MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, April 2004

April was a disappointing month, with the fund down 4.49% while the index was down 3.23%. Trading was extremely heavy during the month, but could not prevail against a market that was declining heavily with the exception of the floating rate sector, which has been very expensive for quite some time and became more so.

Month	MAPF Total Return*	NB-50 Total Return
May, 2003	+4.56%	+1.99%
June	+2.27%	+0.81%
July	+3.54%	-0.30%
August	+2.26%	+0.52%
September	+3.10%	+1.31%
October	+0.84%	+0.26%
November	+1.99%	+0.35%
December, 2003	+2.42%	+1.32%
January, 2004	+2.03%	+1.72%
February	+1.95%	+0.62%
March	+2.57%	+0.83%
April, 2004	-4.49%	-3.23%
Last 12 Months	**+25.30%**	**+6.29%**
Last 2 Years (annualized)	**+12.97%**	**+6.14%**
Last 3 Years (annualized)	**+14.03%**	**+4.37%**
Total Since Inception (March, 2001)	**+49.93%**	**+13.34%**

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.

**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.*

The preferred share yield curve and the premia attached to various attributes behaved in quite an irrational manner during April. Clearly the overall market was in a bad way, as reflected in the increase of the yield curve's base rate during the month, a very sharp increase of 41 basis points ("bp", 1/100 of a percent), but in such a situation one would logically expect the Retractability premium to increase, as investors seek to have a floor placed under their investment positions. This was not the case, however: the value of a retraction option declined from being 78bp expensive to being only 44bp expensive.

It should be noted that retractable issues did outperform during the month, losing only 2.54% as opposed to –3.21% for non-retractable. This apparent contradiction – in which the retractable outperform at the same time as they become cheaper – is explained through the concept of duration as applied to preferred shares.

A retraction privilege will normally be assumed to result in the assured "maturity" of the preferred share, simply because the strike price (or equivalent in terms of market value of shares to be received in the parent company) on retractions will normally be at or above the price of the contemporary call option. No matter what market conditions then prevail, it will be to the advantage of one of the parties to exercise its option (sometimes this may be thought of as being simply a pre-emptive move on the part of the issuer). Retractable issues may therefore be thought of as being short to medium term investments.

Curve Attribute	March 31, 2004 (After Tax Figures)	April 30, 2004 (After Tax Figures)
Base Rate	2.94%	3.35%
Short Term Premium	-2.93%	-3.37%
Short Term Decay Time	4.4 Years	4.3 Years
Long Term Premium	0.53%	0.70%
Long Term Decay Time	26.2 Years	29.1 Years
Interest Income Spread	+1.37%	+1.01%
Cumulative Div. Spread	-0.34%	-0.54%
Split-Share Spread	+0.82%	+0.53%
Retractability Spread	-0.78%	-0.44%
Floating Rate Spread	-1.27%	-1.53%
2nd Tier Credit Spread	+0.33%	+0.43%
3rd Tier Credit Spread	+0.80%	+0.80%
"High" Credit Spread	-0.12%	-0.29%
"Low" Credit Spread	+0.12%	+0.06%
Note: Figures for March 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.		

Risk Factor	April 2004 Returns for "True" (Pre-Tax)	April 2004 Returns for "False" (Pre-Tax)
Retractable	-2.54%±2.44%	-3.21%±3.49%
Split Share Corp	-1.56%±1.93%	-3.15%±3.13%
Cumulative Dividends	-2.22%±3.01%	-3.84%±2.72%
Payments are Dividends	-2.88%±3.08%	-2.63%±1.85%
Floating Rate	-1.62%±3.67%	-3.27%±2.63%
Credit Class 2	-2.95%±2.82%	-2.76%±3.21%
Credit Class 3	-1.92%±2.60%	-3.09%±3.06%
Credit Class Modifier "High"	-3.22%±2.67%	-2.74%±3.10%
Credit Class Modifier "Low"	-3.25%±2.83%	-2.65%±3.08%

Non-retractable issues, however, are not affected by such considerations and therefore have a much less definite term to maturity and should be thought of as long term investments – perhaps even living up to their billing as "perpetuals". Their fair value is therefore much more dependent upon the level of interest rates than their shorter term cousins and therefore, given conditions which are not very unusual, retractable issues may both outperform non-retractables and become cheaper.

Also of note during April was the great outperformance of floating rate issues, which consequently became even more expensive than they have been in the recent past. Hymas Investment Management Inc. continues to avoid floating rate issues due to their high level of over-valuation. If we may assume fixed rate issues to be yielding 5.5% and consider that a floating rate issue will quite often pay a rate of 72% of the Canada Prime Rate, simple arithmetic suggests that the Prime rate would have to be more that 7.5% in order for the income received on investments in these two classes to be equivalent. This would be rather an extreme move in Prime (which moved downwards to 3.75% on April 13) and does not represent a scenario upon which Hymas Investment Management is prepared to risk clients' money – especially as that is the Prime Rate for which the income streams will be merely equivalent!

This month's graph shows the level of the yield curve's base rate for the past year, as computed for an investor subject to Ontario's highest marginal tax bracket. The curve's base rate is, as implied by it's name, applied throughout the term examined in its computation. After modification by the Short-term and Long-term shape factors for all instruments, it may then be applied to each individual investment instrument, with spread factors applied according to the instrument's risk profile – with each expected cash flow from the instrument, including expected dividends and taxes, being subject to discounting by this adjusted value to obtain a result close to the actual market value of the instrument in question. Typically, over 90% of an instrument's value will be dependent upon the value of the base-rate.

As shown in the graph, the base rate has rapidly returned to year-ago levels – one may infer that huge declines in the preferred share market such as experienced in April are relatively unlikely to recur.

TSE Ticker Symbol	Total Return, April 2004	Remarks (Valuation commentary based on Ontario's highest marginal tax rate)
NTL.PR.F*	-15.53%	Accounting woes hammer Nortel's preferreds ….
NTL.PR.G*	-13.65%	…. Haven't we heard this all before?
BNN.PR.J	-9.56%	Credit Class 2 Perpetual – cheap at $24.87-92
NSI.PR.D	-8.97%	Credit Class 2, Retractable, very low volume
NSI.PR.C	-8.60%	Credit Class 2, Retractable, very low volume
…	….	…
BNN.PR.E	+1.85%	Credit Class 2, Floating Rate, very low volume
BNF.PR.C	+2.00%	Credit Class 3, Floating Rate, expensive at $23.00 – 05
NF.PR.A	+2.00%	Credit Class 3, Floating Rate, very low volume
CFC.PR.A	+2.30%	Split-Share Corporation, very low volume
AR.PR.B*	+2.68%	Conrad Black's empire appears on a stronger footing!
**Indicates issue was also listed in March's Best/Worst Returns list.*		

James Hymas
Portfolio Manager

Yield Curve Data : Period (inclusive) from 2003-04-30 to 2004-04-30

Tax Identifier: 7

X-Axis: Date

BASE RATE : Spot Rate

Y-Axis: Yield as fraction