VERTEX MANAGED VALUE PORTFOLIO

First Quarter Report, 2008

Redemptions or Redemption?

One down year in ten and redemptions have been swifter than the rise of home foreclosures in the USA. There is one universal law that seems as concrete as the Hoover Dam and that's investors' propensity to sell low and buy high. Whether its stocks, real estate, investment funds or commodities, "investors" just adore expensive assets and wouldn't be caught dead with cheap ones. Commodities, once considered the most risky of assets (when they were inexpensive) are now considered a safe haven when at all time highs. In Vancouver, people line up to buy condos that couldn't be given away in 1999 and line up as well for a chance to flip an entitlement to a condo not yet built…..and they say US real estate was a bubble! Things change, yes they do and when one bubble bursts another is inevitably inflating with a different banner. Some like to blame Greenspan for creating an environment very friendly to bubble propagation. Bubbles, however, are certainly not new and there have been more bubbles in commodities than all other bubbles combined. Greenspan is long gone but don't be surprised if oil goes to $200. It's interesting to observe oil market reaction to news - five stories negative for the price of oil and oil doesn't budge - one story positive and oil goes up $3. People quite simply believe what they want to believe….your penman included. The difference is only that I believe oil should be trading closer to its average inflation adjusted price for most of the last 150 years.

Your fund owns inexpensive assets and I think it's high time for redemption <u>for</u> your fund not redemptions <u>from</u> your fund. That said and having enunciated many of the same sentiments during the past three years, pessimism regarding the USA hasn't been higher since the 1970s and euphoria surrounding commodities is unprecedented. Current trends will not persist forever and when the trend turns your fund will perform very well. We've had fits and starts since the summer with a 3% return in November and again with a 3% return in March only to be followed by the roar of commodities once again. Unfortunately every time commodities rise it sends our portfolio the other way. Money has to come from somewhere for investors to pour more money into commodities. I can say with a degree of confidence what I and other value managers have had to sell to meet redemptions is then being given to those managers with the best recent performance….those with a significant commodity bias. Supply and demand characteristics being what they are - what has to be sold (value stocks) have a hard time rising in price with the excess selling pressure despite the attractiveness of the underlying businesses. Conversely, the manager receiving proceeds from our sales places those funds in commodities leading to further upward pricing pressure. One only has to observe that the TSX index is now dominated by energy and materials to the extent these two sectors account for 50% of total. This market very much reminds me of 1999 and early 2000 stock markets, the only big difference is the banner of the asset bubble and which currency is rallying. Then it was tech stocks and $US - for the last seven years it's been commodities and $CA….and every other currency.

Currency has been our nemesis. In hindsight every last dime of our US stock portfolio should have been hedged. Currency has subtracted approximately 30% from your return since the commencement of the $US's decline. Currency hedging always becomes a topic of discussion after a big move in one direction that went against you. Few cared about hedging when the $US was rising against our dollar. There are costs to currency hedging though. It's a form of insurance and insurance comes at a premium. Currencies fluctuate over time but one thing is for sure - they don't rise or fall forever as there are equilibrium mechanisms in place that check one way movements. This is why many call it a zero sum game. It's basic economics. Long term investors know this and also that insurance is very costly whether it's 1% or so annualized to hedge stock market holdings or another 1% annualized to hedge currency, it will eat into long term investment returns. Think about it this way - what does 1% more on your mortgage cost over its term? It's a lot and that's why we all negotiate hard for the lowest rate. In addition to the cost of hedging currency at this point in time, my bias is very much towards the $US. Currencies have to be viewed relative to others and it's interesting to note Euro-land when compared to the USA on just about every front - debt per capita - productivity - debt to GDP - unemployment……are equal to or worse off than America. Couple this with a doubling of the Euro against $US resulting in Euro-land being even less competitive than it already was and it paints a bleak picture going forward. In Canada, our economy has been gutted outside of the energy and material complex. We are just barely GDP positive at a time when 50% of our exports are energy and materials and these items are at all time highs as previously noted. What this says about the rest of our economy is that it is terminally ill. Thus my thesis is simple - when commodities turn down (and that's when, not if) our dollar will be slaughtered. There plainly won't be much of an economy left.

All this being said there have been no material changes in the portfolio since year end. Our companies are doing very well economically and have continued to buy back stock, pay down debt and raise dividends. It's reassuring to note that even with the massive headwinds thrown at your fund for five years, our annualized return for this period was just under 9%. With a little tail wind (this is a forward looking statement) or as I have mentioned in previous letters, a cessation of hostile headwinds, it will be very refreshing….let's just leave it at that.

Yours Sincerely,

Matt Wood

PERFORMANCE

	Rate of Return (Class A)					
Net Asset Value	**3 Mos.**	**1 Yr.**	**2 Yrs.***	**3 Yrs.***	**5 Yrs.***	**Since Inception***
$12.3417	**-0.58%**	**-15.03%**	**-1.15%**	**1.55%**	**8.83%**	**7.83%**

*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 March 31st, 2008 include:

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

ASSET MIX

Cash	0%	Canadian Equities	23%
Fixed Income		Foreign Equities	53%
Canadian	20%		
Foreign	4%		

Vertex One Asset Management