

VERTEX FUND

Third Quarter Report, 2006

"Only the Paranoid survive" - *Andy Grove*, author and former CEO of Intel.

We would take it a step further than Andy Grove – not only do the paranoid survive, they may even prosper. Look at Howard Hughes!

Since the Toronto Stock Exchange started keeping records it has had 20 pullbacks of 20% or more. In the second quarter of 2006 the Vertex Fund was down over 7%. Despite a 1% return for the 3rd quarter of this year we realize we need to manage expectations. We have so many new clients who don't remember us being down 33% over six months in 1998 or down 14% over two months in 2002. Down only 7% is a dream versus the old days but we want people to realize that if you look at our historical track record of being up 23% on average you should also study our down cycles and look at your portfolio accordingly. Our worst 12 month period was a minus 8% return from March 2002 to March 2003. This set us up for one of our best 12 month numbers - by March 2004 our one year number was 60%! Our favorite guru Warren Buffet said that if given the choice between smooth returns of 8% or lumpy returns of 12% he would take 12% every time. We concur.

After George Bush was elected president we wrote a piece talking about how it was Canada's turn to shine and how we expected the Canadian dollar to shine. America has been home to the triple deficit (current, trade and fiscal) and a massive war effort that have killed its currency on an international basis. Now all these things are bad for the US buck but the worst thing of all, in our opinion, was to have two incompetent Treasury Secretaries after Robert Rubin (ex Goldman Sachs banker under the Clinton administration), both of whom dictated a policy of a weak dollar. We believe this has all changed with the third appointment under George's watch of Henry Paulson as the new Treasury Secretary. First of all, Mr. Paulson had over \$500 million in Goldman Sachs shares as ex C. E. O. that he had to sell to avoid a conflict of interest with government policy. We, of course, believe that is the right thing to do and you can get some powerful people to do the job when they are offered share disposition on a tax free basis. It was probably the first nine figure signing bonus in the history of finance. Having someone with a finance background is eternally better for a country than general corporate experience. Additionally, since Rubin's time we now have someone with a sharp mind saying that a strong currency is good for America. We concur.

The Vertex fund no longer has any US dollar hedges as it had over the past four years and we now have over 20% of the fund exposed to the US buck versus roughly 10% at the beginning of the year.

We have long talked about the income trust conversion market and have recently added Telus to our portfolio with their recent announcement of conversion. We didn't own this name before the conversion despite rumours that management might consider it. We

stupidly believed them when they said they would not convert in the previous Quarterly update. We concurred incorrectly.

The Vertex Fund today looks like a Telecom Fund with large holdings in BCE, Manitoba Tel and Telus representing over 13% of the portfolio. These mature assets are now prime income trust names with their free cash flows. We believe it's only a matter of time before mature assets will convert, be they financial (AGF and Investors Group), utilities, oil or telcos. The future has never looked better for this strategy.

More companies have announced oil sands spin outs or sales this quarter and although we wish we didn't own them in this downdraft over the past 90 days, we are sure that we will be rewarded next quarter when the cold Canadian air gets released south of the 49th parallel.

More companies today see CEO compensation based on stock than any other time in history. Thirty years ago less than 1% of a CEO's compensation was based on stock. Today over 50% of all CEOs receive a majority of their pay in stock. This aligns management much closer to shareholders who are focused on short-term catalysts to create value. The future for catalyst investing has never looked better.

Many happy returns!

PERFORMANCE

The Vertex Fund (Class A) returned 6.97% for the year ended September 30, 2006.

Net Asset Value	Rate of Return (Class A)					
	<u>3 Mos.</u>	<u>1 Yr.</u>	<u>2 Yrs.*</u>	<u>3 Yrs.*</u>	<u>5 Yrs.*</u>	<u>7 Yrs.*</u>
\$52.0935	0.96%	6.97%	18.28%	23.22%	18.20%	22.64%

*Annualized

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

Vertex One Asset Management