

VERTEX VALUE FUND

Third Quarter Report, 2016

Over the years, we've written everything there is to write about how we manage portfolios. It has never changed and never will. There's an election coming up. Should we change? Nope. There have been many elections since founding Vertex One. The Fed is talking – what should we do? Nothing... the Fed's been talking forever. It really does baffle me why so many investors pay attention to these and many other sideshows, when what drives investment returns is CEOs, management teams, and dedicated employees working together to build value. Stock prices fluctuate as this value creation unfolds. Stocks have fluctuated forever – largely based on investor behavior – those who can control their behavior during these fluctuations will have vastly superior returns over time. Sometimes waiting times are short (luck). More often, one must wait for the latest investment fad to crumble in on its own massive weight (patience). Patience might involve appearing wrong, dumb, stubborn, or all three... at least in the short run. The short run sometimes runs several years.

I can't help but think an investment fad currently raging is indexing: and with it, the "Index" gets more and more expensive in relation to other investment choices. I do not want your portfolio to be anywhere near the Index – debris could land anywhere when it collapses! Truth is, we've never looked even remotely like any index. However, the proliferation of "Index" investing took off in earnest post financial crisis of 2008 and appears set to be tested in the future. I'm happy our primary competition is "the index". The index has an IQ of zero and doesn't think even if it could. What business wouldn't dream of having their primary competitor born brainless? Further, more capital is allocated to index companies regardless of company performance. It is revealing that our portfolio is growing earnings faster than the index, yet is priced at less than half based on both metrics of price to earnings and price to book value. Our portfolio companies have to compete for capital. Index companies generally don't worry about such matters. The index just anoints them with capital, leading potentially to carelessness and misallocations of precious funds. It happened in Tech land, it happened in Commodity land, and it feels like it's unfolding now in Index land.

There have been no large changes in the portfolio. Worth mentioning, though, is a larger allocation of funds towards offshore drillers: Ensco, Transocean, Noble, and Diamond Offshore. These firms are now priced at a fraction of their book value while retaining strong enough balance sheets to see them through this cyclical downturn in energy. Interestingly, the sector looks very much like lumber post the housing crash. Weaker competitors have gone, or are going bankrupt, and all the old iron (jack ups and floaters) are getting scraped. Only the most modern fleets will be contacted upon recovery. Oil is nearer a low than a high, and less than 20% of rigs, both land and ocean, are currently utilized. With less competition on the other side of this downturn, the survivors will be stronger.

Our portfolio companies continue to perform very well... and I'm not referencing their stock prices. Their businesses are growing while innovating and maintaining cost discipline. Garth Braun and his extremely competent team at Blackbird Energy consistently exceed expectations. Short sellers in Bank of Internet have been utterly discredited as their scheme has been exposed during judicial discovery of a junior auditor's baseless accusations. I could write a book on this one as I've seen this movie many times over throughout my career. Feel free to call if you'd like to learn more. After a terrific move in gold company shares, only three companies remain: MAG Silver run by George Paspalas, McEwen Mining run by Rob McEwen, and Royal Gold led by Tony Jensen. If you were wondering where we got the capital to invest in offshore drillers, it was from reducing gold investments. Sell high (gold), buy low (offshore drillers). These last three gold companies will likely remain in your portfolio for a long time. Skipping from "old economy"

(trees, rocks and liquids), to “new economy” (borrowing these terms from last decade), our commitment to technology is strong. We have not sold a share of Skyworks Solutions, Qorvo, Flextronics, Jabil, or Overstock. We did, however, sell Xerox in favour of Noble. Our conviction is much stronger for the latter; truth be told, I just wasn’t spending enough time monitoring our position in Xerox after their Chief Financial Officer departed.

Finally, we’ve been through a lot of ups and downs over these past nineteen years, and our funds have performed very well over time. Still, we can’t control short term stock price fluctuations as seen in the first quarter of this year... no seriously, we can’t... but we will continue to execute our process of purchasing inexpensive companies and selling them prior to them becoming really expensive. Saving the best for last – your portfolio has performed very well thus far in 2016, with double digit positive returns. With any luck, we’ll end up with a very positive return for year-end.

Until next quarter, thank you for your continued support.

PERFORMANCE (Class F shares as at September 30, 2016)

Net Asset Value	1 Month	3 Month	Year to Date	1 Year	3 Year⁺	5 Year⁺	Since Inception⁺
\$23.0605	2.47%	17.30%	17.73%	22.92%	10.91%	20.73%	14.01%

Net of all fees and includes reinvested distributions.

⁺annualized returns

THE PORTFOLIO

Top 20 holdings by weight in the Vertex Value Fund on September 30, 2016 are:

BOFI HOLDING INC (US)	MAG SILVER CORP (CN)
INTL FOREST PRODUCTS (CN)	ROYAL GOLD INC (US)
BLACKBIRD ENERGY (CN)	MDC HOLDINGS INC (US)
CENTURY COMMUNITIES (US)	WESTERN FOREST (CN)
CONIFEX TIMBER (CN)	PAINTED PONY PETROLEUM (CN)
JABIL CIRCUIT (US)	SKYWORKS SOLUTIONS (US)
RIO TINTO (US)	BEAZER HOMES (US)
GOODYEAR TIRE (US)	SCHNIZTER STEEL (US)
NOBLE (UK)	QORVO INC (US)
SYNOVUS (US)	PATTERSON UTI (US)

This statistical information is intended to provide you with information about the Vertex Value 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.