

VERTEX VALUE FUND

First Quarter Report, 2012

On the subject of quarters, Q1 2012 can only be described as a good one. One good quarter stacked upon another has helped your fund climb back to where we left off this time last year although there is still some distance to go. The news cycle remains largely negative with a few positive data points thrown in here and there. The European crisis, US deficit and China slowdown all conspire to keep us running scared; all the while the market climbs the age old wall-of-worry.

Housing is slowly recovering...well, to be fair...housing has seemed to have halted its downward trajectory. This is an important event after six years of decline. Plus, those 1,000 new Facebook millionaires will want some new digs too, which might just be the catalyst to get housing moving again! Construction is a huge driver of economic activity and should not be underestimated in its power to drive GDP growth. As noted in past reports, we are positioned to take advantage of any upswing in US housing through our holdings in US regional banks and Canadian forest products companies. We are not, however, as constructive on Canadian housing as it seems to be largely out of control due to the willingness of CMHC to take on almost \$600 billion of risky mortgages underwritten by Canadian banks. Now, if you're worried about a Canadian housing recession's effect on forestry companies, forget about it, a 10% change in US housing starts covers the entire Canadian market. We now have all the signs of the US housing market pre-2007: Canadians are carrying the same amount of debt, housing prices have risen to unsustainable levels compared to income & carrying costs, and mortgage fraud in on the rise...what could go wrong?

Our favourite sectors remain: forest products, banks (non-Canadian), healthcare and insurance. I suspect we will be in these areas for the next few years. There's no reason to make a change unless a less expensive opportunity can be found with better prospects, valuations become bloated or a mistake has been made. There are none of these indications revealing themselves currently. That's not to say they won't - they just haven't.

On the macro front, natural gas at \$2 down from \$15 is possibly a harbinger for what may happen to everyone's most loved commodity: oil. Now, I know it's blasphemous as a Canadian to suggest oil might go down, but at over \$100 a barrel it possibly, just might. This would bring down the Canadian dollar, which would put wind in the sails of your fund. The reasons are many, but let's concentrate on three: The first is over 50 percent of your fund is in USD exposed investments; the second is Canadian forest stocks will benefit tremendously from a decline in the Canadian dollar; and lastly high oil prices are a major tax on the world economy. A reduction in this tax will open up profit margins for every firm outside of the energy complex. Furthermore, it will allow firms to reduce consumer prices simultaneously.

I do believe that five years hence we'll look back on this time and be kicking ourselves for having so much faith in real estate and government bonds. After listening to those who said we were going to be in a long-term, low-return environment, we believe the five-year annualized return on equities is going to be in double digit territory and returns from bonds and Canadian real estate will be negative.

PERFORMANCE (Class B shares as at March 31, 2012)

Net Asset Value	1 Month	3 Month	6 Month	1 Year	2 Year⁺	Total Cumulative
\$11.4506	3.54%	12.11%	19.41%	-9.38%	0.06%	16.69%

⁺annualized return

Vertex One Asset Management, Inc.

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.