

MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, September 2003

The fund capped a superb quarter with solid outperformance in September, returning +3.10% to investors before fees vs. an index return of +1.31%. While September's results were assisted by continued good performance from the holding in BBD.PR.D (which have gyrated wildly since the Bombardier name was purchased in August/September 2002, but have become a solidly profitable position) an approximately equal component of the performance is due to trading activity in the remainder of the portfolio.

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>
October, 2002	+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	+3.54%	-0.30%	
August	+2.26%	+0.52%	
September, 2003	+3.10%	+1.31%	
Last 12 Months	+31.90%	+7.23%	
Last Two Years (annualized)	+12.04%	+5.24%	
Since Inception (March, 2001)	+39.66%	+11.31%	
<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%
2Q03	+14.24%	+3.85%
3Q03	+9.16%	+1.53%

Perhaps the most surprising trend observed in September was the enormous outperformance of floating-rate issues, which became even more expensive during the month, moving from an after-tax premium of 93bp to the curve to a very high 108bp. There is evidently a large pool of investors who are convinced that interest rates will be moving upwards in the medium term and are willing to back up their opinions with their dollars – but given the extremely high

Curve Attribute	August 29, 2003 (After Tax Figures)	September 29, 2003 (After Tax Figures)
Base Rate	3.25%	3.29%
Short Term Premium	-3.31%	-3.29%
Short Term Decay Time	4.2 Years	4.9 Years
Long Term Premium	0.41%	0.56%
Long Term Decay Time	15.0 Years	17.5 Years
Interest Income Spread	0.68%	0.72%
Cumulative Div. Spread	-0.36%	-0.32%
Split-Share Spread	0.87%	1.00%
Retractability Spread	-0.53%	-0.49%
Floating Rate Spread	-0.93%	-1.08%
2 nd Tier Credit Spread	0.43%	0.37%
3 rd Tier Credit Spread	1.31%	1.05%
“High” Credit Spread	-0.05%	-0.08%
“Low” Credit Spread	0.23%	0.09%
<i>Note: Figures for August have changed somewhat from the previous report. This is due to additions of data.</i>		

cost of taking such a position given current market conditions, we find this attitude somewhat peculiar. There has not been a lot of floating rate issuance in recent times – it may be simply that demand for exposure to the Canadian Prime Rate is remaining constant while supply (relative to the size of the market) is decreasing, but an investment in such issues is not recommended in the absence of very specific investment circumstances that demand such assets (such as liability matching).

Risk Factor	Returns for “True” (Pre-Tax)	Returns for “False” (Pre-Tax)
Retractable	+0.91%±2.07%	+2.45%±3.90%
Split Share Corp	+0.03%±0.96%	+1.96%±3.35%
Cumulative Dividends	+1.91%±3.96%	+1.20%±1.08%
Payments are Dividends	+1.65%±3.26%	+1.35%±1.34%
Floating Rate	+3.92%±5.30%	+0.88%±1.29%
Credit Class 2	+1.25%±2.83%	+1.99%±3.39%
Credit Class 3	+3.93%±5.25%	+1.19%±2.30%
Credit Class Modifier “High”	+1.92%±2.58%	+1.57%±3.25%
Credit Class Modifier “Low”	+2.28%±3.93%	+1.05%±2.07%

The outperformance exhibited by floating rate issues is well illustrated in the table breaking down returns by risk-factor, in which the greatest spread between “true” and “false” attributes is observed for the

Floating Rate group – a spread of over 3% is not to be sneezed at! Another item of interest emerging from study of this table is the very good performance of the Credit Class Three group of issues. As the table of best and worst performers will show, credit-class-three floating-rate issues included some very fine performances in September.

Issue	Credit Class	August 29 Ratchet Yield (pre-tax)	September 30 Ratchet Yield (pre-tax)
BCE.PR.C	2	3.45	3.30
BC.PR.C	2	3.51	3.38
BCE.PR.Z	2	3.52	3.35
BCE.PR.A	2	3.52	3.36
BC.PR.B	2	3.53	3.40
BCE.PR.R	2	3.60	3.48
BCE.PR.S	2	3.65	3.57
BCE.PR.Y	2	3.69	3.57
AIT.PR.A	2	3.95	3.64
BNN.PR.E	2	4.02	3.70
BNN.PR.G	2	4.42	3.96
BBD.PR.D	3	4.66	4.10
IQW.PR.D	3	4.75	4.29
NRD.PR.F	3	4.75	4.50
BBD.PR.B	3	4.75	4.38
NF.PR.A	3	4.75	4.50
NRD.PR.G	3	4.75	4.50
FL.PR.A	3	4.75	4.50

The table to the left shows the calculated “Ratchet Yields” for instruments analyzed which possess this property – typically, such issues will have their dividends computed as a proportion of the Canada Prime Rate, this proportion varying between 50% and 100% of the Prime Rate and being adjusted upwards or downwards as the market price is below or above a targeted range, respectively.

The Hymas Investment Management system computes two sources of expected return – a short term measure considering changes in market price as the issue approaches fair value and a longer term component which seeks to measure returns due to

dividend yield, redemptions, retractions and other elements of the issue. The “ratchet yield” is the expected dividend to be received on issues of this type, given a presumed constancy of the Prime Rate – this is the dividend required, within the issue boundaries, to provide a fair value within the targeted price range of the issue. Note that the Canada Prime changed from 4.75% to 4.50% in September. One may see that expected dividends on issues of this type are extremely low!

TSE Ticker Symbol	Total Return, September 2003	Remarks (Valuation commentary based on Ontario’s highest marginal tax rate)
BSN.PR.A	-1.87%	Split-share Corp, Credit class 2, low volume, inexpensive at \$23.61b
W.PR.K	-1.48%	Credit class 2, extremely low volume
CM.PR.P	-1.34%	Credit class 1, good volume, MAPF holds, inexpensive at \$25.41b
CVF.PR.A	-1.25%	Split-share Corp, Credit class 2, low volume, inexpensive at \$25.40b
FBS.PR.A	-1.16%	Split-share Corp, Credit class 2, low volume
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BNF.PR.A	+15.26%	Floating rate, fixed proportion, good volume, credit class 2
BPP.PR.G	+15.36%	Floating rate, fixed proportion, very low volume, credit class 3
BPP.PR.J	+15.91%	Floating rate, fixed proportion, very low volume, credit class 3
BNN.PR.A*	+16.36%	Floating rate, fixed proportion, extremely low volume, credit class 2
BPP.PR.M	+16.67%	Floating rate, fixed proportion, very low volume, credit class 3

*indicates that the issue was also on last month’s best/worst performers table

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Yield Curve Data : Period (inclusive) from 2002-09-30 to 2003-09-30

Tax Identifier: 7

X-Axis: Date

PREMIUM - FLOATING RATE : Spot Rate Y-Axis: Yield as fraction (positive implies cheaper th

