

## **VERTEX FUND**

### **Year End Report, 2003**

Everything worked for Canada in 2003. Everything worked for the Vertex Fund as well although it took awhile to get started as the fund was down after the first quarter of the year. I was sure that we were going to have another down year in the markets, of say 20% being the most likely scenario, but it turns out that my track record for predicting stock market movement is intact. 100% wrong. It's too bad that I'm cautiously optimistic for 2004. Hopefully I'll be wrong about that as well. Luckily we have been better about sniffing out opportunities for the fund than predicting market movement, so think twice about asking us what we think about the markets.

We started the year having one of our biggest exposures to the Canadian dollar since the inception of the fund and as the year progressed we continued to get even more bullish on the dollar to the point that by year end we had no exposure to the US dollar. This helped avoid over a 10% currency loss if we had maintained 50% US dollar exposure. The Canadian dollar has even lagged the Australian and Euro dollar this year, which will make it very hard for non American companies to compete with the U.S. Canadian manufacturing will get decimated this year if the dollar does not recede its appreciation versus the American dollar. America is determined to get out of this recession by depreciating their dollar at a record pace. Canada has used this strategy well over the past decade, but in pure American fashion, they have done it in double time.

This means that it is Canada's time to shine with an amazing rally in golds, oils and base metals all under the auspices of the first Prime Minister of Canada that I have ever taken a liking to. Perhaps it's because the House Martins were one of my favorite bands in University when they sang "It's Happy, Happy, Happy Hour Again". We may even see Alberta vote Liberal in this year's Federal Election.

As merger arbitrage waned this year we found the next best thing - companies that converted to unit trusts. Baytex Oil and Gas, Dundee Realty, Bonavista Energy, Crescent Point and Focus Oil and Gas were all names that we had large positions in and still do to this day with the exception of Baytex, whose balance sheet gives us the creeps. It's rather odd owning investments that new shareholders will give you an increased multiple for a tax payment that the old shareholders would not. It's all for this reason that we own shares in Penn West Petroleum as we believe there is an outside chance that management will convert this company into a unit trust.

The golden time of gold shares occurred in the last quarter, although we are still smarting from being too early in this sector as the fund had suffered a 12% downdraft in these names in July 2002. Patience has been a virtue as it helped our performance this year with additional exposure in the base metals in names like Sherrit, Cameco and Noranda. Today our total exposure in golds, oils and base metals represents 45% of the portfolio. We feel this will position us well for Canada's shiny time in 2004.

Last year about this time our unitholders started to think about their taxes and we fielded quite a number of calls from unhappy shareholders who realized that they had lost 2.4% of their funds with us and received a tax bill to boot. Well sometimes it's better to be lucky than smart or perhaps just patient as this year both our funds have **no** taxable distributions, so please read the one year performance number below as your after tax rate!

Happy New Year and please feel free to call us with any question or comments at any time.

Vertex One Asset Management

## PERFORMANCE

The Vertex Fund returned 48.91% for the year ended December 31, 2003

<b>Net Asset Value</b>	<b>Rate of Return</b>					
	<b><u>3 Mos.</u></b>	<b><u>1 Yr.</u></b>	<b><u>2 Yrs.*</u></b>	<b><u>3 Yrs.*</u></b>	<b><u>4 Yrs.*</u></b>	<b><u>5 Yrs.*</u></b>
<b>\$35.8701</b>	<b>19.47%</b>	<b>48.91%</b>	<b>20.53%</b>	<b>15.99%</b>	<b>21.56%</b>	<b>29.88%</b>
<small>*Annualized</small>						