MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, August 2002

The fund recorded a return of –2.05% in August vs. return of the index of +0.39%. This underperformance may be traced to a position held in Bombardier preferred stock, which was hit heavily during the month due to well-publicized disputes with Amtrack, a major customer in the US and continued concerns regarding future sales of its regional jets. These concerns seem overdone: DBRS retained its rating of Pfd-2 on the company's preferred shares on August 28, (although changing the trend to negative) and I remain confident that the company will continue to meet its financial obligations in a timely manner. Analysis of the yield curve results in the conclusion that the issue BBD.PR.B, for instance, is yielding 1.25% per annum more than it "should" based on its characteristics – this is far more than could be accounted for even by assuming the market is anticipating a downgrade to Pfd-3! The fund retains a very healthy outperformance relative to the index over the longer term.

<table>
<tr><th>Month</th><th>MAPF Total Return*</th><th>NB-50 Total Return</th><td rowspan="14">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>September, 2001</td><td>+4.20%</td><td>+0.51%</td></tr>
<tr><td>October</td><td>+1.25%</td><td>-0.06%</td></tr>
<tr><td>November</td><td>-0.81%</td><td>+0.98%</td></tr>
<tr><td>December, 2001</td><td>-2.54%</td><td>-0.14%</td></tr>
<tr><td>January, 2002</td><td>+5.43%</td><td>+2.01%</td></tr>
<tr><td>February</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, 2002</td><td>-2.05</td><td>+0.39</td></tr>
<tr><td>Last 12 Months</td><td>+7.18%</td><td>+3.27%</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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More generally, the most significant change in the market through the month was the collapse in the premium accorded to floating-rate issues, which declined from a premium of 1.09% at the end of July to a premium of only 0.49% at the end of August, both figures being reported on an after-tax basis. It will be noted that the yield curve is analyzed such that, insofar as possible, all other attributes of various issues are considered in order to isolate the effect of individual attributes which are summed to determine the yield expected on any given instrument relative to the overall yield curve. Thus, we see that investors, formerly willing to accept an expected after-tax yield of 1.09% less than otherwise available in order to get exposure to floating rate issues, are now willing to pay less than half that amount.

It should be noted that the Floating Rate Premium may be either positive or negative and will incorporate expectations of future changes in the Canadian Bank Prime Rate in addition to investor desires for income receipts which vary according to business conditions and corporate issuance decisions regarding the terms attached to their issues, whether active (new issuance) or passive (not calling existent issues).

Curve Attribute	July 31, 2002 (After Tax Figures)	August 31, 2002 (After Tax Figures)
Base Rate	3.50%	3.31%
Short Term Premium	-2.49%	-3.02%
Short Term Decay Time	5.8 Years	5.1 Years
Long Term Premium	0.88%	1.00%
Long Term Decay Time	24.8 Years	22.8 Years
Interest Income Spread	0.65%	0.70%
Cumulative Div. Spread	-0.29%	-0.41%
Split-Share Spread	1.44%	1.35%
Retractability Spread	-0.58%	-0.51%
Floating Rate Spread	-1.09%	-0.49%
2nd Tier Credit Spread	0.48%	0.56%
3rd Tier Credit Spread	1.02%	1.03%
"High" Credit Spread	-0.42%	-0.47%
"Low" Credit Spread	0.03%	0.00%
Note: Figures for July have changed somewhat from the previous report. This is due to additions of data.		

As noted in the previous discussion, the big curve move of the month was the plummeting of the premium paid for floating rate issues. There has been no change in the Canadian prime rate since its increase to 4.5% in mid-July, so this represents a change in expectations by the marketplace: perhaps a feeling that anticipated tightening by the Bank of Canada will not occur as quickly as might previously have been expected. Also worthy of note is the slight decrease in the Retractability spread, which implies a less fervent desire by investors to have retraction protection in the event of such tightening over the long term. It would seem that investors have taken to heart all the bad economic news of the summer – and, as usual, are extrapolating short term fluctuations over the long term.

Risk Factor	Returns for "True" (Pre-Tax)	Returns for "False" (Pre-Tax)
Retractable	1.46%±2.43%	1.10%±3.69%
Split Share Corp	2.50%±4.03%	1.07%±2.72%
Cumulative Dividends	1.41%±3.85%	1.16%±1.17%
Payments are Dividends	1.31%±3.17%	1.28%±0.54%
Floating Rate	0.09%±3.31%	1.71%±2.82%
Credit Class 2	1.14%±3.43%	1.49%±2.52%
Credit Class 3	1.85%±4.25%	1.24%±2.83%
Credit Class Modifier "High"	1.46%±1.33%	1.28%±3.24%
Credit Class Modifier "Low"	1.11%±1.25%	1.55%±4.29%

In this context it is perhaps somewhat surprising that Split-Share Corporation preferreds should have done so well during the month – but regular readers of these commentaries will recall their abysmal performance in July and make allowance for a “dead cat bounce”.

Given all the discussion noted above, the table of best and worst monthly performers for August will come as no surprise. Three of the five worst performers in the universe examined by Hymas Investment Management were floating rate issues: four of the five best performers were split share corporations. It is gratifying to note that SPL.A vindicated its commentary of “Attractive at $8.00 bid” by placing second in the ranking tables; but sobering to see two Bombardier issues ranked at the bottom. The fund bought too soon – which is very clear in hindsight, of course, always a danger in the investment process.

This month’s chart shows the variation in the Floating Rate Premium for the year ending August 30, 2002. The sharpness of the drop in premium accorded to these issues is surprising; one can only assume capitulation by investors who have been expecting an imminent reversal of the Bank of Canada’s easing process for quite some time and have finally decided, given the poor economic data released in August, that a longer wait is now the most probable course.

TSE Ticker Symbol	Total Return, August, 2002	Remarks (Valuation commentary based on Ontario’s highest marginal tax rate)
BBD.PR.B	-16.96%	Floating rate issue – Cheap at $19.10 bid – MAPF bought in August
BBD.PR.C	-6.25%	Bombardier hit by bad press in August – cheap at $23.25
SXT.PR.A	-2.38%	Split Share issue – credit class 4 due to low asset coverage
BNN.PR.B	-1.92%	Floating rate – inexpensive at $17.41
CCS.PR.A	-1.68%	Floating rate – credit class 3
…	…	…
STR.E	+7.57%	Split share – credit class 4 after recent downgrade by DBRS
CGQ.E	+9.04%	Split share – credit class 3 after recent downgrade by DBRS
GT.PR.A*	+9.19%	Split share – credit class 5
SPL.A	+16.32%	Split share – credit class 2 – MAPF sold some during August
BT.PR.E	+17.46%	Credit class 3 – trade infrequently
*indicates that the issue was also on last month’s best/worst performers table		

James Hymas
Portfolio Manager

Yield Curve Data : Period (inclusive) from 2001-08-31 to 2002-08-30

Tax Identifier: 7

X-Axis: Date

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