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VERTEX VALUE FUND

Third Quarter Report, 2014

Don't be a dummy!

After achieving great success with our previous investments in Pharma/Healthcare, Property Casualty/Reinsurance, Forest/Lumber and American Banks, last quarter was a time to harvest some of these gains and do something really "dumb" again. Why I say this is that when we bought into these industries, there were no catalysts in sight for what could make these businesses grow and that was precisely the reason for our investment. Hopping into our time machine we would see headlines suggesting these investments would be tragic mistakes, as back then it was all about "Peak Oil", Gold and China. The last thing you would want to own was anything USA…especially financials! This later backdrop is perfect fertile ground to plant the seeds for investment success, providing one understands you can't harvest crops a day or a month after sowing. Buying solid companies 50%-80% below their previous highs removes a lot of risk out of investing . . . if one can stand the personal abuse and hate-mail while sitting on hands waiting for the investment de jour to blow up and investors to flock to your "ridiculously stupid investments".

In our culture of instant gratification, most don't have the patience for the interval between undertaking an investment and reaping its benefits. For example, the average mutual fund holding period for a stock today is about four months. I contend, rarely will an investment pay off in less than four years – not to say some don't as we've had some instant gratification too – but generally, it's an accident when success occurs without patience. Circling back to being dumb, it seems there's now a worldwide glut of oil only eight years after the middle-east was going to run dry and the western world had already sucked all of its oil out of the ground. After predictions of China eating everyone's lunch, now pundits are quite negative on China (and thus commodities) and anything remotely close to them are on the list of *stocks for dummies*. What to do, what to do??? Well, when I'm not sure what to do, it's back to the 52 week low list. And what might be found there? The worst hit on this 52 week low list (that are serious businesses and aren't going away) are offshore drillers. Their fall has been nothing short of spectacular. Right up there with gold stocks…or should I say down there. Furthermore, analysts overwhelmingly emphasize a glut of oil (so much for the peak) and new rigs make this an industry to avoid with prejudice. Glut of oil, oversupply of rigs, day-rates dropping, Russian sanctions, expectation of dividend cuts – I could go on, but mostly everything is wrong with no catalysts in sight and stocks down 50% to 80% from their peaks. This is my kind of sandbox – where the "dumb" kids play. We've been buying Diamond Offshore, North Atlantic Drilling, Seadrill and Hercules Offshore. I'd like to highlight again, it's doubtful these stocks are going to show us any love in the next few months. Our mission is to build a position at a very good average entry price…then wait.

As we've mentioned in prior reports, one of the largest taxes on the US economy has been the price of energy and this tax is coming down with oil prices leading to better margins for companies producing and transporting goods. At a time when investors seem nervous, there is a glut of positives. Bargaining power is finally shifting in favour of the employee as companies are now competing for labour. The stock market in general isn't expensive at roughly 16 times earnings with a favourable economic backdrop. Finally, through all the worries and various different crises' over 17 years since we founded Vertex One, your fund has remained fully invested.

I'm really flummoxed as to investors' trying to get out before the next correction and all that. The evidence is overwhelming it doesn't work and leads to very poor investment results. Your money manager has never sold a unit of the funds you own and has only bought on weakness or when others have redeemed. What's been consistent throughout every panic, stock market correction and crisis is companies have invented and produced products and services making our lives safer, longer and more productive. This gets lost in the headlines. I'm as optimistic as the day we started Vertex about future investment returns.

Vertex Managed Value Portfolio vs. Vertex Value Fund

Although the core underlying philosophy of these two funds is identical, the funds are not. The Vertex Value Fund is 100% an equity fund and will never deviate. The Vertex Managed Value Portfolio is definitely more in the alternative category. Over the years we have engaged in many option strategies, shorting put options - utilizing covered calls, straddles and strangles. We've bought and lent securities on high borrow rate stocks. We've spent considerable time in the high-yield income market. Today, with a quantity of stocks we've been following and are interested in acquiring, we've be active in selling short-dated put options where premiums have been attractive. Call options have been sold on stocks where our price-to-value targets have been breached with a view to either exit the position or collect a juicy premium or both. Further, the Vertex Managed Value Portfolio has engaged with firms, investing in directly negotiated notes. This is a very interesting space for lack of a better term. Banks are not lending to smaller firms or companies that require funds fast for closing an acquisition or other quick-turn events. These notes are all first mortgage guarantee with yields and security far superior to anything we see underwritten by Bay St. and Wall St. Often we negotiate an equity or warrant stake into the terms. It is combining these strategies with a core value-contrarian discipline that has led the fund to outperform both the TSX and the S&P 500 with a beta (risk) of 1/3rd and only 50% correlation to the broad market. With this in mind, and real time experience of the two funds, it is fair to assess the Vertex Managed Value Portfolio as lower volatility than the Vertex Value Fund. Your manager is the largest investor in both funds…love them both, they're different. A two-timer for sure . . . please don't judge me, I'm dumb.

PERFORMANCE (Class B shares as at September 30, 2014)

Net Asset Value	1 Month	3 Month	Year to Date	1 Year	2 Year+	3 Year+	5 Year+	Since Inception
$20.6478	-4.08%	-3.30%	3.02%	16.13%	30.84%	29.38%	15.74%	15.89%

+annualized return

THE PORTFOLIO

Top 20 holdings by weight in the Vertex Value Fund on September 30, 2014 are:

International Forest Products
Conifex Timber
Jabil Circuit
Synovus Financial
Banco Santander
Skyworks Solutions
RF Micro Devices
Xerox Corp
Unisys Corp
Genworth Financial
Blackbird Energy
Beazer Homes
Celestica Inc.
National General
Wellcare Health
Copper Mountain
Hovnanian Enterprises
Canfor Corp.
Montpelier Re
Hercules Offshore