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VERTEX FUND

Fourth Quarter Report, 2012

2012 was a much better year than we had anticipated, with all the Vertex funds having double digit returns.

We ended 2011 feeling optimistic about the year ahead, as plans to stave off the European debt contagion were being put in place and liquidity in the banking system was improving. Following an aftershock of the European situation in May, the capital markets put a solid foot in the ground in June and began responding positively to earnings and signs of economic recovery in the US, rather than negative headlines. With all the noise in 2012 you would never have guessed that Greece was the best performing market over the past year, further reinforcing the stock market's role as a leading indicator and not a proxy for the newspapers. The Canadian stock market was the only player left on the bench due to its heavy allotment to commodity related companies, which did poorly in a low inflation environment and with China's growth slowing. Oil and gold were flat or down for the year, which kept the TSX to gains of only a few percentage points (buoyed by Canadian bank stocks).

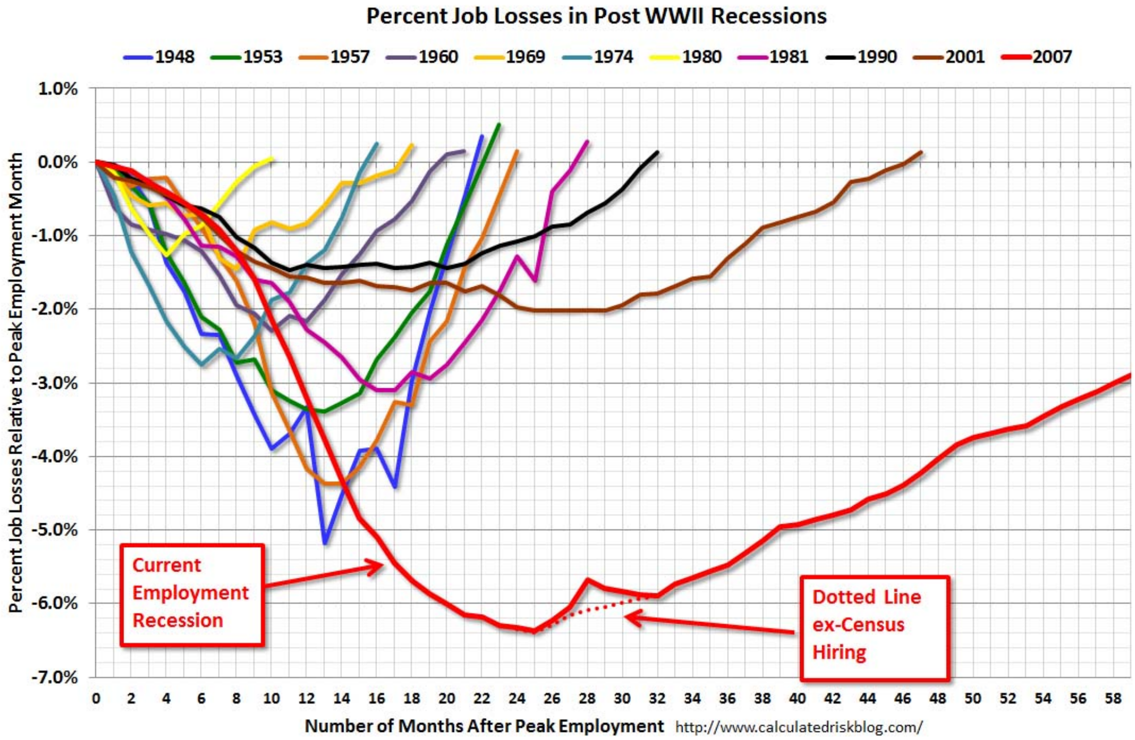
So where do we go from here?

Although we keep an eye on macro concerns, our investment process begins at the company level. The United States for the first time in a while is becoming a nursery for opportunity and equities are looking attractive. Financial stocks are outperforming with dividends yielding more than sovereign bonds and the automotive sector is ripe with earnings power. Accordingly, recent equity additions to the portfolio include: GM, AIG, Bank of America, Citibank, Lloyd's Bank, and Royal Bank of Scotland. These stocks all trade well below their book values which we see as compelling when compared to other investment opportunities. In Canada we purchased Research in Motion in the autumn which contributed nicely to the portfolio in Q4.

Additionally, we have added bonds in Paramount Resources and Athabasca Oil Sands which offer yields above seven percent. On a spread basis over Canadian government bonds that is very attractive. It also helps us to avoid government bonds which we feel are trading at bubble valuations.

We have maintained our department store shorts as we feel technology and demographic trends are against them over the long-term. Retail stores and shopping centres are now in a secular decline. We feel this trend could be beneficial to our unitholders for years to come.

Regardless of how much money gets printed, we do know that until employment recovers we will not see higher interest rates. Looking at the following graph, there is still a ways to go in the colossal climb up to the post-recessionary employment summit. Most of our success in the past twelve months came from taking advantage of yield compression in hybrid bonds and preferred shares. We think this theme will still work for the coming twelve months but opportunities in this space are much harder to come by.



We witnessed considerable volatility in the merger arbitrage portfolio during the fourth quarter. Heading into the quarter we identified attractive risk/reward in the Nexen (being acquired by CNOOC) and Progress Energy (being acquired by Petronas) situations. While the Nexen approval under the Investment Canada Act was always seen as a key risk to that transaction, we were blindsided by the (temporary) blocking of the Progress Energy deal at three minutes to midnight on October 19th. It soon became clear that the Harper government was using these two transactions as an opportunity to revise and clarify foreign investment regulations in Canada, though the ultimate outcome was far from certain. We maintained our Progress Energy position (which was predominantly via a lower-risk bond), but materially reduced our Nexen risk throughout the quarter. Ultimately, both transactions received approval under the Investment Canada Act, with Progress having closed in December and Nexen now awaiting US approval. While disappointing that our ultimate profit on Nexen is smaller as a result of our risk management process, reducing our position was a prudent action to take. With the government having clarified that state-owned enterprises are no longer welcome buyers of oil sands assets, it is clear in hindsight that the Nexen deal had a very real chance of being blocked.

Merger activity was surprisingly robust late in the fourth quarter, despite considerable uncertainty stemming from the US election and fiscal cliff negotiations. We are hopeful that this bodes well for 2013. With US corporate balance sheets and profitability healthy and corporate debt markets strong, we believe there is sound reasoning.

On the taxation front, we took all the capital losses we could and are happy to report that we have no capital gains to distribute to our unitholders. However, because of our high yield allocation and the associated income we received in the fund over the past year, an income distribution of three percent of the NAV will be sent out during tax time.

PERFORMANCE (Class A shares as at December 31, 2012)

Net Asset Value	3 Month	Year-to-Date	1 Year	5 Year+	10 Year+	Since Inception+
$63.4602*	1.96%	14.79%	14.79%	5.91%	14.36%	16.72%

+annualized returns
*Post-Distribution

Distribution: $2.022583