

2nd Quarter Report to Vertex Fund Limited Partners July 15, 1998

Dear Limited Partner:

<u>1998</u>	<u>Net Asset Value</u>	<u>Performance</u>
February 9	\$10.00	
March 31	\$11.72	17.2%
June 30	\$11.85	1.1%

The Vertex Fund had a volatile 2nd quarter with the valuation hitting a high of \$12.96 in April and selling off to \$11.85 for the quarter ending in June. Total performance for the fund since inception is 18.54% versus 10.7% for the TSE and 17.7% (Cdn funds) for the S&P 500 (index returns are from February 1 versus February 9 for the fund).

During the quarter, U.S. market exposure was increased to 50% and we were a little premature in adding exposure to the semi-conductor sector and oil drillers which added to the volatility of the fund. Other stocks added were **Bissett Asset Management** and **Celestica**. **Bissett** is a great competitor of ours with solid and modest management (Fred Pynn of Bissett was my CFA accounting tutor). Business has grown ten fold over the last 3 ½ years to a size of \$4billion under management. **Celestica** is a company that was founded by Gerry Schwartz C.E.O. of Onex Corp. **Celestica** has acquired different EMS (electronic manufacturing services) plants in North America and Europe which produce components for some of America's fastest growing companies (Cisco, IBM and others). Mr. Schwartz has been one of Canada's best buyers and sellers of stocks and you can rest assured that when he sells one share we will be there with him!

The overall market is still looking quite strong to us and will probably continue to do so as long as the yield curve (90 day T-bills versus 10 year Treasuries) stays positive. Bear markets in Asia have followed when short-term interest rates were raised to protect the economy through currency exchange rates. This will be a key indicator for us to change our bullish forecast.

Our website at www.vertexone.com is up and running faster than most sites and up to date fund valuations can also be found in the Globe and Mail and Financial Post under the mutual fund section.

Sincerely,

Vertex One Asset Management
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