

## **VERTEX FUND**

Second Quarter Report, 2018

**Economics Teacher:** *In 1930, the Republican-controlled House of Representatives, in an effort to alleviate the effects of the... Anyone? Anyone? ...the Great Depression, passed the... Anyone? Anyone? The tariff bill? The Hawley-Smoot Tariff Act? Which, anyone? Raised or lowered? ...raised tariffs, in an effort to collect more revenue for the federal government. Did it work? Anyone? Anyone know the effects? It did not work, and the United States sank deeper into the Great Depression. Today we have a similar debate over this. Anyone know what this is? Class? Anyone? Anyone? Anyone seen this before? The Laffer Curve. Anyone know what this says? It says that at this point on the revenue curve, you will get exactly the same amount of revenue as at this point. This is very controversial. Does anyone know what Vice President Bush called this in 1980? Anyone? Something-d-o-o economics. 'Voodoo' economics.*

*-Ben Stein as Economics Teacher; Ferris Bueller's Day Off*

History is a great lesson for Economics and you have to remember the past if you are going to have a future. Ironically, the Democrats have been the government of free enterprise and the Republicans have been more protectionist. The Left Wing has become Right Wing and the Right is Left (think "1984" Mr. George Orwell). These days people can't remember the headlines from last week as they are too focused on the next tweet to carry their worries forward from yesterday. The truth is becoming harder to find in these interesting times. It was just months ago that Brexit was going to be the road map for other European Countries to leave the EU. Now the facts seem to suggest the complete opposite and that a disaster is in the making for the U.K.; hopefully they can be like Donald Trump and change their minds overnight. Fortunately, we have the Four Kings to help us ride through these turbulent times; we have added to these key equity positions this past year in the portfolio, and this is the first time in 20 years that we have had such strong conviction in four companies.

This past quarter our returns have been more volatile, as our oil and gas stocks are starting to react to the price of oil doubling. With over 40% of our portfolio in energy related stocks, our portfolio will move with the tide of oil prices. Global demand keeps growing in excess of 1% annually while most majors have not materially increased their budgets for capital expenditures in exploration over the past four difficult years. Global supply/demand deficits may start to surface if geopolitics escalate. Demand in India and China for oil is growing faster than production can keep up, and incremental demand in the rest of the world is also positive. Our two largest holdings still remain Lilis Energy and Petroshale Resources. They are the cheapest names relative to their growth rates in North America. Both companies are on track to triple production over the next two years, and with their exposure to US Oil prices, their stock prices, which have been flat over the last year, should react accordingly.

Guardian Capital and Social Capital Hedosophia Holdings are our two other Kings, riding with saddles full of cash. Bank of Nova Scotia has built an amazing franchise over the past 100 years, but until recently they were at a loss as to how and where to spend their money. However, now

they are spending. They just paid a record breaking \$800 million to rename the Air Canada Centre for a 20-year term, which is a hefty price tag at 10 times what Air Canada paid for the previous 20-year term. This should have allowed them to buy the rink for half the price they paid, or better yet, hand each person in Toronto a bank account with \$200 in it, which would have probably done a better job of marketing than buying the name of a building for a medium-term lease. Scotia also recently acquired MD Financial Management for \$2.585 billion, or 5% of assets under management. This is much higher than the 1-3% that we typically see for Canadian money managers. Guardian Capital, which trades at its value of cash and securities, would be a triple based on those same valuation metrics after removing cash, making it a very attractive prospect. Perhaps management needs to hang a for sale sign with the Canadian banks eager to over pay.

As mentioned above, our last King, that trades at its cash level, is Social Capital Hedosophia Holdings. The company has been public for almost one year and trades at the cash that it has on the balance sheet. It has one year left as a Special Purpose Acquisition Corporation (SPAC) to find a private company to buy and take public through a reverse merger. The firm's founder and CEO Chamath Palihapitiya, who has been one of the best stewards of capital, kindly hosted us and others courtesy of Credit Suisse to discuss the three areas he was looking at doing a deal in. The three areas he is focusing on are: Security Software, Blockchain Technology, and Transportation Logistics. We expect him to find a deal before year-end that should match his stellar past investment track record.

Our holdings have remained constant and concentrated. If we were allocating new money to the portfolio we would replicate our current holdings.

Please feel free to contact us should you have questions.

## **PERFORMANCE** (Class A returns as at June 29, 2018)

Returns are net of all fees and include reinvested distributions.

<b>Net Asset Value</b>	<b>1 Month</b>	<b>3 Month</b>	<b>Year to Date</b>	<b>1 Year</b>	<b>5 Year<sup>+</sup></b>	<b>10 Year<sup>+</sup></b>	<b>15 Year<sup>+</sup></b>	<b>Since Inception<sup>+</sup></b>
\$67.2232	-3.98%	3.61%	-1.74%	0.12%	2.57%	3.91%	9.79%	12.96%

<sup>+</sup>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.