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VERTEX FUND

Second Quarter Report, 2017

Samuel Beckett's play from the 1950's, *Waiting for Godot*, is what our investment results have felt like this year. The anticipation is there, but we've yet to be rewarded with our repositioned portfolio. Over the last 6 months the Vertex Fund hasn't seen much love in terms of flat returns – though our 1 Year return still shows a strong 7.84%.

What's happening? Well, south of the boarder Donald Trump seems to be making himself a new enemy every day. Meanwhile, Justin Trudeau is building friendships (bridges) as quickly as Trump is losing them. And as opposites attract, this year the equity market has shown the United States positive year-to-date returns, while Canada has seen no love, with negative returns year-to-date. Most of the carnage in Canada has come from the oil and gas sector – with large double digit declines leaning on the index, minimizing the Vertex Fund returns.

Like Canada – which has been misunderstood – the Vertex Fund is at a turning point toward building new friendships.

We have converted our largest position, Franco Nevada warrants, to common shares. Franco now holds a more modest weight of 4% within the portfolio. On a delta basis, the Vertex Fund's new largest position is AIG warrants, though the actual weight in the portfolio is slightly less than 5%.

Since its bankruptcy during the financial crisis, AIG International Group has had its share of CEOs. Apart from one CEO who unfortunately died prematurely, none have truly understood the company in which they steered, until now. Brian Duperreault became the new president and CEO of AIG in May of 2017. In only the first few weeks of his position he followed through with buying five million dollars worth of shares in AIG (in addition to the options he received in his remuneration package). Like Jamie Dimon's prescient purchase of J.P. Morgan's shares near the bottom, we like CEOs who eat their own cooking.

A brief background: Maurice 'Hank' Greenberg retired as the CEO of AIG in March 2005. For decades, Duperreault was Hank's right hand man as AIG was being built into the global powerhouse it is today; he knows the company better than anyone outside of Hank.
Duperreault has added considerable value to two other companies for which he was CEO (Marsh & McLennan Co. and ACE Ltd) – it's great to see that his last hurrah will be with the company that started it all. He has some easy metrics to enjoy with a stock that currently trades at around $65, which is $35 below its $100 book value. We believe the company will earn $10 per share by 2019, so a 12x multiple on those earnings will lead to an AIG stock price such that the AIG warrants we own will triple in value over the next two years

Having come off extremely low levels, Canada has been one of the first countries to raise interest rates. In time, this may mean higher rates for M&A. Nothing will happen overnight, as the recent strength of the Canadian dollar will generate pressure to stop this higher rate train. While waiting for these higher interest rates, we've invested in a number of businesses which are poised to rise once the 50% discount between them and their competitors is recognised.

Our next potential double is PetroShale. They have a PDP (Proved Developed Producing) value of $2.00, compared to our average cost of $1.00. They are one of the rare companies in oil and gas that trades below its PDP value. As of yet, PetroShale has no major analyst coverage. When word gets out on this profitable company – that will double production in the next 18 months – we expect the share price to follow.

Higher interest rates will also mean larger profitability for the banks; so, we've added Citibank warrants to the portfolio. These trade at 15 cents/share and are exercisable at a strike price of $100 over the next few years.

Building on our portfolio of doubles, we have invested in the new oligopolies of Canadian gas stations. Gas stations have traditionally had slim margins, which in the finance world means large doses of EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization), but not so much in the earnings department. Parkland Industries and Brookfield Business Partners have recently consolidated the gas station space in Canada – which should see 25% earnings growth for at least two years, while these stocks currently trade at a 50% discount to their growth rates.

Oil and gas producers have become extremely efficient. Today, in the Permian Basin (located in west Texas), 800 Permian wells produce the equivalent of what 1,700 wells produced just two years ago. One of the fastest growing names is our own Lilis Energy: with a 7% weight in the Vertex Fund. We expect their production to double over the next 18 months, while trading at a 50% discount to their peers on land value alone. Lilis should trade in line with their peers as people begin to recognize the value, which would result in a double from current levels.

Guardian Capital is an asset manager that has been a core holding of ours for years. A more recent addition to the Vertex Fund is the stock symbol BEN, which stands for one of the great Americans of all time, Mr. Benjamin Franklin – any books on Franklin make for a summer well remembered. This aptly named Franklin Resources Inc. is a power house of an investment management firm, who have positioned their portfolio for these higher interest rates. More importantly, half of their share price is in cash which means their P/E ratio is less than 8 once you back out the cash.

We've also recently crossed paths with Warren Buffet through our investment in Delta Airlines. Big changes from his famous quote "…if a farsighted capitalist had been present at Kitty Hawk, he would have done his successors a huge favor by shooting Orville down." After the 1980's, US airlines had lost more money cumulatively than they'd made since their inception. Like gas stations, they now have an oligopoly type industry with only four major airlines in the US (Delta, American, Southwest, and United). Anyone who has flown recently can recognize that most planes are near capacity, the cost of flights is rising, and frequent flier points are more expensive than ever to redeem for value. Pricing power now resides with the airlines which trade at a P/E of 10.

During the quarter, we sold our positions in Veresen Inc. and TerraForm Power after both companies received takeover bids.

The above examples are a fraction of companies we now own that will build on the compounding returns the Vertex Fund has historically seen.

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

PERFORMANCE (Class A returns as at June 30, 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+
$67.1401	-0.98%	1.05%	-0.34%	7.84%	5.47%	4.90%	10.07%	13.66%

+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.