

VERTEX GROWTH FUND

Second Quarter Report, 2013

QE Blues and the News

“Sell in May” was a little delayed this year as May turned out to be a great month for the fund, finishing up 5.23%. Unfortunately, Ben Bernanke had plans of his own for June. After hinting that the Fed may “taper” their quantitative easing program on May 22nd, the equity, bond and currency markets went for quite a ride that extended throughout June. Bond markets sold off in dramatic fashion for fear of the unknown in a world without the Fed and dragged equities along with them. The media, looking for something to do, latched onto the volatility and did their best to exacerbate the situation. However, by the end of June, markets were already beginning to recover. The positive is that after the strong market rally that had taken place in the US this was actually a welcomed retracement. The other good news is that the fund finished higher in both April and May, so the pullback in June only dampened what was a decent quarter for the fund. Vertex Growth Fund Class B shares finished the second quarter up 2.16%, bringing its mid-year return to 8.59%.

Ok, let’s do the bad news first. As gold continued to be pummeled by investors, the fund suffered losses from Mandalay Resources and Franco-Nevada warrants, the only two positions with exposure to the metal. There is only a 3% exposure to mining left in the fund as positions were pared. The only other notable detractor from performance over the quarter was the apparel company Deckers Outdoor, which pulled back after a strong run. That said, we anticipate it will perform well heading into earnings season and still like its potential moving forward.

Now, for the good news... Our allocation to US banks and diversified financials continued to reward us in the second quarter. Notable standouts were Blackstone Group, Citigroup, Lloyds Bank and AIG. These companies will continue to benefit from a rebounding US economy and consumer.

In May, we took part in the IPO of a Canadian technology company Halogen Software. More common in the United States there a few technology IPOs in Canada. In fact, the last one was our other Canadian tech holding Avigilon Corp, back in the fall of 2011. Similar to Avigilon, this IPO turned out to be a great success with the stock rallying as high as \$16 from its IPO price of \$11.50.

Long only M&A positions had a great quarter with Sprint’s multiple bids being the highlight. Sprint become a sought after target as DISH Network and Softbank battled to provide the most attractive offer. In April, Softbank bid 15% higher than the previous offer which provided a nice lift to the portfolio as it held a substantial position in Sprint. Kelt Exploration (a spinoff from Celtic Exploration) and Virgin Media also did well.

The other talking point for the quarter was our reduced hedging of the portfolio’s US dollar exposure. Previously, we had hedged most of the exposure to the US dollar. However, we think

the prospects for the greenback are turning and have been gradually decreasing the amount of hedging in order to give the fund exposure to USD. The US dollar rose steadily throughout the quarter, especially during June, which helped the portfolio.

We're enthusiastic for what the remainder of 2013 brings. In the first half, the US equity markets marked new all-time highs and we expect that will continue as people settle-down about the Fed's actions or lack thereof.

We hope you have a great summer!

PERFORMANCE (Class B shares as at June 30, 2013)

Net Asset Value	1 Month	3 Month	Year-to-Date	1 Year	2 Year[†]	3 Year[†]	Since Inception[†]
\$15.2169	-3.00%	2.16%	8.59%	23.87%	7.04%	12.81%	11.61%

[†]annualized return

Vertex One Asset Management, Inc.