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# VERTEX FUND

Second Quarter Report, 2015

**"What a difference a (year) makes." - Dinah Washington**

The Vertex Fund is up 9.33% (Class F) for the first six months, while the TSX and Dow Jones are flat over the same period. This is amidst a backdrop of Puerto Rico defaulting, Greece like a yo-yo is defaulting again, and China's equity returns looking like a pyramid. Our returns this year have been driven from bottom up stock-picking, not macro ideas – with the exception of our decision to maintain a large US dollar exposure.

Our returns have come from:

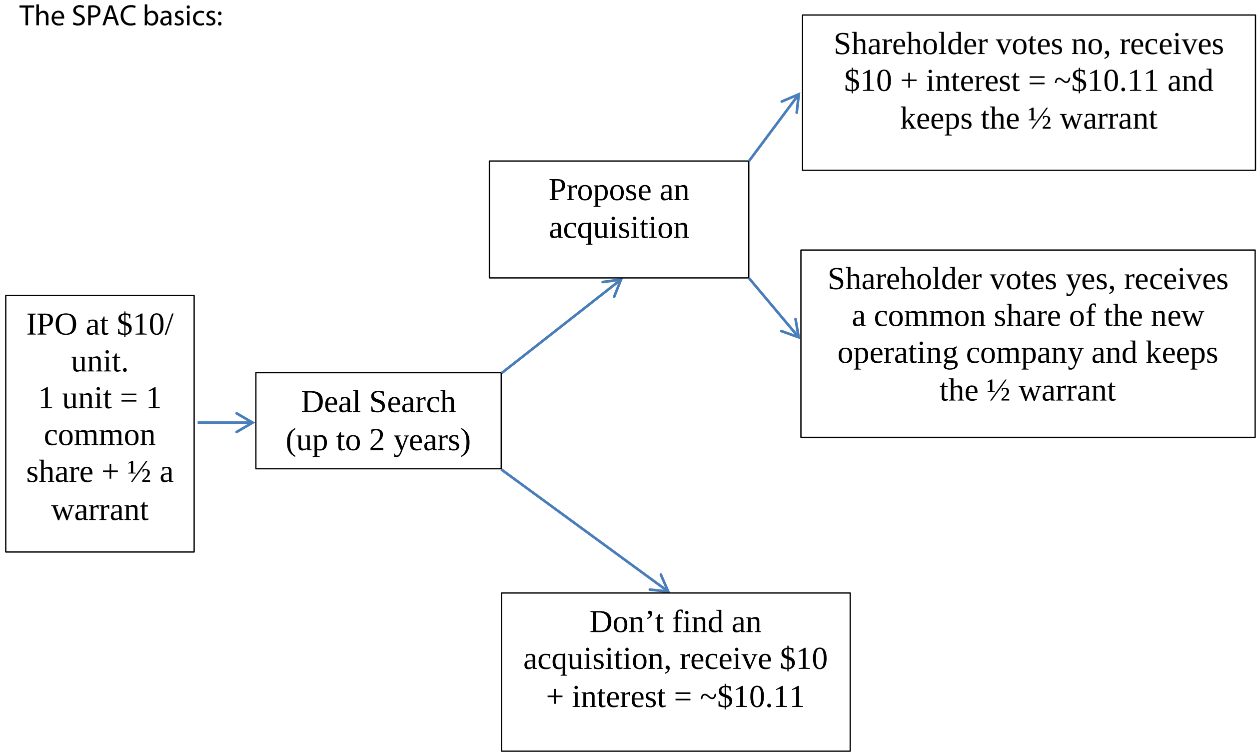
- Overweight position in the US dollar
- No exposure to the Euro while having a large position in European equities
- Shorting structurally flawed ETFs flooding the market
- Hedging gold stocks against our warrant positions
- Waiting for two spin-out catalysts to occur
- Outsized performance from individual positions

The first pending spin-out: Interactive Corporation has become one of our largest positions. It trades at 10x cash flow; as an Internet incubator, it has spun-out more than $20 billion worth of companies over its history. If you are under 40 and single, you are most likely familiar with one of their divisions that holds the dating services Match.com and Tinder. According to the company, Tinder users spends twice the amount of time browsing than Facebook users. In some instances users actually pay to use the App. We feel (as with other internet offerings) this IPO may have euphoric tendencies which could result in the doubling of Interactive Corp's share price.

The second spin-out (or the next double as we'll call it): is Fiat Chrysler. Our friends at UBS have been awarded the Investment Banking mandate to take Ferrari public in the fourth quarter of this year. At a base valuation of $11 billion, the order book was 10% filled within the first five minutes of being announced. Likely, by the time the smoke clears, investors will realize the value of Ferrari and equal it to that of Fiat, which should allow for a double in the stock.

Year-to-date, Merger Arb has seen more muted results; though, we have seen more opportunities in SPACs (Special-Purpose Acquisition Companies). The second quarter saw the issuance of the first Canadian SPACs as Dundee Acquisition, Infor Acquisition, and Alignvest Acquisition raised a combined $600 million. We have been investing in US SPACs for years based on their attractive risk/reward characteristics. A SPAC raises capital in an Initial Public Offering (IPO) of units, then has a finite time horizon (typically two years) over which to make an acquisition. The money raised sits in escrow, invested in short-term government bonds, until a deal is presented to the SPAC shareholders. Shareholders have the right to either vote for the transaction or redeem their shares for their pro-rata share of the escrow account. If they support the transaction, they will become shareholders of the new publicly-listed operating company. If no acquisition is found in two years, SPAC shareholders will also receive their pro-rata share of the escrow account.

The SPAC basics:




Firstly, we like the risk/reward offered. As the diagram illustrates, our downside is limited to receiving a short-term government bond return over 2 years. Secondly, the ½ warrant has significant value (usually struck at 15% out of the money with a 5 year life). As long as an acquisition is completed – which occurs the vast majority of the time – we retain significant warrant value even if we don't vote in favour of the transaction. Instead we receive our pro-rata escrow amount (i.e. $10.11). Lastly, while we evaluate each individual acquisition on its own merits, there are a number of reasons to think that the acquisition will be well received by the market:

- SPACs are created by sponsors with long-track records of value-creation through M&A.
- We have been in a market environment that has rewarded M&A-driven growth (i.e. acquirers generally trading well on announcement of deals). SPACs can be viewed as building a platform for future M&A. As such, the market will assign this a value.
- There are often multiple arbitrage opportunities, whereby the public markets assign a higher valuation to public vs. private assets. As SPACs are public vehicles, they can capture this discount. Another way to think about this is that they capture the "IPO pop".

To summarize, we like SPACs as way of giving ourselves a low-risk, first look at M&A opportunities generated by talented deal-makers.

Although the above discussion points have helped to drive performance, most ideas have yet to be recognized within the portfolio. Speaking of performance, we thought it would be helpful to remind investors that when looking at statements, the book value does not represent your original investment in a fund. To compare an investment's market value to its book value is not an accurate gauge of rate-of-return. This is because the book value accounts for fund distributions by increasing in value. This increase in value reduces future capital gains taxes you pay at divestment. In doing so, this offsets the distribution's tax bill. The Canadian Revenue Agency requires all Canadian mutual funds to distribute annually all realized capital gains and income. Alas, there is no avoiding the taxman.  Our reported returns are always inclusive of distributions and net of all fees.

## We Are Moving

In order to accommodate the continued growth of our team we are moving offices. As of July 27th, our new office will be located in the MNP Tower. We welcome visitors.

**Change of Address:**
Suite 3200
1021 West Hastings Street
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## PERFORMANCE (Class A returns as at June 30, 2015)

| Net Asset Value | 1 Month | 3 Month | Year to Date | 1 Year | 5 Year+ | 10 Year+ | 15 Year+ | Since Inception+ |
|---|---|---|---|---|---|---|---|---|
| $67.8256 | 0.61% | 1.31% | 9.33% | -3.15% | 7.86% | 9.03% | 11.67% | 15.42% |

Net of all fees and includes reinvested distributions.

+Annualized returns. 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.