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VERTEX MANAGED VALUE PORTFOLIO

Fourth Quarter Report, 2012

In previous quarters, we spoke about what it might take to get your value portfolio really moving and our thought was that a big catalyst would be a drop in oil prices and a declining Canadian dollar which, I might add, I thought for sure was coming. Our reasoning was these were the two largest headwinds we have faced in the past ten years and a reversal (long overdue) would lead to direct currency gains and declining oil prices would help increase margins for our portfolio of companies. Both catalysts failed to materialize, yet, your fund had one of its best years regardless. It appears that people and businesses have absorbed higher oil prices and expansion is possible under such conditions. This was evidenced by real increases in US housing data in 2012, which turned out to be a very positive catalyst for your portfolio.

A couple of lessons can be learned from this outcome:

1. Macro-economic portfolio bets can be frustratingly unprofitable. Even as gold and oil have remained high, many gold and oil stock investors have lost a lot for the privilege of being macro-economically correct in 2012.
2. Being macro-economically challenged is not a weakness, provided one owns companies with sound operations where the majority of investors' are largely uninterested.

One company that did attract investor interest was Pacific Regeneration Technologies (PRT). PRT was taken private in December for a price of $4.45 a share which amounted to a handsome profit for your fund … our original purchase price back in the darkest days of the "crisis" being a fraction of this number. Although it is disappointing to lose a great little company like PRT, it was the best course of action. The firm was really just too small to remain public from a cost perspective. Undoubtedly, the private investor group will do well with PRT.

It wouldn't be appropriate not to address the "Fiscal Cliff"… no, wait a minute, yes, yes it would. It came and went like Y2K and all the other "scares". I'm sure however, scaremongers will tell us soon enough about the next monster under our bed we should be panicked about!

Time to get into the future … the past is over and everyone likes to make predictions, myself not being an exception. What is great about predictions is that if we're correct we can act like self-righteous morons and to some degree get away with it. Fortunately, memories are relatively short. So, if our predictions are a catastrophic failure, few will remember and curiously, we won't bring it up. Anyways, here it goes:

> 2013 will be another great year for equities. Canadian and US 10 year Treasury bonds trade at a yield of 1.9%, equating to a PE (price-to-earnings) multiple of 52 times. Equities (stocks) in general are trading at PE multiples of 13 times. The flip side is to pretend stocks are bonds and at 13 times earnings stocks yield 7.7%. Something is clearly amiss! As in, a couple of planets are out of orbit in the universe, metaphorically speaking. However, gravitational forces will pull these planets back into alignment in 2013. It cannot be any other way. This will be facilitated by investors (professional and amateur) realizing they are missing out on some great returns in equities, in addition to realizing 1.9% will not suffice to pay pension fund liabilities or buy that new iPod touch for the grandchildren.

Less the elimination of PRT, our portfolio remains unchanged. We do have lots of good ideas on deck, yet, currently possessed stocks remain very reasonably priced overall with PE's on average under 10 times. Mattel is our most expensive stock at a PE exactly equal to the market. This figure does not include our forest company stocks which are for this first time in a while, seeing a positive number in the denominator.

To the future…

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+
$17.2667*	10.62%	25.05%	25.05%	7.65%	7.50%	7.95%

+annualized returns
*Post-Distribution

Distribution: $0.12493049

THE PORTFOLIO

Top 10 holdings by weight in the Vertex Managed Value Portfolio on December 31, 2012 are:

International Forest Products Ltd.
Montpelier Re Holdings Ltd.
Platinum Underwriters Holdings Ltd.
PartnerRe Ltd.
Pfizer Inc.
Fairfax Financial Holdings Ltd.
Mattel Inc.
Genworth Financial Inc.
West Fraser Timber Co Ltd.
Canfor Corp.

ASSET MIX

Cash	0.3%
Fixed Income CAD	0.5%
Fixed Income USD	1.1%
Canadian Equities	36.3%
Foreign Equities	61.8%

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