

VERTEX VALUE FUND

Third Quarter Report, 2015

The nice thing about real estate is that you simply collect rent, and ten years later realize a decent return. There's no panic selling real estate because it's down. Stocks are different – prices are quoted every day and many investors become panicked in down markets. Can you imagine selling your house to someone who knocked on your door and offered you 25% less than you paid for it? You wouldn't, you'd tell them to get stuffed. In the stock market, though, most will sell if the bid is 25% lower. Our first job, as portfolio managers, is relatively simple: buy good companies and never panic. Our second job is to ensure our partner investors don't panic either. Volatility has been very high, which is certainly unnerving, but not unexpected. This is what really makes portfolio management difficult. There is an overwhelming urge to do something, stop the bleeding, make rash changes...anything. My rule is simple: just don't do it!

There are a lot of reasons to sell a stock: maybe a company has poor underlying performance or maybe a stock has become too expensive relative to its business prospects. Poor stock price performance, from businesses that are performing well, is not a valid reason to sell. When all stocks decline simultaneously, like in the past three months, it makes no sense at all. Clearly, business prospects diverge wildly for different industries and many have very good prospects regardless of stock market prices. One of the easiest ways to earn outsized returns is to increase investment when stocks are down. Sounds simple, but few actually do this as emotions get the better of us. Every down market comes with an encyclopedia of reasons as to why stocks are down and how they will go lower. At any rate, if you hadn't noticed, the last quarter was a crappy one for stocks. Yes, there's that guy knocking at our door. FYI, I just told him to get stuffed with his ridiculously low bid.

A highlight this quarter was the acquisition of Adept Technology, by Omron Corp. for \$13 a share in cash. Takeovers happen frequently in the market, so let's not make too big a deal of it. I highlight it, however, for three reasons: First, Adept was a decent sized holding in your fund and traded around \$7 prior to the transaction, thus leading to gains of almost 100%. Second, we were able to deploy this cash into some extremely beaten down stocks during this market downturn. Third, this reveals a tremendous disconnect between price and value. The market said Adept was worth \$7, yet those in their industry said it was worth \$13. I believe we have a portfolio full of these disconnects. Jabil Circuit, our largest holding, reported earnings in September that blew away expectations and future business guidance. Jabil was trading at \$19 prior to earnings and is currently trading at \$22.50 as I pen this; yet, the company is still only priced at two thirds the market's price earnings multiple.

The most beaten down stocks today are mining. Mining stocks have been declining since 2011 and it's been a brutal decline. Our first foray into the sector was Copper Mountain Mining and Taseko. Copper Mountain trades at 48 cents and Taseko trades at 60 cents. Our cost base on these two is \$1.89 and \$1.40 respectively. Clearly, we were early. Recently, we've added Freeport, BHP Billiton, and Rio Tinto (this is where our Adept Technology cash was redeployed). FCX, BHP, and RIO are large, low cost producers. As such, they have the ability to withstand and make a profit even in the basement of a commodity cycle. In fact, they just keep pushing their costs lower, applying pressure on weaker, medium to higher cost producers.

The mining business isn't going to disappear. It's not our style to be concerned about this quarter or the next. Our investment is made for the next five years and I'm certain this is a much better entry point than four years ago when stock prices were 60-90% higher than today. There are a few areas where stocks are expensive – mining is not one of them. News related to mining is 100% negative, leading to most stocks being priced well below book value. My plan here is to rub the sleep out of my eyes in 2020 to see much higher stock prices than today. In the meantime, we'll keep executing our strategy of reviewing what we own, ensuring stocks still meet our low price-to-value metrics, and hunting for more ideas.

PERFORMANCE (Class F shares as at September 30, 2015)

Net Asset Value	1 Month	3 Month	Year to Date	1 Year	5 Year⁺	Since Inception⁺
\$19.9785	-5.87%	-15.98%	-11.68%	-5.36%	13.02%	12.60%

Net of all fees and includes reinvested distributions. ⁺Annualized return

THE PORTFOLIO

Top 20 holdings by weight in the Vertex Value Fund on September 30, 2015 are:

JABIL CIRCUIT INC (US)	QORVO INC (US)
SYNOVUS FINANCIAL CORP (US)	BOFI HOLDING INC (US)
GOODYEAR TIRE & RUBBER CO (US)	MATTEL INC (US)
SKYWORKS SOLUTIONS INC (US)	RIO TINTO PLC-SPON ADR (US)
XEROX CORP (US)	CONIFEX TIMBER INC (CN)
BANCO SANTANDER SA-SPON ADR (US)	HOVNANIAN ENTERPRISES-A (US)
CENTURY COMMUNITIES COMMON	KEYCORP (US)
INTL FOREST PRODUCTS-CLASS A (CN)	WESTERN FOREST PRODUCTS INC (CN)
MDC HOLDINGS INC (US)	BLACKBIRD ENERGY INC (CN)
BEAZER HOMES USA INC (US)	GENWORTH FINANCIAL INC-CL A (US)

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.