VERTEX MANAGED VALUE PORTFOLIO

Second Quarter Report, 2008

Expect the Expected

A year ago today I wrote in your June 30th quarterly report about investors' "entitlement to high returns". Certainly it was not my expectation that I would be reporting to you a negative 18.5% return one year since writing that particular piece. My investment philosophy has as one of its core principles "expect the unexpected" and thus in general terms to do the opposite of what newspaper headlines would imply one should do. Over the last few years however, it has really paid off to "expect the expected" – that is to do exactly what newspaper headlines have implied one should do….to keep buying stocks with positive headlines and selling everything else. Although our companies have generally been subject to good news, this news has been relegated to the back page. Front page news has been dominated by two stories: Credit Crisis and Energy Crisis – the key word is "crisis". There simply hasn't been a crisis, positive or negative, within our portfolio of stocks.

Let's do a brief review of what's happened year to date:

Fairfax Financial traded December 31, 2007 at $287 a share. The company reported spectacular diluted earnings per share of $33.78 in Q1 and looks like they very well could repeat this in Q2. Fairfax trades today at $268 - below its book value and down from year end. Our other insurance companies have also had similar positive but not such spectacular results yet their stock price performance to June 30th has been as follows: Fairfax (-9%), Partner Re (-16%), Montpelier Re (-13%), IPC Financial (-8%) and Odyssey Re 0%. These firms have extremely strong balance sheets and like Fairfax trade below book value - most below tangible book and with low single digit price earnings multiples. Based on these incredible value metrics, Property and Casualty insurance companies make up our largest equity commitments.

Our next biggest commitment is pharma/healthcare. These stocks have simply been subject to no real news at all. Thus despite trading at very low double digit or single digit price earnings multiples with huge dividends and impenetrable balance sheets, stock price performance has been as follows: Pfizer (-23%), Merck (-35%) and Johnson & Johnson (-3%). We added Bristol Myers during the quarter and are up since our purchase but its stock price decline since January has mirrored Pfizer and Merck.

Others in the portfolio include Ingersoll Rand and BCE. Ingersoll Rand is down 23%, with a price earnings multiple of 9 times and trading close to book value with an earnings per share growth rate well into the double digits. Recently Ingersoll Rand completed its acquisition of Trane making it a power house in refrigeration and air conditioning and this should bode very well for the company going forward. BCE is flat at $39 year to date. Fortunately, most hurdles to closing their $42.75 deal with Teachers' Pension have been removed and it looks likely BCE will close by year end yielding us a decent return from here.

Our last two major holdings are Disney (down 3.5%) and Mattel (down 10.5%) both incredibly strong franchises trading at 12 and 10 price to earnings multiples respectively. Mattel is the only company we own subject to a disappointment in Q1. Reality is every company runs into headwinds from time to time as all companies enjoying tail winds today inevitably will. Overall, within the context of a weakening global economy, to have one disappointment in a quarter is fine with me.

With regard to our mix of investments, bonds have been reduced in favour of equities with high yields. Government bonds now yield about three and a half percent. Regardless of one's view on inflation, 3.5% doesn't get us very excited especially when we can achieve yields in excess of 3.5% from stocks. Mattel yields 4%, Pfizer yields 7%, Manitoba Tel yields 6.3%, Seamark yields 4.6%, Sceptre yields 5.7%, CI Funds yields 9.7%, Merck yields 4.1% and Bristol Myers yields 5.8%. Johnson & Johnson, Partner Re, Montpelier Re, IPC Financial all are between 2% and 3%. There is more to this story than just the current dividend yield. Dividend growth rates for our companies are listed below:

Dividend Growth

	2003	2004	2005	2006	2007	2008
Mattel	.40	.45	.50	.65	.75	.75
Partner Re	1.20	1.36	1.52	1.60	1.72	1.84
Fairfax	1.40	1.40	1.40	1.40	2.75	5.00
IPC	.72	.88	.88	.64	.80	.88
Manitoba Tel	.94	1.80	2.60	2.60	2.60	2.60
Pfizer	.60	.68	.76	1.01	1.19	1.28
Merck	1.46	1.50	1.52	1.52	1.52	1.52
J&J	.93	1.09	1.27	1.46	1.62	1.84
CI	.32	.45	.60	.66	2.21	2.04
Sceptre	.24	.24	.24	.28	.28	.48
Bristol Myers	1.12	1.12	1.12	1.12	1.15	1.24
Disney	.21	.21	.24	.27	.31	.35
Ingersoll Rand	.36	.44	.57	.68	.72	.72
Odyssey Re	.11	.12	.12	.12	.25	.25
Seamark	.89	.94	1.04	.41	.28	.28
Montpelier Re	.34	1.36	*6.66	.30	.30	.30

*Special Dividend

You'll note that only two companies in our portfolio (Seamark and Montpelier Re) have reduced their dividends. The increase in dividends of the other companies makes these reductions immaterial. It's also apparent that when bond yields are low and stock yields are high and rising, it makes little sense to own bonds.

In addition to this chart demonstrating dividend growth, a number of these companies are aggressively buying back their own stock. This is exactly what management should do when stock is trading below book value in the market place. It's a rare opportunity to make our shares represent a bigger piece of an economic pie at no cost. So many things are going right presently, our NAV per unit as dictated by today's stock prices betrays the true value of your fund by a large magnitude.

I've highlighted our holdings and pointed out both growth (double digit earnings per share growth) and value (single digit price to earnings) and many companies at or under book value. For those not really familiar with our capital markets, the Toronto Stock Exchange Index trades at a price to earnings multiple of 18 times and price to book of 2.4 times. These metrics are over 2 times where our portfolio is selling today. In my appraisal our portfolio has a higher growth rate than most major markets and as such, it will eventually trade at a premium to major world benchmark indexes - not at a 50% discount. Anything can happen and it's even possible that "expect the unexpected" will once again prove to be a sound investment principle.

PERFORMANCE

Net Asset Value	Rate of Return (Class A)					
	3 Mos.	1 Yr.	2 Yrs.*	3 Yrs.*	5 Yrs.*	Since Inception*
$11.5889	**-6.10%**	**-18.50%**	**-1.83%**	**-1.52%**	**4.08%**	**6.78%**

*Annualized

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

THE PORTFOLIO

The holdings in the Vertex Managed Value Portfolio at June 30th, 2008 include:

Fairfax Financial Holdings	IPC Holdings Ltd.	Sceptre Investment Counsel
Montpelier Re Holdings	Walt Disney Co.	Merck & Co.
Mattel Inc.	Johnson & Johnson	QLT Inc.
BCE Inc.	Pfizer Inc.	Manitoba Tel
Partner Re Ltd.	Odyssey Re Holdings	Bristol Myers
Ingersoll-Rand Co.	Seamark Asset Mgmt.	

ASSET MIX

Cash	0%	Canadian Equities	23%
Fixed Income		Foreign Equities	57%
Canadian	15.5%		
Foreign	4.5%		

Vertex One Asset Management