

VERTEX VALUE FUND

Third Quarter Report, 2013



Letter from Earth

I don't want to break with client confidentiality lest we end up in the watchful eye of securities regulators, but one of our more likeable clients is an alien named Zoron, from the planet Flux in the Capacitor solar system. These names being identical to those of the power production module in the 80s movie *Back to the Future* may be pure coincidence. However, since Zoron and the Fluxians had mastered travelling through the space-time continuum, I think it fair to conclude they stole the names after hovering their craft over a drive-in theatre just outside of Area 51, during a short stay on earth while space-time travelling. For those not familiar with regulators these days, firms like ours come under the jurisdiction of British Columbia, a plethora of Canadian provinces, FINTRAC, IRS, the SEC and others who have yet to announce their desire to control us... but surely will. Fortunately for us, on planet Flux, after realizing their regulators had become larger than the industry they regulated, their government concluded: adults in society were actually adults – fully intelligent and responsible enough to make investment decisions, ask questions and generally act adult-like – thus, abolished regulators before the last ice age here on earth. In fact, they did away with Government altogether shortly thereafter and things have been just fine. America take note, a short-term Government shut down might lead down a slippery slope to a better state of affairs, being a permanent Government shut down. I digress... It might be risky letting the cat out of the bag by disclosing Zoron is a client of Vertex but since there are no regulators on planet Flux, it's a minor technicality. So, we'll take a chance that regulators here on earth have better things to do and will overlook our transgression. Further, Zoron said it was fine to disclose its identity – Zoron being more like a sponge than a he or she. There is no battle of the sexes taking place on Flux.

Anyway, Zoron asked me a really good question yesterday and one that's been asked by a few of our earthling clients as well. Zoron put it like this: "Your fund has had some great returns the last couple of years and even with the low gravitational pull on Flux, generally what goes up eventually comes down – especially on Earth where gravitational pull is stronger." Earthlings have put it more like this: "Your Value Fund's gone up a lot... is it too late? Will it fall?" The answer to this question here and in outer space is no. It may fall but not for the simple reason it has risen. Your fund is not a stock. This is a good time to reiterate our **sell discipline** when it comes to stocks. Our process forces stocks to be liquidated prior to becoming expensive, where they lose stability regardless of a planet's gravitational pull. Expanding on this thread, we replace these stocks with others that have already fallen or haven't yet risen. Thus, your fund's compositional structure has transformed significantly over the past few earth years. Valeant Pharmaceuticals was sold even though it climbed a lot higher post sale (it subsequently doubled), Fairfax Financial is gone, so is Norbord, Louisiana Pacific, Eacom Timber, Ainsworth Lumber and Ingersoll Rand. Fund weightings in Pharma companies Merck, Pfizer and Bristol-Myer, along with toy company Mattel have been reduced in favour of firms trading in our sweet spot of roughly ten-times earnings. These include firms in the IT Software & Services Industry and Electronic Manufacturing: Celestica, Jabil Circuit, Unisys and Xerox. No - these were not Zoron's picks, although it does like electronics being an alien, but Zoron's interest is more in the realm of a history buff – they are light years beyond electronics on Flux...literally. In addition to these firms, Wellcare, a Tampa, Florida based health management firm and Porsche, the German automobile manufacture have been added.

After taking Zoron for a spin in Porsche's new 911-S we both agreed, this stock, trading in a single digit P/E range, was definitely going higher. For Zoron, it was more like riding on a donkey but it found the ride amusing and compared to other slow moving earth transportation, it does stand out; as does the rest of Porsche's latest sedan and SUV lineup.

Some of our oldest stocks today are those in reinsurance and property & casualty insurance. These firms have risen without question but not for any other reason than their underlying businesses have been performing very well. Noteworthy is the fact that their price-to-value multiples have barely budged. Insurance stocks have done little more than rise with their earnings and massive stock buybacks. Although these stocks have doubled over 5 years, they're no more expensive than 5 years' ago. Insurance stocks should benefit from both rising interest rates and rising equity prices within their investment portfolios, along with growth returning to our global economy (economic growth leads to more insurance purchased). These benefits will be somewhat tempered by pricing pressures as the supply of capital flows into reinsurance at a level greater than demand. We still like this industry very much. It's no accident two of our planet's savviest investors Prem Watsa and Warren Buffett chose insurance as the backbone to build their businesses.

Returning to Zoron's question...Over a skinny latte (Zoron is concerned about its weight and wants to look attractive to itself) I explained what's written above and Zoron agreed there is much growth ahead for the Vertex Value Fund and it's fair to say, although a little pudgy, Zoron's no moron...

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

Net Asset Value	1 Month	3 Month	Year to Date	1 Year	2 Year⁺	3 Year⁺	Since Inception
\$17.7802	2.10%	5.25%	25.47%	47.42%	36.56%	18.12%	15.83%

⁺annualized return

THE PORTFOLIO

Top 20 holdings by weight in the Vertex Value Fund on September 30, 2013 are:

International Forest Products	Partner Re Ltd
Conifex Timber Inc	Unisys Corp
Synovus Financial Corp	Mattel Inc
Jabil Circuit Inc	Platinum Underwriters Holdings
Genworth Financial Inc	Merck And Co Inc
Banco Santander Sa	Century Communities
Beazer Homes Usa Inc	Pfizer Inc
Celestica Inc	Keycorp
Montpelier Re Holdings Ltd	Canfor Corp
Hovnanian Enterprises	XI Group Plc

Vertex One Asset Management, Inc.

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.