

VERTEX FUND

Second Quarter Report, 2007

Inflation alert!!

It sounds like “Orange Alert” in American airports which you pay attention to the first time you hear them but after that you go on doing your own thing and ignore them. You can’t live your life a slave to external factors that may not have any bearing on your everyday existence.

In an environment where interest rates have trended down since 1981 one would have to be awfully cocky to say that this is the time interest rates have bottomed and are now going to head higher. But some inflationary signs may exist in Canada where house prices rise on a monthly basis as much as a one year GIC, petrol prices are up 25% and base metal prices are up 200% on average over the past few years. In contrast to rising core prices we have seen consistent deflation in food prices.

But food inflation might be right around the corner as a side effect of North American governments trying to promote corn additives within petrol (ethanol) in order to encourage fuel independence or create new markets for farmers. This policy will reduce supply within the food chain and cause the unintended consequence of food inflation. So far our holding of Saskatchewan Wheat Pool which recently merged with Agricore has benefited from the perceived price power.

Gambling, which is another government regulated industry, is best categorized by Warren Buffett as a tax on ignorance. He once installed a pachinko machine in his basement that allowed him to recoup his children’s weekly allowance by the evening on the day it was paid. We are just glad that Gateway Casino’s Income Fund, a great annuity stream business based on separating gamblers from their cash, will be sold this quarter. Our merger arbitrage exposure had actually gone below 20% but with recent events such as a bidding group taking a run at BCE and Teck Cominco buying AUR Resources, our exposure is well north of 30% but below the 40% we thought we would be at by now. The current increase of interest rates and the spread increases of corporate rates over government rates means that it has been harder for private equity firms to find the cash to fund deals; and future deals may be driven more for corporate reasons than financial ones. Recent deals have seen the government react to foreign takeovers (which they created by eliminating income trusts) by setting up a stronger review process. Running with a rear view mirror means government policies are not adding value, but the benefit of each change in legislation is that it creates another opportunity for the Vertex Fund to do another deal as companies scramble to meet new requirements.

Have a great summer and always feel free to call us with complaints or compliments.

PERFORMANCE

The Vertex Fund (Class A) returned 22.83% for the year ended June 30, 2007.

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>
\$59.5845	1.04%	22.83%	20.62%	23.24%	21.19%	18.14%
<small>*Annualized</small>						

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

Vertex One Asset Management