

VERTEX GROWTH FUND

Second Quarter Report, 2011

The Forest or the Trees?

Everyone wants to think they can see the future. But, unless you're Doc Brown and have a flux capacitor lying around, it's pretty much a waste of time. Even Stephen Hawking will tell you that without a black hole and a super-fast spaceship handy, it's highly unlikely. Predicting the timing of market sell offs and their possible effect on individual holdings is like predicting the weather in Vancouver. Local meteorologists may tell you it's simply the process of gauging barometric pressure and temperature to determine how fronts will be affected by the jet stream. They'll even tell you they can imagine this over seven days. This seems logical yet it's comedic how quickly and often predictions change around here. Some investment managers will also make exciting predictions about the future hoping you remember the right one and not the ten wrong ones. They may tell you it's a matter of mixing some economic indicators with a few technical oscillators, analyst assumptions and a slew of historical references to see how the market will trade six months out. However, the success rates in both examples are very low for there are far too many variables to model. It is far more prudent in Vancouver to just carry an umbrella with you, even if it's supposed to be summer and the forecast *did* call for sun. Similarly, the sensible approach for investors is to focus on the circumstances surrounding individual companies and not the sum of the parts. The success rate over the long term is much higher when anticipating the outcome of one moving part over the interaction of thousands.

The Vertex Growth Fund is a concentrated fund that invests in companies displaying catalysts for price appreciation exceeding that of the general market. We are bottom-up investors and try not to base our decisions on general predictions about the market or economy. However, market sell-offs can be indiscriminate and may affect a portfolio regardless of the businesses held within it. As such, the fund is designed to be nimble and have the ability to apply assets to any opportunity we see fit. We're not restricted by sector guidelines or asset classes. This freedom allows us to change course if market or business conditions change unexpectedly.

Silver is an example of this. We like the investment thesis for silver, reasons for which we've covered in previous commentaries. Silver however found itself under the guise of a hot commodity for the first four months of the year. By April, the normally overlooked commodity was trading daily volumes at absurd multiples to actual production rates through vehicles like the SLV ETF. As a result, the price surged and found itself at the barrier of \$50. This prompted a sudden sell-off of over 30% in a matter of days. Despite our opinion that ultimately the price of silver will trade higher, we reduced our exposure to most of the silver producers we held in order to avoid further volatility. We do continue to hold two small Canadian silver producers (one of which is Alexco Resource Corp).

Additionally, we have shifted our focus to M&A which we see as providing more compelling opportunity in the current market. As we generally don't short in the fund due to the margin requirements of prospectus funds, our strategy is to be long the acquired company. This gives us the opportunity for returns uncorrelated to the general market. Some recent examples:

- TMX Group was added with a large weight in June. We believe the bid by the Maple consortium of financial institutions will be successful and see the current spread as favourable.
- We have a position in PetroHawk which is being purchased by BHP after their failed bid for Potash Corp left them hungry to spend.
- The Level 3 Communications bid for Global Crossing presents compelling value on both sides. We like both companies, as high-speed bandwidth is the future king (especially with the popularity of Netflix), and are using a Texas hedge which involves owning both the buyer and the target. There's also the potential for a big player to make a move for both companies. The offer is 16 shares of L3 for each share of Global Crossing and following the announcement both stocks have risen 50%.

- Our Capital Power Income Fund holding turned into an acquisition position in June as they agreed to an all cash purchase by Atlantic Power.

We continue to hold yield in the portfolio to provide income. We own Seaspan 9% Preferreds, AngloGold Ashanti 6% Preferreds, Canexus Income Fund, and the aforementioned Capital Power Income Fund.

We also have our eye on emerging trends in technology. Outside of the fiber optics of Level 3 and Global Crossing, Apple is a large weight in the portfolio. We are big fans of Apple, the stock trades at a reasonable valuation and they're masters at marketing and developing societal changing products. With a perennial life cycle for product launches more reliable than summer weather in Vancouver, they have a lot to look forward to.

PERFORMANCE (Class B)

Net Asset Value	1 Month	3 Month	Year-to-Date	1 Year	Total Cumulative
\$13.2821	-6.85%	-7.62%	-6.37%	25.33%	32.99%

This statistical information is intended to provide you with information about the Vertex Growth Fund. Important information about the Fund is contained in the Simplified Prospectus which should be read carefully before investing. You can obtain a prospectus from Vertex One Asset Management Inc. The Simplified Prospectus 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 funds are not guaranteed; their values change frequently and past performance may not be repeated.