MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, March 2002

With the end of March, Malachite Aggressive Preferred Fund is celebrating its first full year of operation and results have been very gratifying. While the March return itself was essentially flat, it demonstrates a "loss avoidance" of the fund that is very important to long-term returns in the face of a volatile marketplace.

Month	MAPF Total Return*	NB-50 Total Return	
April, 2001	+1.11%	-0.32%	*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.*
May	-0.20%	-0.66%	
June	+2.56%	-0.62%	
July	+1.40%	+0.48%	
August	+1.74%	+1.13%	
September	+4.20%	+0.51%	
October	+1.25%	-0.06%	
November	-0.81%	+0.98%	
December, 2001	-2.54%	-0.14%	
January, 2002	+5.43%	+2.01%	
February	+1.16%	+0.17%	
March, 2002	-0.08%	-0.50%**	
Cumulative	**+16.06%**	**+2.97%****	
**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.*			
***March return data for the NB-50 was not available at time of writing and has been estimated by Hymas Investment. The estimate may vary considerably from the actual number due to differences in issues examined, weighting and calculation methodology.*			

Quarter	MAPF Total Return*	NB-50 Total Return
2Q01	+3.50%	-1.59%
3Q01	+7.50%	+2.12%
4Q01	-2.12%	+0.78%
1Q02	+6.57%	+1.67%**
**See note to MAPF monthly returns, above.*		
***Estimate only. See note to NB-50 March return estimate, above.*		

Estimation of future returns for any asset class is an exercise fraught with peril; taxation policies may change, corporations may default on their obligations en masse, fiscal and monetary policy may conspire to destroy or enhance value. Hymas Investment Management Inc. takes the view that the best indicator of long-term returns for the preferred share marketplace is the rate of dividends being offered on current new issues – this rate is currently about 6%, or a pre-tax interest equivalent of about 7¾% for an

investor in Ontario's highest marginal tax bracket. Hymas Investment Management seeks to exceed this long-term index return.

The yield curve shifted upwards in March, accounting for the relatively poor performance of the market. It should be noted that the HIMI analysis of the yield curve isolates three major attributes determining level and shape of the overall yield curve. These attributes are then used as the core rate for further analysis, individual issues generally lying at some "spread" to the curve dependant upon the attributes of these issues – retractability, type of income paid, etc., in addition to "random factors" such as liquidity considerations. Once we have determined where an issue should lie relative to the curve, we can then examine its actual position; an issue which is yielding more than the determined value is more attractive, that is to say, cheaper, than an issue yielding less than the determined value, *ceteri paribus*.

Curve Attribute	February 28, 2002 (After Tax Figures)	March 28, 2002 (After Tax Figures)
Base Rate	3.24%	3.40%
Short Term Premium	-3.48%	-3.48%
Short Term Decay Time	4.5 Years	3.5 Years
Long Term Premium	1.13%	0.91%
Long Term Decay Time	22.4 Years	22.5 Years
Interest Income Spread	0.53%	0.46%
Cumulative Div. Spread	-0.15%	-0.23%
Split-Share Spread	0.23%	0.14%
Retractability Spread	-0.50%	-0.40%
Floating Rate Spread	-1.38%	-1.47%
2nd Tier Credit Spread	0.45%	0.40%
3rd Tier Credit Spread	1.25%	0.91%
"High" Credit Spread	-0.44%	-0.27%
"Low" Credit Spread	0.00%	0.00%
Note: Figures for February have changed somewhat from the previous report. This is due to additions of data.		

The three elements of the "core" yield curve are:

- Base Rate: The average of the yield of all instruments. In the absence of the other two factors, the base rate would determine the level of a flat yield curve.
- Short Term Premium and Decay Time: Values showing the willingness of investors to receive a rate other than the "Base Rate" for money that is invested for a relatively short period of time – an effect best illustrated by the difference in yields paid on 1-year and 5-year GICs. A negative value corresponds to a "normal" yield curve, in which shorter terms to maturity have lower yields.
- Long Term Premium and Decay Time: Similar to the "Short Term" factors, but related to the "long-end" of the yield curve, usually referring to terms of 10-30 years. A negative value corresponds to a "normal" curve, with yields rising as term increases; a positive value, such as is current, corresponds to an "inversion".

The interaction of these factors leads to the derivation of a yield curve of familiar shape, shown in this month's graph. It should be noted that in contrast to curves usually illustrated (which show, for instance, bond yields vs. term to maturity), this derivation shows spot-rates; that is, each cash-flow (dividend payments, taxes payable, etc.) of each instrument is assigned a particular yield and therefore each instrument is described as being a portfolio of individual cash flows each having an associated yield-to-payment.

This month's "Risk Group Return Analysis" shows a wide variation in returns based on credit class, with returns rising as the credit quality decreased, as can be inferred by the narrowing of the spreads shown in the yield curve analysis. We also observe that interest-paying issues out-performed the more normal dividend-payers, which probably reflects the market absorption of the recent issues of preferred securities, ENB.PR.D and BNN.PR.S.

Risk Factor	Returns for "True" (Pre-Tax)	Returns for "False" (Pre-Tax)
Retractable	-0.47%±1.74%	-0.54%±8.32%
Split Share Corp	-0.08%±0.91%	-0.56%±5.82%
Cumulative Dividends	0.61%±5.42%	-2.03%±4.99%
Payments are Dividends	-0.61%±5.65%	0.67%±0.76%
Floating Rate	0.23%±11.09%	-0.69%±1.65%
Credit Class 2	0.30%±2.31%	-1.28%±7.17%
Credit Class 3	3.59%±5.45%	-1.05%±5.15%
Credit Class Modifier "High"	-0.53%±1.98%	-0.49%±5.85%
Credit Class Modifier "Low"	0.04%±3.77%	-1.21%±6.94%

I have been queried regarding Nortel preferreds. As credit-worthiness declines, the more the debt obligations trade like, and must be analyzed as, common equity. This firm will not buy these issues for clients; the analytical process relies largely on comparing "baskets" of cash flows and Nortel's have too much uncertainty attached for reliable analysis. Some investors may wish to consider the preferreds as an alternative to Nortel's common equity – but this firm makes no recommendation either way.

TSE Ticker Symbol	Total Return, March 2002	Remarks (Valuation commentary based on Ontario's highest marginal tax rate)
NTL.PR.G*	-35.11%	4th tier credit - good value at $8.76 – if Nortel survives! (see text)
NTL.PR.F*	-33.46%	4th tier credit - good value at $9.10 – if Nortel survives! (see text)
PWF.PR.D	-5.68%	First Tier Credit
BC.PR.B	-4.50%	Second Tier Credit
CM.PR.A	-4.40%	CIBC issues performed poorly
…	…	…
TFC.PR.A	+8.43%	2nd tier credit, floating rate
MMF.PR.A	+8.53%	2nd tier credit, floating rate
BPP.PR.G	+11.84%	3rd tier credit, floating rate, low volume
BPP.PR.M	+15.02%	3rd tier credit, floating rate, low volume
BPP.PR.J	+15.36%	3rd tier credit, floating rate, low volume
*indicates that the issue was also on last month's best/worst performers table		

James Hymas
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Yield Curve - After Tax

X-Axis: Term to Cash Flow (Years)

2002-03-28 Y-Axis: Yield (As Fraction)