<u>MALACHITE AGGRESSIVE PREFERRED FUND</u>

<u>Monthly Report, April 2003</u>

The fund recorded a superb return of +6.84% in April, more than erasing the loss experienced in March. Preferred shares as a class were also strong in April as a decline in medium term interest rates was reflected in the valuation of this asset class. As long-term readers of these reports will have come to expect, the large (and unsustainable) return recorded for the month had a lot to do with the performance of the Bombardier shares held in the portfolio. It is interesting to not that, for instance, the BBD.PR.B shares were valued at $17.36 bid at the end of February, $14.70 bid at March month-end, and $17.30 bid at the end of April – so, once all the smoke has cleared, the return on holding the shares for these two months very nearly equaled the coupon (nearly $0.10 per share per month – a "current yield" of about 6.9% per annum). The net excess return of the fund over the index of about 50 bp for the two month period may be ascribed to active trading of the fund's holdings.

<table>
<tr><td>Month</td><td>MAPF Total Return*</td><td>NB-50 Total Return</td><td rowspan="15">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>May, 2003</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</td><td>- 2.05%</td><td>+0.39%</td></tr>
<tr><td>September</td><td>- 7.48%</td><td>+0.54%</td></tr>
<tr><td>October</td><td>+5.19%</td><td>+0.13%</td></tr>
<tr><td>November</td><td>-1.26%</td><td>+0.06%</td></tr>
<tr><td>December, 2002</td><td>+0.18%</td><td>+1.65%</td></tr>
<tr><td>January, 2003</td><td>+7.10%</td><td>+0.46%</td></tr>
<tr><td>February</td><td>-0.57%</td><td>-0.43%</td></tr>
<tr><td>March</td><td>-4.54%</td><td>-0.18%</td></tr>
<tr><td>April, 2003</td><td>+6.84%</td><td>+1.01%</td></tr>
<tr><td>Last 12 Months</td><td>+1.86%</td><td>+6.00%</td></tr>
<tr><td>Since Inception (March, 2001)</td><td>+19.66%</td><td>+6.63%</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>
</table>

There was no new issuance of note in the month – it may be presumed that the market is still digesting the large issuance of the first quarter

The most notable change in the yield curve during the month was the overall decline in the base rate by 9 basis points (after tax). This was the impetus behind the rather good index return for the month and may be ascribed, as mentioned previously, to the decline in yield of medium term bonds feeding through into the preferred market. Mispricing between asset classes can only go so far and last so long!

Curve Attribute	March 31, 2003 (After Tax Figures)	April 30, 2003 (After Tax Figures)
Base Rate	3.47%	3.38%
Short Term Premium	-3.56%	-3.56%
Short Term Decay Time	5.2 Years	5.1 Years
Long Term Premium	1.77%	1.56%
Long Term Decay Time	12.0 Years	11.6 Years
Interest Income Spread	0.80%	0.62%
Cumulative Div. Spread	-0.12%	-0.17%
Split-Share Spread	0.82%	0.75%
Retractability Spread	-0.80%	-0.66%
Floating Rate Spread	-1.14%	-0.98%
2nd Tier Credit Spread	0.34%	0.39%
3rd Tier Credit Spread	1.59%	1.62%
“High” Credit Spread	-0.12%	-0.15%
“Low” Credit Spread	0.13%	0.14%
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.		

On April 15, the Canada Prime Rate, which is used to determine the dividends of all the “Floating Rate” issues in the universe, increased from 4.75% to 5.00%. This had the twin effects of decreasing the premium paid for floating rate issues relative to their peers (as the increase had been largely discounted) and increasing the total return in April from floating rate issues, which were the best performing risk-group analyzed as a component of the universe.

Significant outperformance was also achieved by “Credit Class 3”, a class of credit rating ranked below “1” and “2”, but still worthy of inclusion in portfolios when conditions suit. It will be noted that Bombardier is part of this rating group – this group is more prone than the better-rated classes to company-specific market movements. The better the credit quality of an issue, the more certain it becomes to estimate the future cash flows of the instrument and therefore (in a perfectly efficient market!) the closer the issue will become to reflecting its stated cash-flow obligations in the movements of its market price.

Risk Factor	Returns for “True” (Pre-Tax)	Returns for “False” (Pre-Tax)
Retractable	1.39%±4.05%	2.92%±5.04%
Split Share Corp	0.94%±1.80%	2.33%±4.97%
Cumulative Dividends	2.45%±5.51%	1.55%±2.67%
Payments are Dividends	2.11%±4.78%	1.76%±0.88%
Floating Rate	4.27% ±7.68%	1.38%±2.57%
Credit Class 2	1.73%±4.21%	2.42%±4.91%
Credit Class 3	3.68%±6.17%	1.76%±4.11%
Credit Class Modifier “High”	3.28%±5.99%	1.83%±4.18%
Credit Class Modifier “Low”	2.03%±4.35%	2.13%±4.81%

One of the interesting trends to emerge in recent months with the continued expensiveness of floating rate issues and increases in the Canada Prime rate has been a greater differentiation among those floating rate issues which are “ratcheted”. Readers of these reports will recall that “ratcheting” is the terminology used by Hymas Investment Management (HIMI) to refer to that process whereby the dividends paid by a particular issue are not only pegged to a floating rate, but in which the proportion of this benchmark paid is also variable, dependent upon market price.

These issues present something of an analytical problem in the task of determining their relative value to, say, a fixed rate retractable issue. The question of "price disparity" (another term with specific meaning within HIMI!) has been discussed before; an analysis of BCE.PR.S vs. BNN.PR.E as of April 30 will be used to illustrate the application to the analysis of "ratcheted floating rate preferreds".

Component of Price	BCE.PR.S	BNN.PR.E
Base Rate	22.03	22.71
Short Term Shape	0.54	0.55
Long Term Shape	-1.20	-1.20
Cum Dividends	0.85	0.83
Credit Spread	-2.11	-2.80
Floating Rate Spread	4.51	4.43
Calculation Adjust	0.50	0.60
Total	**25.12**	**25.12**
Actual Quotation	25.52-25.75	25.10-25.30
Price Disparity	**-0.40**	**0.00**
Rate used in analysis	4.17%	4.45%
Rate currently required	4.15%	4.43%

The table shows that the calculated "fair value" of both issues is $25.12 – the components of price having been selected so as to be internally consistent and minimize error throughout the examined universe. However, these fair values are derived using greatly different yield assumptions, the differences between the issues being determined by special features of the issues – timing of cash-flows and the influence of the credit spread on the calculation, inter alia.

The accompanying chart for this month shows how the two rates used in the calculation (and therefore derived in ensuing calculations) have diverged in recent months, as the ncrease in the Canada Prime Rate and continued strength of the Floating Rate market has permitted the analysis to derive a self consistent rate that has not been capped by the maximum set by the company (in these cases, and almost always, 100% of the benchmark).

TSE Ticker Symbol	Total Return, December, 2002	Remarks (Valuation commentary based on Ontario's highest marginal tax rate)
AR.PR.B	-10.52%	Extremely expensive at $38.70, low trading volume
PAY.PR.A	-3.98%	Split share, Credit Class 1, reasonable volume, cheap at $25.00
IQW.PR.D	-2.43%	Credit class 3, cheap at $22.05
GWO.PR.C*	-2.19%	Currently priced at $26.80 bid – currently redeemable at $26.00
BNS.PR.I	-1.64%	Credit Class 1, redeemable next year at discount to current market.
…	…	
BBD.PR.B*	+18.32%	Bombardier's preferred price continues to fluctuate enormously…
NTL.PR.G	+18.74%	…as does Nortel's!
BBD.PR.C*	+19.88%	
BBD.PR.D*	+20.47%	
BNN.PR.A	+35.65%	Tiny volume. Issue is virtually irrelevant to market.
*indicates that the issue was also on last month's best/worst performers table		

James Hymas
Portfolio Manager

BNN.PR.E Period (inclusive) from 2002-04-30 to 2003-04-30

Tax Identifier: 7

BCE.PR.S

X-Axis: Date

Ratchet Yield : Spot Rate

Y-Axis: Yield as Fraction