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VERTEX MANAGED VALUE PORTFOLIO

Third Quarter Report, 2010

Part of our mandate is to provide a public service: let me expand….you see, in order for everyone to buy gold and gold stocks, (and that IS what they're doing right now) investors, speculators and the panic stricken have to find a buyer for what must be sold (equities or stocks if you will) to finance the purchase of this fine quality shimmering piece of metal. We are happy to be this buyer. These sellers have lost interest in equities and as such are willing to part with them without regard to value. Allow me to continue….equities are simply an economic interest in companies that make stuff, sell stuff or serve stuff. They are not just marbles won or lost in a child's game as some would have you believe. Companies take profits earned (earnings), reinvest back in the business to grow earnings and/or pay out these earnings in the form of dividends. Today, equities generally have double digit earnings yields which should lead to double digit returns going forward, acknowledging some ups and downs along the way - downs of course, are caused by sellers who have other plans for their cash as discussed above. The key take away here is that one doesn't get opportunities like this unless one type of investment has gone out of style while another has become very fashionable. The term "equities are dead" comes to mind….the "new normal" etc. bla, bla, bla. I shall continue…but let's start with a new paragraph.

Equities are represented in the office towers where newsletter writers type and send out prose disparaging equities in favour of gold, written on their new Dells (stock symbol DELL) or Macs (AAPL) while drinking a coffee they just grabbed from Starbucks (SBUX) paid for by cash from the ATM of Royal Bank (RBC) after driving to the office in their Lincoln (F) and riding the Otis elevator (UTX) up while paying rent to the equity owners of their offices owned by Dundee (D.UN) - seemingly unaware of the irony! What a typical Vertex run on sentence. Having mentioned all this, two caveats must be brought to your attention. The first is gold has a high probability of a continued rise in price. There is no way to predict where gold ultimately goes only that it becomes a riskier bet for every dollar it rises in price and thus owning firms with earnings and the ability to grow earnings is where we want to be instead. Admittedly, I must confess of the temptation to buy gold or gold stocks for fear of missing the boat! The second is, with the exception of Apple and Dundee in a couple of our funds, your fund does not own the above named stocks, however they are household names the reader will be acquainted with therefore making good examples. Having said all this, let's move on to the next paragraph and get into your portfolio.

As readers of past letters will know, we have been big fans of property and casualty insurance companies subsequent to the big hurricanes of 2005 and 2006. Our companies continue to put up double digit internal rates of return while being priced as if they're going out of business. Let me put it this way – these firms are priced as to be worth more dead than alive and what I mean is if they ceased to sell any more insurance and just allowed investment reserves to meet claims….put into runoff so to speak, we would have more cash in our pockets then these stocks trade for today. What's absurd about this pricing is they are not only going concerns but have been and continue to be earnings powerhouses. Furthermore, there have been no major cat events this summer/fall proving the dire predictions of major hurricanes wrong yet again, leading to what will surely be another great quarter for P&C earnings as reserve redundancies hit the income statement. Our other holdings remain the same in US banks, lumber stocks (gotta own some commodities) and pharma.

One of the greatest secular shifts in our industry is that bike riding has taken over golf as a topic of conversation. Being generally more inclined to ride a bike than hit a ball, this shift is a very pleasant development. Now I can attend a meeting and conversation revolves around weekend bike rides, races and who's on drugs in "the tour" rather than who shot an 88. More importantly there is a great bike racing analogy that applies equally to investing. Riding at the front of the pack means you'll be subject to headwinds thus most racers hang out in the pack. The pack, however comfortable it may be, is the most dangerous place from two perspectives; first, it's where crashes occur as everyone's bunched up together and there is no exit if someone makes a mistake. Second, if a break gets away - it's always off the front. If stuck in the pack, your race is over. Investing is similar in that although going against "the pack" will expose one to headwinds (don't I know it), when the pack crashes you won't be caught up in the mess. It's counterintuitive but works like a Swiss clock. On that note I believe it was mentioned in our year end 2009 report that we should look forward to a double digit rate of return for 2010 and we are three fourths the way there having achieved about half that target. I'm confident this return can still be achieved. Our P&C insurance stocks just getting to a mere book value would do it and with all of them to report earnings in Oct/Nov, it should be an easy target.

PERFORMANCE

	Rate of Return (Class A)					
Net Asset Value	**1 Mo.**	**3 Mos.**	**Year To Date**	**1 Yr.**	**5 Yrs.***	**Since Inception***
$14.6680	**4.29%**	**5.64%**	**4.44%**	**8.67%**	**3.95%**	**7.88%**

*Annualized

Past performance is not indicative of future results
All data are based on the Class A unit values

THE PORTFOLIO

The top 20 holdings in the Vertex Managed Value Portfolio at September 30th, 2010 are:

Fairfax Financial Holdings	Ingersoll-Rand Co.	Fibrek Inc.
Platinum Underwriters Hldgs.	Timberwest Forest Corp.	XL Capital Ltd.
Partner Re Ltd.	PRT Forest Regen. I F	Canfor Corp.
Mattel Inc.	Eacom Timber Rcpts.	Valeant Pharm. Int'l.
Montpelier Re Holdings	West Fraser Timber Co.	Walt Disney Co.
Pfizer Inc.	Aspen Ins. Holdings	QLT Inc.
Internat'l Forest Products	Genworth Financial Inc.	

ASSET MIX

Cash	0%	Canadian Equities	35%
Fixed Income		Foreign Equities	57%
Canadian	2%		
Foreign	6%		

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