

VERTEX VALUE FUND

Fourth Quarter Report, 2014

The Dawn of Cheap Energy

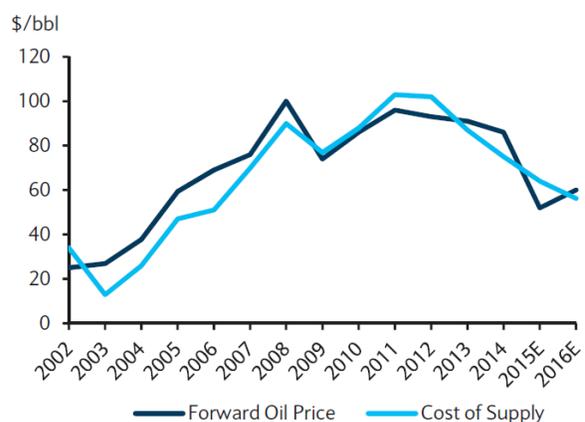
After 12 years of high energy prices, we've become acclimatized to \$100 oil. Industry and consumers alike have adjusted their businesses and lifestyles to cope with what we would have thought 10 years ago to be crippling high energy costs. Economic laws cannot be challenged indefinitely though and 12 years of rising and high prices brought on the inevitable supply and demand response. On the supply side, new technology and major new sources have been unlocked globally...nowhere has this been more prolific as the USA. Top this supply with the addition of solar, wind and many other alternatives and the world is now regurgitating on supply. The demand side response is greater efficiency from technological advances in autos, LED lighting, planes, shipping...almost everything consuming hydrocarbons. Further, a belief system is about to be cracked – the belief that no one can make money at these prices. As oil prices come down, so do costs to produce it. Cost curves are declining rapidly and the thesis developing here is the hydrocarbon industry will be able to produce oil/gas at lower prices than investors' think possible.

FIGURE 1
We Expect Oil Supply Costs to Fall Further

Year	Forward Oil Price (\$/bbl WTI)	Cost of Supply (\$/bbl WTI)	Change in Supply Cost
2005	59	47	
2006	69	51	9%
2007	76	70	37%
2008	100	90	29%
2009	74	77	-14%
2010	86	88	14%
2011	96	103	17%
2012	93	102	-1%
2013	91	87	-15%
2014	86	75	-14%
2015E	52	68	-9%
2016E	60	61	-10%

Source: Barclays Research

FIGURE 2
Relationship of U.S. Tight Oil Supply Costs vs. Forward Price

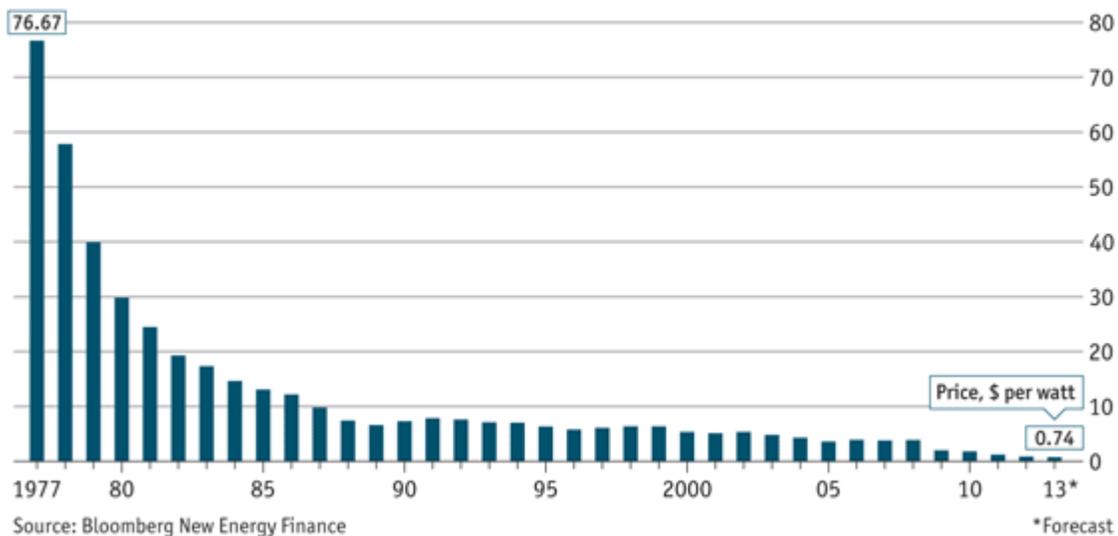


Source: Barclays Research, Bloomberg

Furthermore, alternative energy will (albeit slowly) continue to chip away at oil's dominance. The combination of these factors could leave us in a world of much cheaper energy for a considerable period of time. In addition, this is where I step out on a limb; both the hydrocarbon and alternative power industries can be profitable simultaneously while consumers and industry enjoy cheaper energy. As I write, oil is trading at \$45, down from \$100 only a short 6 months ago. Solar companies are becoming utilities, as the price of crystalline silicon photovoltaic cells has declined exponentially.

The Swanson effect

Price of crystalline silicon photovoltaic cells, \$ per watt



Economist.com/graphicdetail

With this in mind, our objective is to own companies benefiting from lower energy prices that haven't yet experienced a dramatic upward shift in price – Airlines and others have already moved tremendously on cheap oil. A good starting place is the consumer. Let's buy a new car, for one. Let's drive it further, for two. Goodyear tire benefits threefold in that lots of new tires will be purchased as part of increased auto sales ... those tires will wear out faster through more miles driven and Goodyear's manufacturing margins increase via lower energy input. Another industry benefiting is mining. Unlike Goodyear where stock price performance has been decent, mining has been subject to horrific price corrections. Many mining firms are trading well below book value and at a fraction of their replacement cost, yet benefit from both a strong US dollar and declining energy costs. We are currently building a "collection" of base metal miners, for lack of a better term.

It was in your second quarter report that gold companies were mentioned as a possible investment. We have indeed finally made a commitment in this sector. Gold companies are trading below book values after a plethora of write-offs. This makes them cheap. A most compelling reason for owning them now is all the reasons for owning gold are absent – finally. It's no longer about inflation and Quantitative Easing 1, 2, 3, or 4 etc. This lack of rationale for gold protection plus multi-decade low stock prices and management teams focused on long-life, high-grade reserves suggests an extremely safe entry point. Include a strong US dollar, reduced energy input and likely less gold being produced (focused largely on high grade reserves) the probability of the precious metal itself finding a floor at around \$1200 is pretty high.

Serendipity has smiled upon us with our forest and reinsurance stocks hitting all-time highs, it's providing an opportunity to trade in favor of mining firms trading at 20-year lows. Caution has been the key word in undertaking an investment commitment to mining though. It will take time to build a material weight, both from a practical dilemma of funding purchases and the in-depth research required. Keep in mind, we've never owned mining stocks prior to 2014. Further, Interfor, Western Forest, West Fraser Timber, Canfor and Conifex Timber still remain

important holdings and will work very well as the great American locomotive finally kick starts housing.

Electronics, IT Software & Solutions, US regional banks and home builders have not been reduced. Your fund is more diversified than ever with the addition of mining and a small position in energy and energy services. To conclude, no investment has eclipsed our buy low strategy better than base metals mining, gold, energy and energy services today.

PERFORMANCE (Class F shares as at December 31, 2014)

Net Asset Value	1 Month	3 Month	Year to Date	1 Year	2 Year⁺	3 Year⁺	5 Year⁺	Since Inception⁺
\$22.6196	4.08%	7.15%	11.25%	11.25%	26.01%	30.41%	17.20%	17.04%

⁺annualized return

THE PORTFOLIO

Top 20 holdings by weight in the Vertex Value Fund on December 31, 2014 are:

International Forest Products	Celestica Inc.
Conifex Timber	Beazer Homes
Skyworks Soltuions	Goodyear Tire
Jabil Circuit	Hovnanian Enterprises
Qorvo Inc.	Century Communities
Synovus Financial	Canfor Corp.
Banco Santander	Montpelier Re
Unisys Corp	Genworth Financial
Xerox Corp	National General
Wellcare Health	Adept Technology

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.