VERTEX FUND

Year End Report, 2006

The biggest scare of 2006 was saved for Hallowe'en night with the Department of Finance convincing the Government of Canada to announce the end of the income trust sector by 2010 (with the exception of Real Estate Trusts). Making quick announcements that change the policy for investors overnight benefits no one. The integrity of the capital markets is the key to success for all Canadian investors and when the rules change it makes it tough for everyone to gauge their roadmap to success and stability. Whether banning income trusts as an asset class becomes law still remains to be seen, especially with a minority government trying to enact it. Taking away an asset class that made Canada unique on a global scale and created over $200 billion in assets, whether through ineptitude or a mistake (but aren't a majority of great ideas discovered through human errors?), resulted in the loss of capital gain tax on $30 billion of asset destruction. This loss will be more than any tax leakage the government can complain about, not to mention the multiplier effect of lost jobs, reinvestment and head offices moving to the USA. Perhaps this legislation was created to solve the Calgary housing crisis overnight. The irony is that BCE and Telus, which supposedly broke the camel's back, had not paid tax for years and Telus, which most analysts expected would pay tax in 2007, recently announced that they won't have to pay the tax man till 2009 - magic eh?

Of course we owned both these names and the Fund suffered over a 3% decline on the day after Ottawa's so wise announcement. Subsequently, we sold Telus but kept BCE which we held over the past year, as we still believe more catalysts will present themselves. The key, overall, is not for us to judge what legislation should be but to continue to run a diverse portfolio of many different event driven strategies so that the death of one strategy means not hanging around at the wake too long. Hence, the portfolio gained 2.5% for November given the rocky start.

The majority of our returns come from the long exposure of the portfolio and this year was no exception. Our average holding period for stocks is one year and this year we wish our average period had been two years as most of the stocks we sold continued to rise during the year. We made the mistake of selling too soon, but we reckon that a bird in the hand is better than none we can see in the bush. The merger arb part of the portfolio benefited from the private equity mania of watching public companies go private. This is the opposite of what we try to attain which is to watch private companies going public. Two of the biggest deals we did last year were HCA and Harrah's Entertainment at 25 and 16 billion dollars respectively. A deal of over $50 billion is more than likely in 2007 and if the math is right and the return meets our benchmark, we hope to be investors in this deal. Our strategy to stop hedging the US dollar over the last quarter paid off faster than we could have imagined with the Canadian dollar dropping from $1.12 to $1.16 even though all we heard in the media was the decline of the US dollar.

We will be distributing a taxable capital gain this year to our unit holders, not unlike Ottawa (who we cast as a villain earlier). This means the unit value will drop for year end in recognition of the distribution you will receive which will then be reinvested in new units of the Vertex Fund, so take a look at the total amount of money you have invested instead of the closing price for year end.

For those who have been longer term investors, 2006 turned out to be a seminal event even though our returns were below our long term average and we failed to beat the S&P/TSX Index average after an eight year streak. Our Balanced Fund was ranked the number one fund over five years by the Globe and Mail and the Vertex Fund was ranked as the number one international event driven fund by Bloomberg over three years for the second year in a row. So we would like to congratulate all those long term investors who have had the patience required to be in our funds over the volatile years. Samuel Butler said friendships are easier made than kept and we at Vertex are blessed by the friendships we have made and kept each year. We truly thank you for your support.

Many happy returns!

PERFORMANCE

The Vertex Fund (Class A) returned 14.72% for the year ended December 31, 2006.

	Rate of Return (Class A)					
Net Asset Value	**3 Mos.**	**1 Yr.**	**2 Yrs.***	**3 Yrs.***	**5 Yrs.***	**7 Yrs.***
$54.8229**	**11.93%**	**14.72%**	**20.76%**	**20.57%**	**20.56%**	**21.14%**

*Annualized
**Post Distribution

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

Vertex One Asset Management