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VERTEX GROWTH FUND

Fourth Quarter Report, 2018

"The stock market has forecast nine of the last five recessions." – Paul Samuelson (1966)

2018 had the appearance of a relatively uneventful year until October arrived like an uninvited guest. The perceived effects of eight interest rate hikes over a two-year period, combined with the Federal Reserve reducing its balance sheet by $50 Billion-per-month, initiated a massive global sell-off. These were not new data points but once paired with an unpredictable trade-war it enacted fear-driven selling. Raising interest rates from such low levels has a dramatic effect in percentage terms on the interest-rate related costs of consumers and corporations. Globally, nearly all asset classes (over 90%) sold-off in the most correlated correction since 1901. A partial list of the fallen includes:

- Government Bonds
- Preferred Shares
- Floating Interest Rates Structures
- High Yield
- REITs
- Global Equities
- Commodities
- Gold & Silver

It is possible that this is the end of the longest American bull market in history (measured from the 2009 low). To add insult to injury, Canadian stocks missed the bull run entirely, ending the year lower than its mid-2008 highs. Yet, we still received all the downside. These higher rates had the effect of shutting down the high-yield market for the month of December, with no new bonds being issued. However, the amount of high-yield renewal is just beginning:

Meaning, we're staring at a wall of worry and a wall of debt coming due, just as industrial production numbers have turned negative in Spain, Germany, Italy, and France and car sales are down double-digits

in China. Markets tend to climb a wall of worry and peak alongside optimism and it hasn't felt like peak optimism.

So, with that backdrop painted, where does that leave us? The stock market is considered a leading indicator of future economic and earnings activity, however, it's forecasting track record isn't as auspicious as its reputation suggests. Nobel-prize winning economist, Paul Samuelson, once joked that "the stock market has forecast nine of the last five recessions." Without a doubt, global growth is slowing quickly but is that simply a deceleration from central banks easing their stimuli, or a mid-cycle breather after years of expansion, or the start of a sustained period of contraction? Who knows, certainly not us.

So, with so many asset classes flashing red, where does that leave our investment opportunity?

To increase our M&A weight we sold some equities, including JPMorgan warrants, which were a long-term holding. In Q4, their TARP warrants were converted into common shares and hence our leverage was reduced. We expect an inverted yield-curve will not be kind to financials in the coming year, but our patience in JPMorgan was rewarded with a fourfold return in our investment over the years.

Our overweighting in energy was the biggest factor in our underperformance in 2018, particularly in the fourth quarter. We remain extremely bullish on these positions with our companies still cash flow positive at these lower oil prices. Even after the recession of 2008, global oil demand increased and the recent announcements from OPEC and the Alberta Government stepping-in to bring back order to the supply chain, reassures our optimism for 2019. Canadian crude which was discounted by as much as 50 dollars-per-barrel earlier in the year, now trades at just a 7-dollar discount. A cut of 325,000 barrels in Alberta has saved the Alberta tax base. If Ottawa can get its act together with a national supply management chain, known as a pipeline, then Canadian tax revenues can be saved from importing 100,000 barrels a day from Saudi Arabia. The math is ugly: 100,000 barrels per day x $65 CAD x 365 days = over $2 Billion CAD in lost revenue.

We've underscored over the years the importance of merger activity as a bellwether of where there is confidence and free-cash-flow in the economy. During the financial crisis of 2008, merger activity rose in Pharmaceuticals and Consumer Staples. The end of 2018 saw numerous Oil & Gas deals announced. Here are a few of the deals announced in North America: two bidders competed to buy Trinidad Drilling, Blackbird Energy is merging with Pipestone Energy, Encana is buying Newfield Resources, and Cimarex Energy is buying Resolute Energy. We're optimistic this activity will follow through to our energy positions in 2019 and turn long-only positions into M&A positions.

The other noteworthy weight in the portfolio is Special Purpose Acquisition Companies (SPAC's) which now sit at over 20% of our portfolio, led primarily by Chamath Palihapitiya's Social Capital Hedosophia. We recently spoke to management and we expect a deal to be announced in the first quarter of 2019. Palihapitiya's track record is second to none and we expect his first deal to be one for the record books, which would be a welcomed lift to the portfolio.

As always, please reach out to us if you have any questions.

PERFORMANCE (Class F returns as at December 31, 2019)

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+
$11.7400	-9.04%	-28.47%	-31.96%	-31.96%	-10.66%	-5.61%	3.67%

+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.