MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, February 2002

The fund performed well in February, building on its prior gains with a return of +1.16%. This brings the total return (including reinvestment of dividends, after fund expenses but prior to management fees) to +16.15% in the eleven months since inception.

Month	MAPF Total Return	NB-50 Total Return	
April, 2001	+1.11%	-0.32%	*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.*
May	-0.20%	-0.66%	
June	+2.56%	-0.62%	
July	+1.40%	+0.48%	
August	+1.74%	+1.13%	
September	+4.20%	+0.51%	
October	+1.25%	-0.06%	
November	-0.81%	+0.98%	
December, 2001	-2.54%	-0.14%	
January, 2002	+5.43%	+2.01%	
February, 2002	+1.16%	NA	

Changes is the yield curve were relatively minor throughout February, with the result that it is very difficult to "link" changes in the various spreads to differences in the average returns of the various risk groups. This is due to the heterogeneity of the instruments available for investment in each of the asset classes: there are no instruments in the investable universe which are both "Split Share" and "Floating Rate", for example. This lack of direction in the market is illustrative of the need for a clearly defined system of valuation for individual instruments – it is not sufficient to make a single decision regarding the favoured asset class, one must consider what other asset classes are embedded within the single instrument, their interplay and

Curve Attribute	January 31, 2002 (After Tax Figures)	February 28, 2002 (After Tax Figures)
Base Rate	3.05%	3.08%
Short Term Premium	-3.30%	-3.30%
Short Term Decay Time	5.5 Years	5.3 Years
Long Term Premium	1.54%	1.54%
Long Term Decay Time	18.8 Years	18.7 Years
Interest Income Spread	0.52%	0.57%
Cumulative Div. Spread	-0.15%	-0.24%
Split-Share Spread	0.13%	0.28%
Retractability Spread	-0.45%	-0.48%
Floating Rate Spread	-1.19%	-1.14%
2nd Tier Credit Spread	0.53%	0.56%
3rd Tier Credit Spread	1.38%	1.26%
"High" Credit Spread	-0.37%	-0.42%
"Low" Credit Spread	0.16%	0.14%
Note: Figures shown for January have changed somewhat from the previous report. This is due to additions of data		

the unique characteristics of each investment.

Risk Factor	Returns for "True" (Pre-Tax)	Returns for "False" (Pre-Tax)
Retractable	-0.26%±3.58%	0.78%±3.30%
Split Share Corp	-0.62%±1.88%	0.28%±3.69%
Cumulative Dividends	0.18%±4.47%	0.12%±1.32%
Payments are Dividends	0.11%±3.62%	0.72%±1.80%
Floating Rate	-0.25%±6.86%	0.27%±1.54%
Credit Class 2	-0.12%±4.44%	0.44%±2.04%
Credit Class 3	0.54%±3.60%	0.11%±3.49%
Credit Class Modifier "High"	1.11%±2.54%	-0.02%±3.63%
Credit Class Modifier "Low"	-0.10%±4.24%	0.53%±1.93%

This is very well illustrated by this month's "group returns". Assiduous readers of these monthly reports will be struck by the enormous range of returns for the month of February. This is particularly true of Floating Rate issues: this asset class is well represented on the lists of both best- and worst-performers for the month.

In discussing the fund and preferred shares in general with investors, I have been struck by repetition of the theme of redemptions. It would appear that there are many investors who have become convinced on quite reasonable grounds that preferred shares are an asset class with characteristics very suitable for their portfolios and bought some with yields that were, apparently, quite attractive. These investors have then found that the issue, purchased at a price above "par" (usually $25 for these shares, but not always) have then been called for redemption by the issuing company; the resultant capital loss turning a seemingly good, safe investment into a poor one.

There are many ways to consider the predicted yield of an investment and Hymas Investment Management Inc. uses no less than five different measures in the process of determining whether a particular issue is suitable for purchase or sale. These measures are:

- **Current Yield:** This is the yield reported in newspaper listings. It is simply the annual dividends payable divided by the current price of the security.
- **Yield to Worst:** This is the most conservative method for evaluating yield. It considers all the options available to the company (as modified by options available to the investor, which may be pre-emptive) and performs a yield calculation based on the scenario which is worst for the investor.
- **Portfolio Yield:** In this approach, each scenario of events is considered and a probability assigned to the occurrence of each. The yield calculation considers the results of each scenario weighted by its probability.
- **Cost Yield:** The complete set of options available to the issuer and the investor is considered and a value assigned to each option. These option values are incorporated into an over-all yield evaluation.
- **Curve Yield:** Very similar to "Cost Yield", but with a different method of calculation of the value of each option.

Which is best? The answer to this question forms a large part of the investment approach of Hymas Investment Management Inc. and is the subject of constant analysis as the analytical methodology is examined, tested, redefined and finally used in the determination of value. It has become quite clear, however, that Yield-to-Worst is far better predictor of future returns than is Current Yield.

To illustrate the potential differences between these two methods of calculation, consider the following table for two issues, DCF.PR.A and CM.PR.A, with all figures calculated as of February 28, 2002:

Issue	Bid Price	Annual Dividend	Current Yield (Pre-Tax)	Worst Case Scenario (Assumes 30 Days Notice)	Yield-To-Worst (After Tax)
DCF.PR.A	$26.82	$1.75	6.525%	Called 2002-3-30 @ $26.00	-14.24%
CM.PR.A	$26.60	$1.325	4.981%	Called 2011-7-30 @ $25.00	3.01%

Which is the better investment? After considering all the factors of the valuation model, Hymas Investment Management greatly favours CM.PR.A (while considering that there are many better investments available in the marketplace). It is absolutely clear, however, that any investor choosing DCF.PR.A has implicitly decided (perhaps unknowingly) that the worst-case scenario will not occur. This belief may be justifiable and may be borne out – but not necessarily.

This report will close, as usual, with a review of the month's best and worst performers. The range of values is exceptionally high this month, highlighting the need for careful selection of investments.

TSE Ticker Symbol	Total Return, February 2002	Remarks (Valuation commentary based on Ontario's highest marginal tax rate)
BNN.PR.A	-27.37%	Trades infrequently!
NTL.PR.F	-13.31%	Floating Rate, probably** cheap at $14.65
GT.PR.A*	-7.63%	Third tier credit, split share
NTL.PR.G	-6.79%	Floating Rate, probably** cheap at $13.50
BT.PR.E*	-2.33%	Very low volume
…	…	…
AR.PR.B*	4.88%	Very low volume
BNN.PR.S	5.47%	Interest paying, still attractive at $26.05
TFC.PR.C	6.63%	Floating Rate
BNN.PR.B	8.01%	Floating Rate
NRD.PR.F	10.34%	Floating Rate, third tier credit
*indicates that the issue was also on last month's best/worst performers table		
**Analytical methodology not yet thoroughly tested		

James Hymas, CFA
Portfolio Manager

CM.PR.A Period (inclusive) from 2001-02-28 to 2002-02-28

Tax Identifier: 2

DCF.PR.A X-Axis: Date

Bid Yield (Curve Method) : Spot RateY-Axis: Yield as Fraction