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VERTEX MANAGED VALUE PORTFOLIO

First Quarter Report, 2013

This quarter marks some real milestones for your fund. For starters, Fairfax Financial Holdings was sold after over 10 years as a core investment. Despite several ups and downs over the years, Fairfax delivered a fabulous return. We were fortunate to take advantage of every time Fairfax was down to continue lowering our cost base on the position. This was a large win, as the firm traded below its book value for almost our entire holding period. Generally speaking, investors with the lowest cost base on an investment will generate the highest rates-of-return over time. Our rationale for termination of our relationship with the stock was simple. Fairfax has hedged their investment portfolio congruent with their bearish outlook for stocks. Our views are diametrically opposed as we believe equities are the cheapest they've been in history and there is an economic resurgence of large magnitude unfolding in the USA. This is no time to be bearish. We do believe the people at Fairfax are great investors and are doing a lot of the right things, however better opportunities for return are on the horizon.

In March, Eacom Timber Corporation became our third forestry investment that was purchased by a private equity group. First there was Timberwest, then PRT, and now Eacom. All of these acquisitions were priced for a substantial premium to our cost base. Eacom's takeout added a 1.5% return to your fund in March alone, so the cash register made a big ka-ching sound for sure.

In order to highlight our flexibility when approaching methods to generate return for your fund, we engaged in a loan to a company that we know intimately. The investment was split with the Vertex Enhanced Income Fund. Terms were quite favorable with a 12% coupon for a one-year term complete with warrants into the underlying common stock. In addition, this loan is backed by a first mortgage. We would certainly be open to more of these situations, as even smaller commitments with similar term add nicely to overall fund performance over time.

Another notable milestone was Mattel finally moving through its 1998 high after 15 years. Many other stocks curiously have followed Mattel to new all-time highs. Should we be alarmed? Absolutely not and the reason is quite simple. When Mattel traded at $42 in 1998, it also traded at a price-to-earnings ratio of 27 times. Today, it trades at only 14 times earnings. To put that valuation in perspective, at Mattel's 1998 valuation it would trade today not at $42 a share but at $76 a share! This gives us comfort that we are closer to a low than a high on Mattel. Looking at the entire US market it is encouraging that it also trades at 14 times earnings. Furthermore, with the 10-year bond trading at 56 times earnings, stocks at 14 times look ever cheaper.

Even more comforting is reading the continuous worries about the same old stuff being regurgitated over and over again. I must confess, even when I've been really sick, eventually the dry heaves set in. However, these sickly crowds of doomsayers seem to never to run out of spew. Well, here's what I'm hearing and why I think they are dead wrong. The key words coming out of the USA today are:

- "On-shoring" - yes, it's happening. It is now cheaper to manufacture many products in or near the USA than in China.
- "Energy renaissance" - yes, it's happening. USA is rebuilding their energy industry and will likely become self-sufficient in short order. You can forget about that peak-oil theory.
- "Cheap natural gas" – it's providing American chemical companies a competitive advantage.
- "Housing shortage" – believe it or not, yes, it's happening. There are labour and land shortages already revealing themselves in the construction industry. After years of underbuilding, my math

suggests that to get to a balanced housing market, we'll need to see north of 1.5 million housing starts a year for the next seven years. Our current number is fewer than 1 million per year.

All of these factors lead to jobs and GDP growth, in our opinion much more so than economists expect. To put our current situation in perspective, after the last major housing and credit crisis from 1929 – 1939, GDP averaged more than 8% annualized over the following 20 years. I know, I know… it's different this time. Yet, I'm positive that if we found ourselves on the streets of the USA in 1939 (on the cusp of a world war and coming out of a depression) it's doubtful that we would have found anyone willing to believe that the USA would put up anything more than anemic growth for the next 20 years. Anything is possible, and when expectations are so low, every positive data point builds confidence and confidence leads to growth.

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

Net Asset Value	**1 Month**	**Year-to-Date**	**1 Year**+	**5 Year**+	**10 Year**+	**Since Inception**+
$20.0198	5.53%	15.94%	34.20%	11.01%	9.91%	8.88%

+annualized returns

THE PORTFOLIO

Top 10 holdings by weight in the Vertex Managed Value Portfolio on March 31, 2013 are:

International Forest Products Ltd.
Platinum Underwriters Holdings Ltd.
Montpelier Re Holdings Ltd.
PartnerRe Ltd.
Conifex Timber Inc.
Pfizer Inc.
Mattel Inc.
Eacom Timber Corporation
Genworth Financial Inc.
Synovus Financial

ASSET MIX

Cash	0.9%	Canadian Equities	31.9%
Fixed Income CAD	0.3%	Foreign Equities	66.0%
Fixed Income USD	0.9%		