VERTEX ONE
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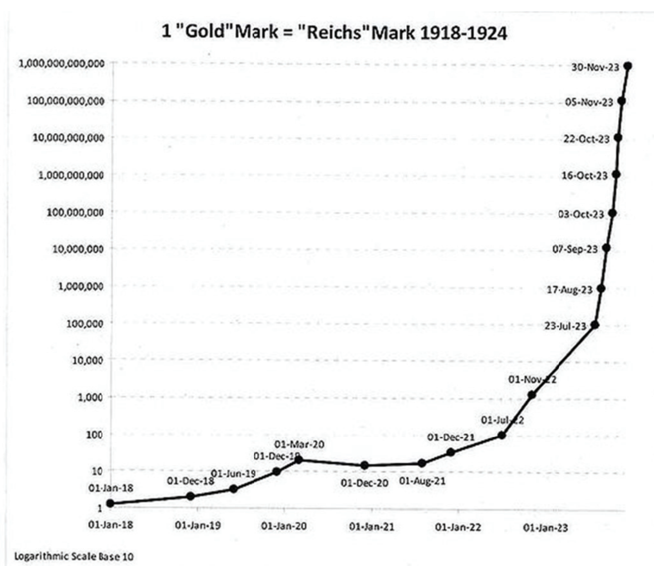
VERTEX FUND

"*LIAR, LIAR, PANTS ON FIRE*" - Children's Rhyme

On October 12, 2010, we were invited to have breakfast with the Minister of Finance of Ireland Mr. Brian Lenihan. It was lovely grub at the Palace Hotel in New York. Everything you could ever want for a first class, three-course breaky was on the table; but appearances were not to be trusted. He was quite polished and impressive in describing how Ireland had turned the corner. State guarantees had stabilized funding, the Bank of Ireland had met regulatory capital requirement and the Anglo Irish bank had been split between bad bank/good bank. The deficit had been stabilized and there were many sources of tax, as Ireland still does not have property tax. So, only weeks later the clover had begun to wilt and $850 billion of debt with only 2 million taxpayers caused the government to cede control to the ECB. With that, emergency bailout funding for a bankrupt state had begun, as we are slowly working our way through the alphabet soup of PIIGS states. On a global basis, the snowball just continues to roll with US State municipalities and, of course, the Land of the Rising Sun is setting fast as Japan's gross revenue is less than half of its expenses.

Governments are losing control of interest rates to the bond market. They need to print money to fund new bankruptcies and they can no longer control currencies. Traditionally, most sovereign nations chose to control interest rates; but that ends up being a moot point when your foot is on the printing press to write cheques for all these bankruptcies.

There is only one insurance policy when financial assets are worthless and that is to own real assets. The Vertex Fund had a majority of its return attributed in the fourth quarter to gold and silver assets, with the most kick coming from silver. As governments print money, sorry, we mean invoke "quantitative easing", we see the objectives to have a larger percentage of our portfolio in real assets over financial assets. The following graph is German quantitative easing in the 1920s of Deutsch Marks, expressed in one DM per ounce of gold. The same could be said today of Zimbabwe and __________?



Note: 1 "Gold"Mark value in grammes of fine gold (1913) = 0.35842g;
"Reichs"Mark = Currency not tied to the goldstandard in 1918 to 1924.

Source: *Law about the Revaluation of Mortgages and other Claims (Revaluation Act 1925), issued the 16th of July, 1925 (Aufwertungsgesetz, Reichsgesetzblatt, Teil I, 1925, p.133-135) and Author's calculations.*

The fourth quarter was a surprising one for M&A in many respects. Three of the largest active deals either had the bid fail or remained unresolved. For Canadians, the most notable of these was Potash, whose bid from BHP Billiton was scuttled because it was unpalatable for the Canadian government (and many Canadians). Our position in this deal was largely through covered calls, so we were able to profit despite not receiving a higher bid, as was initially expected. The battle for Airgas by Air Products remains unresolved and is still being waged in the courts of Delaware, as we approach the one-year anniversary of the deal's announcement. We have been on the sidelines of this deal until recently, when a lower share price and improving fundamentals combined to make it more attractive. Sanofi's hostile approach for Genzyme is also on a slow path, since its announcement during the summer, but we have been paid to wait in this situation by continually rolling covered call positions each month. As for deals that concluded successfully for us, there were a number of large Canadian transactions on the list. Andean Resources was acquired by Goldcorp, Antares Minerals was bought by First Quantum, and an approach by Walter Industries to buy Western Coal led to a definitive deal. The deal environment remains fertile, but arbitrage returns are challenged by a low interest rate environment that keeps deal spreads at tight levels. As such, we are giving greater weight to event-driven special situations that are more fluid but yield higher returns.

Our return in 2010 averaged near our long term returns of just over 19% per annum.

Unfortunately, after two years of having no distribution, this year we have a capital gain and income distribution.

As always, please call us if you would like more details on the previous analysis.

PERFORMANCE (Class A)

The Vertex Fund returned 19.46% for the year ended December 31, 2010.

Net Asset Value	1 Month	3 Month	Year-to-Date	3 Year+	5 Year+	Since Inception+
$71.1551*	3.36%	9.48%	19.46%	9.55%	10.65%	19.43%

Distribution: $2.368

*post distribution +annualized returns

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