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VERTEX FUND

Second Quarter Report, 2016

"This is a referendum and not a neverendum."
- Tweet by Ex-Prime Minister David Cameron, May 17/16

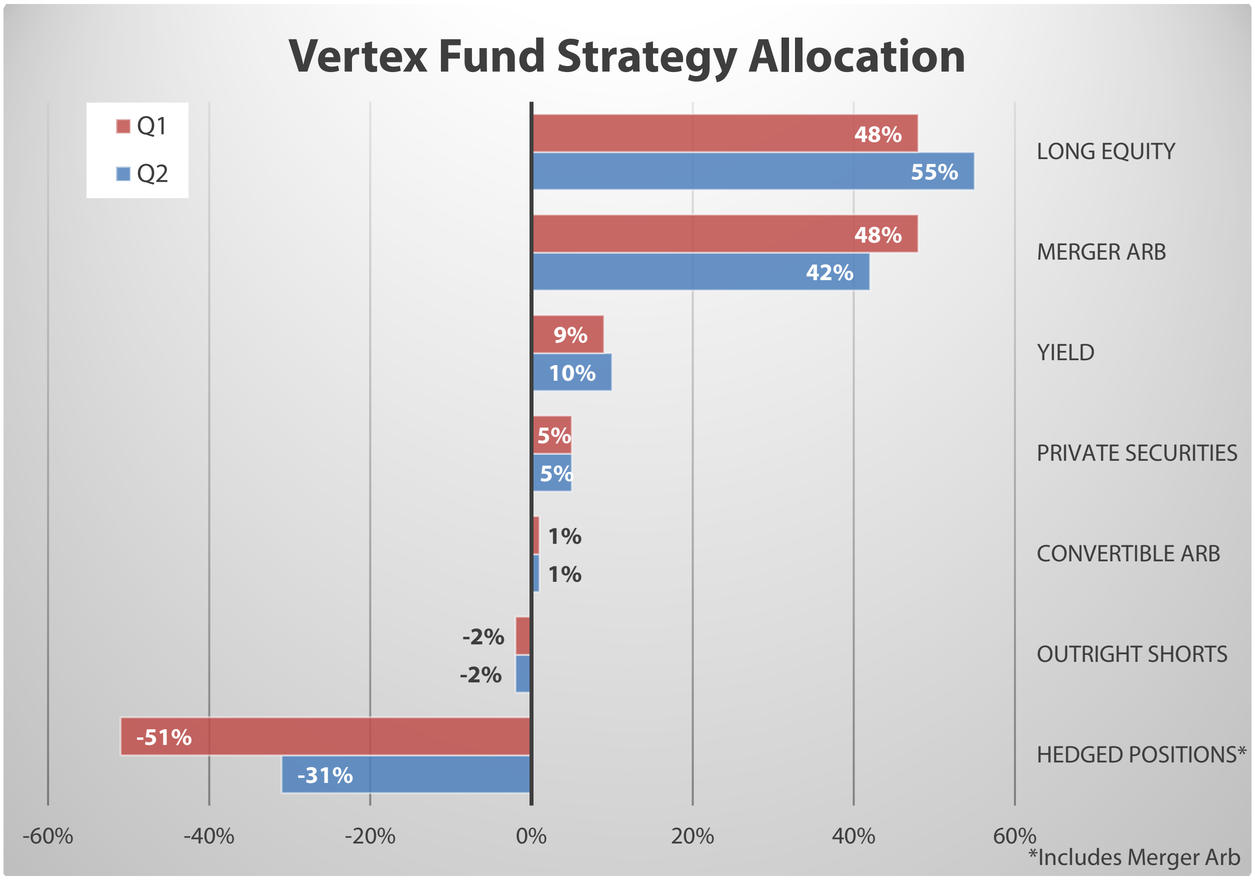
Although we don't know how the dust will settle post-Brexit in the United ('broken') Kingdom, we do know that the uncertainty of investing will likely cause a recession in England. For any global or British companies looking to invest, the UK will be the last choice within Europe – renegotiation will take years. The only certainty is that uncertainty will rule the day, which in turn will mean underinvestment to match; the chance of a recession is almost a foregone conclusion. As investors panicked to get out of England it caused a freefall in commercial real estate funds, with over $20 billion in funds having to halt redemptions. This may be a good time for Vancouver real estate investors to take note, when the music stops the echo can be louder than the boom…

Over the last six months our large US dollar exposure hindered performance. A large part of our investment thesis has been that the USA will benefit from having some of the highest interest rates in the world, one of the best balance sheets, and one of the strongest economies. We reason these three key items will lead the US dollar to outperform global assets for years to come. Additionally, European countries now have such a strong reliance on low rates that using normalized rates would mean most countries wouldn't even be able to cover their interest costs. Switzerland recently became the first country to have negative interest rates across its entire yield curve (1-30 years), Japan looks like it will be second, followed by Germany. It's a crazy world if all safe assets are in fact liabilities.

The Fund ended the second quarter down 2.11% (Class A), mostly from an April that saw two deal failures combine with hedges and currency working against us. It wasn't all bad news, with a number of positions performing exceptionally well over the second quarter:

Q2 main detractors:	Q2 main contributors:
• Fiat -23% • Finmeccanica -20% • JC Penney -19% • Energy and Financial hedges	• Franco Nevada Warrants +92% (Fund's largest position) • Paramount Resources +57% • Guardian Capital +15% • TransAlta Corp. +11%

Throughout the quarter we made adjustments to the portfolio, with the aim to reduce volatility and increase our exposure to the market's rebound. We continue to have significant investment in merger arb, Gold, and USD for a low growth, low interest-rate environment. Our exposure to Europe reduced from 15% to 5% of the Fund. We also reduced hedges and added to equity exposures. Until rates rise, high-yielding equities look extremely attractive – we're aiming to increase our exposure to this area to 20% of the portfolio through various REITs offering high single-digit yields.



For the first time, we were fortunate to make it to the Berkshire Hathaway annual meeting in Omaha this spring. This is the Woodstock festival for capitalists and a good place to refresh the principles of equity research. It's amazing to see an 85 year old Warren Buffet and 92 year Charlie Munger hosting a meeting from 8 am to past 4pm, with only one bathroom break at lunch! As the entire meeting is Q&A, the topics were wide ranging, but one question left a resounding imprint in our thoughts. The question was why Warren sold his investments in the reinsurance business. Reinsurance is the business an insurance company buys so it doesn't have too much exposure when the big one hits. Hence why Canada's largest insurance company had a relatively small loss for the multibillion dollar claims of Fort McMurray. Warrens answer: the reinsurance business is currently impaired due to low interest rates for the foreseeable future. Negative interest rates lure countries to issue more debt, like Canada is currently undertaking, while insurance companies struggle to find returns. Thus, margins will be lower for financial companies for years to come, so much so, that some banks now make more money on ancillary fees than net interest margins. In light of this, we reduced our small exposure to banks further, with reductions in JP Morgan, Customers Bancorp, and AIG.

With respect to merger arbitrage, a bright spot in terms of activity has been the resurgence in Canadian deal making. The M&A portfolio is currently 25% invested in Canadian situations (compared to ~5% at the start of the year). We have seen some larger strategic deals announced (BCE for Manitoba Tel, not a position in the fund) and many smaller resources deals that are offering attractive spreads. Subscription receipts and installment receipts remain a core strategy of the fund with an attractive risk/reward profile. Two notable large positions for the fund in this strategy were TransCanada Corp sub-receipts (financing their purchase of Columbia Pipeline) and Emera instalment receipts (financing their Teco Energy acquisition). These offered 5-10% returns for low-risk exposure to high quality M&A transactions. Our largest exposure is still EMC which is being acquired by Dell computers and offers over 20% annualized rate of return.

We remain confident that the portfolio's holdings, although lagging of late, will prove their merit moving forward.

As always, please call or email us if you have any questions or concerns.

PERFORMANCE (Class A returns as at June 30, 2016)
Returns are net of all fees and include reinvested distributions.

Net Asset Value	1 Month	3 Month	Year to Date	1 Year	5 Year+	10 Year+	15 Year+	Since Inception+
$62.2594	0.92%	-2.11%	-7.65%	-8.21%	2.23%	6.27%	10.24%	13.99%

+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.