

**Vertex Fund & Vertex Balanced Fund
Second Quarter Report, 2005**

Given the choice I would....

With this abbreviated summer letter we thought we could address both funds with one data dump. Giving you less choice has been the key element to the Canadian Health Care sector since the launch of Tommy Douglas's dream (and with only one letter you have no choice at all except maybe to stop reading now). Canada has some great company in building our health care system as only two other countries in the world, Cuba and North Korea, offer no health care choices to consumers. Hopefully, the recent decision by the Quebec Supreme Court allowing competition will spread across this land and give us some freedom of choice and competition.

We prefer to invest with companies that don't have any competition because they usually have fat profits and great free cash flow. Organizations that compete in a free enterprise system usually show that they are leaner and offer consumers more choice and actually listen to their customers' feedback. (I wonder if Air Canada or Rogers Cable has ever listened to anyone). So let's say goodbye to our club of three and see if the capital markets can allocate capital efficiently to a new system. Capital and consumers together form a powerful team.

Interest rates in Canada have been in a secular decline since 1982 and yet every quarter the mood changes in the media about rates going up, or staying flat, or going down, or fluctuating, or a combination of any of the above. When we were much more immature it used to drive us nuts just hearing about all these different monetary theories. Now we just go to www.tomcruiseisnuts.com for a better perspective. Over the almost eight years since Vertex has been around we have believed in lower rates in the long term and have run our portfolios accordingly. You will be happy to know that we still surf the net and have not changed our opinion on this.

This decline in rates for over the past 20 years has spanned a huge booming market in securitization of assets from credit default swaps to income trusts. Speaking of choice, this week alone we were shown the following deals in the Canadian income trust world:

WestCom Global Networks - \$340 million IPO
Provider of point to point trader voice services

High Artic Energy Services - \$80 million IPO
Oilfield service business

Stephensons Rental Service - \$73 million IPO
Tool and equipment rental company

Pollard Banknote - \$50 million IPO
Producer of instant win scratch tickets

Royster-Clark - \$370 million IPO of IDS's
Distributor of agricultural products

Premium Brands -\$50 million secondary
Food processor

Canexus Income Fund - \$220 million IPO
Sodium Chlorate marketer

Newport Partners Income - \$210 million
A portfolio of a whole bunch of businesses that have no connection to each other except maybe the same guys want to sell them

New Flyer Industries - \$350 million
Bus manufacturer

Hot Stuff Foods - \$144 million
Food provider for convenience stores

Not to mention the ones that we saw last week, like Pizza Pizza, Aeroplan and Sterling Shoes etc. etc. Now that's what I call choice! So far on average 20% of all trusts in Canada have had to cut distributions, but all this choice makes for healthy capital markets and more cash for the smart sellers of these businesses to reinvest in new ideas!

As long as we have choices, society gets to allocate resources to where they build returns. President Kennedy in the 1960's imposed a tax on certain fixed income products within the US capital markets. As this tax reduced consumers' choices they had to look elsewhere and at that time they chose to look at the UK. This was a godsend for the financial markets in the UK as they were drifting on a downward spiral to nowhere, but this piece of protective legislation slowing free trade in the US allowed them to steal market share away from the Americans and allowed them to flourish and build a new dynamic market. I bring this point up because it's amazing how little we have learned from history. America has imposed a restriction for Americans to gamble on-line (although if you do it live you can do it anywhere). This legislation has allowed the poker market in the UK to expand into a multi billion dollar market as they have inverse market protection. Competition and free choice make for a dynamic and vibrant economy for shareholders in long term investments (Vertex Balanced Fund) and event driven strategies (Vertex Fund).

Thanks for choosing us.

VERTEX FUND:

Performance

Rate of Return

Net Asset Value	Year					
	<u>3 Mo.</u>	<u>To Date</u>	<u>1 Yr</u>	<u>2 Yrs*</u>	<u>3 Yrs*</u>	<u>5 Yrs*</u>
\$43.7168	3.04%	8.95%	28.67%	31.43%	21.58%	18.68%

*Annualized

VERTEX BALANCED FUND:

Performance

Net Asset Value	Rate of Return					
	<u>3 Mos.</u>	<u>To Date</u>	<u>1 Yr.</u>	<u>2 Yrs.*</u>	<u>3 Yrs.*</u>	<u>5 Yrs.*</u>
\$15.3683	2.98%	4.06%	9.12%	13.08%	11.09%	9.46%

*Annualized

The top 20 holdings in the Vertex Balanced Fund at June 30th were as follows:

Fairfax Financial Holdings	Laurentian Bank of Cda.	Bank of Nova Scotia
CIBC	CI Fund Management	TD Bank
Mattel Inc.	CTS Corp.	Kemet Corp.
Enerflex Systems	Tidewater Inc.	Odyssey Re
Canadian Western Bank	Bank of Montreal	Sun Life Financial
Northbridge Financial	Angiotech Pharm.	Vishay Intertech.
Partner Re	QLT Inc.	

All bonds are government guaranteed

Asset Mix

Cash	0%	Canadian Equities	48%
Fixed Income	25%	Foreign Equities	27%