

VERTEX FUND

First Quarter of a better Year 2009

"Owners of capital will stimulate the working class to buy more and more of expensive goods, houses and technology, pushing them to take more and more expensive credits, until their debt becomes unbearable. The unpaid debt will lead to bankruptcy of banks, which will have to be nationalised, and the State will have to take the road which will eventually lead to communism."

Karl Marx, Das Kapital, (1867)

Although this is a bogus quote from Karl Marx making the rounds on the internet it captures the mood of the current state of the financial markets. It turns out the banks were too big to fail so they got saved much to the chagrin of taxpayers and I'm sure it put a smile on Karl Marx face. In this balance sheet recession where celebrity's (Gordon Ramsey, Nicholas Cage, Annie Liebowitz to name a few) are even running short of cash they must feel like GM where the only option now is bankruptcy. The continued bad headlines means that the market can now discount the future for better times. The Vertex Fund went through its worst two months ever in September and October only to have its best four months relative to the market since inception. The fund has been up four months in a row as the market reached new lows till the second week of March as it took off like a rocket since then.

Quantitative Easing is the new phrase pitch book term for printing money. It is happening in staggering amounts around the world and yet we are in deflation environment not inflation which is what first comes to mind when the printing presses are turned on fully. This is because the velocity of money is decelerating as people save more money and spend less. Until you see new cranes overhead or the economy lifts its heavy head it, maybe years from now before inflation will knock again on our door. Warren Buffet says inflation is coming so we are on the watch. But with such a steep yield curve so many investment opportunities are presenting themselves. We are like a kid in a candy store we can't decide what to buy next. We will list some of the candies that we have bought this year.

A smart man once said , : Give a man a fish and you feed him for a day, teach him how to arbitrage and you can feed him forever"

Merger arbitrage has never been more definitive and produced such big deals with every deal closing on time with strong annualized returns. The banks who are under pressure to lend would rather lend to Pfizer buying Wyeth who have had no decline in sales . In turn they can lend to one company than do thousands of loans to smaller companies that are tied more to the general health of the economy. Merger arbitrage consisted of more than 50pct of our portfolio since we sold out of most of our equity positions in October and helped us insulate the negative returns of the stock market this year.

We have also slowly increased some equity positions where companies were trading at or near cash levels. Our four favourite ones are;

Ascent Media
Interactive Corporation
Western Zagros
ACE Aviation Holdings.

Additionally we have added positions in convertible bonds and preferred shares that have yields greater than 15 pct but have great balance sheets (except for maybe Bank of America)

Cadence designs
Sandisk
Northgroup preferred
Bank of america preferred.

These instruments have allowed us to move up the capital structure of companies and get paid in yield why we wait. Yield is the paradigm for capital gain.

AIG which has occurred the rath of media and US taxpayers for bonuses and is now controlled by the US government which owns 80percent of the shares in the company. AIG has bonds outstanding that yield over 40 percent. We view these as US sovereign debt and love the yields in these bonds. In all these investments mentioned above with yield we have less than two percent exposure in each name.

We have seen more new shareholders in the fund this quarter and we would like to welcome you to the fund. Buying when things are down is a tough and gut wrenching decision and we commend you.

We are very excited for 2009 and would love talk about the portfolio at any time so feel free to call us and we can give you greater detail of what we are seeing in the capital markets.

PERFORMANCE

The Vertex Fund (Class A) returned -40.25% for the year ended December 31, 2008.

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>Since Inception*</u>
\$33.4156**	-19.83%	-40.25%	-18.93%	-8.99%	2.87%	14.13%

*Annualized
**No Distribution

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

Vertex One Asset Management