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VERTEX VALUE FUND

Second Quarter Report, 2013

The latest quarter of 2013 was an interesting one that saw reverberations across all asset classes. The bond market held its breath through one of its worst periods of liquidation as nervous nellies reacted to suggestions by the US Fed of the well-known and predictable future adjustments to Q.E., namely, the tapering of bond purchases. Certainly, the timing of the announcements shouldn't have come as a surprise to anyone. Furthermore, as we mentioned at the end of last year, bond valuations were rivaling tech bubble days with US and Canadian 10-year treasury bonds trading at a price-to-earnings multiple of 52 times. Nevertheless, treasury yields skyrocketed as investors and ETF managers tripped over top of each other on their way to the exit. This instability in bond markets spooked equity investors as well, sending stocks down and the US dollar up in June. Perhaps you're curious how we were reacting as CNBC moderators were pulling at their toupees? Well, if you're a regular reader you may have already guessed that our reaction was…nothing. It turns out this was yet again the correct response, as the fund finished up in each month this quarter. Doing nothing *is* the best something and allows us to sit back and be entertained observing investor behaviour. It's like watching someone drive around and around the block thinking they're going somewhere, until the tank is empty. Trading has a cost similar to a tank of gas. It burns up investment returns through commission and spreads. We did however do a few things...

In May, we added a new position to the portfolio - Unisys Corporation, a global IT services company. Similar to our positions in Jabil Circuit and Celestica (two electronic manufacturing services companies), Unisys is a vital part of our modern world. Computers are woven into the fabric of the new-paradigm and their health is analogous to the cardiac health of a business. A company's computing platform is the engine which pumps productivity throughout a workplace. Unisys can be viewed not just as a doctor but a full-service infirmary for the IT needs of public and private sector companies. Unisys' products and services line is highly diversified and the company just happens to fall in line with our buying disciplines. Let's check them off, they've got: a large cash reserve, recurring revenue streams, positive cash flow and Unisys stock trades at a very low price-to-earnings multiple of only 7 times next years projected earnings. So what's the catch? Why so cheap and why now?

Firstly, investors have overly discounted the potential for shrinking revenue from its government contracts. Secondly, a huge discount has been applied to the stock due to its pension plan overhang. Current calculations put the company's pension fund in a hole by over $1 billion - meaning, pension plan funding is going to take away from shareholder earnings. But that's looking in the rear view mirror…

A pension calculation consists of plan assets today and the future liability of the fund. We all know returns have been poor so pension funds haven't really grown over the last 10 years. The second and third components are the expected rate of return assumption and the discount rate used to determine future pension obligation. The higher the discount rate and expected rate of return – the more funded a pension fund will be today. However, what transpired with interest rates falling is that both the expected rate of return and the discount rate declined, leading to large underfunded plans. This has resulted in many companies having to take a considerable portion of earnings each year to bolster their pension plan. With interest rates rising, however, both the expected rate of return and the discount rate will also increase, leading to a lower future obligation liability. Thus, less company cash being used to fund the pension plan at the expense of shareholders. Furthermore, with returns rising and equities rising… pension funds are growing again, offering relief to funding.

We are very interested in this investment theme of searching for firms with underfunded legacy pensions. We think few investors have caught on to this being one of the best plays on rising interest rates – purchasing firms that have been dogged by pension plan underfunding. This is an opportunity to be

exploited as a free lunch or maybe just half of a sandwich left over. Either way, we'll take it. Unisys is a prime example of utilizing this theme; it should be double its current price but for the pension plan. And, so far so good, it's up 20% since our initial purchase.

We've been adding to positions in our regional banks and have strengthened our exposure to the electronics manufacturing industry. Banks were strong performers during the quarter with Synovus Financial continuing is steady ascent. Earlier this year, we increased our weighting in Synovus using some of our profits from selling Fairfax Financial. Really, the only drawdown to the portfolio during Q2 was forestry and building materials which fell substantially in May. Lumber prices were on the decline this spring as labour and supply shortages in the US housing construction market caused inventories to shoot up, which decreased demand for lumber. However, this is just a small blip in what is really part of a longer-term cycle of increasing lumber prices. Some analysts are beginning to jump on the bandwagon of calling for a lumber "super-cycle". Conditions are certainly favourable for forestry companies looking out over the next five years as they continue to recover from the worst cycle in modern history. We also anticipate the acquisition activity we have already seen in our forestry companies over the last few years to continue, as smaller companies may look to sell during boom years.

Banks weren't alone in having a great quarter; we have been very pleased with our investments in Jabil Electronics and Celestica. They both performed well and we're really excited about their potential. We're also happy to see the funky attitude towards the US dollar over this last decade is changing key. For years, USD went down as stocks and commodities rose, only going into favour during market sell-offs. Well, recently commodities have been falling while USD has risen alongside stocks and still helping to buoy the portfolio during the market sell-off in mid-June. The greenback is up about 6% year-to-date and we have about 70% exposure. We expect this trend to continue as the US economy strengthens and commodities continue to cool.

We're happy to say that we see more of the same for the second half of 2013. Sure, bond markets will remain volatile as the Fed does their thing but that will all be static over the long-term and in fact will eventually lead to large inflows into the equity markets… further helping our cause.

Enjoy the sunshine wherever you are!

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
$16.8926	1.79%	4.18%	19.21%	48.71%	21.54%	17.75%	15.40%

+annualized return

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This statistical information is intended to provide you with information about the Vertex Value 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.