

VERTEX GROWTH FUND

First Quarter Report, 2019

For the first quarter of 2019, the Vertex Fund (Class A) returned 4.26% and the Vertex Growth Fund (Class F) returned 7.69%.

After the beating our equity funds took in the fourth quarter of 2018, our phones have not been this busy since the financial crisis of 2008. As long-time investors might recall, the Vertex Fund's 2008 Q4 Report was aptly titled *Annus Horribilis*. It once again seems appropriate to quote Queen Elizabeth II, as the tail end of 2018 was indeed "Annus Horribilis". That being said, aspects of 2019 are also beginning to look a lot like 2009.

After raising interest rates in 2018, the U.S. Fed reversed course earlier this year by pivoting to a more accommodating interest rate policy. This drastic change in tone now has the futures market predicting a 70% chance of an interest rate cut this year. In Canada, we saw the 5-year rate drop from 2.4% to 1.5%, with the central bank fully abandoning its bias towards raising interest rates in favor of increasingly dovish policies.

In early 2009, we significantly reduced the portfolio's M&A exposure in favor of high-yield debt. Similarly, we have seen some interesting opportunities emerge in the high-yield space in the first quarter of 2019, leading us to reduce our M&A exposure. While we began the year with a small window of double-digit M&A returns in our Red Hat position, the disclosure of Berkshire Hathaway's acquisition of over 4 million shares of the software maker caused the M&A spread to tighten, and ultimately for us to exit the position.

While equity markets have mostly rebounded after the difficult end to 2018, one massive opportunity has remained in the form of high-yielding equities. Unlike in 2009 where we saw opportunity in acquiring the debt of bankrupt banks, we believe that the opportunity today lies in high quality, blue-chip equities. These companies – most of whom offer decades of steady dividend growth – have seen their valuations cut deeply enough with their dividend yields well above 5%. The attractiveness of this space becomes even more apparent when you consider the spread between Canada 5-years and these high-quality assets.

Here's a sampling of some of the names we currently own:

| Issuer | Yield* |
|---------------------------|--------|
| Artis REIT | 6.10% |
| Brookfield Property | 6.10% |
| BCE Bell Canada | 5.30% |
| Diversified Royalty | 7.00% |
| Enbridge | 5.80% |
| Enlink Midstream | 8.70% |
| Inter Pipeline | 7.70% |
| Viper Energy Services | 5.90% |
| NorthWest Healthcare REIT | 7.00% |
| NuStar Energy Pfds | 9.70% |

Outside of the high-yield space, we continue to hold a bucket of energy names along with two special situations: Intermap and Social Capital Hedosophia.

We have owned the debt and equity of Intermap Technologies – a satellite imaging company that provides end-to-end geospatial data – for several years. The company has continued to struggle, and new management has not yet managed to turn around this high-cost operation. Last year we received an unsolicited bid for the company based solely on its embedded tax losses. Despite our recommendation that Intermap work with the suiter to take the bid, management has decided to proceed with a full process to sell the company. The steps required for this process are, of course, taking much longer than we thought, and we hope that a higher bid emerges.

Our second special situation position, Social Capital Hedosophia, is a blank cheque company (SPAC) that was formed in 2017 by the venture firm, Social Capital. The intent of Social Capital is to acquire a privately held tech company and to take it public through a SPAC, thereby circumventing the traditional IPO process (when a company is acquired by a SPAC, they go public without paying for an IPO). As with all SPACs, the target company was unknown at the time of the SPAC's IPO; a process which arguably can help stabilize a company when it goes public. With currently over \$800 million USD in cash, a deal has still not yet been announced. Despite the process taking slightly longer than we had anticipated, we are confident in the long-term vision of Chamath Palihapitiya (CEO).

The energy sector has seen a rebound this year, both in market sentiment and in oil price. Despite this, we continue to experience a lag in the performance of individual oil and gas companies. Petroshale and Lilis Energy – two of our favourite oil and gas names that caused us heartburn in the fourth quarter of 2018 – also experienced operational issues in Q1 of this year. This has caused a slowdown in production growth and dampened the expectations set by management in late 2018. In line with our investment thesis, our stance on these companies has not changed as both names have the runway to get production back to expectations by the end of this year. For example, Petroshale (our second largest name) is currently at 5,000 barrels of oil equivalent (BOE) a day, and management has given guidance for 10-11,000 barrels at year end. Although this timeline is one year behind schedule, it trades at 1.5 x cash flow at year end and when 2020 numbers get calculated it will trade at .75x cash flow. Shares could easily increase five times in value.

Regarding Lilis Energy, their neighbours a mile down the road in New Mexico recently discovered a 5,000 BBL/day well; a discovery that will fundamentally change the value of this company based on land value alone. Despite the government shutdown which has delayed the permit process, these should arrive in time to get the company back on track to finish 2019 at 10,000 bbl a day.

Today, as in 2009, we continue to maintain a nimble and long-term investment perspective as we strive to build a resilient and unique portfolio. As always, we appreciate your support and invite you to contact our team with any questions about your investments.

PERFORMANCE (Class F returns as at March 29, 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⁺ |
|------------------------|----------------|----------------|---------------------|---------------|---------------------------|---------------------------|------------------------------------|
| \$12.6429 | 1.15% | 7.69% | 7.69% | -22.74% | -6.38% | -6.79% | 4.39% |

⁸Annualized returns. This statistical information is intended to provide you with information about the Vertex Growth Fund. Advertised performance is based on Class F shares. Important information about the Fund is contained in the Simplified Prospectus which should be read carefully before investing. You can obtain a Simplified 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 indicated rates of return are the historical compounded 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.

⁹Yield information is approximated and as of April 2019

Unless otherwise noted, the information used to create information presented is based solely on information collected and retained by the investment manager and is believed to be reliable, but its accuracy cannot be guaranteed. Information used herein may have been obtained from third party sources including affiliates and as such, the investment manager makes no representations as to the accuracy of such source of information which is subject to change without notice to the recipient. All such information and opinions are subject to change without notice.