

VERTEX FUND

Third Quarter Report, 2005

Wooooow, who saw that coming? 11.8% in three months! Your portfolio managers were busy wondering who was less inept at predictions; us at predicting market direction, or the weatherman on the elevator news network? I think the edge goes to us in terms of batting average but still we have no idea about the direction of the markets in the short term. Well, now that this important piece information has been shared, here is the rest.

In our last commentary we provided you with a list of recent income trust conversions and Initial Public Offerings (IPOs). Investing in income trust conversions and trading IPOs has contributed nicely to Vertex Fund unit-holders' returns over the last 18-24 months. This came to an abrupt end when in typical *liberalarama*, (think Danny Gullivan calling this one), the government announced they would no longer provide advance tax rulings on companies, whether private or public, converting into income trusts. The color commentators of the political world immediately made it headline news that the government needs to better understand the effect on tax revenues, I just can't stop myself here....Canada Revenue estimates that around \$300 million in revenue has been lost due to companies converting to the income trust structure. I ask myself how much was spent, loaned or otherwise disposed of through the Federal Sponsorship Program? About \$300 million we're told. Then Uncle Ralph, unfortunately it's not the real Uncle Ralph from Alberta, stands up and tells us he is more focused on the structure of corporate Canada and the long term effect on economic growth of all these companies paying their cash flow to investors instead of into government coffers. The Vertex Fund, however, was only mildly affected by these shenanigans as the fund had been diversified among strategies that were unaffected by this announcement. This highlights the benefit of prudent portfolio diversification among alternative investment strategies.

On a recent visit to Europe to attend a few alternative strategy conferences I was amazed at the focus on Canada as a place to invest. The reason for this great country of ours to appear on the radar screen of international investors, without a single game of professional hockey being played, was nothing but good old black gold.....oil that is. It's another reason the petro-dollar has been so strong of late. As the pricing of commodities goes, so goes our dollar and recently our stock market. Oil and Gas is now close to 30% of the TSX index and your managers have been happy to reduce exposure to energy and only maintain energy related positions where catalysts are in place to unlock value. I seem to remember only five years ago there was a single company that represented 35% of the TSX with all kinds of soothsayers predicting even higher levels on the horizon. Oil and gas (commodities) have been good to Vertex, so we have been selling our positions in order to share the wealth with others....oh, wait a minute, I mean to protect your wealth!

From 1966 to 1982 the Dow Jones was unchanged in an environment where people believed stocks to be finished. Our belief is that there will always be some investments subject to out-performance. Like economic cycles there are investment cycles and at

different times there are different ways to make money. Arbitrage has been around for hundreds of years albeit under much different trading conditions than today. As recently as a year ago our weighting in this particular strategy had fallen to around 10%, not that we didn't want to have more of this desirable strategy, it had just been hard to find many deals meeting our criteria. I am glad to report however, that merger arbitrage has risen to 20% of the portfolio as more investment dollars are chasing stocks thus freeing up opportunities for us. If stock markets in North America become expensive, look for an increase in this strategy as spreads should continue to be attractive.

The Vertex Fund returned 30.79% for the year ended September 30, 2005.

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Performance

Net Asset Value	Rate of Return					
	Year 3 Mos.	To Date	1 Yr.	2 Yrs.*	3 Yrs.*	5 Yrs.*
\$48.8722	11.79%	21.79%	30.79%	32.25%	30.34%	17.70%

*Annualized

Vertex One Asset Management