

MANAGEMENT REPORT OF FUND PERFORMANCE

December 31, 2018

**VERTEX GROWTH FUND**

Active | Unconstrained | Opportunistic | Absolute



This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-866-681-5787, by writing to us at:

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Suite 3200 – 1021 West Hastings Street  
Vancouver, BC  
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or by visiting our website at

[www.vertexone.com](http://www.vertexone.com)

or

SEDAR at [www.sedar.com](http://www.sedar.com)

Security holders may also contact us using one of these methods to request a copy of the investments fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## MANAGEMENT DISCUSSION AND FUND PERFORMANCE

### Investment Objective and Strategies

The Fundamental investment objective of the Vertex Growth Fund (the “Fund”) is to achieve long term capital growth by investing in growth-oriented equity and equity-related securities of North American companies. Analysis of business cycles, industry sectors and market outlook will lead the investment decision.

To achieve the Fund’s investment objective, the manager will use fundamental analysis to identify superior investment opportunities with the potential for above average capital appreciation over the long term.

The key investment strategy places an emphasis on finding companies where event catalysts can surface to create shareholder value. The Fund may make use of the following investment strategies: the use of derivatives, investing in undervalued securities, trading in securities of distressed issuers, special warrant arbitrage, merger arbitrage, convertible arbitrage, participating in restructuring situations, leverage, short selling and other investments such as preferred shares, convertibles, corporate and sovereign debt securities.

The Fund was created on September 14, 2009 and commenced operations on September 21, 2009.

### Risks

The risks remain as disclosed in the simplified prospectus. Due to the volatile nature of many of the securities held in the portfolio the Fund is susceptible to general market declines. A change to investment themes in the Fund exposes the portfolio to potential new risks. Any changes to legislation that affects world resource markets would have an effect on the portfolio. The Fund is at risk to a political situation causing markets to drop. Changing market demographics affecting the profitability of an investment could have a negative influence on the portfolio.

Exposure to foreign currency is not fully hedged. As such, fluctuations in currency will have a positive or negative impact on the Fund’s returns.

### Results of Operation

The Fund ended the year of 2018 with returns of -32.70% for Class B shares and -31.96% for Class F shares.

Global equities sold off later in the period amid a number of interest rate increases in the past two years and the U.S. Federal Reserve Board’s efforts to reduce its balance sheet. These actions induced considerable selling of equities nonetheless, particularly as investors became increasingly concerned about the contentious trade dispute between the U.S. and China.

During the period and for the first time ever, oil consumption reached 100 million barrels on a global basis, which created a strong macroeconomic environment for oil. Over the past two years, however, there have been double-digit declines in shares of energy sector companies.

The past year also saw a rapid rise of interest rates, a sharp contrast to the trend of declining interest rates that began in the 1980s. Higher interest rates had the effect of shutting down the high-yield market for the month of December, with no new bonds being issued. Higher interest rates also had a cascading effect on stock prices, but even more so on real estate and bonds.

Top individual contributors to the Fund's performance included holdings in Brookfield Business Partners L.P. and Total Cannabis Security Solutions Inc. From a sector perspective, an overweight exposure to the energy sector, particularly in the fourth quarter, and allocation to the financials sector detracted most from performance. Within the energy sector, PetroShale Inc. and Kelt Exploration Ltd. were the largest detractors from performance. Within the financials sector, Social Capital Hedosophia Holdings Corp. and Guardian Capital Group Ltd. detracted most from performance.

In order to increase the Fund's mergers and acquisitions weighting, the Portfolio Manager sold some equity positions, including JPMorgan Chase & Co. warrants, which were a long-term holding. During the fourth quarter, the company's TARP (Troubled Asset Relief Program) warrants were converted into common shares and, hence, the Fund's debt was reduced. With the sale of JPMorgan, the Fund was rewarded with a fourfold return on investment over the years. In addition, as a result of the impact of rising interest rates on real estate, the Portfolio Manager sold off almost all the Fund's real estate exposure, which had been owned for years.

### Recent Developments

During the period, Tim Logie departed from his role as one of the Fund's Portfolio Managers, but John Thiessen remains the Fund's lead Portfolio Manager. This development had no impact on the Fund's performance, and there were no significant changes to the operation of the Fund.

Going forward, the Portfolio Manager remains confident about the Fund's energy sector investments, with holdings still cash-flow positive at these lower oil prices. Canadian crude oil, which was discounted by as much as \$50 per barrel earlier in the year, now trades at just a \$7 discount.

It is unclear whether global growth is slowing as a result of a deceleration in stimulus from the world's central banks, or a mid-economic cycle pause after years of expansion. Either way, the Portfolio Manager expects the portfolio to be more volatile in the short term, but this leaves opportunities for deep discounts on investments that bode well for the Fund's performance in the future.

### Related Party Transactions

During the year ended December 31, 2018, the Fund incurred management fees in the amount of \$945,383 payable to its manager, Vertex One Asset Management Inc. There was no performance fee paid by the Fund during the year.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund’s financial performance for the years ending December 31.

### The Fund’s Net Assets per Unit <sup>(3)</sup>

Class B	2018	2017	2016	2015	2014
<b>Net Assets, beginning of year <sup>(1)</sup></b>	<b>\$16.15</b>	<b>\$16.19</b>	<b>\$16.16</b>	<b>\$15.34</b>	<b>\$17.07</b>
<b>Increase (decrease) from operations:</b>					
Total revenue <sup>(4)</sup>	0.11	0.34	0.77	0.35	1.11
Total expenses	(0.48)	(0.50)	(0.50)	(0.50)	(0.84)
Realized gains (losses) for the year	(0.37)	0.24	(0.73)	0.42	0.82
Unrealized gains (losses) for the year	(4.14)	(0.29)	0.75	0.61	(1.89)
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>(4.88)</b>	<b>(0.21)</b>	<b>0.29</b>	<b>0.88</b>	<b>(0.80)</b>
<b>Distributions :</b>					
From income (excluding dividends)	-	-	0.28	-	0.39
From dividends	-	-	0.13	-	0.04
From capital gains	-	-	-	-	0.93
Return of capital	-	-	-	-	-
<b>Total annual distributions <sup>(1)(2)</sup></b>	<b>-</b>	<b>-</b>	<b>0.41</b>	<b>-</b>	<b>1.36</b>
<b>Net Assets, end of year</b>	<b>\$10.87</b>	<b>\$16.15</b>	<b>\$16.19</b>	<b>\$16.16</b>	<b>\$15.34</b>

Class F	2018	2017	2016	2015	2014
<b>Net Assets, beginning of year <sup>(1)</sup></b>	<b>\$17.25</b>	<b>\$17.11</b>	<b>\$17.04</b>	<b>\$16.00</b>	<b>\$17.70</b>
<b>Increase (decrease) from operations:</b>					
Total revenue <sup>(5)</sup>	0.12	0.36	0.82	0.37	1.15
Total expenses	(0.33)	(0.34)	(0.35)	(0.33)	(0.73)
Realized gains (losses) for the year	(0.40)	0.26	(0.77)	0.44	0.85
Unrealized gains (losses) for the year	(4.58)	(0.20)	0.6	0.45	(2.43)
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>(5.19)</b>	<b>0.08</b>	<b>0.30</b>	<b>0.93</b>	<b>(1.16)</b>
<b>Distributions :</b>					
From income (excluding dividends)	-	-	0.41	-	0.46
From dividends	-	-	0.18	-	0.05
From capital gains	-	-	-	-	0.90
Return of capital	-	-	-	-	-
<b>Cont'd Class F</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Total annual distributions <sup>(1)(2)</sup></b>	<b>-</b>	<b>-</b>	<b>0.59</b>	<b>-</b>	<b>1.41</b>
<b>Net Assets, end of year</b>	<b>\$11.74</b>	<b>\$17.25</b>	<b>\$17.11</b>	<b>\$17.04</b>	<b>\$16.00</b>

<sup>(1)</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

- (2) Distributions were paid in cash/reinvested in additional units of the Fund, or both.
- (3) This information is derived from the Fund's audited annual financial statements. The net assets presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in Note 2 of the notes to the financial statements.
- (4) The Fund engages in securities lending transactions. The Fund will receive collateral of at least 102% of the value of securities on loan. Collateral will generally be comprised of securities guaranteed by the Government of Canada or a province or territory of Canada, or by other governments with appropriate credit ratings, or by financial institutions, but may include commercial paper with an approved credit rating and or convertible securities. As at December 31, 2018, the aggregate dollar value of portfolio securities lent and the collateral held under securities transactions were \$1,223,678 and \$1,285,575 respectively. Income earned from securities lending is included in securities lending income in the Statement of Operations.

## Ratios and Supplemental Data

<b>Class B</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Total net asset value (\$ 000's) <sup>(1)</sup>	14,039	33,884	52,634	65,402	66,506
Number of units outstanding <sup>(1)</sup>	1,291,360	2,097,813	3,250,658	4,046,515	4,334,329
Management expense ratio (%) <sup>(2)</sup>	2.74	2.58	2.55	2.47	3.15
Management expense ratio before waivers or absorptions (%)	2.74	2.58	2.55	2.47	3.15
Portfolio turnover rate (%) <sup>(3)</sup>	101.36	128.19	182.81	212.88	242.48
Trading expense ratio (%) <sup>(4)</sup>	0.47	0.47	0.53	0.55	0.63
Net asset value per unit (\$)	10.87	16.15	16.19	16.16	15.34

<b>Class F</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Total net asset value (\$ 000's) <sup>(1)</sup>	22,422	45,994	53,534	62,762	48,447
Number of units outstanding <sup>(1)</sup>	1,909,859	2,665,892	3,129,698	3,682,373	3,027,931
Management expense ratio (%) <sup>(2)</sup>	1.64	1.47	1.46	1.35	2.44
Management expense ratio before waivers or absorptions (%)	1.64	1.47	1.46	1.35	2.44
Portfolio turnover rate (%) <sup>(3)</sup>	101.36	128.19	182.81	212.88	242.48
Trading expense ratio (%) <sup>(4)</sup>	0.47	0.47	0.53	0.55	0.63
Net asset value per unit (\$)	11.74	17.25	17.11	17.04	16.00

- <sup>(1)</sup> The information is provided as at December 31 of the period shown.
- <sup>(2)</sup> Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.
- <sup>(3)</sup> The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.
- <sup>(4)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

### Management Fees

In consideration of the services provided by Vertex One Asset Management Inc., the Fund pays Vertex One Asset Management Inc a management fee, monthly in arrears, and calculated daily, on each business day, as a percentage of the net asset value of each class of Units that comprise the Fund.

The management fee may vary from Class to Class and will be deducted as an expense of the Class in the calculation of the net profits of such Class. The management fee for each of the existing classes of Units is as follows:

**Class B:** 1/365 of 2% (2% per annum) of the net asset value of the Class B Units on the preceding business day plus applicable taxes.

**Class F:** 1/365 of 1% (1% per annum) of the net asset value of the Class F Units on the preceding business day plus applicable taxes.

The Fund received services in consideration of the management fees as follows:

Services Provided	Class B	Class F
Distribution related costs	62.50%	0.00%
Portfolio Advisor and Management Services	37.50%	100.00%

### Performance Fees

The Fund will pay to Vertex One Asset Management Inc., a performance fee in relation to each class of Units that is equal to 20% of the amount by which the total return of the class of Units exceeds the total percentage increase or decrease of the following benchmarks having the following components, for the year since the performance fee was last paid.

- 50% weighting – S&P 500 Total Return Index (or its successor indices, as applicable)
- 50% weighting – S&P/TSX Composite Total Return Index (or its successor indices, as applicable)

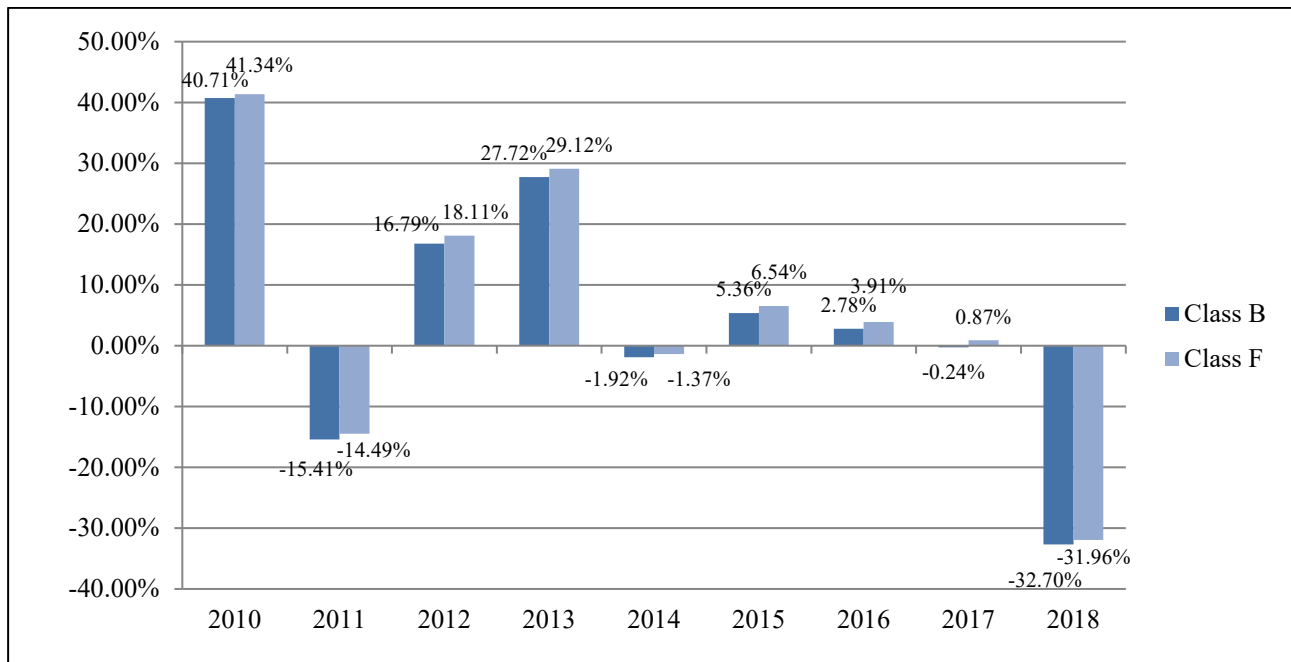
If at any time the performance of a Fund is less than its benchmark, then no performance fee will be payable until the performance of the Fund relative to its benchmark has exceeded the amount of the deficiency.

### PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the years shown were reinvested in additional securities of the Fund. Note that the performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. How the Fund has performed in the past does not necessarily indicate how it will perform in the future.

### Year-by-Year Returns

The following chart shows the performance of the Fund for the eight-year period December 2010 to 2018. The charts show you the Fund’s annual historical return and how it changes each year. Annual return is the percentage change in the value of an investment from January 1 to December 31, unless otherwise noted. The charts show, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year. The returns are cumulative and include all distributions.



### Annual Compound Return

The following table illustrates the annual compound total return for Class B and F units of the Fund for the years shown. As a basis of performance comparison, the annual compound return of the Fund is compared to that of its blended benchmark. Since the Fund does not necessarily invest in the same securities or in the same proportion as the Index, the performance of the Fund is not expected to equal the performance of the Index.

	1-Year	3-Year	Since Inception
Growth Fund Class B	-32.70%	-11.63%	2.68%
Growth Fund Class F	-31.96%	-10.66%	3.67%
Benchmark*	-3.01%	7.98%	10.61%

\*50% S&P 500 TRI + 50% S&P/TSX TRI

The Fund was created on September 14, 2009 and commenced operations on September 21, 2009. Return since the commencement of operations is not an annualized number.

During the year ended December 31, 2018, your investment in the Fund experienced a return below that of the Index for the 1-Year, 3-Year period and since inception noted in the above table. Performance will vary by class largely due to the extent that fees and expenses may differ between classes. Index returns are displayed for references purposes only and are not meant to be a proxy



for the returns of the Fund. The Fund does not aim to replicate the composition of either Index and as such its performance may differ.

### Summary of Investment Portfolio

The major portfolio categories and top holdings (up to 25) of the Fund at the end of the year are indicated in the following tables. The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund and the next quarterly update will be in the Quarterly Portfolio Disclosure as at March 31, 2019.

Top 25 Holdings	
Issuers	% of Net Asset Value
Petroshale Inc.	10.03%
Social Capital Hedosophia Holdings Corp.	9.81%
Red Hat Inc.	9.14%
Guardian Capital Group Ltd., Class 'A'	7.56%
Diversified Royalty Corp.	5.86%
Kelt Exploration Ltd.	5.71%
Franco-Nevada Corp.	5.36%
Brookfield Business Partners L.P.	4.29%
Intermap Technologies Corp.	3.74%
Lilis Energy Inc.	3.10%
Brookfield Property Partners L.P.	3.02%
Spartan Energy Acquisition Corp.	2.90%
EnSCO PLC, Class 'A'	1.33%
Ascendant Resources Inc.	1.15%
Social Capital Hedosophia Holdings Corp., Warrants, (18Sep22)	0.89%
Sherritt International Corp.	0.87%
Razor Energy Corp.	0.76%
FinTech Acquisition Corp. III	0.72%
Osisko Gold Royalties Ltd., Warrants, (18Feb22)	0.48%
Boxwood Merger Corp.	0.47%
Total Cannabis Security Solutions Inc.	0.37%
Blockchain Power Trust	0.36%
Sport Endurance Inc., Private Placement	0.34%
Cannabis Strategies Acquisition Corp., Warrants, (21Dec25)	0.33%
Teekay Offshore Partners L.P., 7.25%, Preferred, Class 'A', Perpetual	0.32%

Net Asset Value = \$36,460,358

The following chart sets out the sector allocations of the Fund's portfolio as at December 31, 2018.

