MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, October 2002

The fund recorded a return of +5.19% in September vs. return of the index of +0.13%. The significant outperformance was largely due to a recovery in the price of the Bombardier preferred shares which have assumed a disproportionate importance to the returns of the fund, due to their extreme volatility. The volatility is rather difficult to account for – it is probably due to the gun-shy nature of retail investors (who are a significant force in the preferred share market), who have been burned fairly often in the past by companies which have featured in the morning headlines. To a large degree, the fund earns incremental returns by trading on value when the price gets out of line.

<table>
<tr><td>Month</td><td>MAPF Total Return*</td><td>NB-50 Total Return</td><td rowspan="15">The “NB-50” is an index of preferred shares proprietary to BMO Nesbitt Burns. It is composed of 50 issues having good liquidity and credit quality.</td></tr>
<tr><td>November, 2001</td><td>-0.81%</td><td>+0.98%</td></tr>
<tr><td>December, 2001</td><td>-2.54%</td><td>-0.14%</td></tr>
<tr><td>January, 2002</td><td>+5.43%</td><td>+2.01%</td></tr>
<tr><td>February</td><td>+1.16%</td><td>+0.17%</td></tr>
<tr><td>March</td><td>-0.08%</td><td>-2.16%</td></tr>
<tr><td>April</td><td>+1.22%</td><td>-0.65%</td></tr>
<tr><td>May</td><td>+0.01%</td><td>+0.25%</td></tr>
<tr><td>June</td><td>+1.67%</td><td>+0.67%</td></tr>
<tr><td>July</td><td>-2.19%</td><td>+1.31%</td></tr>
<tr><td>August</td><td>-2.05%</td><td>+0.39%</td></tr>
<tr><td>September</td><td>-7.48%</td><td>+0.54%</td></tr>
<tr><td>October, 2002</td><td>+5.19%</td><td>+0.13%</td></tr>
<tr><td>Last 12 Months</td><td>-1.14%</td><td>+3.50%</td></tr>
<tr><td>Cumulative since Inception (2001-03-31)</td><td>+11.38%</td><td>+3.94%</td></tr>
<tr><td colspan="4">*MAPF total returns include reinvestment of dividends and are after fund expenses but prior to management fees. They are shown for illustrative purposes only and future returns are not assured.</td></tr>
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The volatility in the marketplace during October is well illustrated both by the very high standard deviation calculations provided in the table showing performance by risk-group and by the table displaying the best and worst five performers for the month. This is the first monthly report for the fund which features the doubling of a stock price!

The overall yield curve was relatively quiet during the month – the item of most significance was a continued decline in the spread demanded for split-share corporations, as this figure slowly approaches the normal range. The "Base Rate" increased slightly, which accounts for the low return on the index.

Curve Attribute	September 30, 2002 (After Tax Figures)	October 31, 2002 (After Tax Figures)
Base Rate	3.31%	3.44%
Short Term Premium	-3.31%	-3.55%
Short Term Decay Time	5.5 Years	5.8 Years
Long Term Premium	1.90%	1.92%
Long Term Decay Time	14.6 Years	14.1 Years
Interest Income Spread	0.68%	0.60%
Cumulative Div. Spread	-0.26%	-0.31%
Split-Share Spread	0.93%	0.87%
Retractability Spread	-0.76%	-0.62%
Floating Rate Spread	-0.71%	-0.79%
2nd Tier Credit Spread	0.62%	0.62%
3rd Tier Credit Spread	1.26%	1.24%
"High" Credit Spread	-0.61%	-0.62%
"Low" Credit Spread	0.00%	0.00%
Note: Figures for July have changed somewhat from the previous report. This is due to additions of data.		

The figures shown for the overall yield curve represent average rates taken over the entire universe. A lot of information is concealed within these averages, as may be seen from the table showing average returns by risk factor for the various "risk components" of the universe.

The standard deviations of returns within each group are abnormally high, reaching twenty-five percent for Floating Rate issues, a class which includes the notoriously volatile Nortel preferreds, as well as the recently volatile (since July) Bombardier issues, BBD.PR.B and BBD.PR.C. Note that as the Nortel issues are not of particularly good credit quality (rated Pfd-5L by DBRS, the lowest category above default), they are not included in the calculation of yield curve spreads. Neither are the Bombardiers, for that matter, as the algorithms which compute spreads note that these issues are so out of line vis a vis their peers that there are company/issue specific factors affecting their price which renders the information they contain regarding risk-factor spreads unintelligible.

Risk Factor	Returns for "True" (Pre-Tax)	Returns for "False" (Pre-Tax)
Retractable	0.27%±2.86%	4.32%±19.92%
Split Share Corp	0.76%±2.57%	2.21%±14.52%
Cumulative Dividends	1.83%±9.00%	2.13%±17.54%
Payments are Dividends	2.17%±13.75%	-0.60%±0.97%
Floating Rate	8.11%±25.36%	-0.03%±2.02%
Credit Class 2	0.81%±4.05%	3.09%±18.12%
Credit Class 3	0.65%±2.53%	2.14%±14.12%
Credit Class Modifier "High"	0.45%±1.84%	2.22%±14.30%
Credit Class Modifier "Low"	-0.13%±2.65%	4.42%±18.97%

There was one development during the month which will be of interest to preferred share investors in general and split-share corporation investors in particular: the Normal Course Issuer bid which the Toronto Stock

Exchange has approved for Global Telecom (GT.A, GT.PR.A on the TSE). These two classes of equity were issued in 1998 at a price of $15.00 per share each; the company's mandate was to invest in Telecom stocks while seeking to enhance returns by the writing of covered options on the company's investment portfolio (cash, in the case of put options). Results since the bursting of the telecom bubble have been disasterous for investors. Dividends on the preferred stock were not paid at the end of September and are now, by definition, in default. The company is scheduled to be wound-up on July 2, 2008 with the payment of $15.00 for each preferred share (GT.PR.A) with the residue distributed to the Class "A" shareholders (GT.A); but as of October 10, 2002 there were assets of only $12.06 backing the preferreds! The company must therefore realize a return on investment in excess of 10% per year until mid-2008 simply to meet its obligations to the preferred shareholders.

Despite this, however, the company has sought and received approval for a Normal Course Issuer Bid (NCIB) on the Class "A" shares – the company is therefore using its funds to support the price of the residual shares at a time when dividends on the preferred shares are in arrears and the asset coverage ratio is less than one. A letter to the TSE protesting the NCIB was of no avail – interested readers may obtain a copy of the letter at www.himivest.com/activism/TSE021022.pdf and a subsequent follow-up to the Ontario Securities Commission at www.himivest.com/activism/OSC021106.pdf. Unfortunately, the willingness of the company to engage in such behaviour means that the preferred shares under Mulvihill's control (PIC.PR.A, MUH.PR.A, GT.PR.A and SPL.A) must be evaluated for purchase more harshly to account for this hazard.

This month's chart shows the evolution of the spread on Credit Class 2 issues. Has the spread peaked?

TSE Ticker Symbol	Total Return, September, 2002	Remarks (Valuation commentary based on Ontario's highest marginal tax rate)
HPF.PR.B	-6.86%	Low volume, but attractive at $12.30
AR.PR.B	-5.32%	Very low volume
NSI.PR.C	-3.85%	DBRS reviewing credit rating with negative implications.
CGQ.E	-3.23%	Low volume, relatively poor credit (DBRS P3L)
LB.PR.D	-2.85%	Moderately attractive at $25.21
…	…	…
BBD.PR.B*	+9.94%	Dead cat bounce! Still cheap at $16.85. MAPF holds position
BNN.PR.A	+20.59%	Extremely low volume
BBD.PR.D*	+20.92%	Still cheap at $17.75. MAPF swapped position into BBD.PR.B
NTL.PR.F*	+75.32%	Market perceptions of Nortel's chances change often …
NTL.PR.G*	+134.22%	… and very violently!
*indicates that the issue was also on last month's best/worst performers table		

James Hymas
Portfolio Manager

Yield Curve Data : Period (inclusive) from 2001-10-31 to 2002-10-31

Tax Identifier: 7

X-Axis: Date

PREMIUM - CREDIT CLASS 2 : Spot RateY-Axis: Yield as fraction (positive implies cheaper th