

## VERTEX FUND

### Third Quarter Report, 2003

Country music used to represent horses, railroads, land, judgment day, family, hard times, whiskey, courtship, marriage, adultery, separatism, murder, war, prison, rambling, damnation, home, salvation, death, pride, humour, piety, rebellion, patriotism, larceny, determination, tragedy, rowdiness, heartbreak, love, mother and God.

Johnny Cash (1932-2003)

This last quarter we lost a great name in music; a true legend who had the ability to transcend generations of music lovers. At the age of 70 his new releases were on top of the hit parade on MTV. Not only did Johnny Cash appeal to three generations of record buyers he also was a student of history. In the liner notes of his three record set of Greatest Hits he talked about performing live at Folsom Prison and likened the mood of the prisoners to the mindset of the stories in "Extraordinary Popular Delusions and the Madness of Crowds". He felt that all he had to say was "riot" and the crowds would have gone off. You can never stand in front of a train of investment behavior.

For a man who brought us "A Boy Named Sue" and put his name all over Canada Trust ATM machines in the 1980's, he could think outside of the box like no other artist. Country music by Johnny Cash could transcend many levels but at the end of the day it was always called a specific genre of "country music". Much like we are labeled a hedge fund today, though we look more like an equity fund with exposure to the market. As different market cycles occur we try to transcend our genre but it is important to remember that the reason the fund has had such an exceptional two quarters of performance is because we have market exposure. We call ourselves a hedge fund but we are also an equity fund!

Our investment theme has remained constant this year, as it has been "all about Canada". 97% of the assets are now in Canadian dollars and most of our equity exposure has been in real assets (versus financial assets). As a quick reminder our definition of real assets is oil, gold, base metals, real estate and gas. Interest rates have driven the real estate market to the point that if you have the same salary as four years ago you can afford 40% more house due to affordability. Just look at the increase in US housing prices over this time.

#### Existing Home Prices

2003 2Q % Change from 1999

Los Angeles	69.4%
New York	72.7%
Chicago	41.3%
Atlanta	22.4%
San Francisco	64.4%

Real estate aside, we have seen incremental growth for Canadian products (real assets) coming from China whose economy is on the verge of overheating. In 2002 its economy grew by 8%. China now accounts for 23% of nickel, 17% of copper, 28% of iron ore, 24% of zinc and 21% of alumina demand and all these numbers are growing incrementally. Canada is in a lucky place where we can provide global fuel to this economic monster.

Gold today has the mania of an investor train that looks like Folsom Prison or NASDAQ in 2000. None of the companies trade at any fair value that we can discern but sometimes our job is to gauge what we think other people will buy and make sure we are there before them. We have owned gold for over a year and see the investor train coming from the US and China who look to change the allocation of asset mix in their portfolios and hedge against the decline of the US dollar. We continue to build a portfolio of gold warrants that will allow us to participate in this rally with little risk.

Please call us if you have any questions.

Vertex One Asset Management

## PERFORMANCE

The Vertex Fund returned 26.59% for the year ended September 30, 2003

<b>Net Asset Value</b>	<b>Rate of Return</b>						
	<b>3 Mos.</b>	<b>Year to Date</b>	<b>1 Yr.</b>	<b>2 Yrs.*</b>	<b>3 Yrs.*</b>	<b>4 Yrs.*</b>	<b>5 Yrs.*</b>
<b>\$30.0246</b>	<b>10.41%</b>	<b>24.64%</b>	<b>26.59%</b>	<b>11.06%</b>	<b>8.90%</b>	<b>22.21%</b>	<b>28.28%</b>
<small>*Annualized</small>							