

1st Quarter Report to the Vertex Fund - 2007

40!

Tim Logie, one of our portfolio managers, recently turned 40 years of age! As Vertex is celebrating 40 calendar quarters of being in business this year it means that we are no longer spring chickens as all of our portfolio managers are over the age of 40! Not that we want to get biblical about the number 40 (like Vancouver's 40 days and 40 nights of rain every year) since performance was great for the last 90 days unlike previous quarters last year, but 40 was an important number this quarter. We closed out the month with 40% of the fund being invested in companies that have announced that they are merging with someone else, and over 40% of the portfolio is exposed to the commodity sector in Oil, Gas, Gold, Silver and Base Metals. On a relative basis this was a "blow your socks off" quarter with the fund up over 7% when most North American indices were flat.

Mergers, or as my dating friends prefer to call it, "acquisition targets", prove that people prefer marriage to dating or at least get better rewards, which might explain why Tim also got married this quarter. And as with all great marriages, it is implied that over time, the resources will be larger as a combined entity than if they took the "o sole mio" route. Sometimes it takes time for people to recognize the benefit of unions because we are all afraid of the unknown. Last year we owned a company called Viceroy Resources which consummated a union with another gold producer called Yamana Resources. We owned these shares on an unhedged basis as we do with most deals these days (compared to the heady days of 1999 - 2001 when most were hedged).

After the deal closed and all parties were handed their new certificates in Yamana our net profit on the deal was nada, zip or nilch....but we are not the type to kiss and run. Our thesis is to hold names over time like the New York Stock Exchange and Yamana, for example, and let the markets get excited over the potential union. These two names combined gave us a twenty million dollar profit! Speaking of \$20 million dollars (we even love numbers divisible by 40) it would be remiss of us not to add to this discourse two other fine members of the family that added the same profit to the portfolio.

The first was our favorite nickel producer called "Hear that Lion Roar" or was that Lionore Resources. Originally we owned it in 2005 because we thought the growth catalyst of production was going to be enough to enhance share price performance but it didn't perform so we moved on. But we like to keep in touch with all our old dates so we were back on the old Lion late last year as the prospect of a company sale seemed plausible with Nickel prices on the move. Nickel prices have now moved five fold over the past two years and at today's prices, Lionore trades at 2X cash flow. Now that's as cheap a stock as you are going to find. We will be sad to let it go to Xstrata's \$18.50 cash bid. As we have bemoaned many times in these commentaries, Ottawa has killed what had made Canada a standout on the global capital markets stage and attracted so many companies to list their shares in Canada and expand the capital base here. The money multiplier effect for wealth creation stopped on Halloween night.

Anyway, after Lionroar we are thankful for another \$20 million dollar "lift" thanks to AGF. This formerly beleaguered money management firm had gone through quite a rough patch for five years since 2000. We first purchased it for its potential as an income trust conversion. Needless

to say that catalyst has been replaced by a new one and the current share price performance is due to its massive turnaround in sales and management's focus on shareholder returns. Who would have thought a public company that supposedly invests in the best public companies hypocritically hasn't had a public shareholders' meeting in a decade for their own shareholders. Their first AGM this century and a huge net sales increase has led to an earnings recovery, and hidden assets in banking and private money managers leads us to believe that we can earn a \$40 million dollar return on this investment. Twenty down and twenty to go! (Unlike company spinouts where 1+1=3 in this case 20+20=40)

The first 40 days of 2007 saw over \$100 billion of deals announced in Canada alone and this year looks to be a block buster for continued M&A activity. We hope to have at least 40% of the fund in these deals for many quarters to come!

Please feel free to contact us with any comments or thoughts you might have in this Year of the Pig.

PERFORMANCE

The **Vertex Fund** (Class A) returned **12.32%** for the year ended **March 31, 2007**.

VERTEX FUND PERFORMANCE (Class A)					
3 Mos.	1 Yr.*	2 Yrs.*	3 Yrs.*	5 Yrs.*	7 Yrs.*
7.57%	12.32%	21.80%	20.85%	20.88%	18.78%
Rate of Return March 31, 2007:		Net Asset Value	\$58.9726		

*Annualized

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

Thanks as always for your support.
Vertex One Asset Management Inc.