

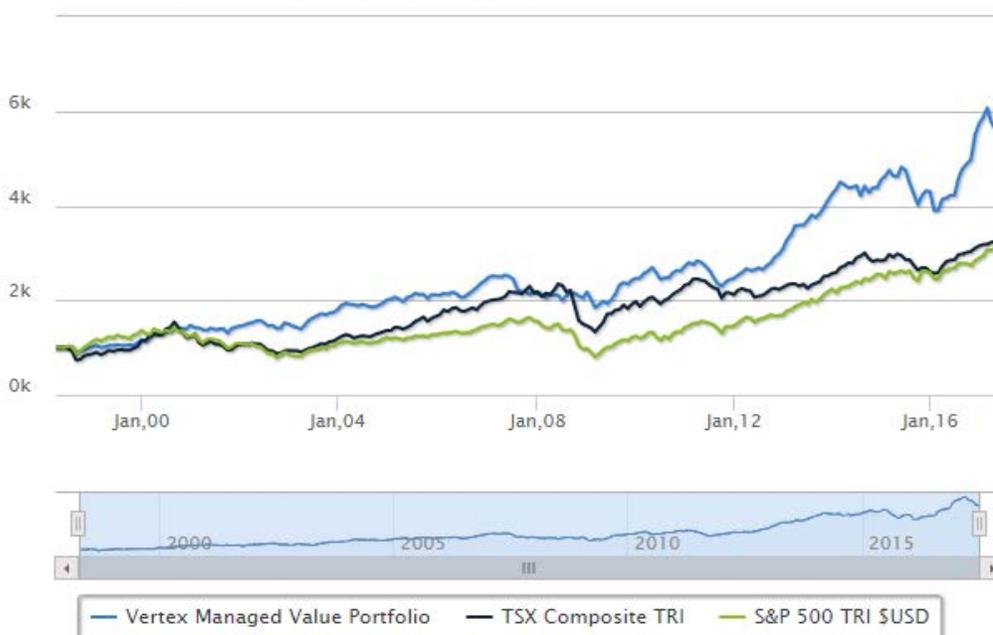
VERTEX MANAGED VALUE PORTFOLIO

Second Quarter Report, 2017

We're hearing a lot about volatility these days. The word seems to have permeated our investment lexicon. It's as if there's something in the investment world that's void of volatility. "Low vol" is what so many are selling and eager ears are eating it up. I'm not sure what to make of it, but the idea that one can get a decent return today, and low volatility simultaneously, is a hard one to swallow. Presently, there is a grand illusion unfolding as recent performance has investors believing the "market", as represented by the major indexes, has lower volatility than contrasting portfolios such as ours. The facts dispute this belief, as "the market" has seen declines of 40% plus twice since founding Vertex One. Your Value Funds have never experienced this kind of downside volatility. Our portfolio differs vastly from the market; thus, our volatility will appear at different intervals. We may be down when the market is flat, or up, or the opposite may also occur. Interestingly, the more investors place their investment in the market the smoother returns appear. Frankly, index investing scares the pants off us. Wouldn't go anywhere near it – there are far too many complacent investors who have bought into index investing. Some people, unbelievably, do not seem to have a problem buying a group of stocks with no regard for the fundamentals, and therefore the value of the companies contained in that group.

To conclude on this topic, as long as human beings are behind investing, markets will be volatile. Behaviour is the only constant. Company names may change, new industries may pop up... it may be real estate, technology, or commodities. They're all volatile. The packaging may be different, but they're all the same through a full cycle. The graph below shows how our value strategy has performed against the TSX and the S&P 500 over the long-term (the Vertex Managed Value Portfolio has been used for illustration purposes).

Growth of \$1,000 Since Inception



Your portfolios have not changed much since our first quarter update. We did, however, further reduce our US regional banks in favour of adding to energy companies. Negative sentiment attracts us like mice to cheese, and the sentiment on energy is at a low unseen for decades. Energy is now just over 30% of your fund, followed by forest and mining at roughly 15% each. I suspect we'll be positioned this way for a while as our process is one of buying inexpensive companies, industries, or special situations, and then waiting for the inevitable change in sentiment and/or recovery. We remain unreasonable in everything we do. Let me explain. When all the reasons are there to justify why a stock price is high, the faster we run away. As reasons pile up as to why an investment is inexpensive, our attraction grows. Circling back to paragraph one, these reasons are what creates volatility and volatility is what allows us to take advantage of very attractive opportunities (either when purchasing an investment or exiting one). To be clear, it is the volatility that the populous is so feverishly trying to avoid that allows the rare entry point that positions us to profit over the long term. As timing the market is not possible, it is only logical that we will see bumps in the road before value is realized. Our energy weight was the main contributor to negative P&L over the quarter. There is no doubt that these companies are out of favor, and there is no certainty as to when exactly sentiment here will change. When it does, however, the price appreciation that we will see in these holdings will be dramatic. The S&P 500 and the S&P TSX currently trade above their long-term averages at approximately 21.5 times earnings and 20.6 times earnings respectively. As we have mentioned in the past, we are always looking for stocks trading at a half to 2/3rds of the value metrics of their competitors and the market. It is a certainty that buying and holding through downturns will feel uncomfortable; it therefore takes discipline. Unfortunately, it is only in hindsight that the wisdom of these trades becomes evident. What we can take comfort in, however, is that this is a process – we are by no means re-inventing the wheel – and although it requires decisive action at the moment when most are on the sidelines in an attempt to avoid the discomfort, it has proven to work.

We highlighted Schnitzer Steel last quarter as a prime example of the type of stock that many had shifted away from in favor of index investing. With a straight forward business model, good relative value metrics, an improving balance sheet, and an environmental sensibility, Schnitzer had all the elements of the type of opportunity that we get excited about. They had completed a cost-cutting initiative and were shifting focus to growth and sales. We are happy to report that Schnitzer delivered a strong quarter with improved sales volume and profitability. The stock was up 22% since the end of March, making Schnitzer one of the portfolio's best performers since our last update.

Through experience, we have come to learn that the right decision is often the most difficult one to make. When you make the right decisions, however, things tend to work out.

Until next quarter, thank you for your continued support.

PERFORMANCE (Class A shares as at June 30, 2017)

Net Asset Value	1 Month	3 Month	Year to Date	1 Year	5 Year⁺	10 Year⁺	15 Year⁺	Since Inception⁺
\$24.3126	-2.71%	-10.52%	-10.13%	22.10%	13.94%	7.74%	8.47%	8.89%

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, 2017 are:

BOFI HOLDING INC (US)	SKYWORKS SOLUTIONS INC (US)
INTL FOREST PRODUCTS (CN)	FLEXTRONICS INTL LTD (US)
BLACKBIRD ENERGY INC (CN)	PATTERSON-UTI ENERGY INC (US)
TASEKO MINES LTD (CN)	CANFOR CORP (CN)
SCHNITZER STEEL INC (US)	NORTHERN DYNASTY MINERALS LTD (CN)
SURGE ENERGY INC (CN)	BEAZER HOMES USA INC (US)
WESTERN FOREST PRODUCTS INC (CN)	COPPER MOUNTAIN MINING CORP (CN)
MAG SILVER CORP (CN)	NOBLE CORP PLC (US)
CONIFEX TIMBER INC (CN)	OVERSTOCK.COM INC (US)
TRANSOCEAN LTD (US)	MCEWEN MINING INC (CN)

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.