

VERTEX VALUE FUND

Second Quarter Report, 2010

Concurrent with our belief that the companies we own are operating strong, earnings generating businesses and representing tremendous value at their current pricing; we have remained comfortable holding onto our portfolio through what will most likely prove to be a speed bump on the road to economic remediation. However, if the general markets prove to show further weakness, we are confident in the prices of our stocks, which are already trading well below their book values in a market trading on average at over 2X book value! Meaning probability weighs heavily in our favour for higher prices (and fund values) when looking forward beyond the current market din.

Outside of some small adjustments, there were no major alterations to the current strategy of your fund. Asset mix remains focused on property and casualty insurance (30.31%) and forestry products (32.01%), with regional US banks and biopharmaceuticals rounding out the bulk of the remainder. Additionally, with 45.95% of the portfolio holding \$US denominated securities, the portfolio continues to carry free exposure to an additional asset class - the \$US dollar – which, it is safe to say, isn't in danger of losing its reserve currency status to the Euro anytime soon!

Forestry Products is a position that we are very confident in, and due to slight weakness in the sector over the quarter, I thought it would be appropriate to discuss the value proposition behind owning these companies. Owning forestry products goes well beyond a rebound in the US housing market (which is still on a government administered slow drip of iron). After a decade-long rout in forestry, the companies left standing are the best of breed, running highly efficient operations. Wood pellets are viewed as a green fuel alternative in Europe and the use of lumber vs. concrete as a building material in earthquake zones such as China, Japan & India is on the rise. Forests are replenishing after the pine beetle infestation and all the bad news has been priced into the stocks. Therefore, as the economy slowly but surely turns around, forestry is one commodity I am happy to own.

For details on asset allocation and strategy please download the Fund Fact Sheet from our website www.vertexone.com.

Vertex One Asset Management