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THE VERTEX FUND

Second Quarter Report, 2011

"*One step forward, two steps back*" was this quarter in a nutshell, as our outperformance in April faded alongside the markets in May and June. Given the lessons that we took from 2008 we learned that we are better investors than traders. Most of our alpha (outperformance) this year came from the strength in Silver pricing. In a perfect world, we would have sold it all at the end of April instead of watching all of the profits disappear in early May. Therefore, in order to reduce the fund's volatility going forward we are focusing on a more conservative stance and have decreased our exposure to silver and equities. When the seas get rough, we like to focus more on Mergers and Acquisitions which have a less correlated return profile to the stock market. We foresee M&A being a larger part of the portfolio for the remainder of the year.

Last year, we thought that Europe had a chance of revival like the US, but unfortunately that chance is now gone, regardless of any salvation from a Greek tragedy. Here is why:

> There are currently only four companies in the S&P 500 that have AAA ratings. Yet, prior to the 2008 credit crunch many structured finance specialists were able to create thousands of products for residential mortgages with AAA ratings. These new products created an illusion to the purchaser that they held no risk, due to the high credit rating. Under the same pretense, people bought the Government backed bonds of Portugal, Ireland, Italy, Greece and Spain (PIIGS) under a European Union backed and implied AAA guarantee. This illusion of owning a government backed bond is now reflected on the balance sheets of banks across Europe, which will in time need to be written down.

One of our favorite long investments continues to be Apple, for its game changing devices the iPad and iPhone and for its reasonable valuation. The key to understanding the evolution of the iPad/iPhone is the traditional businesses that are being destroyed in their wake. Businesses that we see quickly devolving in the collateral damage are: Yellow Pages, book stores, music stores (already gone), magazines, newspapers, video rental stores (going, going, go...). This is causing a rapid decrease in the life cycle of companies, who only a few years ago thought they had a recession to deal with and not the entire destruction of their business plan. It has become a bull market for shorts.

The pace of merger activity was tepid in the second quarter; the number and size of announced deals was lower than the first quarter and activity was noticeably quiet in June. While we were pleased that several of our large merger arbitrage positions closed successfully in the quarter (and no definitive deals failed to close), our ability to redeploy capital in arbitrage is constrained. A theme of our recent arbitrage commentary has been that while defined deals with attractive spreads have been lacking, there have been a number of "softer" corporate catalyst situations to consider in our event-driven investing style. Two interesting catalyst-driven events this quarter were the spin-off of Marathon Oil's (MRO) refining division and the takeover battle for the TMX Group.

Until the spin-off, MRO consisted of an upstream oil and gas E&P (exploration and production) company and a refining business (now trading separately under the ticker MPC). Relative to its peers, MRO has traded at a discounted valuation for some time. While some discount is warranted due to their disappointing exploration track record, we felt that the spin-off of the refinery assets would explicitly highlight to the market just how cheap the implied valuation of the E&P business was. In addition, MPC is a best-in-class refiner: located in the highly strategic mid-continent region, having recently completed a major infrastructure upgrade, and is a new large cap stock in its sector ($15 billion market cap). Another important element of the trade was the relative ease of hedging the position (there are many tools for hedging oil and gas exposure and appropriate refining comparables to short). Our fully hedged position has earned an attractive return.

The competitive bidding situation that arose for the TMX Group ultimately resulted in a raised bid by the Maple group (a consortium of Canadian banks, dealers, and pension plans), with a higher cash component. Shareholders recognized the value proposition of the Maple bid and voted down the proposed merger with the London Stock Exchange. However, the TMX stock continues to trade at a significant discount to the nominal $50 bid value for a number of reasons, including: 1) there is not yet a friendly deal with the TMX Board; 2) the market is not certain of the value of the stubco that will remain outstanding; and, perhaps most importantly, 3) the market is unsure of how to handicap the odds of Competition Canada approving a deal that combines the two largest equity trading exchanges in Canada. We remain long TMX as we believe that the Maple proposal will ultimately prevail.

As always, please call us if you would like more details on this report.

Vertex One Asset Management, Inc.

PERFORMANCE (Class A)

Net Asset Value	3 Month	Year-to-Date	1 Year	3 Year+	5 Year+	Since Inception+
$71.6648	-4.78%	0.72%	19.91%	6.78%	10.48%	18.70%

+annualized returns