

MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, March 2003

The fund returned a disappointing -4.54% during the month, largely undoing the superb returns of January but leaving the fund with an excellent return of +1.65% for the first quarter, greatly in excess of the index. As regular readers of these reports may surmise, the negative performance may be attributed largely to poor performance of the Bombardier preferreds held by the fund – uncertainty surrounding the company’s intentions led to avoidance of these issues by purchasers. A happy result was achieved, however: the fund’s holdings of BBD.PR.B were swapped for BBD.PR.D on favourable terms, without triggering the massive realization of capital gain that would earlier have been the case. Note that the BBD.PR.D were quoted at \$17.03-17.30 at the close of business April 8 – a 16.2% increase from the March 31 quotation.

Month	MAPF Total Return*	NB-50 Total Return	<i>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.</i>
April, 2003	+1.22%	-0.65%	
May	+0.01%	+0.25%	
June	+1.67%	+0.67%	
July	- 2.19%	+1.31%	
August	- 2.05%	+0.39%	
September	- 7.48%	+0.54%	
October	+5.19%	+0.13%	
November	-1.26%	+0.06%	
December, 2002	+0.18%	+1.65%	
January, 2003	+7.10%	+0.46%	
February	-0.57%	-0.43%	
March, 2003	-4.54%	-0.18%	
Last 12 Months	-3.50%	+4.26%	
Since Inception (March, 2001)	+12.00%	+5.56%	
<i>*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.</i>			

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%	-0.02%
2Q02	+2.92%	+0.27%
3Q02	-11.35%	+2.25%
4Q02	+4.05%	+1.84%
1Q03	+1.65%	-0.15%

One of the great changes in the yield curve during March was the fact that both floating-rate issues and those in Credit Class 2 experiences sharp decreases in relative value, while simultaneously underperforming their peers. In the latter case, this is all the more counter-intuitive as the Canadian Prime Rate increased from 4.5% to 4.75% during the month.

In large part, this reflects the inhomogeneity of the data sets – there will be differences in the distribution of secondary risk factors in any group after splitting the universe according to any selected primary risk factor.

Another element making a full risk/return analysis less clearly defined than might be desirable is the inclusion in the universe of “ratcheted” floating rate preferreds, in which the proportion of prime paid varies according to the trailing market price,

usually with an imposed range of 50%-100% of prime. There were twenty such issues included in the analytical universe during the period – at the end of February fifteen of these were expected to have future cash flows at the maximum level – that is, 100% of the 4.5% Canadian Prime Rate. At the end of March, only seven of the twenty were analyzed to yield an expected rate equal to 100% of the changed Canadian Prime of 4.75%. In fact, eleven of these issues were determined to have decreased their absolute expected dividend rate during the period, despite the increase in their benchmark. With so many cross-currents present in the analysis, it is no wonder that sometimes a facile

Curve Attribute	February 28, 2003 (After Tax Figures)	March 31, 2003 (After Tax Figures)
Base Rate	3.50%	3.52%
Short Term Premium	-3.56%	-3.56%
Short Term Decay Time	5.0 Years	5.4 Years
Long Term Premium	1.88%	1.89%
Long Term Decay Time	12.5 Years	11.5 Years
Interest Income Spread	0.78%	0.81%
Cumulative Div. Spread	-0.24%	-0.13%
Split-Share Spread	0.97%	0.99%
Retractability Spread	-0.83%	-0.79%
Floating Rate Spread	-0.93%	-1.13%
2 nd Tier Credit Spread	0.52%	0.31%
3 rd Tier Credit Spread	1.08%	1.54%
“High” Credit Spread	-0.52%	-0.12%
“Low” Credit Spread	0.00%	0.10%
<i>Note: Figures for February have changed somewhat from the previous report. This is due to additions of data.</i>		

Risk Factor	Returns for “True” (Pre-Tax)	Returns for “False” (Pre-Tax)
Retractable	0.01%±1.68%	-0.44%±3.78%
Split Share Corp	-0.37%±1.88%	-0.16%±3.02%
Cumulative Dividends	-0.57%±3.47%	0.37%±1.33%
Payments are Dividends	-0.18%±2.96%	-0.32%±0.90%
Floating Rate	-0.43%±4.24%	-0.12%±2.17%
Credit Class 2	-0.29%±3.32%	-0.09%±2.22%
Credit Class 3	-1.48%±2.76%	0.02%±2.80%
Credit Class Modifier “High”	-0.05%±2.17%	-0.22%±2.96%
Credit Class Modifier “Low”	0.16%±2.00%	-0.54%±3.45%

comparison of changes in spreads versus returns will not always yield an intuitive result!

The returns of the “Credit Class 3” issues, however, was in accordance with intuition based on changes in the yield curve – the spread widened

dramatically and these issues underperformed drastically, as continued stock market woes due to the war in Iraq and the gloomy state of the American economy led these issues (more sensitive to the equity market than their higher rated peers) to be less desirable.

Component of Price	BBD.PR.B	BBD.PR.C	BBD.PR.D
Base Rate	23.15	26.21	23.80
Short Term Shape	0.60	0.70	0.62
Long Term Shape	-1.21	-1.20	-1.23
Cum. Dividends	0.52	0.40	0.52
Credit Spread	-6.86	-5.24	-6.89
Floating Rate Spread	3.88	0	3.90
Calculation Adjust	1.89	0.18	1.90
Total	21.97	21.05	22.62
Actual Quotation	14.70 – 14.75	17.06 – 17.20	14.65 – 14.70
Price Disparity	7.22	3.85	7.92

As was mentioned in the opening paragraph, the fund swapped its position in BBD.PR.B for an equivalent position in BBD.PR.D during the month – these issues will become convertible into each other in August, 2007; the difference between them is that BBD.PR.D pays a fixed rate until that time, while the BBD.PR.B is a

“ratcheted” floating rate issue that, given current price levels, may be expected to pay the Canadian Prime Rate until that time. At the time of the conversion, the rate paid on BBD.PR.D will be reset as a proportion of the Canadian 5-year rate.

The table above, showing the decomposition of the fair value, may be contrasted with that published in the September, 2002 report, while a graph of the “Price Disparity” for BBD.PR.B and BBD.PR.D versus time is attached to this report.

TSE Ticker Symbol	Total Return, December, 2002	Remarks (Valuation commentary based on Ontario’s highest marginal tax rate)
BBD.PR.C*	-14.91%	Collapsed due to credit downgrades and recapitalization uncertainty
BBD.PR.D	-14.83%	As above – n.b.: the BBD issues had largely recovered in early April
BBD.PR.B	-14.76%	As above
BPP.PR.G	-7.58%	Floating rate, credit class 3, low volume
YLD.PR.B*	-6.78%	Issue remains in default.
...	...	
BNN.PR.B	+2.94%	Floating rate, credit class 2, expensive at \$18.95
PWF.PR.A	+3.09%	Credit class 1, floating rate.
BNF.PR.A	+3.82%	Credit class 2, floating rate, expensive at \$18.90
GWO.PR.C	+4.89%	Credit class 1, extremely expensive at \$27.40
TOC.PR.B*	+6.48%	Credit class 2, floating rate, expensive at \$22.85
*indicates that the issue was also on last month’s best/worst performers table		

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BBD.PR.B Period (inclusive) from 2002-08-02 to 2003-03-31

Tax Identifier: 7

BBD.PR.D

X-Axis: Date

Price Disparity : Spot Rate

Y-Axis: Dollars (positive implies cheap)

