

VERTEX FUND

Fourth Quarter Report, 2017



Palmer Report 
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"I am not a genius" "I'm not a genius" "I'm a very stable genius"
- Albert Einstein - Steve Jobs - Donald Trump

Our first US political call will be that Gary Cohn and Rex Tillerson resign after one year of service in the White House – aka as soon as their capital-gains tax exemption “vests” have been put to use. These fine gentlemen could work for years, but Trump can’t work with anyone outside of his family. The White House management team will be a turnstile until the CEO is replaced.

In other news, the recent Tax Reform in the United States has caused benefits similar to income trust conversion tax avoidance from over a decade ago in Canada.

We are amid a multiple expansion phase for all US sectors combined with upward earnings revisions as tax rates are reduced by a third. On the back of continued low interest rates (below 3%) all stocks with price/earnings ratios of less than 33 seem cheap. Recently, respected market analysts with a bearish tilt – such as Jeremy Grantham – have argued the biggest risk is to the upside with a market melt up.

We see these themes across many of our holdings, such as Franklin Resources (Templeton group of funds): a lower tax rate allows them to repatriate capital to repurchase shares, increase dividends, or reduce debt. We also expect many more mergers in the US as cash gets brought back home from offshore accounts and put to work in growth opportunities.

Many of you have reached out to tell us how much you enjoyed this year’s book selection, Sapiens: A Brief History of Humankind (if you didn’t get a copy, contact us). My favourite chapter: “The Capitalist Creed” (Ch. 16), is the most relevant to the capital markets. Specifically, page 312 speaks to the quandary we’re currently facing. As the chapter highlights, an economy cannot grow over the long-term without reinvestment. Below we look at top capital spending on a global basis in 2017 (source: The Wall Street Journal):

- Samsung (\$44B)
- PetroChina (\$29B)
- China Mobile Ltd. (\$25B)
- Gazprom (\$25B)
- Shell (\$23B)

Not one American company made the list. All excess cash flow has been used to buy back shares, dividends, or even increase debt to buy back more shares. This may change with tax legislation; either way, long equity investors will win.

The Vertex Fund has had strong performance in three of the last four months, largely due to our leverage in rising rates and our exposure to rising oil prices. We continue to have 32% portfolio exposure in oil and gas – mainly through American plays that aren't subject to NAFTA or pipeline protesters... which is causing large differentials between Canadian and American pricing.

As our investors have seen, oil and gas investments haven't been all that pleasant over the past three years, yet our stubborn patience is beginning to pay off with oil futures in backwardation and oil prices at three year highs.

We have also added equity names that are trading at single digit price/earnings ratios: Mylan, Valeant, and Micron. If these names traded at multiples that were half that of the market, we would see each name double.

Social Capital Hedosophia, run by our favourite Canadian Chamath Palihapitiya, has become a core holding with a four percent weight as we expect great things from his first attempt at a SPAC. He's often early on his calls; so, we're very excited to see what he has in store for us.

As always please reach out if you have any questions or comments

PERFORMANCE (Class A returns as at December 29, 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⁺
\$ 68.4153	3.71%	5.81%	1.55%	1.55%	4.04%	4.97%	10.81%	13.41%

⁺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.