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VERTEX FUND

Fourth Quarter Report, 2015

"Whoever speaks of Europe is wrong; it is a geographical expression."
- Otto von Bismarck

It has been close to six years since Vancouver hosted the Winter Olympics and Canada's ability to perform on the world stage has greatly diminished. From the hockey arena at the world juniors to the Toronto Stock Exchange, performance has been lacklustre to say the least. Moreover, we're all aware of how the Canadian dollar is performing; the Loonie has declined from a recent high of $0.95 in 2011 to $1.40 current date (compared to USD).

The Vertex Fund had one of its best years on a relative basis (with a return of 8.67% for 2015), compared with double digit declines in the TSX and slightly negative returns in US equity markets. Furthermore, we were able to generate this return on a tax-free basis to our unitholders. This was achieved by eliminating our holdings in Kelt Exploration, Barclays, and Commerzbank to realize capital losses.

Our return was achieved in an environment where most North American asset classes had negative results. Our large weight in M&A, the US dollar, and equity selections in Europe contributed to our strong performance in 2015.

The most surprising event this year was the large amount of sovereign debt that traded with negative yields:

- Denmark introduced the first mortgage with negative interest rates
- The Bank of Canada announced it may pursue a negative interest rate policy
- 70% of Swiss bonds now have negative interest rates

Seven countries in Europe (plus Japan) now have negative yields for 2-year maturities. Three countries in Europe have negative interest rates up to 5 years, and Switzerland now has 10-year negative interest rates. This trend is allowing Europeans to lower their cost of capital, as most would not be able to finance their deficits at what would have been considered normal interest rates just five years ago. Ironically, the USA, which has the best balance sheet compared to any nation in Europe, also has the highest interest rates. Mortgage rates have increased recently in Canada and Switzerland, as banks are financing deposit rates with higher mortgage rates. No wonder the Germans have a nickname for negative rates – "punishment interest". Under this backdrop, US treasuries may well be one of the best performing asset classes of 2016. For the first time, we are looking at adding this asset class to our portfolio.

In 2015, the largest winner in our equity portfolio was Fiat. The spinout of Ferrari was completed in early January 2016 and was offset by the Ferrari shares we shorted right after the IPO. The decline of Ferrari also helped boost returns, due to its poor performance trading as an independent. As Ferrari (RACE) traded at a massive valuation (only a 20% discount to the entire market cap of Fiat-Chrysler-Alfa-Romeo-Maserati and at 25x earnings), we chose not to hold onto the shares. However, we will continue to hold onto the parent company Fiat, due to its cheap valuation and superior management team – they arguably have the best CEO in the auto business.

The market was less enthralled with the IPO of Tinder's parent company Match Group, which was priced in the middle of expectations, unlike Ferrari which was priced above the range. We think once they report earnings this quarter, the stock will react more positively to its exponential growth in revenue. We switched all of our holdings in Interactive Corp to its subsidiary Match Group.

Our arbitrage strategies had strong performance in the fourth quarter, taking advantage of wide spreads created by the record-setting pace of US merger activity. The current arbitrage landscape is as attractive as we have seen in over a decade (see our recent Live from the Desk), with average spreads well over 7%. As always, it is a core component of the Vertex Fund, currently with a 43% weight in the strategy (spread over more than 40 situations). The first increase to the federal funds rate, since 2006, happened in the 4th quarter. With that, we remind our investors that our arbitrage strategies act effectively like floating-rate notes (earning a spread over short-term interest rates), thus, they've historically generated higher returns in higher interest rate environments. Additionally, the arbitrage portfolio is highly liquid, with over 80% invested in securities having a market capitalization over $2 billion.

In 2016, we don't expect a repeat of the record US M&A activity, but, the environment remains conducive to getting deals done: interest rates are low, financing is readily available, and the US economy is showing steady growth. We've had extremely limited exposure to Canadian M&A in recent years; but, as oil finds a bottom, our expectation is that there will be some opportunistic acquisitions by players with strong balance sheets. As we have seen more deals in oil & gas recently, we are scavenging the fields for value in this sector.

In the fourth quarter we added an activist position in AIG. This company, bailed out by the US government in 2008, still trades at a 30% discount to book value. It is our opinion that in a breakup scenario, shares would trade at book value, at the minimum. Plus, we've got Carl Icahn in our corner, banging on the boardroom table to implement these changes.

Lastly, Millennials – the generation succeeding Generation X. They are those individuals you see in coffee shops notoriously attached to their devices, constantly connected. To generalize here, they don't want to own a house, a car, music, or most material goods. They covet convenience and accessibility. Look at the growth of Uber and Netflix for instance, these highlight millennial's go-to happy places. The growth of virtual goods is upon us. To that end, we must stay hip and roll with the times by building positions in Take Two Interactive Software (Grand Theft Auto) and PayPal Holdings (mobile and online purchases).

It's true that we now live in a time of increased and frequent volatility. This, however, has not diminished our enthusiasm for investing or the year ahead. Looking at yields, stocks compared to any asset class have never been cheaper. As always, please call us if you have any questions.

There was no capital gains or income distribution in 2015.

PERFORMANCE (Class A returns as at December 31, 2015)
Returns are net of all fees and includes reinvested distributions.

Net Asset Value	**1 Month**	**3 Month**	**Year to Date**	**1 Year**	**5 Year+**	**10 Year+**	**15 Year+**	**Since Inception+**
$67.4144	-1.51%	6.79%	8.67%	8.67%	4.03%	7.29%	11.06%	14.92%

+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.