VERTEX BALANCED FUND

VERTEX FUND

Second Quarter Report, 2004

Being the value types that we are at Vertex One, we have decided to combine the second quarter commentary for both funds. Not only do we save time and money, we find that most investors are pre-occupied with enjoying the summer months - so here's your holiday-friendly report.

There are two main categories of investing. These are passive management and active management. Passive management can mean buy and hold or indexing. Active can mean many things but most often it refers to a style of investing that involves active trading. Since nothing earthshaking happened this quarter, I am left with no alternative but to expend some ink defining Vertex's investment style or leave this page blank. Having read many pages that should have been left blank, it's possible the correct course of action should be to write, "This page intentionally left blank" and call it a day. But alas, I can't do that without upsetting the editor so let's carry on then. Our style can best be described as manic-depressive or bipolar. What I mean is, it's passive until we get so bored that something must be done "just because" – no, just kidding! Unfortunately many investors do operate this way and are under the illusion they are in control of things if buying and selling often – the same way people think that bumper to bumper traffic will mover faster if they honk their horns.

Although I've said this many times in meetings and presentations, it's the first time in print. Vertex's long investment strategy is simply this: We buy companies when their stock prices are one half to two thirds that of their respective competitors' (or the market's) price to value characteristics. We sell these companies when their stock prices equal the price to value characteristics of their competitors or the market. Fortunately, the firms in your fund tend to grow earnings at an equal rate to stock price increases. It seems no one gets too excited about our companies. This is cool with me as it reduces overall portfolio volatility and the need to sell too often. This may lead the reader to believe our style is "passive". But wait! Every once in a while, some or many of our companies' stock price to value metrics hit those of competitors or the market and when this happens we get very active and either sell our shares or write short term call options on the underlying company's shares (covered calls). Conversely, from time to time stock prices of good companies get very cheap, forcing us to buy shares and or sell put options on the underlying shares. This allows for lower cost share purchases or greater income for your fund. This is what I mean by bipolar. Occasionally we're buying like crazy. Most of the time we're waiting and focusing on doing nothing (which is the hardest thing to do when managing money) and occasionally we're selling like we're crazy. This would suggest we're crazy at the poles only - hence bipolar.

There it is, I've given away our entire long investment strategy. There's not much to it sorry to say. Since we're on a roll telling all, new additions to the Balanced Fund include Laurentian Bank, trading below book value with a 4% dividend yield and Harleysville Group, a regional P&C insurance company trading below book value with a 3.5% dividend yield. Also for the first time in three years, option premiums have been rich enough to write puts on Patterson-UTI Energy, puts and calls on CIBC, Tidewater, Prudential Financial and QLT. The fund is currently well positioned with 75% equities and 25% in bonds – expect to see little change in this allocation for the remainder of the year.

The Vertex Fund on the other hand is certainly more actively managed than the Balanced Fund. Essentially, by their very nature, alternative investment strategies tend to have shorter investment horizons – typically 90 days to two years. Having said that, both of the funds still adhere to our value metrics on the long positions. The main difference is that the long positions within the Vertex Fund will tend to have some other 'catalyst' to add value – i.e.: a merger, conversion or takeover situation.

Currently, the Vertex Fund has a longer bias than normal as we continue to see global expansion help to drive demand for energy, commodities and other resources. China continues to play a key role within this thesis as their GDP is expected to increase by approximately 7.5% for 2004. Our backyard here in Canada is well situated to reap the rewards of our large resource base. Geographically, the Vertex Fund has about 90% exposure to Canada.

Our goal has always been to deliver equity-like returns without equity-like risks. We will endeavor to keep this goal at the forefront of our investment process.

Please give us a call with any questions, thoughts or comments – we'd love to hear from you.

PERFORMANCE

The **Vertex Balanced Fund** returned 17.18% for the year ended June 30, 2004

	Rate of Return					
Net Asset Value	**3 Mos.**	**1 Yr.**	**2 Yrs.***	**3 Yrs.***	**4 Yrs.***	**5 Yrs.***
$14.1016	**-0.16%**	**17.18%**	**12.09%**	**11.58%**	**9.55%**	**12.55%**

*Annualized

THE PORTFOLIO

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

Fairfax Financial Holdings	Bank of Montreal	Emera Inc.
CIBC	Enerflex Systems	Sun Life Financial
Mattel Inc.	SKF Pulp Fund	CTS Corp.
Northbridge Financial	TSX Group	Tidewater Inc.
CI Fund Management	ACE Ltd.	Laurentian Bank of Cda.
Norbord Inc. (formerly Nexfor)	Kroger Co.	Canadian Western Bank
Bank of Nova Scotia	Honeywell Int'l.	

All bonds are government guaranteed

ASSET MIX

Cash	0%	Canadian Equities	50%
Fixed Income	25%	Foreign Equities	25%

The **Vertex Fund** returned 34.24% for the year ended June 30, 2004.

	Rate of Return					
Net Asset Value	**3 Mos.**	**1 Yr.**	**2 Yrs.***	**3 Yrs.***	**4 Yrs.***	**5 Yrs.***
$36.5069	**-4.74%**	**34.24%**	**18.18%**	**15.52%**	**14.45%**	**23.26%**

*Annualized