VERTEX ONE
Asset Management Inc.

3200 – 1021 West Hastings Street
Vancouver, British Columbia V6E 0C3
www.vertexone.com
Phone: 604-681-5787

VERTEX GROWTH FUND

First Quarter Report, 2018

"The foremost quality of a commander is to keep a cool head, to receive accurate impressions of what is happening, and never fret or be amazed or intoxicated by good news or bad."
- Napoleon on the *Art of War*

Well, that didn't take long!

On our last quarterly note, we mentioned that we could see the departures of Cohn and Tillerson in 2018. We based our analysis on human behaviour through motivation. As we believe these individuals, much like Hank Paulson, took these positions based on tax incentives received for working in the White House.

We see the same behaviour these past few years in the oil patch. With near term oil futures now trading at a 5 percent premium over the price of oil one year out, it has had a startling effect on inventory numbers. Traditionally, one could keep oil in a tanker and lock in a 5 percent gain by selling it one year later. Now, you pay a penalty for keeping oil in storage, which has depleted inventories on a global basis. Any shock to the system now will cause higher, faster oil prices. We have waited long enough in our portfolios, with our currently large 40 percent energy weight. Although our patience has been worn thin, we think the rewards are around the corner. Our two largest energy weights (Lilis Energy and Petroshale) are still down year-to-date, with oil prices up double digits (on a percentage basis). We expect the pendulum will swing back to the stocks shortly. Both companies are growing cash and production in excess of 100%, so we'll wait for the world to recognize these numbers.

The other key event has been the rapid rise of interest rates in 2018. With rates going above 2.63% in the ten-year bond and 30-year rates rising above 3% in the US, we see the long-term declining trend in rates that has been in place since the 1980s appears to have been broken. These higher rates have had a cascading effect on stock prices, but even more so on real estate and bonds. To this effect we have sold off almost all our real estate exposure that we have owned for years. We sold off our shares in the *Sea to Sky Gondola,* which we originally purchased to help fund construction for its opening in 2014. These shares were sold for over a 100 percent profit. We also sold Mainstreet Equities, which is run by Canada's best apartment hunter Bob Dhillon and want to thank Bob for all his hard work over these past few years and the value he has created. In the past 18 months, we have trimmed 75 percent of our Seattle apartment portfolio in Rise Properties and sold off True North Reit. Also sold at a profit.

Additionally, we sold three equity holdings that will face pressure under a higher interest rate environment. Franklin Resources was eliminated as their large holdings in bonds will sell off with higher rates and management offered a meek one-time dividend for their windfall under the new US tax code. AIG will also have an earnings headwall under higher rates, so we exited this position as well. Lastly, we sold Transalta Utilities which is still a deeply discounted utility but will face higher interest costs on their debt. We are negative on utilities and real estate and instead are positioning the portfolio for higher interest rates.

JPMorgan has had a stellar run in the portfolio. We own this position through warrants which gives us twice the beta of the underlying stock. JPM will benefit under higher rates, as will our stealth ownership in the Bank of Montreal through Guardian Capital.

Over the last few years, an overweight exposure to oil & gas has dragged on our performance. We held our real estate positions for years before realizing gains on these holdings. Our perspective today is similar for our oil & gas positions - which currently represent 40% of the portfolio. Recently, we've seen the price of oil increasing in reaction to strong global demand and declining supply from Mexico and Venezuela. Venezuela, a country in full meltdown mode has become a humanitarian crisis, as their oil & gas assets are plundered. It will take years to bring them back to full production, whenever the proper management and proper politicians (if such as things exists) can be attained. Patience will soon be rewarded for these investments, as the tide flows towards an upward revaluation for the energy sector.

As always, please reach out if you have any questions or comments.

PERFORMANCE (Class F returns as at March 31, 2018)
Returns are net of all fees and include reinvested distributions.

Net Asset Value	1 Month	3 Month	Year to Date	1 Year	3 Year+	5 Year+	Since Inception+
$16.3641	-2.76%	-5.16%	-5.16%	-4.22%	-0.91%	4.82%	8.14%

+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.