

MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, September 2002

September was a difficult month for the fund, as it recorded a return of -7.48%, underperforming the market. The disappointing result may be traced directly to the Fund's holdings of Bombardier preferred shares, which were severely punished by the market due to the company's well reported problems with high-speed trains in America, continued softness in the airline industry and concerns over the degree of leverage at the Bombardier Capital financing subsidiary.

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, 2001	+1.25%	-0.06%	
November	-0.81%	+0.98%	
December, 2001	-2.54%	-0.14%	
January, 2002	+5.43%	+2.01%	
February	+1.16%	+0.17%	
March	-0.08%	-2.16%	
April	+1.22%	-0.65%	
May	+0.01%	+0.25%	
June	+1.67%	+0.67%	
July	- 2.19%	+1.31%	
August	- 2.05%	+0.39%	
September, 2002	- 7.48%	-0.88%**	
Last 12 Months	-4.84%	+1.84%**	
<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>			
<i>**September return data for the NB-50 was not available at time of writing and has been estimated by Hymas Investment. The estimate may vary considerably from the actual number due to differences in issues examined, weighting and calculation methodology.</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%	+0.81%**
<i>*See note to MAPF monthly returns, above.</i>		
<i>**Estimate only. See note to NB-50 September return estimate, above.</i>		

The markets are currently extremely nervous – even more so than usual – and negative headlines regarding a company are having a disproportionate effect on both common and

preferred stock prices. The fund took a position in Bombardier preferreds when they became cheap – increased holdings as they became extremely cheap – and suffered the consequences when they became insanely cheap. The valuation of Bombardier preferreds is discussed within this report.

In keeping with the theme of nervous markets, the major difference seen in the yield curve during September was a widening of the credit spreads for both 2nd and 3rd tier credits. Most other spreads were relatively unchanged, while a shift upwards in the overall yield curve (the “Base Rate” in the table) resulted in the overall market loss.

Varying cross-currents on determining the returns on the various issues made the changes in the yield curve structure harder than usual to correlate with returns based on differing risk factors. This may be

ascribed to the inhomogeneity of the varying asset classes: there are no issues which are both floating rate and retractable, for instance. Thus, we see preferred securities (which

Curve Attribute	August 30, 2002 (After Tax Figures)	September 30, 2002 (After Tax Figures)
Base Rate	3.56%	3.76%
Short Term Premium	-3.53%	-3.22%
Short Term Decay Time	8.9 Years	10.7 Years
Long Term Premium	2.05%	2.13%
Long Term Decay Time	14.0 Years	11.3 Years
Interest Income Spread	0.58%	0.55%
Cumulative Div. Spread	-0.34%	-0.47%
Split-Share Spread	1.15%	1.12%
Retractability Spread	-0.54%	-0.53%
Floating Rate Spread	-0.78%	-0.73%
2 nd Tier Credit Spread	0.58%	0.71%
3 rd Tier Credit Spread	1.08%	1.33%
“High” Credit Spread	-0.49%	-0.61%
“Low” Credit Spread	0.00%	0.00%
<i>Note: Figures for August have changed somewhat from the previous report. This is due to additions of data.</i>		

Risk Factor	Returns for “True” (Pre-Tax)	Returns for “False” (Pre-Tax)
Retractable	+0.18%±2.25%	-2.27%±8.81%
Split Share Corp	-0.68%±2.49%	-0.88%±6.61%
Cumulative Dividends	-0.95%±5.39%	-0.70%±6.92%
Payments are Dividends	-1.04%±6.31%	+1.43%±0.64%
Floating Rate	-4.11%±10.60%	+0.23%±2.63%
Credit Class 2	-0.36%±4.56%	-1.33%±7.24%
Credit Class 3	-1.55%±2.88%	-0.75%±6.40%
Credit Class Modifier “High”	+0.08%±1.59%	-1.00%±6.53%
Credit Class Modifier “Low”	+0.38%±2.35%	-2.36%±8.46%

pay interest) greatly outperforming preferred shares (which pay dividends), despite a mere moderate narrowing of the interest income spread. Sources of return will be analyzed in a future monthly report.

The following table provides an analysis of the components of price for the three Bombardier preferred issues listed on the Toronto Stock Exchange. The first three rows of the table show the effects of the overall yield curve, without adjustments being applied to account for the specific terms of each issue, while the other effects are quantified in the next four.

Component of Price	BBD.PR.B	BBD.PR.C	BBD.PR.D
Base rate	\$21.41	\$25.68	\$22.69
Short Term shape	1.86	2.05	1.78
Long Term shape	- 1.45	- 1.59	- 1.55
Cum. Dividends	2.00	1.79	1.58
Credit Spread	- 3.50	- 3.11	- 3.70
Floating Rate Spread	3.00	0.0	3.04
Calculation Adjust	0.66	0.49	0.74
Total	23.98	25.31	24.58
Actual Quotation	15.40 – 15.49	18.60 – 18.65	15.01 – 15.30
Price Disparity	8.48	6.67	9.29

For example, cumulative dividends (as opposed to non-cumulative) are important in pricing a

preferred share: if the BBD.PR.B issue to be non-cumulative, the fair price calculated for issue would be \$2.00 lower, ceteri paribus.

Upon completion of the analysis, we derive fair-values for the instruments greatly in excess of their current market price: the “Price Disparity” figures are enormous and represent the amount by which the quoted price would have to move in order for the issues to be “fairly valued”. The fund has therefore taken a large position in these issues, and Hymas Investment Management considers these issues “Extremely Cheap”. We note that DBRS has maintained Bombardier’s credit rating, although the trend is negative.

A graph of the “Price Disparity” for TRP.PR.X, another 2nd tier credit (with a par-value of \$50) is attached to this month’s report for comparison purposes.

TSE Ticker Symbol	Total Return, June, 2002	Remarks (Valuation commentary based on Ontario’s highest marginal tax rate)
NTL.PR.G	-43.55%	Credit class 5 – good substitute for common equity
NTL.PR.F	-33.78%	Credit class 5 – good substitute for common equity
BBD.PR.C*	-20.00%	Credit class 2, Fixed Rate: Extremely cheap at \$18.60
BBD.PR.D	-19.95%	Credit class 2, Fixed-floater: extremely cheap at \$15.01
BBD.PR.B*	-18.99%	Credit class 2, Floating rate: extremely cheap at \$15.40
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TRP.PR.X	+2.65%	Credit class 2, expensive at \$48.10
W.PR.H	+2.66%	Credit class 2, expensive at \$24.45
TRP.PR.Y	+2.74%	Credit class 2, expensive at \$48.00
GWO.PR.C	+3.10%	Credit class 1, low volume, very expensive at \$26.75
TOC.PR.B	+3.99%	Credit class 2, low volume, unattractive at \$19.30
*indicates that the issue was also on last month’s best/worst performers table		

James Hymas
Portfolio Manager

TRP.PR.X Period (inclusive) from 2001-09-28 to 2002-09-30

Tax Identifier: 7

X-Axis: Date

Price Disparity : Spot Rate

Y-Axis: Dollars (positive implies cheap)

