

## VERTEX FUND

### First Quarter Report, 2006

“Profits are like oxygen, food and water to the human body, they are not the point to life but without them there is no life.”

-*Jim Collins: Good to Great: Why some companies make the leap...and others don't*

“Profits” was the key word this quarter with the frenzy in junior mining stocks taking over from oil stocks last year. Due to the small interest we occasionally take in small companies doing financings, much to our disbelief we had four stocks (Falcon Oil, Titan Uranium, Hudson Bay Minerals and Katanga Mining) that rose five fold. Even for our young hearts this was too much to bear so we ended up selling 80% of our holdings in these names this quarter.

Other double double (yes, we'll be talking about Canadians' waistlines at Tim Hortons later in this letter; actually while we're on the point did you know that they had to drop the apostrophe in Tim Horton's much like Eatons to appease the Quebec language police? God, we Canadians will do anything to please one whiney voice) profits included our stake in the New York Stock Exchange which went public in March with an opening of \$23 dollars up (take that Mr. Horton). Although our investment in the NYSE is up three fold we perhaps foolishly think that we still have a double double on the table.

And yes, with the help of our friends at RBC (your trustee) we received shares in Tim Horton's (rebel apostrophe) IPO as the media told us this was a no brainer. Really, the no brainer was to own shares in Wendy's (note the S), which to date have given the Vertex Fund a profit 10-times greater than Timmy's double double. Again the easiest part of the trade was just to own the paper but most people chose to ignore it or were unaware of it. They just called their local RBC reps to bug them for the IPO.

The other part of the portfolio that we have failed to give much recognition in our letters over the past eight years (mea culpa) is our investments in private equities. Now maybe we have been ignoring them because we made one investment in 1999 which was a no brainer investment alongside Michael Dell in a storage company and, of course, we promptly lost 90% plus of our investment in the next few years. We were a little reluctant to add capital in this space and as a result we ignored investing in private companies for half a decade. With time and age under our belts we were ready to test the waters with some resource names and we are happy to report that the expansion of the private equity space has skated our investment process on side. We believe the technology venture capitalists of 1995-2000, also now reside in the private equity space. They now value businesses at levels that we cannot understand; even in Vancouver their presence is felt with their acquisitions of retail stores and their interest in private/public partnerships with the B.C. Government. But the greatest of all trades has been the movement of retail and real estate combinations (Sears, Toy R Us, Hudson's Bay etc.). As an example, Michaels Stores which we currently do not own, have recently

announced that they are for sale, or in Wall Street parlance they would like to maximize shareholder value. The investment bank hired to handle this transaction ultimately put lipstick on this swine to dress a “3” up as a “9”. Of the 105 interested parties who contacted the investment bank, 15 were in the business and 90 were financial players mainly from private equity groups. By the time bids were requested for the second round of tenders not one person from the retail industry, which could have provided the most synergy for an acquisition, was invited back to the table because it was out of their price league. Nice to see an investment banker from Wall Street knows more about retail than those in the trenches. God help us all or at least those pension funds invested in private equity. But our job is not to judge them; only to know when to sell, which is what we have done in our private portfolio over the last year. That is, selling High Pine Oil & Gas and Urasia Energy and this quarter our position in Redsky Energy, upon acquisition by Trilogy Energy Trust, for a profit of \$5 million. Currently our private portfolio is less than 1% of the portfolio so you may not hear about this strategy for another eight years, unless we realize these same returns again.

Now that we have spilled much black ink talking about the last 90 days we will quickly touch on the future. In the last quarterly letter we mentioned that the Vertex Fund had grown to \$500 million and as of this quarter we are just shy of \$700 million and still we have more ideas than cash to invest. To help off-set this we are launching the Vertex Offshore Fund for non North Americans this quarter, which will be the same fund but a different fund class much like the three different fund classes we offer today. As an aside it is interesting to note that Fidelity Investments announced that they will be closing their Contra Fund at \$60 billion as it seems to have regressed to the mean.

And just like our recent well advertised idea of owning Wendy’s, we are now believers of the well-known launch of the Silver ETF. Unlike gold, silver actually gets consumed every day and for the first time ever will now have financial demand due to the launch of an ETF that will have to hold physical quantities of silver. We believe that this demand will drive the prices higher and hence we have built a 7% weight in the portfolio of straight long names and companies that are being acquired, such as Western Silver.

So think of us when you order your next Double Double.

Cheers

The Vertex Fund (Class A) returned 32.09% for the year ended March 31, 2006.

<b>Net Asset Value</b>	<b>Rate of Return (Class A)</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>7 Yrs.*</u></b>
<b>\$55.8440</b>	<b>9.87%</b>	<b>32.09%</b>	<b>25.35%</b>	<b>36.04%</b>	<b>21.79%</b>	<b>27.68%</b>

\*Annualized

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

Vertex One Asset Management