

VERTEX BALANCED FUND

Third Quarter Report, 2000

The Current Scene

The story this quarter was biotech and alternative energy. This tale developed as a manifestation of two primary human instincts; people want to live longer, and more importantly, want to spend less money on gas.

The rate that scientists are discovering how all living things work is making biology textbooks obsolete by the time of printing and making me feel a bit like a chimp. Apparently, you and I are more like chimps than chimps are like gorillas, no disrespect intended. My wife insists though that I am more like a pig. The World Wide Web has become a global real time interactive library better than most universities have and with no late penalties. By using the Internet for research, students can race by their teachers as new discoveries are made, take for example the Human Genome Project. Celera announced completion of the sequencing phase for the first human genome years in advance of the estimated completion date of the Government sponsored project. Although Celera does not give away its research, the Human Genome Project makes available their research on the web free of charge. Each year it seems we gain more knowledge than man's entire body of knowledge the year before. Life genetically speaking has moved into the fast lane and so have the stocks of companies leading the charge to unlock the secrets of human digital code.

The story unfolding in biotechnology is very exciting. Biotechnology has always had its swings from great promise to failure. An investor should beware when anyone says it's different this time. So reader beware. It's different this time. The reason - technology. Good biotech companies don't waste time and money like they used to. They still burn alodda cash but on very focused targets. By running computer simulations, researchers can now find the right molecule to work with a protein without growing some ugly goop in a petre dish. Don't get me wrong, the petre dish still gets used but at a later stage after a promising drug target has been discovered. Most of the trial and error steps have been removed and good drugs with less side effects will hit the market faster and improve the quality of life for all of us.

Now it's time to get down to the business of investing in biotechnology companies. Although it is different this time, the benefits from decoding the human genome and our cousin *Drosophila Melanogaster* (the fruit fly) will unfold over the next three decades. Three decades is a lot of time to sort out companies that in the end will dominate an industry. And so it comes to the eternal question. Does one commit capital to this sector? And the eternal answer is yes, you betcha, but let's not rush into things. We barely know each other yet. So why all the talk already? It's simple, this letter is a window for you to peer into the grey matter twitchings at Vertex One. With that thought complete it is time to move on to alternative energy.

High oil and gas prices have given a large boost to the alternative energy sector. Alternative energy has thus far focused predominantly on fuel cell technology. The most commonly known company in this arena is Ballard Power in our own backyard. Ballard has gotten a lot of press, so much so that you'd think that they found the Holy Grail or figured out a way to produce the next Survivor series on the moon. Speaking of the moon, fuel cell technology has been around for a long time. The movie Apollo 13 presents the true story of a miraculous survival after an explosion on board the space craft damages among other things, two of the three fuel cells powering the craft. This was back in 1970. And here we are thirty years later all giddy over Ballard and numerous other companies relatively new at the game. There are a number of hurdles to overcome before fuel cells become a part of our daily lives. The largest appears to be how to fuel the fuel cell. Hydrogen is the fuel of choice to date. Hydrogen sounds good except to descendants of those who lost loved ones when the Hindenburg blew up in 1937. Alternative power, like biotech, is for real and should not be overlooked by investors, not even your value-oriented managers at V1. Like all good research, one must go to the source to avoid a slanted view of reality. For example, without looking under the water only the tip of an iceberg is visible. Similarly, investing in this sector through the obvious companies is likely to achieve the same kind of results obtained by Captain Edward John Smith of White Star Lines in 1912.

Under the water line the world of alternative power looks very different. A plethora of companies are working on alternative energy technology including the major oil companies, General Electric, Siemens, and United Technologies. Who put the fuel cells in the space program? Not Ballard, not Plug Power. No - it was a company called International Fuel Cell, a company that gets little time in the mainstream press but a lot of respect in professional journals. Is it public? No. Can it be bought? Yes. It is a subsidiary of United Technology. United Technology makes a lot of money and just raised its dividend.

Like Onex, parent of Client Logic in Canada, United Technology fits very well into our strategy of finding excellent technology and paying little or nothing for it. Staying away from the hype and drilling down a little deeper is the key to being successful value guys in a growth at any price market. We just don't like to pay Mercedes prices for Volkswagens.

The Tech companies are crumbling as the market puts them under the microscope and looks for even a microscopic ^e. That is e for earnings. Tech companies don't operate in a vacuum and don't have special powers, although it was easy to believe in magic having witnessed the levitation of stock prices in the sector over the past few years. It seems that investors are growing up a bit and boldly calling Merlin's hand.

The Portfolio

The top 10 holdings at September 30th were as follows:

C. I. Fund Management	Royal Bank of Canada
Fairfax Financial	Olin
Sun Life Financial	Mackenzie Financial
CIBC	Honeywell International
Onex	Allergan Specialty Therapeutics

Asset Mix

Cash	10%
Fixed Income	30%
Canadian Equities	45%
Foreign Equities	15%

Performance

We are pleased to report that the Vertex Balanced Fund returned 32.39% for the year ended September 30, 2000.

	Net Asset Value	Rate of Return				
		<u>1 Mo.</u>	<u>3 Mos.</u>	<u>6 Mos.</u>	<u>1 Year</u>	<u>2 Years</u>
Sept. 30, 2000	\$13.15	0.01%	4.96%	9.21%	32.39%	22.19%