

## **VERTEX MANAGED VALUE PORTFOLIO**

Fourth Quarter Report, 2013

### **How low can you go?**

One interesting place to search for possible new investment candidates is the 52-week-low list. There are dozens added to this roster every week. A lot will go right off the board as most are there for a reason. They're on their way to bankruptcy with many never being legitimate companies...just some stock promotion where insiders chatted amongst themselves about the daily stock price and never the company they busily sold to an unsuspecting public as the next "this" or "that" or big mineral find...yada yada. Today, this list is populated largely with mining and energy stocks which, for the most part, rightly belong there; although one could argue some will rise from this brush with Mr. Death. Even with solid companies, often they're going a lot lower. It's usually a matter of their price-to-value. For example, Cisco and its contemporaries populated this list for years as their price-to-earnings ratios fell from 60-100 times down to 10-14 times where they trade today. A process that took almost a decade as the bloom came off the silicon rose. Mining on the other hand seems to have plummeted in spectacular fashion with rapidity even the most cynical (your scribe) couldn't have predicted. Take Barrick Gold and its gilded mining contemporaries which found themselves on our dreaded list. A quick review revealed much deeper price destruction than a mere 52-week decline, with some trading at 20-year lows. It seems that even with gold prices up from \$350 to \$1,200 in 10 years, they still can't turn a profit. This likely explains values at two-decade lows. Possibly, there is an investment opportunity in these decimated miners, however, as Austin Powers says: "it's not my bag, baby". Although, Justin Bieber has a different take with "never say never" and he has 50 million twitter followers to Mike Myers' none, so we'll change with the times and keep an open mind towards mining and energy in 2014.

We did find some groovy stocks this year though - some on our famed list, others just good value. We found Wellcare on the list early in 2013, Unisys, almost a double since it showed up on "the list" and most recently Suedzucker a German specialty food production company. Suedzucker's main business is sugar production - 4.9 million tonnes to be precise. Clearly, many parents would declare this a "sin" stock and I certainly wouldn't blame them. Anyway, this sin stock got pummelled after sugar prices declined. Suedzucker fell from \$34 to \$18 where it trades at 10X expected earnings while generating a 4.5% dividend yield, just for hanging around. One that's been a bit of a nasty beast is Jabil Circuit. Jabil was purchased in April when it showed up on "the list" and following our analysis it seemed like a really good idea. It turned into a really good idea but unfortunately then turned out not to be a very good idea, at all. Jabil serves as a good reminder of why it's best to not put all your loot down on red pony number 5. Although our original purchase price was \$17ish, Jabil galloped all the way up to \$24 before reporting weak results thus reducing its stock price to \$20...followed by weaker results again in December with ugly guidance for 2014. This last bit of rotten news took our stock down 23% to \$15 bucks in a single day costing a full 1% of performance. Yikes! However, I now think Jabil is a really, really, really good idea and so far it has agreed with me rising from \$15 to \$17 in the 10 short days until year end. All jesting aside, with investor

expectations quite low subsequent to last quarter's terrible guidance, it won't be hard for the company to outperform so we're sticking with this horse.

With respect to making predictions for 2014, this year's one to refrain. Things generally do seem to be improving in Europe, definitely in America. Japan one could now say: "interesting...worth a look". Never thought those words would be uttered but then again we must remember those profound words from The Bieb: "never say never". U.S. stocks are not expensive, only recently getting back to where they were 5 - 6 years ago (which is where they were 13 years ago). Canadian and European stocks still remain below 2008 levels. This time though equities are trading at much lower valuations and with better growth prospects than in 2008 (and 2000) when only the rosiest scenario was priced in.

Without question we are going to work harder this year. Our patience paid off in 2012/13 by sticking with quality firms and staying out of the common commodities. 2014 will prove to be more of a challenge. Elaborating on this theme, the market itself is going to be hard to best. There aren't a lot of really expensive stocks but there aren't a lot of inexpensive ones either. After a decade of really wonky markets, it feels like a more normal time where information from individual companies will have far more weight than macro-economic shocks or the perception of what damage a macro-economic shock could bring.

This is our kind of stock-pickers market and we're pretty excited about it...

## PERFORMANCE (Class A shares as at December 30, 2013)

Net Asset Value	1 Month	3 Month	Year To Date	1 Year	5 Year <sup>+</sup>	10 Year <sup>+</sup>	15 Year <sup>+</sup>	Since Inception <sup>+</sup>
\$23.7441	3.18%	10.73%	37.51%	37.51%	14.31%	8.93%	9.99%	9.62%

<sup>+</sup>annualized returns

## THE PORTFOLIO

Top 20 holdings by weight in the Vertex Managed Value Portfolio on December 31, 2013 are:

International Forest Products	West Fraser Timber Co
Conifex Timber Inc	Aspen Insurance
Genworth Financial	Canfor Corp
Platinum Underwriters	Mattel Inc
Montpelier Re	XL Group
Synovus Financial Corp	Regions Financial
Partner Re	Keycorp
Unisys Corp	Beazer Homes USA
Jabil Circuit	Xerox Corp
Pfizer Inc.	Hovnanian Enterprises

## ASSET MIX

Cash	0.2%	Canadian Equities	22.7%
Fixed Income CAD	1.7%	Foreign Equities	76.5%
Fixed Income USD	0.2%	Preferred Equity	0.4%

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.