

VERTEX MANAGED VALUE PORTFOLIO

Second Quarter Report, 2016

Sir John Templeton believed that, *“to buy when others are despondently selling and to sell when others are avidly buying requires the greatest fortitude and pays the greatest ultimate rewards”*.

As discussed in early 2014 commentaries, gold companies became an attractive investment opportunity at a time when many investors had already sold or were actively *despondently selling*. For us however, the profit metrics were finally beginning to make sense. Back then, we were not looking for an indication of whether or not the Fed would alter the direction of interest rates at any given meeting or whether or not Brexit would become a reality. Instead, the question was, are costs incurred lower than prices realized? Increasingly, the answer at that time was becoming, *yes*. With industry costs such as oil at very low levels and with a reduction in gold supply due to the shutting / slowing of existing projects along with a lack of new projects, gold was beginning to look interesting strictly from a profit perspective. Our gold exposure worked well for us over the quarter and in light of its significant run up due to the largely unexpected Brexit, we decided to take some profits and trimmed our exposure near quarter-end. Against the backdrop of a 7.3% Q2 increase in gold, one of the largest single contributors to the fund’s positive return for the quarter was McEwen Mining. This position was up over 102% in Q2. We still hold a 2% weight and we have quadrupled our money with this holding so far. With no long term debt and about \$35 million in cash, the balance sheet is sound. The Chairman and CEO owns 25% of the outstanding shares which indicates the alignment of management’s interests with those of shareholders. He does not collect a salary, a bonus or a stock option. The man responsible for running the company receives his compensation in the same manner as shareholders like us – through the price appreciation of the stock.

With Natural Gas up 49% and Oil up 26% over the second quarter, our oil and gas exposure also contributed positively to fund performance. This price surge increased deal activity over the period which saw the completion of one of Canada’s largest bought deals ever (Suncor Energy closed its \$2.9 billion behemoth at the end of June). Painted Pony was one of our top performers with an impressive return of 78% in Q2. One would be hard pressed to find a less loved sector than Oil and Gas over the last couple of years. It is the willingness to ignore the din of the market and recognize downturns in the industries that produce the products still demanded by the world that allows us to recognize a profit over the long term. By investing in a select basket, as opposed to just one or two of the companies within an industry of interest, we aim to diversify away some of the company-specific risk of any one holding, leaving us with the industry exposure we are hoping to gain.

Interfor, one of our top-five holdings, and currently a double for the Vertex Managed Value Portfolio, provided a performance drag this quarter. The still unresolved North American softwood lumber dispute has provided a level of uncertainty to the industry as a whole. What we do not know is how the dispute will ultimately play out or when exactly a resolution will materialize. What we do know is that Interfor is the fourth largest North American lumber producer, they are actively deleveraging, and with 2/3rds of their production coming from the

US, they have (relative to their competitors) a low exposure to any potential US restrictions that may result from the softwood dispute. Housing starts are still in the 1.1 million range and as the housing recovery continues in the US, we feel there is considerable room for growth back towards the long term historical average. Making predictions with regard to the specifics of North American softwood lumber disputes is not our focus. However, looking for well positioned companies in industries that will endure is of our concern. We feel Interfor is one such company, regardless of short-term volatility.

Selling put options is an attractive way to generate income in a volatile trading environment. We have been targeting a 5% notional weight (in the event that we are fully assigned) in the Vertex Managed Value Portfolio. By selling short-dated put options at compelling premiums we are able to collect that cash now and become the holder of a company that we are more than happy to own at expiration (should the option be in the money at that time). If the option is not in the money at expiration, we keep the cash from the sale of the option and have no further obligation.

Until next quarter, thank you for your continued support.

PERFORMANCE (Class A shares as at June 30, 2016)

Net Asset Value	1 Month	3 Month	Year to Date	1 Year	5 Year ⁺	10 Year ⁺	15 Year ⁺	Since Inception ⁺
\$20.8987	0.06%	2.00%	-1.72%	-11.17%	9.90%	7.39%	7.75%	8.22%

Net of all fees and includes reinvested distributions.

⁺annualized returns

THE PORTFOLIO

Top 20 holdings by weight in the Vertex Managed Value Portfolio on June 30, 2016 are:

BOFI HOLDING INC	GOODYEAR TIRE AND RUBBER
INTL FOREST PRODUCTS	WESTERN FOREST
BLACKBIRD ENERGY INC	SKYWORKS SOLUTIONS INC
JABIL CIRCUIT	PAINTED PONY PETROLEUM
CONIFEX TIMBER	MCEWEN MINING
SYNOVUS FINANCIAL	ZIONS BANCORP
MAG SILVER	PATTERSON-UTI
SCHNITZER STEEL	REGIONS FINANCIAL
RIO TINTO	ROYAL GOLD
TASEKO MINES LTD	FLEXTRONICS INTERNATIONAL

ASSET MIX

Cash	0.22%	Canadian Equities	34.67%
Fixed Income CAD	5.94%	Foreign Equities	56.74%
Fixed Income USD	1.67%	Warrant	0.75%
Options	0.01%		

This statistical information is intended to provide you with information about the Vertex Managed Value Portfolio. 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.