

VERTEX MANAGED VALUE PORTFOLIO

Second Quarter Report, 2012

Why do we listen?

Failed investment programs are almost always a function of failing to follow the program. Our investment marketplace is literally set up for us to succeed and yet so many fail. The reason: there are many, far too many, sound bites to chomp on and the belief that every sound bite is important. Consequently, investors are far too reactive to the latest press releases from Europe, Bernanke or some other pundit who is believed to know more than us. We hang onto every word from the Nostradamus-like musings of our current fund management Kings or Queens, even though history tells us they are dethroned with regularity in the most inglorious spectacles. We tend to believe the world has never experienced problems like those currently occupying our consciousness.

Most of us would fare better if we slept for years, woke up, checked our investments and went back to sleep. Sometimes, we'd wake up and our investments would be down a little; more often though, they'd be up a lot. The tech wreck and financial crisis would barely register. Even if one had invested immediately prior to the 2008 "crisis", most would have been up by now...unless...one was scared out of the program...which could only happen if one were awake. Asleep, one would have missed the memo pronouncing the financial world had ended and that the most we could expect after 2008 was very low returns etc. – almost all bad news. Instead, we'd simply rub the sleep out of our eyes on June 30th, 2012 and if invested in our Managed Value Portfolio say "Gee, I made almost 8% a year since June 2008. That's not bad at all; I guess I didn't miss much". Yet, if you happened to be bunking beside someone who owned a healthy number of TSX stocks you might have heard them grumble that they had lost 2.5% per year. You see, if you own a basket of highly priced stocks like the TSX, you're playing a game of musical chairs: constantly trying to avoid falling and there's no time for sleep. Even worse, when you are tired, your decision making suffers. Those who were awake through the "crisis" likely fared far worse than the TSX's -2.5% annualized as they reacted to rapidly falling stocks, selling them at the lows to "preserve capital". For most, the emotional impact of being awake through the crisis was equivalent to being awake during a surgical procedure. On the flipside, when you own a portfolio of undervalued stocks from companies running solid businesses, with the wherewithal to navigate economic headwinds, you can sleep soundly knowing you're sitting on a firmly planted chair which will still be there when you wake. This is exactly what happened to those who woke up with units in the Managed Value Portfolio – they wouldn't believe it if you told them there was a market crash in 2008, 2010, 2011 and 2012 because their investments are worth more today than they were in June 2008.

What I am getting at here is that it is highly improbable that anything I write on this page, with regard to global economic scenarios, will be useful. More likely, it will be a detriment to an investment program. Furthermore, I'm setting myself up (as few want to hear from a fund manager) as someone who doesn't have the skill to predict the future. After all, isn't that what we are paid for? I think not, we are paid to do what we do best...which is to invest.

Here is a short sample of my recent FAQ list about the future – I say recent because our FAQ list from 5 years’ ago would have been very different and may I add just as irrelevant. The exception of course is interest rates, which are an omnipresent question. Think of how comical it is with hindsight that on my list only 3 years ago was: will the Euro replace the USD as the world’s reserve currency?!

Ok, so here it is and with answers to boot:

- Q. Is the Euro going to break up?
A: I don’t know and I don’t know what will happen if it does or does not.
- Q. Will the USA default on its debt?
A: Doubt it, but don’t know and don’t know what happens if it does or does not.
- Q. How will oil perform with Iran’s threats?
A: Don’t know.
- Q. Are interest rates going up?
A: Don’t know if they’re going up or down and don’t know what will happen if they go up or down.
- Q. What about gold?
A: What about gold?

To conclude, if one has made some decent, durable investment choices don’t touch the buttons for some macro news bulletin. In other words, don’t trade good information (about a specific company or situation) for poor information (global macro events that may or may not take place). If you have sold your company to wait and see what happens - for uncertainty to become certainty - your stock will have probably left the station by then. Good businesses, run by good management, purchased at great prices, can stick handle through most macro events. Our portfolio consists of these companies and situations...which is something you can sleep on.

PERFORMANCE (Class A shares as at June 30, 2012)

Net Asset Value	3 Month	Year-to-Date	3 Year⁺	5 Year⁺	10 Year⁺	Since Inception⁺
\$15.0253	0.68%	8.77%	10.04%	1.88%	5.83%	7.18%

⁺annualized returns

THE PORTFOLIO

The top 10 holdings by weight in the Vertex Managed Value Portfolio at June 30, 2012 are:

Fairfax Financial Holdings Ltd	International Forest Products Ltd
Montpelier Re Holdings Ltd	Pfizer Inc
Mattel Inc	West Fraser Timber Co Ltd
Platinum Underwriters Holdings Ltd	XL Group Plc
PartnerRe Ltd	Aspen Insurance Holdings Ltd

ASSET MIX

Cash	0.3%	Canadian Equities	33.4%
Fixed Income CAD	0.7%	Foreign Equities	63.8%
Fixed Income USD	1.8%		

Vertex One Asset Management, Inc.

This statistical information is intended to provide you with information about the Vertex Managed Value Portfolio. Advertised performance is based on Class A shares. Important information about the Fund is contained in the Offering Memorandum which should be read carefully before investing. You can obtain an offering memorandum from Vertex One Asset Management Inc. The Offering Memorandum for Vertex One Asset Management Inc.'s Investment Funds does not constitute an offer or solicitation to anyone in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. The indicated rates of return are the historical annual compounded total returns for the period indicated, including changes in security value and the reinvestment of all distributions and do not take into account income taxes payable that would have reduced returns. The funds are not guaranteed; their values change frequently and past performance may not be repeated.