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VERTEX FUND

Fourth Quarter Report 2009

"Well ya see, Norm, it's like this… A herd of buffalo can only move as fast as the slowest buffalo. And when the herd is hunted, it is the slowest and weakest ones at the back that are killed first. This natural selection is good for the herd as a whole, because the general speed and health of the whole group keeps improving by the regular killing of the weakest members. In much the same way, the human brain can only operate as fast as the slowest brain cells. Excessive intake of alcohol, as we know, kills brain cells. But naturally, it attacks the slowest and weakest brain cells first. In this way, regular consumption of beer eliminates the weaker brain cells, making the brain a faster and more efficient machine. That's why you always feel smarter after a few beers."

- Cliff Clavin, Cheers

Last year we lost a lot of brain cells during the decline in 2008, but after 2009 and the fund being up over 80%, we now know that only the better brain cells were left. The best investment opportunity we have seen presented itself after the debacle in 2008, and still to a degree, continues in 2010. For a great review of the current history of the fall of 2008, we strongly recommend reading "Too Big To Fail" by Andrew Ross Sorkin. His access to Wall Street insiders is unprecedented and the book reads like a spy thriller (unlike the Historical Atlas of Vancouver with which many of you may now be intimately acquainted).

"**Debt is the new equity**", and will continue to be the theme for the first half of this New Year and we believe M&A will come back strong in the latter part of the year. So, it might be the reverse of 2009, where we started the year with the highest levels of M&A and ended the year with its lowest, as we increased our debt exposure. We have changed our tune from the last few quarters, where we said "we never met a bond we didn't like", to "it's time to cull the water buffalo herd". Anything now yielding less than 7% because of price appreciation is being shown the door. We are trying to increase the overall portfolio yield to 8% and it feels like we are on a treadmill at high speed! It's now easy to sell plenty of low yielding bonds (Extendicare, Bombardier, Aecon, Pacific Rubiales and Algonquin Power), but it's getting a little harder to find quality names that yield 10%, but they are still out there.

A new name we have added to the herd is Dollar Financial, owner of National Money Mart Stores. These bonds currently yield 10% and we are confident that they will yield 7% sometime this year, as will most of the names in our portfolio.

Additionally, we have increased our exposure to Superior Propane and Capital Power, as they are double-digit-yielders.

The monetary base in the US doubled over the last year, but money supply has yet to increase by the same amount, as the multiplier effect has slowed down while people increase their savings.

Eventually, people will spend again and inflation may prove a tough adversary to hunt, and in those conditions we will need floating-rate bonds in our quiver (got 'em) and gold with leverage (got that) to help fight the lions that try to take us down.

We have some tools to survive inflation.

There is also a chance that the above analysis is wrong; now, you could say that every time we write something. In this case, deflation may be the enemy. One can easily make the case that the United States now looks like Japan. The US has now seen the S&P 500 unchanged over the past decade much like the Nikkei Index since the 1980s. Japan saw commercial real estate prices go down 80% and US commercial real estate is currently on a massive downward spiral.

In this case, bonds selling below par will appreciate in a deflationary environment (so we've got them too).

Our exposure to non-yielding stocks remains the lowest it's been since the inception of our fund, as bonds today move better than stocks. Most corporate bond indices beat stock returns in 2009 and this may well be the case again in 2010. We hope that this trend continues for years, as we sleep much better in this new herd of investors searching for yield.

PERFORMANCE

The Vertex Fund (Class A) returned 84.18% for the year ended December 31, 2009.

	Rate of Return (Class A)					
Net Asset Value	**3 Mos.**	**1 Yr.**	**2 Yrs.***	**3 Yrs.***	**5 Yrs.***	**Since Inception***
$61.5456	**11.48%**	**84.18%**	**4.90%**	**6.57%**	**12.04%**	**19.43%**

*Annualized

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

Sincerely,

Vertex One Asset Management