

MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, July 2003

The fund continued its string of excellent (and unsustainable!) results in July, with a return of +3.54% in July, greatly outperforming the index which recorded a negative return. Although a large part of this outperformance was due to a very good month for the Bombardier shares held by the fund, the rest of the portfolio also performed very well due to extreme volatility in the preferred share market (presumably an effect of extreme volatility in the fixed income market as a whole) which lead to a great many opportunities for advantageous swaps between issues.

Month	MAPF Total Return*	NB-50 Total Return	
August, 2002	- 2.05%	+0.39%	<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>
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	-4.54%	-0.18%	
April	+6.84%	+1.01%	
May	+4.56%	+1.99%	
June	+2.27%	+0.81%	
July, 2003	+3.54%	-0.30%	
Last 12 Months	+13.38%	+6.27%	
Last 2 Years (annualized)	+12.35%	+5.14%	
Total Since Inception (March, 2001)	+25.11%	+8.75%	
<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>			

There was redemption at the end of July that illustrates the need for care in the selection of issues to be held. GWO.PR.C was called on July 31, with a redemption date of September 30 and a redemption price of \$25.00. The tragedy (for some!) of the situation lies in the fact that on July 30 the closing quote for this issue was \$26.75-27.00 and therefore there were investors willing to pay \$1.75 over the call price for the issue notwithstanding the fact that the issue was currently callable. This sort of situation occurs quite often and is entirely avoidable with professional management – and the quantitative system employed by Hymas Investment Management incorporates all embedded option information into the evaluation of each issue in a consistent, rigorous and tested manner.

At the close of business on July 30, this issue was considered to be ridiculously expensive, due largely to its Bid-Yield-To-Worst (BYW) evaluation of -15.36% (after tax – the tax calculation incorporates both taxes on the dividend payable and an allowance for the recovery of tax due to the implied capital loss).

There are many current examples of issues trading with a negative BYW, which will be examined later in this monthly report (the recent case of RY.PR.J was examined in the May, 2003, report). Hymas Investment Management Inc. will rarely, if ever, invest client money (or retain client investments in) such issues: irregardless of historical opportunities to redeem the issue foregone by the issuer, irregardless of any analysis of the company indicating that such a redemption is unlikely, there are sufficient issues available for investment that it is simply unnecessary to take such risks.

Despite the volatility noted in the prices of individual issues during July, noted above, the overall yield curve was relatively unchanged over the month. The greatest change was in the value of the “Floating Rate Spread”, which is the measure by which Floating Rate issues are presumed to deviate from the overall yield curve. This change, in which Floating Rate issues were deemed to have become 13 basis points more expensive over the month, may be ascribed to the prices of Floating Rate issues reacting counter-intuitively to the lowering of the Canadian Prime Rate to 4.75% (from 5.00%) in mid-July; or, some might say, continued expectations of great increases in the Canadian Prime Rate over the remaining terms of the outstanding issues.

As a class, however, it is readily apparent that the Floating Rate issues outperformed their peers during the month.

Curve Attribute	June 30, 2003 (After Tax Figures)	July 31, 2003 (After Tax Figures)
Base Rate	3.25%	3.31%
Short Term Premium	-3.37%	-3.30%
Short Term Decay Time	6.1 Years	4.9 Years
Long Term Premium	0.66%	0.52%
Long Term Decay Time	10.0 Years	11.6 Years
Interest Income Spread	0.56%	0.59%
Cumulative Div. Spread	-0.26%	-0.31%
Split-Share Spread	0.97%	0.90%
Retractability Spread	-0.43%	-0.45%
Floating Rate Spread	-0.79%	-0.92%
2 nd Tier Credit Spread	0.39%	0.43%
3 rd Tier Credit Spread	1.50%	1.46%
“High” Credit Spread	-0.06%	-0.12%
“Low” Credit Spread	0.27%	0.20%
<i>Note: Figures for June have changed somewhat from the previous report. This is due to additions of data.</i>		
<i>Note: Figures are reported on an after-tax basis, for an investor subject to Ontario's highest marginal tax rate.</i>		

Risk Factor	Returns for “True” (Pre-Tax)	Returns for “False” (Pre-Tax)
Retractable	0.36%±3.01%	0.54%±2.50%
Split Share Corp	0.01%±1.67%	0.06%±3.01%
Cumulative Dividends	0.16%±3.49%	-0.11%±1.36%
Payments are Dividends	0.06%±2.93%	-0.05%±0.74%
Floating Rate	0.92%±4.86%	-0.23%±1.59%
Credit Class 2	-0.35%±3.06%	0.43%±2.52%
Credit Class 3	1.18%±3.68%	-0.18%±2.54%
Credit Class Modifier “High”	0.96%±2.42%	-0.12%±2.86%
Credit Class Modifier “Low”	-0.28%±3.38%	0.37%±2.12%

Ticker Symbol	Bid-Yield-To-Worst (BYW) [After Tax]	Bid Price at July 31, 2003	BYW Presumed Redemption Date	BYW Presumed Redemption Price
DCF.PR.A	-25.91%	27.10	2003-08-30	26.00
AL.PR.E	-24.34%	25.75	2003-08-30	25.00
LB.PR.C	-20.47%	27.00	2003-08-30	26.00
LSC.PR.A	-20.02%	25.71	2003-08-30	25.00
LB.PR.B	-19.04%	26.95	2003-08-30	26.00
TD.PR.H	-18.78%	26.20	2003-08-30	25.50
CU.PR.T	-16.23%	25.80	2003-08-30	25.00
PIC.PR.A	-14.59%	16.00	2003-11-01	15.00
BCE.PR.P	-11.25%	25.50	2003-08-30	25.00
BCE.PR.S	-7.06%	25.70	2003-08-30	25.50
GWO.PR.D	-3.83%	28.10	2004-10-31	25.00
DIV.PR.A	-3.30%	26.31	2003-08-30	26.00
TDS.PR.A	-3.13%	15.08	2003-11-15	14.70
FBS.PR.A	-3.06%	26.00	2003-12-15	25.00
CGI.PR.A	-2.60%	26.53	2003-10-05	26.00
CFC.PR.A	-1.85%	15.50	2003-12-01	15.00
SU.PR.A	-1.57%	26.45	2004-03-15	25.00
<i>Data has been compiled and analyzed by Hymas Investment Management Inc. using sources believed to be accurate, but are not guaranteed.</i>				

As noted earlier, there are many issues currently trading with a negative Bid-Yield-to-Worst, and these are listed on the accompanying table. This month's chart compares the current yield (dividend/price) to the BYW for all issues in the analyzed universe.

TSE Ticker Symbol	Total Return, May 2003	Remarks (Valuation commentary based on Ontario's highest marginal tax rate)
BNN.PR.A	-24.15%	Very low volume – issue virtually untradable.
BT.PR.E*	-8.42%	Credit class 3, low volume
CVF.PR.A	-3.82%	Credit class 2, reasonable volume, attractive at \$25.15 bid
BNN.PR.J	-3.27%	Credit class 2, good volume, cheap at \$24.57
CGQ.E	-2.98%	Split share, downgraded by DBRS in June
...	...	
NTL.PR.G*	+3.42%	Floating rate, Nortel issues continue to fluctuate with the headlines
GT.PR.A	+3.70%	Split share, in default of dividend payment, tied to telecom market
BBD.PR.B	+5.43%	Floating Rate, Bombardier continues its volatile history
BBD.PR.D	+9.76%	Floating Rate, becomes equivalent to "B" issue in a few years
BPP.PR.G*	+12.18%	Floating Rate, very low volume.

James Hymas
Portfolio Manager

Universe Properties as of 2003-07-31

Tax Identifier: 7

X-Axis: Current Yield Bid

Y-Axis: Yield-to-Worst (at Bid)

