MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, January 2003

The fund recorded a stellar month in January, with a gain of 7.10% far outpacing the index return of 0.46%. Much of the gain may be attributed to an extremely good return on the holdings of the Bombardier preferred shares, BBD.PR.B, which had a total return of 20.38% - as this holding comprised slightly under 25% of the fund's net assets, one may conclude that the contribution of this position to total return was approximately 5%. The remainder of the gain may be attributed to the more usual trading between positions that, over time, will be the determinant of the fund's total return. It should be noted, however that the Bombardier preferreds are still cheap as determined by the analytical methodology developed by Hymas Investment Management and this fact, combined with the advantages of tax deferral through maintenance of the position, is keeping the position in the fund – excess volatility and all!

<table>
<tr><th>Month</th><th>MAPF Total Return*</th><th>NB-50 Total Return</th><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>February, 2002</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</td><td>+5.19%</td><td>+0.13%</td></tr>
<tr><td>November</td><td>-1.26%</td><td>+0.06%</td></tr>
<tr><td>December, 2002</td><td>+0.18%</td><td>+1.65%</td></tr>
<tr><td>January, 2003</td><td>+7.10%</td><td>+0.46</td></tr>
<tr><td>Last 12 Months</td><td>+2.76%</td><td>+2.80%</td></tr>
<tr><td>Since Inception (March, 2001)</td><td>+17.99%</td><td>+6.21%</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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There were a number of high-quality new issues issued or announced during the month, which will have the salutary effect of increasing the investible universe of the fund. These issues were CM.PR.D ($250 million, perpetual, fixed rate, non-cumulative), NA.PR.K ($150 million, perpetual, fixed rate, non-cumulative), TD.PR.M ($250 million, soft-retractable, fixed rate, non-cumulative) and a Brascan issue not yet trading ($150 million, soft-retractable, fixed rate, cumulative).

The yield curve was fairly stable during the month, with the major change being the decline in the relative valuation of retractible issues vs. perpetual. At –0.89%, however, the "Retractability spread" remains in excess of its average historical value of –0.77% and therefore some further outperformance of perpetual issues may be projected for the coming months.

Curve Attribute	December 31, 2002 (After Tax Figures)	January 31, 2003 (After Tax Figures)
Base Rate	3.38%	3.36%
Short Term Premium	-3.48%	-3.40%
Short Term Decay Time	4.9 Years	5.2 Years
Long Term Premium	2.11%	1.98%
Long Term Decay Time	12.1 Years	12.3 Years
Interest Income Spread	0.97%	0.94%
Cumulative Div. Spread	-0.23%	-0.24%
Split-Share Spread	0.89%	0.92%
Retractability Spread	-0.98%	-0.89%
Floating Rate Spread	-0.81%	-0.84%
2nd Tier Credit Spread	0.56%	0.56%
3rd Tier Credit Spread	1.12%	1.14%
"High" Credit Spread	-0.56%	-0.48%
"Low" Credit Spread	0.00%	0.00%
Note: Figures for December have changed somewhat from the previous report. This is due to additions of data.		
Note: Figures are reported on an after-tax basis, for an investor subject to Ontario's highest marginal tax rate.		

As an investor and manager, however, I continue to be surprised at the consistently high value of the "Interest Income Spread", the amount by which the yield on an interest-paying preferred *security* may be expected to exceed the yield of a dividend paying preferred *share.* Given the retail-driven nature of the preferred market, one would expect this premium to be negative when calculated on an after-tax basis for investors subject to Ontario's highest marginal tax rate – but in fact it is large and positive, even during RRSP season. The apparent lack of demand for preferred securities from their natural target market, RRSP accounts, simply illustrates the lack of efficiency in the market that Hymas Investment Management attempts to exploit in trading.

Risk Factor	Returns for "True" (Pre-Tax)	Returns for "False" (Pre-Tax)
Retractable	0.57%±1.76%	3.81%±8.24%
Split Share Corp	0.98%±1.90%	2.25%±6.45%
Cumulative Dividends	2.46%±5.61%	1.35%±6.22%
Payments are Dividends	2.17%±6.10%	0.08%±1.12%
Floating Rate	5.73% ±10.58%	0.79%±1.63%
Credit Class 2	1.54%±3.79%	2.50%±7.40%
Credit Class 3	1.76%±3.18%	2.07%±6.27%
Credit Class Modifier "High"	0.84%±2.07%	2.25%±6.36%
Credit Class Modifier "Low"	1.50%±3.31%	2.54%±7.63%

As implied by the change in the yield curve noted above, non-retractible issues greatly outperformed retractibles during the month, which assisted the fund in its outperformance. Also of note is the outperformance recorded by Floating Rate issues although, as shown by the size of the standard deviation of total returns, this was greatly influenced by a few issues (Nortel!) which did extremely well during the month.

The problem of trading volume of the instruments in the marketplace is rather interesting. Regular readers of these reports will have noted that very often in the "Best and Worst Performers" table, notation is made that the egregious issues noted have very small volumes – quite a reasonable correlation, given that issues that trade very little will have a lesser than average chance of having a willing buyer and willing seller in the market at the same time. This will, of course, lead to large price movements when a motivated investor is on one side of the market and insists on his order getting filled, even at an unreasonable price. This behaviour may be referred to as "buying liquidity" and can be expected to lead to very poor performance over the long term.

Hymas Investment Management attempts to "sell liquidity" to the marketplace – that is, take the opposite side of the market from most investors when an imbalance leads to a significant deviation of the market price from the calculated "fair market" price. However, if a significant proportion of the market should become locked into an issue which trades infrequently, returns will be hurt – we will not be able to switch between positions quickly enough. Therefore, a minimum average volume is set for all issues considered for purchase.

The question of how to calculate an average volume is not trivial. It is much better to hold an issue which trades 5,000 shares every day rather than an equivalent issue which trades 100,000 shares per month all in one trade. Therefore, a damped moving average is used to indicate liquidity; we define a Maximum Calculable Daily Volume (MCDV) as a certain multiple of the prior average; should a given day's actual volume exceed the MCDV, only the MCDV is used in forming the moving average; and should actual daily volume be much less than the average, this value will be given greater weight in the calculation than normal.

This month's graph shows the average volume calculated for W.PR.J, which was issued in June, 1999. Liquidity for this issue has declined markedly in the past year, but is still sufficient for the fund's trading needs.

TSE Ticker Symbol	Total Return, December, 2002	Remarks (Valuation commentary based on Ontario's highest marginal tax rate)
BNN.PR.A*	-7.22%	Trades rarely
NSI.PR.D*	-5.02%	Light volume, credit class 2
CCS.PR.A	-3.55%	Light volume, credit class 3
NRD.PR.G	-2.46%	Low volume, credit class 3
CAC.PR.A	-2.45%	Low volume, credit class 1
…	…	
TOC.PR.B	+13.02%	Low volume, Floating rate, credit class 2
BNN.PR.B	+13.12%	Low volume, Floating rate, credit class 2
BBD.PR.B*	+20.38%	Floating rate, credit class 2, MAPF holds – still cheap at $17.25!
NTL.PR.F*	+39.95%	Good volume, Floating rate, poor credit but good equity substitute.
NTL.PR.G	+46.86%	Low volume, Floating rate, poor credit but good equity substitute.
*indicates that the issue was also on last month's best/worst performers table		

James Hymas
Portfolio Manager

W.PR.J Period (inclusive) from 2002-01-31 to 2003-01-31

Tax Identifier: 7

X-Axis: Date

Volume : Average

Y-Axis: Shares