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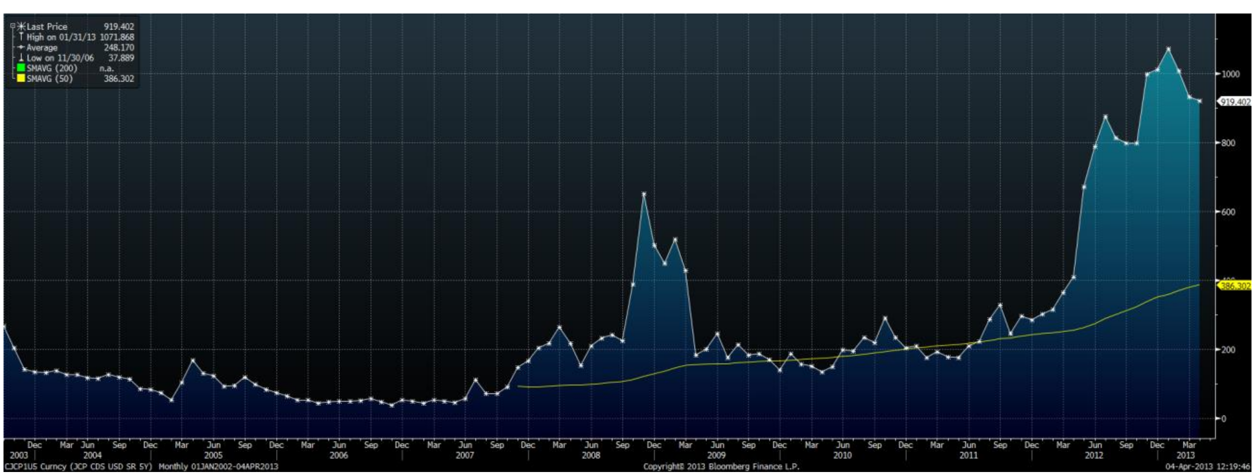
VERTEX FUND

First Quarter Report, 2013

"Buy, Hold and Prosper"
AIC mutual fund slogan from the 1990s

One key to success in life is to keep an open mind and the same holds true for money management. If the money managers at AIC had seen opportunities in other equities, AIC would still be around today. Sadly, their minds were closed to new opportunities much like certain other Canadian "commodity" managers in today's market. These managers, along with their investors, are in for a world of hurt as heavy redemptions will further pressure their small cap investments, leading to more & more redemptions. Lather, rinse, repeat. As we say in our business, it's *death by a thousand cuts*. Ironically, in today's market we think an AIC portfolio is a thing of envy. Consequently, we have built a large position in names which we think AIC would be proud of: Legg Mason, Blackstone, Gluskin Sheff, Guardian Capital and Putnam Group via Great West Life. We believe that two of these stocks will pay us a double digit dividend yield this year, while another one trades at its underlying cash level. With strong portfolio returns leading to increased fees at these firms and the depressed valuations of their stocks, they are a great investment vehicle for gaining leverage to the stock market. And this market has been rewarding all those who buy, hold and therefore prosper.

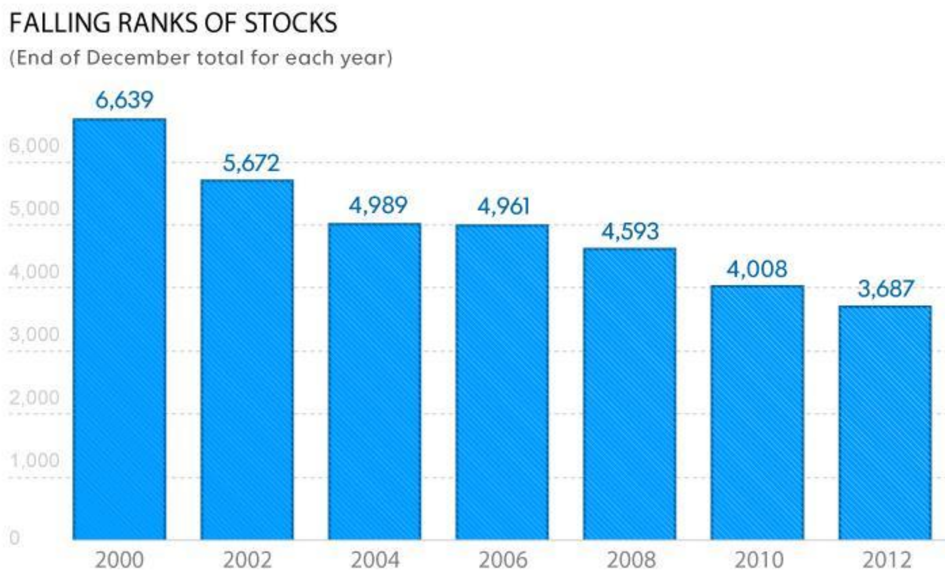
Our biggest returns so far this year have come from Deckers Outdoor Corp, the makers of UGG boots, which has been firing on all heels and our commensurate short in JC Penny which has helped to reduce day-to-day volatility. We believe JC Penney will suffer a liquidity crisis shortly, as the below chart of the underlying 5-year Credit Default Swap for JC Penney indicates, with the cost of insuring against default increasing significantly.



Although private equity represents less than five percent of the portfolio, it allows us to invest in ideas that most funds do not usually have exposure to. Occasionally, we find investment jewels like Athabasca Oil Sands. Our new private investment will not have the same upside as Athabasca but may provide for a lot more fun. We recently made a small investment (0.23% of the portfolio) in Sea-to-Sky Gondola, a company who just started construction on its base station below “The Chief” near Squamish, BC. It is slotted to finish in time for next year’s tourist and hiking season. We hope our investors will get a chance to check out for themselves what promises to be a truly eye-opening experience.

Given our prior optimism for merger activity on the back of rising equity markets and frothy financing (credit) conditions, the first quarter was disappointing in terms of new opportunities to deploy arbitrage capital. Several significant positions in the Fund closed successfully, notably: Nexen, Celtic Exploration, and Shaw Group. Celtic was our strongest performer as we earned an 8% annualized arbitrage spread and also benefitted from building a position in the related spin-out company, Kelt Exploration, at an artificially low price. Our most significant new arbitrage positions this quarter are Astral (being acquired by BCE), Virgin Media (being acquired by Liberty Media), and Dell Inc. (management buy-out). While we avoided the initial Astral deal in 2012, due to regulatory concerns and unattractive spread levels, we revised our view when (a) BCE made it clear that they were willing to bend over backwards to appease regulators, (b) the spread traded at an attractive low-teens annualized rate of return and (c) market strength had mitigated much of the downside risk in the event of deal failure. Virgin Media is a relatively plain vanilla, highly liquid merger arbitrage situation with an attractive return profile. Finally, Dell has been a strong performer for the portfolio as multiple bidders emerged in a contested management buyout process. While we continue to believe that conditions are ripe for a wave of M&A activity, our weight in arbitrage has declined as we will not stretch for opportunities that are simply not there. Fortunately, as a multi-strategy fund, we have found other productive uses for this capital as the fund’s strong quarterly performance illustrates.

Aside from the slower merger activity in the first quarter, over the longer term the amount of public companies is steadily declining as firms are delisted, go private or are bought out. In other words, lowered valuations, eased credit and a lack of IPOs have eaten away at the number of operating companies that investors can buy stock in. This is good news for two reasons: supply has decreased as investor demand is increasing and merger & arbitrage investing is a good space to be in.



Source: Source Wilshire Associates
Matt Krantz, Karl Gelles and Sam Ward, USA Today

For the first time in nearly a decade we have reduced our total hedge in the US dollar from 100% to 90%, as we expect the weakness in oil prices at the Alberta wellhead to translate into weakness in the Canadian dollar.

On a final note: A big Happy Birthday to the Vertex Fund who turned 15 years old on February 6th. Here's to a sweet 16th year!

PERFORMANCE (Class A shares as at March 31, 2013)

Net Asset Value	1 Month	Year-to-Date	1 Year	5 Year+	10 Year+	15 Year+	Since Inception+
$67.1371	3.13%	5.79%	12.52%	7.99%	15.09%	15.83%	16.86%

+annualized returns