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VERTEX BALANCED FUND
VERTEX FUND

Second Quarter Report, 2003

Vertex One Owners' Manual – Please Read Carefully

People ask us occasionally "What do you think of…..? Do you like the market…..? What's going to happen…..? Sometimes we'll egotistically or accidentally respond with just one more useless opinion in answer to questions where the answer cannot be known. It would be just plain dumb though, to put such prognostications in writing, although admittedly we have done so in the past. The chances of being right are 50% which means there is a 50% chance of being wrong. It's ok to blab on the phone using conjecture and hearsay to make a point but that won't hold up in court and certainly gets us into trouble on paper. Having brought you half way to the end of this particular paragraph without saying very much at all, we have decided to write something of real tangible value. The subject of our essay is "statements and investment returns". We have titled this letter "Vertex One Owners' Manual" because it should be kept handy, like the owners' manual of your car, to be pulled out any time statements seem confusing which of course is most of the time.

There are four sources of return from your funds. They are dividends, interest, realized capital gains and unrealized capital gains. Let's start with dividends. Each year your funds receive dividends from companies in which we have a share ownership position. Dividends represent a share of profits a company earns and then pays to shareholders. Next, there is interest. Interest is collected on bonds held within the funds. Then there are realized capital gains. Realized capital gain (loss) is the difference between the price paid for an investment and the price realized upon disposition of an investment regardless of dividends or interest received during the period in which the investment was held. Finally, there is unrealized capital gain (or loss), which is the difference between purchase price and current market value of an investment held in your fund.

Each December, Revenue Canada requires all funds to pay out interest, dividends and realized capital gains to fund unit holders in the form of distributions. This flows through a tax liability to unit holders. In effect, it's as if each unit holder had held his pro rata share of the fund's investment portfolio directly. As a consequence, your "book value" grows over time commensurate with the size of the distribution each year, leading to the illusion that one had invested more than one did and a subsequent conclusion that one's investments haven't grown.

We heard of an unscrupulous financial advisor pointing out this difference in book value and market value of the Vertex Funds and using it as a tool to dupe a unit holder into selling his units. This advisor wrongly brought attention to the small difference between book and market value and suggested that the unit holder's funds had performed poorly. In order to avoid this happening again and to clear up any confusion that might exist, the following should be noted:

The **Vertex Fund Limited Partnership** began in 1998 with a unit value of $10.00. As a result of its Limited Partnership status, the fund had no distributions during the period between 1998 and December 31, 2001. It was then converted to a Mutual Fund Trust on January 2nd of 2002 at a price of $26.9064. If you had invested prior to December 2001, $26.9064 became your new book value despite the fact that you invested at prices between a low of $8.9895 and $26.9064. Had one invested at the inception unit value, every $100,000 invested since inception became $269,064 at the end of 2001. Subsequent to conversion into a unit trust, the Vertex Fund had a distribution on December 31, 2002 of $2.16 per unit thus increasing book value by an equal amount. This increase is a result of the distribution being re-invested back into additional units at a post distribution price.

> Assuming no distributions or conversion, the original book value of a Vertex Fund unit is **$10.00** and the current market value is **$29.6350.** Every **$100,000** invested has become **$296,350. This is a three-fold increase.**

PERFORMANCE

The Vertex Fund returned 4.04% for the year ended June 30, 2003

	Rate of Return						
Net Asset Value	**1 Mo.**	**Year to Date**	**1 Yr.**	**2 Yrs.***	**3 Yrs.***	**4 Yrs.***	**5 Yrs.***
$27.1947	**3.29%**	**12.90%**	**4.04%**	**7.16%**	**8.53%**	**20.66%**	**20.11%**

*Annualized

The **Vertex Balanced Fund** has been a mutual fund trust since inception. As a result, your Balanced Fund has distributed income and capital gains every year since inception in April 1998. Total distributions add up to **$3.67** per unit – increasing book value by this amount, as distributions are then re-invested in additional units at a post-distribution price. Assuming no distributions, your Balanced Fund commenced with a unit value of **$10.00** and would now be valued at **$16.3360.**

Distributions will increase book value every year.

Below is the actual mathematical illustration for the Vertex Balanced Fund since inception.

Assume original investment equals $100,000.00 with no subsequent purchases.

1998, April 3 $100,000 / $10 per unit equals 10,000 units

Book Value = $100,000 Market Value = $100,000

1998, December 31

Distribution = .1277 per unit X 10,000 units = $1,277.00 / post distribution price of $10.0527 = 127.031 new units added to account.

New Book Value = $101,277.00 New Market Value = $101,804.00

1999, December 31

Distribution = .5223 per unit X 10,127.031 units = $5,289.35 / post distribution price of $11.0115 = 480.348 new units added to account.

New Book Value = $106,566.35 New Market Value = $116,803.15

2000, December 31

Distribution = .7365 per unit X 10,607.379 units = $7,812.33 / post distribution price of $13.1621 = 593.548 new units added to account.

New Book Value = $114,378.68 New Market Value = $147,427.72

2001, December 31

Distribution = 1.844 per unit X 11,200.927 units = $20,654.51 / post distribution price of $11.1588 = 1,850.962 new units added to account.

New Book Value = $135,033.19 New Market Value = $145,643.42

2002, December 31

Distribution = .4426 per unit X 13,051.889 units = $5,776.77 / post distribution price of $11.0408 = 523.220 new units added to account.

New Book Value = $140,809.96 New Market Value = $149,880.06

2003, June 30

Book Value Remains $140,809.96 New Market Value = $163,362.86

Original investment remains $100,000.00 – this investor did not add to the account after a contribution of $100,000.00 at inception.

PERFORMANCE

The Vertex Balanced Fund returned 7.21% for the year ended June 30, 2003.

Net Asset Value	Rate of Return 1 Mo.	Year to Date	1 Yr.	2 Yrs.*	3 Yrs.*	4 Yrs*	5 Yrs.*
$12.0340	**3.33%**	**9.00%**	**7.21%**	**8.88%**	**7.12%**	**11.42%**	**9.84%**

*Annualized

THE PORTFOLIO

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

CIBC	CTS Corp.	Canadian Western Bank
Mattel Inc.	Boeing Co.	Kroger Co.
Bank of Montreal	Nexfor Inc.	Emera Inc.
ACE Ltd.	Prudential Financial Inc.	Transocean Inc.
Bank of Nova Scotia	Safeway Inc.	GSI Lumonics Inc.
Fairfax Financial Holdings	Odyssey Re Holdings	Sun Life Financial
CI Fund Management	Honeywell Int'l.	

All bonds are government guaranteed

Asset Mix

Cash	0%	Canadian Equities	50%
Fixed Income	26%	Foreign Equities	24%