

## **VERTEX MANAGED VALUE PORTFOLIO**

### **Fourth Quarter Report, 2009**

Every major down market is coupled with some kind of financial Armageddon scenario being proselytized by an economic equivalent of the millenarian movement. Human beings seem fascinated with end of the world doctrine, whether it is economic, religious or “scientific”. On the subject of global warming, it’s so cold in the waters off Florida now that the Manatee population is dying...except for those that have found refuge in the warm waters out flowing from a “man made” power plant! Anyway, along with some of the coldest weather on record and global warming “scientists” being caught in the act of cooking the data, pardon the pun, it looks alarmingly like the Global Warming bubble may be bursting. Yes, yes I am yet again guilty of digressing; or maybe transgressing to some? Back to the topic at hand: it seems the financial world did not end and yet there are some who continue to purport doom is just around the corner. 2009 was simply one of the best on record for investors. Stocks and bonds went up in value, real estate stopped falling, and many real estate markets commenced rising. After 2009’s outsized returns, one would think that maybe we would change our stance; from being sanguine about investing in equities, to a more tentative view, but we have not. Optimism is winning the battle for global mindshare and with optimism comes innovation, production and economic growth. The financial millenarians will have to wait.

In addition to renewed optimism, there are simply thousands of stocks trading at crazy, low prices. Resulting from the mass hysteria that was 2008 and early 2009, many stocks fell from prices of fifty bucks to a buck. The fact that those stocks went up five fold to five bucks doesn’t make them overpriced. They are still down 90%. This is not to refute the argument that some are now priced fairly at \$5 but for many, the sell-off was an aberration, not the subsequent rise. In addition to these inexpensive equities, some of our best companies seemed to not receive the party invitation. With the risk of knocking our portfolio, top companies, in terms of bomb proof balance sheets and quality earnings, failed to budge in price. In fact, some went down, while those more financially challenged went up, like a house on fire. Anyway, based on the earnings power of our portfolio currently and looking forward, the future looks very bright; when considering our portfolio also trades at a very inexpensive 10 times today’s earnings and under book value. Thus, I will re-iterate last year’s comment and state: we should expect more double digit returns-at least from your fund, as I can no longer vouch for the whole market.

Our largest holdings continue to be in property casualty insurance. These companies just keep getting better, putting up staggering numbers and yet are being priced cheaper than cheap. There is no rational reason for these powerful earnings generators to trade below their tangible book values, whilst the market trades at roughly two-times book. I do believe P&C stocks could double in value with very little downside risk, as was proved out in 2008. The other large sector exposure is forest products. While few firms have earnings to speak of presently, without exception, they trade at or below book value and have a bright future ahead. Housing will come back, demand will rise for lumber while

supply has been drastically reduced – it’s just a matter of time before tree stocks put up earnings again.

As with the P&C insurers, safety is provided when nobody cares, and nobody cares about the trees. When investors change their view, it’s all upside. The remainder of our portfolio is invested in Pharma, US banks, and other firms meeting our criteria of low price, high value. With regard to asset mix, equities have dominated your fund for the last three years, however new opportunities in the bond market have led us to rebuild our bond portfolio with attractive yields.

## PERFORMANCE

### Rate of Return (Class A)

| <b>Net Asset Value</b> | <b><u>3 Mos.</u></b> | <b><u>1 Yr.</u></b> | <b><u>2 Yrs.*</u></b> | <b><u>3 Yrs.*</u></b> | <b><u>5 Yrs.*</u></b> | <b><u>Since Inception*</u></b> |
|------------------------|----------------------|---------------------|-----------------------|-----------------------|-----------------------|--------------------------------|
| <b>\$14.0440</b>       | <b>4.05%</b>         | <b>13.52%</b>       | <b>7.52%</b>          | <b>-0.28%</b>         | <b>4.24%</b>          | <b>8.00%</b>                   |

\*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 December 31st, 2009 are:

|                                |                            |                       |
|--------------------------------|----------------------------|-----------------------|
| Fairfax Financial Holdings     | Pfizer Inc.                | PRT Forest Regen. I F |
| Platinum Underwriters Holdings | Internat’l Forest Products | Canfor Corp.          |
| Partner Re Ltd.                | Timberwest Forest Corp.    | XL Capital Ltd.       |
| Montpelier Re Holdings         | Genworth Financial Inc.    | Norbord Inc.          |
| Mattel Inc.                    | West Fraser Timber Co.     | SFK Pulp Fund         |
| Walt Disney Co.                | Aspen Insurance Holdings   | Plum Creek Timber Co. |
| Ingersoll-Rand Co.             | Johnson & Johnson          |                       |

## ASSET MIX

|              |    |                   |     |
|--------------|----|-------------------|-----|
| Cash         | 2% | Canadian Equities | 29% |
| Fixed Income |    | Foreign Equities  | 63% |
| Canadian     | 1% |                   |     |
| Foreign      | 5% |                   |     |

Sincerely,

Vertex One Asset Management

