

## **VERTEX GROWTH FUND**

Second Quarter Report, 2015

### **Grab a basket: its U-Pick stocks season again**

Markets are winding sideways, countries are defaulting (Greece, Puerto Rico), and bubbles are deflating (China). Greece isn't novel, but lately the thrill has left the Chinese economy and the US stock market is resting after an impressive run – shouldered by stimulus and low interest rates. So, should we be expecting a big sell-off? Not sure, but likely not; we're nowhere near the peak of an economic cycle. Inflation is low (flat if including energy), US GDP growth is merely 2% (worse in Canada), and borrowing rates are at historical lows. Moreover, valuations are higher, though not near concerning levels. A transitory state is more plausible. Without its daily injection of stimulant and clear interest-rate direction, we think general market returns will be muted in the near-term. The good news is that this backdrop is a great environment for picking stocks, which is what the Growth Fund is for. With lessened macro influences the bottom-up process for finding mispriced situations, and catalysts for growth, becomes easier.

With currency overwhelming the portfolio, the second quarter wasn't nearly as strong as the first. The portfolio of holdings was actually positive for the quarter, but our exposure to USD ruled the roost. The US Dollar was down 2.2% over the second quarter. Currently, the fund has over 70% exposure to USD: through US stocks and European ADR's (traded in USD). We are bullish on the US Dollar over the Canadian dollar and are looking to gain exposure. Our stance is based on falling commodities and a Canadian economy moving in opposite directions to the US. The Bank of Canada just lowered its interest rate to combat two negative quarters of GDP, amidst a rout in oil and base metals. Meanwhile, the Federal Reserve is preparing to raise interest rates to accommodate a stabilized economy. Not to mention disparate housing markets, which is a separate discussion altogether.

One way we're increasing our exposure to the Yankee Dollar, without taking on beta (market risk), is through M&A. US stocks, under active merger or acquisition bids, make a great vehicle to gain USD exposure, while still getting paid from a spread. These positions also reduce the portfolio's correlation to the market. The portfolio currently has a little over 25% allocated to this strategy.

It appears the EURO has skated through its latest threat from Greece. We continue to be bullish on European equity, as the ECB parallels steps the Federal Reserve took to combat deflation through QE. European stocks also represent considerable value over their US counterparts (having not experienced the same increase over the last six years). We like our financials exposure through ADRs in Barclays and Royal Bank of Scotland, a Unicredit bond, and JP Morgan warrants (global exposure). These positions were all positive contributors in Q2.

Our position in the Italian industrial company, Finmeccanica, was also up over the quarter. Finmeccanica is a multi-faceted company with trains, aviation, aerospace and defense, helicopters, and construction divisions. They are creating shareholder value by continuing to spin-off or sell divisions. Also in Europe, Fiat Automotive has been a top position this year, as we wait for its spin-off of the Ferrari division. We think this catalyst could result in a double for the stock, as investors realize the value of Ferrari leading into this fall's IPO.

Also spinning-off divisions is Interactive Corporation (the Fund's top weight). They are a technology incubator. Under Barry Diller's guidance they have been highly successful over the last 20 years,

acquiring portfolios of companies and spinning them off: Ticketmaster, Expedia, Home Shopping Network, Tree.com. Currently, they have a dating service division that owns the widely popular Match.com and Tinder. These two sites have become the premier internet dating services in a sector that has matured into a legitimate new economy. We think this IPO will bring a fervor, similar to other dot-com-like debuts of recent years, in this internet age bubble. Interactive's stock may be another candidate for a double from current levels.

## **We Are Moving**

In order to accommodate the continued growth of our team we are moving offices. As of July 27<sup>th</sup>, our new office will be located in the MNP Tower. We welcome visitors.

### **Change of Address:**

Suite 3200  
1021 West Hastings Street  
Vancouver, BC  
V6E 0C3

## **PERFORMANCE** (Class F shares as at June 30, 2015)

<b>Net Asset Value</b>	<b>1 Month</b>	<b>3 Month</b>	<b>Year to Date</b>	<b>1 Year</b>	<b>3 Year<sup>+</sup></b>	<b>5 Year<sup>+</sup></b>	<b>Since Inception<sup>+</sup></b>
\$17.3797	-2.43%	-0.20%	8.62%	-4.93%	16.64%	13.33%	12.74%

<sup>+</sup>annualized return

Returns are net of all fees and include reinvested distributions.

This statistical information is intended to provide you with information about the Vertex Growth Fund. Important information about the Fund is contained in the Simplified Prospectus which should be read carefully before investing. You can obtain a prospectus from Vertex One Asset Management Inc. The Simplified Prospectus 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 funds are not guaranteed; their values change frequently and past performance may not be repeated.