

VERTEX FUND

First Quarter Report, 2005

I am Global

For those of you that think this letter is about Glowbal the restaurant in Yaletown you may want to stop reading now. I could write a 100 page dissertation on human behaviour just based on the goings on in that place but my father once told me “that what happens on the road stays on the road”. But what you can learn from people’s behaviour that it is captured everyday in the capital markets through price behaviour. Not a day goes by that we don’t think someone must be drunk to buy over half the stocks that are listed. And additionally we are even more surprised to see how it takes for the hangover to kick in.

Molson’s recent merger with Coors is a deal we didn’t participate in but it’s a perfect example of behaviour that should be analyzed. Not a word was spoken among Canadian news outlets that we lost a part of our heritage, our beer our last large original national brewer (if you remember Labatt’s was sold to the Europe years ago). At one time Molson’s actually issued currency under the Bank of Molson’s in our Dominion; now that’s money in the bank. But recently they lost their way by leaving their core focus through an international expansion and when the cash flow stopped the fighting at the board level started. It was a sad day for Canadians because they built more pride in Canadian identity with their “I am Canadian” marketing campaign than any Prime Minister has done in my lifetime, not to mention that small hockey team in Montreal they owned The day Molson’s became American they quietly announced that they were ending their “I am Canadian” campaign. I think they should have a started a new campaign called “I am Global”.

If this transaction occurred in Australia or France an act of legislation would have stopped it due to the national outcry that would have been heard within its country wall, but not in Canada as we are too nice or maybe when I look at all the magazines at the check out stand or while channel surfing everything is already in American speak so they don’t see my point of view as a Canuck. Being in the merger arbitrage space we are keen to get a return for our unit holders in companies so there in lies the irony of our Molson’s comments and to be totally two faced about it we recently built a position in Hudson’s Bay which once owned our country (they don’t have a Chairman of the Board, they have a Governor) because it seems imminent that management needs to be changed with stores that only attract the blue hair crowd and for a stock that has a \$31 book value, it cannot earn a decent return on shareholders equity. I will again have mixed feelings when it gets sold and the Governors office will sing the jingle “I am Global.”

But perhaps Canadian’s are the most sophisticated investors of all, as the strength of our market has been feeding the expansion of global consumer goods by our sale of commodities. We know a gift horse when we see one. Commodities strength lifted the Vertex Fund to an awesome return in February of over 6% and of course we had to give some of that back. At one time in March the fund was down over 4%! If this scares you make sure you

sell the fund this month as we expect much more of this type of volatility in the future. If you are one of the original Vertex Fund investors in the fund your original invested \$1 dollar is now worth \$5 after 7 years of hard work. Give your self a pat on the back and buy your favorite beer because it tastes good. We have seen many a crisis over that time and many a more will come including the recently discovered huge meteor that has recently been discovered and will hit the earth in 2880. Please alert your trustees to this fact.

On the investment front we were lucky this quarter to capitalize on the restructuring of Saskatchewan Wheat Pool, the price movements in Coal and Uranium as well as some private investments that we made in the oil and gas. Highpine Oil and Gas and Redsky Energy rewarded us with a catalyst of liquidity and a higher priced financing respectively. These were our first private investments since last century. We had only done one prior to 2004 and we can report to you that we booked the capital loss to reduce your tax bill last year. After this fiasco you can see why waited half a decade before we tried again. Today private companies represent 1.3% of the portfolio and we could never imagine that they would be more than 5% in a perfect world so you won't have to cry in your beer.

Merger Arbitrage has dropped to 15% of the portfolio and our goal is to keeping sniffing for more deals so we can increase this amount.

Your Canadian money manager,

Vertex One Asset Management

PERFORMANCE

The Vertex Fund returned 60.23% for the year ended March 31, 2004.

Net Asset Value	<u>1 Mo.</u>	<u>Year to Date</u>	<u>1 Yr</u>	<u>2 Yrs*</u>	<u>3 Yrs*</u>	<u>5 Yrs*</u>
\$38.3219	0.49%	6.84%	60.23%	20.92%	19.46%	28.62%

*Annualized

