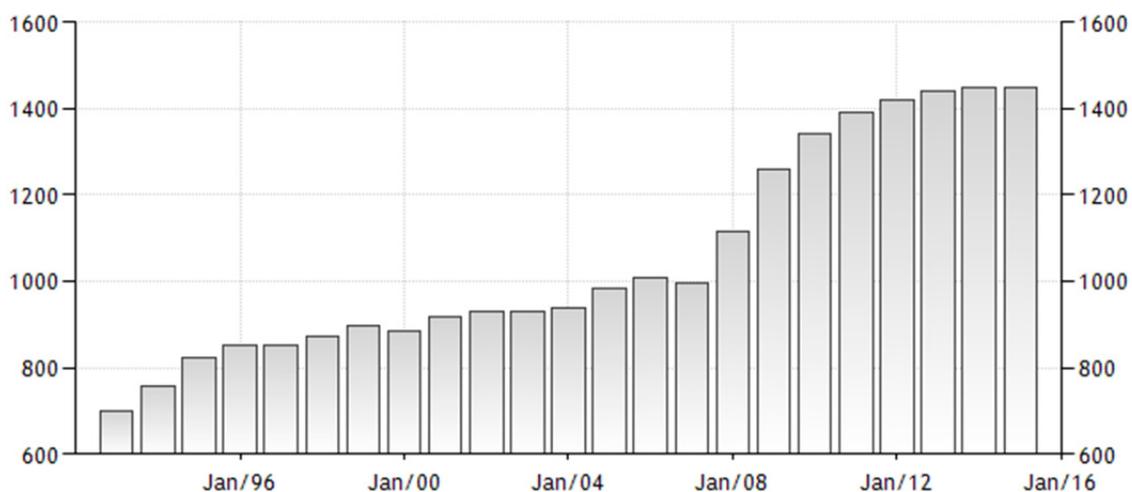
Milton Friedman said “human wants and needs are infinite, so there will always be new professions and industries.” In an era where our lives are under so much change it is hard to remember that ‘once upon a time’ we all worked in agriculture, but switched to industry and manufacturing. Today, all new jobs created are for the information age. Next, computers will be smart enough to look after themselves, those new jobs will disappear and the “what if” will be the next area to invest in!

After all, what if Moses had settled in a place with oil instead of choosing the only place that didn't have oil in the Middle East. Today Israel and Taiwan are two of the best run examples of economies on the planet that have no natural resources other than a human resource. They are a testament to what can be done with human ingenuity and a great role model for countries like Canada who have had it far too easy with respect to creating wealth from natural resources.

The ‘what if’ is a prequel to the European problem. More people are asking what happens to Europe on a daily basis, yet, however dark the days may be there will be a solution involving human ingenuity. It may not include the Euro at the end of the day, nevertheless Europe will survive.

After all, we have seen 18 trillion dollars of quantitative easing since 2008, which is a great way to get rid of some problems in the short run. Who would have thought that with all that liquidity you could have 5-year negative interest rates in Switzerland and 5-year interest rates less than 1% in the U.S., U.K., Netherlands, Denmark, Finland, Austria, Germany and Japan.

Even Canada which has been thumping its chest has seen its total gross debt double since 1993 and is experiencing the lowest interest rates in my life time and I'm turning 50 next year!



Source: The International Monetary Fund. Units: billions of Canadian dollars.

Although we were down in the quarter, we had a great month in May as we avoided most of the carnage in the markets and risk arbitrage. Our short portfolio, highlighted by JC Penny, provided positive returns in a market where it was hard to see any positives other than human nature.

Returns from our merger arbitrage strategies continued to provide ballast to the portfolio over the second quarter. While many speculative “pre-arb” situations fell by the wayside in May (see *Live from the Desk – Far From the Madding Crowd* under the archive link on our website), our conservatively-positioned fund performed well. The most notable developments in the portfolio were the closing of the acquisition of Motorola Mobility by Google and El Paso by Kinder Morgan. Both of these were large positions in the fund that offered near double-digit annualized returns in highly liquid securities.

Our largest arbitrage holding, TMX Group, performed well in the quarter as progress was made on the myriad of regulatory approvals required for it to close. Immediately following quarter-end, the OSC concluded its review of the transaction and issued final recognition orders. Furthermore, the Competition Bureau announced that they will not challenge the merger. With all regulatory approvals now out of the way, we expect the deal to close on the July 31st schedule. Although the process has taken longer than we anticipated, the position has generated good returns, particularly since we established the bulk of our position at prices not far from our estimate of fundamental value (i.e. the price where it would have traded without the Maple bid, but pursuing a leveraged recapitalization as per TMX management's stated intention). In addition, we were clipping a dividend "coupon" while we waited for regulatory approvals.

Were it not for the 11th hour announcement of the acquisition of Amylin Pharmaceuticals, by Bristol-Myers, after the market close on the last trading day of the month, June would have been the first month in our recollection without an announced US merger greater than \$500MM. Clearly, M&A activity was impacted by the weak market environment in May and frankly, we expect it to continue to be tepid until the summer doldrums end in September.

As always please call us if you would like more details on the previous analysis.

SPECIAL NOTE: If you would like to see an allegorical depiction of how the crisis in Europe is progressing, our very own Jeannette Hogan is performing in *Titanic: A New Musical* in the role of Kate Mullins. The play is running from July 8th to August 17th at Theatre Under The Stars in Stanley Park, Vancouver (visit tuts.ca for info).

PERFORMANCE (Class A shares as at June 30, 2012)

Net Asset Value	3 Month	Year-to-Date	3 Year⁺	5 Year⁺	10 Year⁺	Since Inception⁺
\$60.0126	-2.53%	5.20%	14.14%	4.33%	12.44%	16.64%

⁺annualized returns

Vertex One Asset Management Inc.

This statistical information is intended to provide you with information about the Vertex Fund. Advertised performance is based on Class A shares. 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 does 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 annual compounded total 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.