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VERTEX FUND

First Quarter Report, 2017

When the world's largest economy does well, we all prosper.

The Trump election has seen a sea change in terms of business optimism. One benefactor of this has been the proposed reduction in rules for how banks operate. This has rewarded our position in JPMorgan bank warrants. Perhaps JPMorgan's chairman and CEO, Jamie Dimon, said it best in his annual report with four keys factors: business optimism is at record levels, we are in a deregulation environment, there is a pro-business administration, and most importantly, companies are hiring again.

This is happening at a time when as recently as last year the United States had over 160 companies in the oil and gas sector declaring bankruptcy – the most bankruptcies since 2008. The Vertex Fund has been taking advantage of these restructurings. We currently have a 30% weight in energy; most of these holdings have been, or are in the process of being, restructured. Most investors who own a bond that defaults don't want to own a bankrupt company, and most distressed investors that buy a bankrupt bond don't want to own equity of a recently restructured oil and gas company for the long-term. This transition of shares changing hands creates depressed valuations and an opportunistic investment for us; we are happy to own the security through, as we see it, three stages of value creation:

1. Bankruptcy and recapitalization as a newly going concern – resulting in depressed valuations.
2. Emergence from bankruptcy with a much improved balance sheet – valuations begin to improve relative to comparable companies in each sector.
3. Analysts pick up research coverage and spread the good word – leading to a valuation premium.

Lilis Energy is currently our largest holding in the fund. The company is in the last stage of value creation, with recent research coverage highlighting the 50% discount to their peers on a Net Asset Value. They will also grow their production tenfold over the next 18 months, which should soon be recognized by other investors.

We recently participated with management in a recapitalization of PetroShale Resources where the majority of debt was converted to equity. This Canadian company, with all of their assets in the US (and like Lilis Energy not subject to any border tax issues), has smartly been adding to its land position while waiting to drill, so as not to give away their strategic strength based on well results. They have partnered with best in class, EOG Resources, in North Dakota; this should allow them to triple production over the next two years without any exploration risk. Leaving execution and, as always, the price of oil as the main risks.

OPEC has had a net monetary gain by withholding production with a more than commensurate increase in the oil price. Saudi Arabia has big plans for its crown oil and gas company, Aramco, to do a fixed income issue this year, with a follow-on equity issue at its IPO. We think they will make this production cut last until global growth in demand uses up excess production.

This wave of defaults makes the environment feel similar to 2009 when we reduced our M&A exposure to increase our high-yield weightings. Accordingly, we have repositioned the fund over the past nine months to have more high-yield restructuring and equity-driven exposure. Despite the steady and predictable returns that merger arbitrage continues to earn, there are greater potential returns to be realized from replacing our M&A exposure with higher yielding opportunities. The merger arbitrage weight is now less than 10%. This past quarter we launched a two-times levered version of the Vertex Arbitrage Fund, called the Vertex Arbitrage Fund Plus, for investors interested in a pure play on the strategy but with some leverage to enhance the returns.

Of the six SPACs raised in Canada, three have completed deals, one has a deal pending, and two have returned their capital to shareholders. We are now long-term holders of two of the completed deals. We see the shareholder base being similar to distressed bonds. Many holders of SPACs do not want to have common equity exposure; thus, they are sellers (or redeemers) of these securities when deals are proposed. As soon as the entire shareholder base gets recycled and research coverage is launched, we see shares then trade up in line with comparable companies. Additionally, we own long-dated warrants in these SPACs that trade at a 50% discount to what we consider to be reasonable implied volatilities.

Intermap Technologies is another holding in which we partook in a recapitalization of its capital structure. A recent rights issue funded a working capital commitment loan ("Bridge Loan") – backstopped by us taking a 35% equity stake in the company. All short-term debt, including a royalty we held, was converted into a 3-year zero coupon bond. In October 2016, Intermap announced a new CEO, Patrick Blott; he is taking a more responsible approach in building a sales channel with a more diversified customer base. With success in his approach, this will have a large impact on the Vertex Fund. Results should be clear within a year.

After owning them for almost a decade, it's with a touch of sadness that we'll tender our Franco-Nevada warrants this quarter as they expire in June. We will keep 5% of our position to convert as an equity holder. This is a best in class gold company, with no cost of production, invested with a collection of royalties on over 600 gold and oil and gas properties. Hedging the rest of this position over the quarter cost us just over 2% of NAV and detracted us from having a positive quarter.

TransAlta common shares remain a key holding. Like Guardian Capital, we see the intrinsic value being twice the value of the current shares. TransAlta recently tried to buy-back its preferred shares to lower its cost of capital, but were rebuffed by the preferred equity shareholders. It did, however, cause an increase in the preferred price as shareholders realized the discount value; we took advantage of this price appreciation and sold off our preferred equity.

The Borg of the Amazon continues to leave almost no business untouched. Retailers are collapsing like old Empires, once considered untouchable. The internet was once considered the long tail as it gave more options to consumers, but the opposite has happened. If you look at your personal life, for example, people can choose from a million apps; yet, on average they use less than a dozen at best. The same can be said with retail choices – consumers trust a site like Amazon for good prices and convenience. It's hard to say where it shakes out in terms of companies keeping stores as walk by catalogues, but retail will no longer exist as we know it. This area will offer more opportunities on the short side as technology displaces traditional models of retail, newspaper, and music.

As a side note, one of our smallest private holdings (2 basis points), Turnstyle, was recently acquired by Yelp for a large premium. Although our private investments are kept to less than 5% of the portfolio, they have generated outsized capital gains over the years.

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

PERFORMANCE (Class A returns as at March 31, 2017)
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+
$66.4453	-1.17%	-1.37%	-1.37%	4.47%	4.72%	4.90%	9.97%	13.79%

+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.