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VERTEX MANAGED VALUE PORTFOLIO

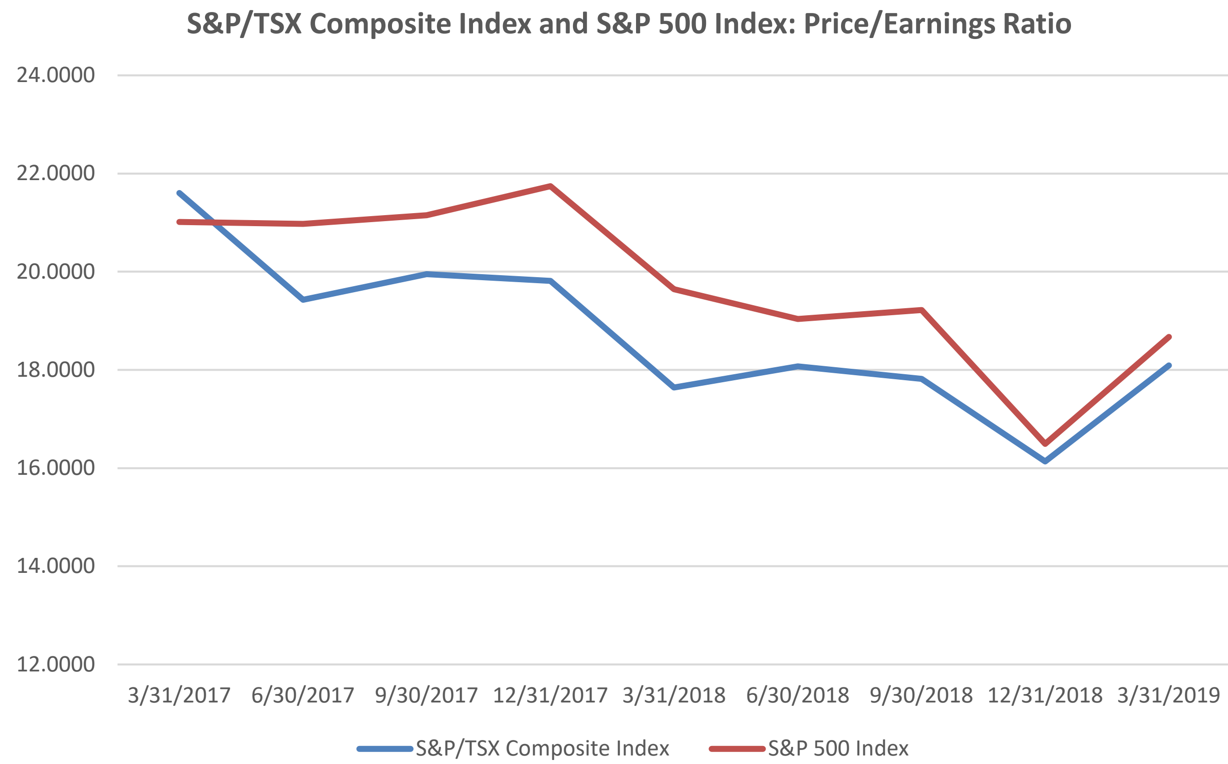
First Quarter Report 2019

"Down markets are when stocks return to their rightful owners." ~ JPMorgan Chase

As investors, it might seem that sometimes we're at the whim of market forces beyond our control. Take the last quarter of 2018 for example. If you were an equity investor, you likely would have seen your investments take a significant drop, unless you were overconcentrated in just a few select stocks – many of which analysts agree have been overbought. Broad-based declines that hit just about every possible investment don't happen very often, but they do happen. Our own Fund was not immune, and as investors in the Fund ourselves, we're also deeply impacted by short-term drops. But every diversified equity portfolio will have to wrestle with market-wide declines from time to time, and we knew this since the beginning. That's why we take great care in applying a long-term perspective on investing and a focus on contrarian stock selection, where we invest in companies in which we see fundamental value, rather than just following fads and momentum.

Experience tells us that challenging times, such as the end of 2018 or the financial crisis of 2008–2009, are temporary. Experience has also taught us that these periods of market volatility – however uncomfortable they are at the time – create some of the best opportunities for us to buy exceptional companies at attractive valuations. At the same time, we remain confident in the long-term positions we had already established in stocks that we identified as priced at a discount to their tangible book value.

One area where we've been doing some strategic buying has been large-capitalization stocks. A lot of these new holdings are companies you might recognize: Manulife Financial, Goodyear Tire, Kraft Heinz, Lincoln National and Newell Brands (Sharpie, Coleman, X-ACTO, etc.). While we invest in large and small companies, and all points in between, the volatile fourth quarter of 2018 brought down the prices of many large-capitalization stocks, sometimes by as much as 40%–50%. This created some great buying opportunities for our portfolio; in our two principal markets of Canada and the United States, price/earnings ratios dipped to bargain levels.



Source: Bloomberg, as of March 31, 2019.
Canada represented by the S&P/TSX Composite Index.
The United States represented by the S&P 500 Index.

As value investors, our main goal is to buy stocks that are underpriced relative to their intrinsic worth. In the case of these big-name companies, the recent drawdown presented us with a chance to acquire them at a bargain. That gives our investors exposure to positions among some of the best known and resilient brands and products in the world. Furthermore, these stocks consistently pay dividends, giving us the opportunity to increase the portfolio's yield and liquidity profile.

It's important to note that we don't just invest in the biggest players, we invest wherever we find possible value. In fact, our portfolio is as diversified as it's been for a long time: currently, no single equity position is more than 6% of the Fund. We see ourselves remaining comfortable with this level of diversification for the foreseeable future. This is not only because of the broad opportunity set available, but also to manage the impact of potential future volatility.

Nevertheless, this positioning is still consistent with our long-term strategic focus. As committed contrarians, our mission is to buy stocks before they become popular, even if it means buying them when they're unpopular now. A good example of this is a sector where we're finding potential value, but where others fear to tread: energy. In particular, we've been buyers in the Canadian energy sector, in which there have been many sources of concern for a long time: global oil prices, the shifting political landscape on pipelines, taxes and environmental policies, and more.

At first glance, the Canadian energy sector doesn't appear to be the most encouraging place to be right now. But it's an environment made for contrarian investors like us. It's not just a matter of buying low, it's about identifying companies that have the sound balance sheets and effective management teams to weather difficult times and come out stronger. Examples of such companies are Surge Energy and Whitecap Resources, Calgary-based oil and gas producers. Like almost all stocks, these companies' share prices have experienced a tough six months, but they have what we're looking for in energy stocks: strong fundamentals and strong management talent and leadership, who are themselves investors in their own companies. The price difference, or spread, between Western Canadian Select (WCS) crude oil and West Texas Intermediate (WTI) crude oil narrowed in early 2019 after hitting historically wide margins at the end of 2018. As wide WCS/WTI spreads often act as a burden on Canadian oil companies, any narrowing of the spread is good news for our Canadian energy holdings, leaving them well positioned for further future recovery.

As of March 31, 2019, our largest single equity position was in Axos Financial, a digital branchless regional bank. The regional bank category also had a difficult fourth quarter of 2018, but Axos is a good example of where we see long-term value. This is a company with attractive valuations, including a low price/earnings ratio and high return-on-equity, and is growing both organically and as a result of key strategic acquisitions in 2018.

While equity markets regained some ground in the first quarter of 2019, by our analysis the gulf between share prices and tangible value is still wide by a severe margin. Such levels of disparity have proven to be unsustainable on a historical basis, and history also tells us that price levels eventually return to their upward trends. Today – just as during the challenging times of 2001 and 2008 – we remain confident in the same fundamentals that have successfully informed our investment philosophy for the past 20 years.

Thanks for your continued support, and please feel free to reach out to us with any questions or concerns.

PERFORMANCE Net of all fees and includes reinvested distributions.

(Class A units as at March 29, 2019)

Net Asset Value	1 Month	3 Month	Year to Date	1 Year	5 Year+	10 Year+	15 Year+	Since Inception+
$18.1444	0.03%	6.58%	6.58%	-30.55%	-1.59%	7.94%	5.21%	6.94%

+annualized returns.

TOP 20 PORTFOLIO HOLDINGS

TRANSOCEAN LTD
AXOS FINANCIAL INC
SURGE ENERGY INC
INTL FOREST PRODUCTS CORP
PIPESTONE ENERGY INC
SCHNITZER STEEL INDUSTRIES INC
WESTERN FOREST PRODUCTS INC
FLEXTRONICS INT'L LTD
CENTURY COMMUNITIES INC
KRAFT HEINZ COMPANY
MANULIFE FINANCIAL CORP
UNISYS CORP
NEWELL RUBBERMAID INC
TASEKO MINES LTD
SKYWORKS SOLUTIONS INC
LINCOLN NATIONAL CORP
MAG SILVER CORP
DIAMOND OFFSHORE DRILLING INC
KELT EXPLORATION LTD
BROOKFIELD PROPERTY PARTNERS LTD