

## **VERTEX MANAGED VALUE PORTFOLIO**

First Quarter Report, 2015

### **Even Drummers have money**

Vintage snare drums are getting expensive. This is a problem. Since a series of accidents curtailed my ability to participate in more dangerous pursuits, EBay and I became very well acquainted. Honestly, don't tell EBay but it's time to sever this relationship. EBay is the definition of a high maintenance romance. Having said this, some gems have turned up over the last few years but recently vintage drums have become very expensive. In a conversation with a rather eccentric friend, the subject of



expensive old drums came up and he piped in relating that on a recent old school road trip across the USA in his Mazdaratti, pursuing vinyl records, selection was limited and prices are up even in the sketchiest pawn shops...Now, there could be many explanations for these phenomena, is it cyclical? Is it secular? I'll leave that to the PHDs in economics to debate. No doubt hipsters are buying vinyl.....could be secular but supply

has dried up leading me to conclude Americans are no longer selling these items to get by. Jobs have returned and even drummers now have a little money in their jeans. I know it's anecdotal but the drums and vinyl indicator is way better than that other stuff. Seriously, if one had listened to economists over the last six years, we would have bet on a declining stock market and inflation. What's transpired, is as doubling of stocks and deflation. I'll stick to drums and vinyl.

Drums and vinyl say the recovery is gaining momentum with employment. Add cheap gas, low interest rates and banks with bloated vaults of money that desperately wants to be in circulation, my spider senses are messaging...when this eastern snow melts, housing will finally have a chance to bring down the house....It's been a very slow recovery thus far. Starts remain at 1 million down from a 60 year average of 1.5 million and a peak of 2 million. When housing kicks in, we won't be surprised when economist will yet again be surprised.

With this in mind, we've added to homebuilders Hovnanian, Century Communities, Beazer and MDC, While reducing reinsurance – not that reinsurance is a bad place to be but these companies keep getting taken over at all-time highs so we're happy to move the proceeds into a sector with great prospects trading closer 52 week lows. In fact, at the time of writing, only XL Capital remains un-acquired. Further, our mining and energy weight has increased to roughly 15% from zero a year ago – I should say zero since inception of your fund. It's still a small weight and driven by some compelling value in specific stocks within this sector. Who knows when mining and energy will recover but it will and our style leaves us with nothing but time. We're not sure who is selling us mining and energy stocks at a fraction of book value today or who is buying stocks reaching our assessment of full value but for my entire career, these generous sellers and buyers have been helping us out. It's this kind of generosity that has allowed our unit holders to enjoy high returns with very low volatility over many years.

Did I mention yet that we will be down again? Yes, we will have a down quarter, down year, maybe even a down 2 or 3 years. That's the nature of investing. It won't mean we made a mistake that needs to be fixed. It won't mean that your fund's unit value is permanently impaired. As with the .com bubble and .commodity bubble, Investors' often pile most of their money into fewer and fewer sectors. Money to fund this large pile, has to come from somewhere. Today, it is coming from small and mid-capitalization stocks in pretty much every sector, to be piled into mega cap stocks. Thus, a plethora of

value is revealing itself in the former and thus we are taking advantage of this segmentation of the market – reminds me of late 1990s where for every one mega cap stock rising, there were 200 small and midcaps falling leading to the “market” rising while most stocks were declining. To your penman, safety always lies in staying away from the crowded trades and migrating to areas where investors’ have moved on or ignored. This process works very well over time which as mentioned above we have nothing but.....however, over short periods, it’s anyone’s guess how it’ll turn out.

Finally, there’s not a moment, when your fund managers are not thinking about portfolios. Never is there a break. News doesn’t stops flowing, companies hit bumps in the road - we missed something in our original assessment of an investment. All of us go to sleep at night thinking what could go wrong? ...wake up in the morning and immediately focus on what’s happened, anything go wrong? Every day, whether funds managed by Vertex are up or down, we ask ourselves, what can be done right now to add value or reduce risk? Often, the answer is nothing, or on a down day, it might be selling a put option for a juicy premium, on an up day, it might be selling a call for the same reason. Vertexers are passionate to the core about generating returns. It’s not a job or a hobby. There’s no such thing as a vacation where one can turn off the market and forget about it. The stress around here when a fund is down is palpable. To conclude, we are a highly unenlightened group where our self-esteem is 100% correlated to positive returns.

## PERFORMANCE (Class A shares as at March 31, 2015)

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>
\$25.8847	-2.55%	1.75%	1.75%	4.09%	12.04%	8.60%	8.96%	9.43%

Net of all fees and includes reinvested distributions.

<sup>+</sup>annualized returns

## THE PORTFOLIO

Top 20 holdings by weight in the Vertex Managed Value Portfolio on March 31, 2015 are:

Conifex Timber Inc.	Blackbird Energy
International Forest Products	Beazer Homes USA
Jabil Circuit	BOFI Holdings
Synovus Financial	Hovnanian Enterprises
Unisys Corp.	Banco Santander
Skyworks Solutions	Celestica Inc.
Mattel Inc.	Keycorp
Goodyear Tire and Rubber	Regions Financial
Genworth Financial	Xerox Corp.
XL Group	Western Forest

## ASSET MIX

Cash	0.08%	Canadian Equities	32.18%
Fixed Income CAD	3.50%	Foreign Equities	62.72%
Fixed Income USD	1.23%	Preferred Equity	0.28%
Options	-0.12%	Warrant	0.14%

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.