

2nd Quarter Report to Vertex Fund Limited Partners July 17, 2001

Dear Limited Partner:

2001	Net Asset Value per Share	Performance Year to Date
January 1	\$25.05	
March 31	\$24.50	-2.2%
June 30	\$25.81	3.0%
Since Fund Inception (February 6, 1998)		158%

Wow!

Unlike our last quarter, we now are up 3% for the year. During the second quarter the fund rose 5.4%.

Over the last quarter the Canadian dollar rallied 3.9% and with over 50% of the portfolio invested in the US it has hurt our performance. The dollar has its highs and lows and we take the good with the bad. All in all we would rather own US dollars than not own them. Since the start of my investment career, many moons ago, there has only been one call to make regarding Canadian dollars, that is, own US dollars. I think that call will stand for years to come but it is a call we will not speculate on. Our asset mix is driven solely through investment opportunities whether by style or country.

Going through the current bear market, our goals remain the same as in a bull market, and those are to preserve capital while adding incremental returns. This brings us back to a topic we have discussed previously in bull markets and we can rehash our view in a bear market; "Relative performance versus Absolute returns".

Mutual Funds are traditionally sold on "relative performance". The pitch is that over the last 6 months ended June, 2001:

- The TSE has declined 12.7%
- Nasdaq has dropped 12.8%
- S&P has dropped 5.6%

and your fund did better than those returns even if it declined (although we can now avoid that claim after the last quarter).

Hedge Funds are traditionally sold on "absolute returns" regardless of market conditions. Returns in this case are measured against a risk free rate like T-bills.

The Vertex Fund fits somewhere between these two standards since we don't like to box ourselves in! The truth is, if we focused solely on Merger Arbitrage we would market ourselves only on absolute returns. Our bias is to always have some equity exposure in the fund as we can use many more tools such as options to increase returns and have equity exposure similar to what other equity funds would have. This means that we will have down months and down quarters but hopefully in the long run this increased exposure will increase our returns.

Please call us if you would like to discuss these issues in greater detail and we thank you for your continued support.

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