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VERTEX FUND

Fourth Quarter Report, 2016

The world is flat.
- Thomas Friedman

Although the world has appeared flat in terms of trade and global efficiency, it is flat no longer. The outsider, the outlier, the Donald is now President Trump. It's hard to fathom that a reality TV star has become Commander and Chief of the United States of America. A platform built on Nationalism (Protectionism) instead of Globalization, means the world is rippled once again. With that, the first bump in the road we've seen is the doubling of interest rates in Canada. 10-year Government bond yields doubled since the election in November, from 90 basis points to 1.8%. Interest rates in the USA likely bottomed over 3 years ago, as highlighted in this chart by the yield of two-year US Treasuries over a 5-year period:

(source: Bloomberg)

Lower interest rates over the past decade have pressured returns in merger arbitrage space to levels which are unattractive to us in the Vertex Fund. We have also seen somewhat slower deal flow, which we attribute to a lack of confidence as CEOs and bankers digest the potential implications of a Trump presidency. There are many new unknowns in Washington related to prospective Trump policies, but many are seen as potentially positive for deal making: pro-business initiatives, a lighter touch regulatory environment, and low-tax repatriation of offshore cash by US companies. Above it all, with continued strength in the US economy, we expect M&A activity to pick up over the year as there is more visibility into the policy implications of a Trump presidency. For now, we reduced our M&A exposure to less than 20% – our lowest level in 10 years. The resulting increased equity exposure is demonstrated by our recent results, with stronger performance over the last quarter (2.8%, Class A) and 6-month period (8.21%, Class A). Over the longer term, as interest rates head higher, this should cause M&A returns to rise and we'll look to increase our exposure accordingly.

One of the benefits of being an event-driven fund is that we can own a distressed security through the bankruptcy process and continue to own the security during the change from debt-to-equity. Traditional money managers or ETF managers are restricted to only own one asset class - such as bonds or stocks. Investors who are restricted with asset classification labels are forced sellers of capital restructuring securities, leaving us to capitalize on large price discrepancies seen in the capital reorganization process. There are only certain times in the economic cycle where the stars align for this type of investment. Of late, the world of defaulted oil and gas companies has grown considerably with over 116 debt-levered companies defaulting in 2016. These companies have struggled to be cost effective with lower oil prices. We are taking advantage of this situation by recently adding positions in Energy XXI, Breitburn Energy Partners, Lilis Energy, and Bonanza Creek Energy – representing nearly 15% of the portfolio.

Lilis Energy (currently our largest positon) recently emerged from bankruptcy with a large land parcel in the Permian basin, which ironically is experiencing land bidding wars for acreages in that area. As it became a public company, it traded at a 80% discount to its peers; it currently trades at a 50% discount to its peers. We expect this discount to disappear as new shareholders, from the previously restricted shareholders list, are allowed to purchase the stock which now qualifies within their asset universe.

Lastly, this past quarter TransAlta Corporation (another of our larger positions) was able to negotiate a settlement with the Alberta Government in regards to its stranded coal assets and implement a consolidation for its preferred shares: this resulted in its shares moving higher by more than 20%. We still expect owners of the preferred equity to ask for a higher coupon to accept the consolidation terms, and shareholders of the common shares to realize higher prices. That is if management can monetize the income stream for compensation of the coal properties which are now stranded assets.

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

There was no capital gains or income distribution for 2016.

PERFORMANCE (Class A returns as at December 31, 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+**
$67.3691	3.67%	2.80%	-0.07%	-0.07%	6.62%	5.81%	10.51%	14.07%

+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.