VERTEX FUND

Third Quarter Report, 2007

I wish Karl would acquire some capital, instead of just writing about it
Mother of Karl Marx

Wow!

What a quarter! A lot of banks around the world learnt how not to borrow short and lend long. This global credit crunch (or perhaps we should call it the world's largest margin call), hit banks in Germany, France, U.K., Australia, Canada and, of course, the US which started it all with sub-prime mortgages. Investment bankers created it over the last 20 years with the growth in securitization that in one example repackages sub-prime mortgages into pieces of commercial paper and resells them to second tier banks abroad and domestically. The growth of commercial paper has increased ten fold over the last 10 years. New structures called conduits, selling option premium as interest on credit default swaps, were marketed internationally. We had no idea all this was going on in the unregulated derivatives market. This market worked all fine and dandy until you couldn't renew your asset backed commercial paper (ABCP). In Canada $40 billion of Canadian ABCP got stuck in the roll over. The Caisse de Depot and its sponsor Coventree Financial got stuck with paper they could no longer roll over and similar financial firms in the G8 had the same problem. AAA paper was not what buyers got regardless of what DBRS said. Of course, this meant that banks everywhere got stretched to their credit limit and needed emergency funding from their respective National Reserve Banks. Pimco out of California has speculated that ABCP from conduits may no longer come back again as an asset class. One less subject for future CFA's to study, but let's hope more transparency shows up in the future.

During this crunch the US had its first bank failure since 1993 with the collapse of Netbank. Many others got put on the chopping block and Dundee Bank of Canada and Northern Rock in the UK were courting a death march. With excess liquidity disappearing in the market it meant that merger arbitrage had less competition for dollars. We correspondingly increased our weight to the highest level since 2001 with over 60% of the portfolio in announced deals, many of which yield over 20% on an annualized basis. These returns are also the highest we have seen since 1999 so we hope the crunch lasts awhile longer as it should mean higher returns. Of course with this crunch many merger deals are falling apart. Most of these deals are the "financial" type proposed by private equity firms that borrow money which has now become unavailable. Deals like Harman, Sallie Mae and Genesco all have private equity firms trying to do everything they can to avoid closing. "Corporate" deals where partners that want to close for synergistic reasons are in better shape and we have yet to see any of these deals fail. BCE is the biggest position in the "financial" area that we have on the table. We like the fact that the buyers, Ontario Teachers Pension Plan, have procured its financing and unlike private equity firms are trying to close their first big deal. They may never get into the rink again if they fail on this one. Only a ruling in favour of the bond holders left holding the bag on any buy out deal could de-rail the deal, but we believe such a court challenge would fail. We will love deals announced from here on in as they will have financing in place and the conviction to close these deals will be stronger than ever. Other "corporate" deals we like are Alcan and Western Oils Sands which with BCE represent nearly 30% of the portfolio. Additionally, the portfolio fared well with over 1% attribution added from the Northern Orion Resource/Yamana deal and a private company we own called Athabasca Oil Sands that was able to sell a secondary financing round that we were able to sell some stock into. Additionally, to finance our exposure in merger arbitrage we sold positions in CAE, NASDAQ and the NYSE.

The Canadian dollar has been on a tear this past quarter and our decision to hedge the currency helped our performance immensely. Mind you, the Canadian dollar peaked at $2.64 in July of 1864 when Union forces appeared to be losing the US civil war and because Canada was, in effect, a province of the United Kingdom. We may have the retiring Canadian Bank Governor David Dodge to thank for the recent dramatic change in the Canadian Petro dollar, which hasn't been this high since 1976, as he is now considered by most people to be the most competent Bank Governor in the G8. It's not that the Canadian dollar was that strong (as most dollar currencies rallied equally), it was just a story of the US dollar declining, thus our theory of Goldman Sachs Treasury Secretary (Henry Paulson) adding value to the dollar has now gone to pot. Will Mark Carney, (the ex Goldman Sachs employee) at the Bank of Canada (David Dodges' replacement), end up with the same legacy?

PERFORMANCE

The **Vertex Fund** returned **23.27%** for the year ended **September 30, 2007**.

	Rate of Return (Class A)					
Net Asset Value	**3 Mos.**	**1 Yr.**	**2 Yrs.***	**3 Yrs.***	**5 Yrs.***	**Since Inception***
$60.3727	**1.32%**	**23.27%**	**14.83%**	**19.92%**	**23.90%**	**23.25%**

*Annualized

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

Vertex One Asset Management