

VERTEX MANAGED VALUE PORTFOLIO

Third Quarter Report, 2008

Although the markets are down this quarter, we've never really paid much attention to markets. It's been said by many before me that it's a market of stocks not a stock market. What's implied by this statement is that as investors we have a choice in the companies purchased and of more importance, the price paid for our interest in this fractional ownership. Even the greatest company in the world is a terrible investment at too high a price and a mediocre business can be a great investment when it can be purchased at a fraction of its worth. Often an opportunity shows up to buy a mediocre company at a big discount but seldom does one get an opportunity to purchase a great company at that same large discount. Fortunately for investors, both opportunities are showing up in abundance after many years of up markets. Fear has finally trumped greed and this is why I'm very excited as an investor.

For those of you who haven't read my previous reports, I'll reiterate I'm not hot on prospects for most Canadian stocks. Where the real bargains, where real value has been showing up, is in the most denigrated and defamed market of stocks in the world.....this is the market of stocks that belongs to our southern neighbor. The reason for this is simple; America's problems have been well documented by every media source around the globe for two years now. Fear priced into these stocks is so great that literally, if the world were going into a depression tomorrow, countless stocks are already there in terms of pricing. Most other major economies have been in denial about their own vulnerability to economic downturns. As the reality of this vulnerability sets in, Canada, Europe, and Asia look increasingly less attractive and that in its own right tips the value scale in America's favour. While on this subject I must confess that this is an unpopular view. Investing, however, is not about winning a popularity contest, it's about managing downside risk while focusing on growing wealth to achieve an adequate return for the risk one is exposed to.

With the paragraphs above as preamble, I want to cover two subjects pertinent to understanding the management of your fund:

First is fixed income. Last quarter, I made reference to the fact that yields on many good quality companies' common stock is considerably higher than Government bonds. What I failed to mention previously was the risk level in owning many corporate bonds has gone up without enough of a commensurate rise in yields as evidenced by some major corporate bond collapses in recent months. In addition, yields on government bonds reflect a flight to quality, not value, thus masking the potential risk of a significant rise in interest rates. I don't believe a rise in rates is imminent but risk verses return is skewed drastically against with yields of only 3.6% for a 10 year Canadian bond. Accordingly, bond weightings have been reduced in favour of equities with sturdy yields. Although these adjustments were discussed in your last quarterly update, it's worth highlighting again. To conclude on this subject, with very low yields, bonds other than short term

Government guarantees are more risky than high quality stocks and unfortunately those short term Government guarantees yield only about two and one half percent. South of the border, they yield one and one half percent.

Second are equities or stocks as most call them. As BCE closed in on \$40 a share in August, all BCE shares were sold. Also sold was our entire holding in Sceptre Investment Counsel. The proceeds from these sales were moved into a diversified portfolio (diversified meaning many small positions) of US regional banks, US and international commercial banks and some small diversified financial firms. I'll address this portfolio change in two parts - the reasons for the sales and the reasons for the purchases. Both Sceptre and BCE served your portfolio well. BCE paid us a very attractive dividend and since our purchase price was close to \$30, a capital gain of almost \$8 per share was recorded. The most investors were to receive for BCE was \$2.75 higher than our sale price, (the Teachers Pension takeover price of \$42.75) the dividend had been eliminated and opportunities with radically higher returns were showing up south of our border. Sceptre had also served us very well. Sceptre was purchased as it was turning around on better investment performance and ran very well with the concomitant rise in the TSX index. The firm paid us a very high dividend on top. Performance is now significantly lagging and with the TSX declining in value so is their asset base. Next shoe to drop is the inevitable large redemptions. Your penman has had very recent and vivid experience how this story unfolds. To be short - assets under management will be reduced appreciably leading to a lower stock price.

On the buy side, referring back to paragraph one, the place where maximum fear exists and thus maximum discounts to value to be found is in financials and especially so those of our neighbor. Many of these firms are trading at enormous discounts to book and tangible book value leading to a large opportunity at an even larger margin of safety. Not that there is ever a time but this is certainly a time not to run with the herd. It is time to stand up and make investment choices that will pay off when this financial crisis comes to a close. Interestingly, many of you may have noticed that the "markets" have had the worst quarter in modern history while your fund went up 7.9%. More to the point, these investments are already working.

PERFORMANCE

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>
\$12.5042	7.90%	-1.57%	-2.70%	0.42%	4.87%	7.57%

*Annualized

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

THE PORTFOLIO

The top 18 holdings in the Vertex Managed Value Portfolio at September 30th, 2008 are:

Fairfax Financial Holdings	Walt Disney Co.	Manitoba Tel
Montpelier Re Holdings	Pfizer Inc.	Zions Bancorporation
Mattel Inc.	Ingersoll-Rand Co.	Sun Trust Banks Inc.
IPC Holdings Ltd.	Odyssey Re Holdings	JP Morgan Chase
Johnson & Johnson	Seamark Asset Mgmt.	Bank of America
Partner Re Ltd.	Merck & Co.	QLT Inc.

ASSET MIX

Cash	0%	Canadian Equities	17%
Fixed Income		Foreign Equities	66%
Canadian	12.2%		
Foreign	4.8%		

Vertex One Asset Management