**VERTEX ONE**
**ASSET MANAGEMENT INC.**

1920 – 1177 West Hastings Street
Vancouver, British Columbia V6E 2K3
**Phone: 604-681-5787**
**Fax: 604-681-5146**

# VERTEX MANAGED VALUE PORTFOLIO

## First Quarter Report, 2009

### Negative Headlines = Opportunity

It's always "different this time" when investments deviate substantially from their long term trends. Most interesting from a behavioral perspective is that it is rarely considered "different this time" prior to a large move up or down in the price of an asset. It is a post facto explanation for a price movement that cannot be explained by underlying fundamental economics. As a price movement gains momentum and gets beyond reality, pundits and experts are happy to toss reality out the window and commence tripping over each other in a mad rush to come up with larger and more outlandish predictions for the asset in question to rise or fall to levels unheard of in prior business cycles. The term "secular" (a permanent structural shift) becomes part of our lexicon as do terms such as "peak oil" and "toxic assets".

As an example, William Stanley Jevon's book "The Coal Question: An Inquiry Concerning the Progress of the Nation, and the Probable Exhaustion of Our Coal Mines" published in 1865, was a "peak coal" argument equivalent to today's "peak oil" argument - the rationale that took oil to a high of $146. 144 years later my understanding is we're looking at hundreds of years' supply of coal in known reserves. Science fiction has a better record of coming true than most of man's market predictions. This is especially true of predictions made at market peaks and troughs.

In the opinion of your writer, there is nothing that has greater impact on returns than purchasing investments where headlines suggest doom. All the micro investment analysis in the world pales in comparison to the awesome power of buying bad news. It can be even more rewarding if one also doesn't get caught up in owning investments where headlines are most optimistic. Entry price determines return and at no point is price working in your favour more than when headlines are nasty. This brings us to our current situation and the many opportunities available resulting from today's asset prices.

Things are definitely different though, at least from last year that is. In 2008, your fund was concentrated in equities trading under book value and with low price earnings multiples. This helped tremendously during the market correction. Now however, most equities are trading under book value and at very attractive valuation metrics leading to a chance to increase the breadth of our holdings (reducing risk) without giving up potential return. During the first quarter we took advantage of low prices to add positions in Lululemon, bought at seven times earnings and Celestica, at six times earnings and 50% of book value. In addition, we have also undertaken purchases in the Canadian forest products industry. Our rationale is the news has been so awful in this sector for so long that firms still around today with decent balance sheets are going to do very well as the economy recovers. These stocks trade anywhere from 20% to 50% of book value and have rationalized their businesses to a very large extent. With twin headwinds of a high Canadian dollar and high energy price blowing themselves out, a spark of positive news could set these stocks ablaze. In the meantime only very bad news is priced into this sector which means our downside is protected. Forest products represent .31 of 1% of the TSX index suggesting that there are few sellers of these stocks left. Furthermore those with timber assets benefit from having timber grow (increasing value) while moving through this recession.

As painful as it seems with stocks gyrating all over the place but mostly down, it feels like a terrible time to be an investor. I would suggest the opposite is true. Investors are being offered more choices of stocks, bonds, and real estate at prices not seen for generations. The last time I looked up, the sky was not falling. If best price = best return then we are in for a period of excellent returns going forward notwithstanding having to listen to the constant stream of negative news and shrieking doomsayers.

## PERFORMANCE

| | Rate of Return (Class A) | | | | | |
|---|---|---|---|---|---|---|
| **Net Asset Value** | **3 Mos.** | **1 Yr.** | **2 Yrs.*** | **3 Yrs.*** | **5 Yrs.*** | **Since Inception*** |
| **$10.8760** | **-12.09%** | **-9.94%** | **-12.52%** | **-4.17%** | **-0.04%** | **6.08%** |

*Annualized

Past performance is not indicative of future results
All data are based on the Class A unit values

## THE PORTFOLIO

The top 20 holdings in the Vertex Managed Value Portfolio at March 31st, 2009 are:

| | | |
|---|---|---|
| Fairfax Financial Holdings | Pfizer Inc. | Internat'l Forest Products |
| Partner Re Ltd. | Ingersoll-Rand Co. | Manitoba Telecom |
| IPC Holdings Ltd. | BCE | Bristol-Meyers Squibb |
| Montpelier Re Holdings | Odyssey Re Holdings | XL Capital Ltd. |
| Mattel Inc. | Lululemon Athletica | Rockwell Automation |
| Johnson & Johnson | Schering-Plough | Seamark Asset Mgmt. |
| Walt Disney Co. | Biovail | |

## ASSET MIX

| | | | |
|---|---|---|---|
| Cash | 1% | Canadian Equities | 20% |
| Fixed Income | | Foreign Equities | 66% |
| Canadian | 8% | | |
| Foreign | 5% | | |

Vertex One Asset Management