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THE VERTEX FUND

Third Quarter Report, 2011

"The trouble with socialism is that eventually you run out of other people's money."

"(A unified) 'Europe' is the result of plans. It is, in fact, a classic utopian project, a monument to the vanity of intellectuals, a programme whose inevitable destiny is failure: only the scale of the final damage done is in doubt."

(On The European Union) "What we should grasp, however, from the lessons of European history is that, first, there is nothing necessarily benevolent about programmes of European integration; second, the desire to achieve grand utopian plans often poses a grave threat to freedom; and third, European unity has been tried before, and the outcome was far from happy."

"The European single currency is bound to fail, economically, politically and indeed socially, though the timing, occasion and full consequences are all necessarily still unclear."

- *quotes by **Margaret Thatcher,** former Prime Minister of the United Kingdom*

Maggie called it correctly, and now after seeing a European Monetary Union, the EU will get its dream of having a Fiscal Union where all power will lie in Brussels. The next part of the plan will be the nationalization of all European banks. We have already seen Dexia purchased by Belgium for $4 Billion Euros. The final bill should tally to an excess of $1 Trillion dollars of injected equity.

In North America, banks have been diligently working to get their levels of leverage below 15-to-1, while the European banks have remained at 50-to-1. This produces the issue that Greek assets can occupy just 2% of a bank's balance sheet but wipe-out all of the bank's equity if they became worthless. Not to mention Ireland, Portugal, Spain etc… That is why the line has to be drawn with Greece, as European banks do not have the capital to absorb multinational debts.

The one thing that protesters of the G20 had correct is that a global world means we now all share the same correlation to economic cycles. According to Fitch Ratings, the contagion spreads further. As at July 31, 2011, the ten largest U.S. prime money market funds had total assets of $658 Billion; of those assets, $309 Billion, an unsettling 47% of the total, represented debt obligations issued by European banks. So, it is easy to see that unless Euro banks are bailed-out, 47% of US savings could be wiped out. Everything is now "Too Big to Fail".

The more we look around the more we find that 2011 is just like 2008. The difference this time is European banks will be fully nationalized as opposed to US banks receiving cheques from its citizens, as was the case in 2008. For the fund, instead of being down 25 percent year-to-date at the end of Q3, like we were in 2008, we are currently down 5 percent. One could say we are 80 percent better money managers, but we know we need to do better than that. Given the parallels we see in the market, our game plan going forward will be the same as it was in 2009. In the short term, our opinion is that merger arbitrage will generate positive returns and hence our allocation in the portfolio will increase commensurately as a way to capture absolute returns in volatile times.

Despite the market wobbles, a large number of deals closed in the quarter, including a few long-outstanding benchmark deals such as Lubrizol by Berkshire Hathaway and National Semiconductor by Texas Instruments. The increased risk aversion did widen spreads and allowed us to capture a very attractive rate of return in the cash tender for Petrohawk Energy by BHP Billiton, a large, strategic transaction with no financing issues. In terms of factors influencing M&A deals, the market uncertainty was very evident in the leveraged loan and high yield market, as it became more challenging for private equity firms to sell debt to finance their deals. We are increasing our merger arbitrage weighting by focusing on high quality strategic deals without financing issues that we believe have attractive risk-reward ratios and that we are comfortable holding through volatile markets. Two new positions are indicative of this approach: Motorola Mobility is being acquired for cash by Google and Goodrich is being acquired for cash by United Technologies.

It has been a bull market for shorts. In the last quarter, we locked in profits by covering Yellow Pages, Media General and Bon-Ton Stores as their stock prices collapsed. It is not often that we run at our mandated maximum of 15 percent for bankruptcy shorts in the portfolio, but this is the time for making a profit off of pessimism. We are finding many new short opportunities in the Canadian oil and gas business where levered balance sheets are making banks skittish about credit lines and equity markets that are closed to refinancing.

As banks de-lever over the next five years, economic growth will be nothing but muted. In every previous recession, we have seen employment growth stemming from the housing and automotive sectors lead us out of negative growth. This time, however, we don’t have the luxury of relying on them, meaning there will no easy routes towards a quick rebound. With that being said, positive returns can still be achieved in periods of slow growth and volatility. In 2008, we wouldn’t have predicted that the fund would return 139% over the two and half year period following the lows of 2008. It is important to note that the majority of those gains were achieved through merger arbitrage and high yield bonds, not going long equity. So, although we are concerned about the world economy, we are continuously engineering the portfolio to generate absolute returns, which we anticipate will be forthcoming.

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+
$66.9243	-6.61%	-5.95%	2.97%	18.38%	8.77%	17.74%

+annualized returns