

MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, November 2003

November was another fine month for the fund, with a gain of +1.99% marking the eighth consecutive month of positive returns by the fund, compared with index performance of +0.35%. This was also the eighth consecutive month in which the fund outperformed the index. There is an element of risk in all investments that teaches us all that we shouldn't crow too loudly over our triumphs – but it's very nice when it all works, isn't it? Trading activity was relatively subdued, but the volatility of certain issues made those trades that did occur rather profitable. The fund's holdings of CIBC preferred issues declined substantially as their prices became more closely aligned with their values (see table on page 2); the fund's holdings in Bombardier issues significantly outperformed the market.

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>
December, 2002	+0.18%	+1.65%	
January, 2003	+7.10%	+0.46%	
February	-0.57%	-0.43%	
March	-4.54%	-0.18%	
April	+6.84%	+1.01%	
May	+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, 2003	+1.99%	+0.35%	
Last 12 Months	+30.61%	+7.68%	
Last 2 Years (annualized)	+13.38%	+5.08%	
Total Since Inception (March, 2001)	+43.64%	+11.99%	
<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>			

Hubris is a constant danger when performance has been stellar, as it has been over the past year. I wish to state my view to all current and potential clients that I do not believe a return of 30% per annum to be sustainable – although the analytical methodology is constantly being improved in an effort to identify investment opportunities with greater precision.

Of interest during the month was the pending redemption of the Suncor Preferred Securities, SU.PR.A – this was announced after the markets closed on November 24.

Issue (All CIBC Preferred share issues with fair liquidity)	Price Disparity, Sept. 30, 2003 (Ontario highest tax bracket)	Price Disparity, Oct. 31, 2003 (Ontario highest tax bracket)	Price Disparity, Nov. 28, 2003 (Ontario highest tax bracket)
CM.PR.A	-0.65	-0.52	-0.29
CM.PR.B	-0.15	+0.72	+0.48
CM.PR.C	-0.10	+0.69	+0.31
CM.PR.D	-0.07	+0.26	0.00
CM.PR.E	+0.38	-0.35	-0.01
CM.PR.P	+0.25	-0.13	-0.05

Note: A negative price disparity indicates an issue is expensive to the curve; positive implies cheapness.

Suncor has taken part in the flood of US Dollar debt issuance with a US\$500-million issue priced to yield 5.99% to maturity on December 1, 2034 and announced its intention to redeem its C\$276 million issue of Preferred Securities, SU.PR.A, which were yielding 9.05% until maturity (or “mandatory redemption”) on March 31, 2048.

There was an immediate effect on the price of these shares: SU.PR.A were quoted at 26.12-26.19 on November 24, prior to the announcement, and at 25.50-

25.64 the following day.

This month’s graph displays a plot of the after-tax-yield-to-worst for SU.PR.A for the past year – it is interesting to note that this yield has never been particularly good throughout the period and has, in fact, been negative since late spring.

Why will investors put their money into issues in which the yield can actually be negative depending upon the whims and financing abilities of the issuers, when there are issues which do not carry such risks? The question is an

old one and can only be partially answered by the refrain which will be familiar to steady readers of these monthly reports: the preferred share market in Canada is grossly

Curve Attribute	October 31, 2003 (After Tax Figures)	November 28, 2003 (After Tax Figures)
Base Rate	3.23%	3.23%
Short Term Premium	-3.26%	-3.20%
Short Term Decay Time	4.6 Years	4.8 Years
Long Term Premium	0.57%	0.55%
Long Term Decay Time	19.7 Years	19.3 Years
Interest Income Spread	0.68%	0.76%
Cumulative Div. Spread	-0.31%	-0.29%
Split-Share Spread	0.88%	0.78%
Retractability Spread	-0.48%	-0.48%
Floating Rate Spread	-1.10%	-1.13%
2 nd Tier Credit Spread	0.40%	0.39%
3 rd Tier Credit Spread	1.14%	1.07%
“High” Credit Spread	-0.12%	-0.12%
“Low” Credit Spread	0.06%	0.07%

Note: Figures for October 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.

inefficient, with very little detailed analytical work having any impact whatsoever on the marketplace. This is the void that Hymas Investment Management Inc. seeks to fill with its analytical methodology; and that provides opportunities for

Risk Factor	Returns for “True” (Pre-Tax)	Returns for “False” (Pre-Tax)
Retractable	0.54%±1.43%	0.80%±1.94%
Split Share Corp	0.96%±1.38%	0.60%±1.75%
Cumulative Dividends	0.76%±1.90%	0.51%±1.31%
Payments are Dividends	0.73%±1.72%	-0.28%±0.86%
Floating Rate	0.90%±1.44%	0.58%±1.76%
Credit Class 2	0.58%±0.98%	0.74%±2.16%
Credit Class 3	1.59%±2.72%	0.48%±1.32%
Credit Class Modifier “High”	0.78%±1.09%	0.64%±1.79%
Credit Class Modifier “Low”	0.43%±1.04%	0.87%±2.09%

clients to realize superior returns with relatively small investment risk.

The news of the Suncor redemption appears to have caused a revaluation of the entire preferred securities sector, which had a negative return during the month, underperforming the dividend-paying preferred shares by approximately 1%. This revaluation also had an effect on the calculated spreads to the yield curve: interest income became eight basis points cheaper during the month. Note, however, that the preferred security market is very inhomogeneous with respect to other risk-factors and that therefore the calculated spreads to the curve cannot be relied upon to the same extent as the other risk factors (as some of the “real” change in the yield curve may fortuitously be better captured by changes in a highly related, “dependant” variable).

TSE Ticker Symbol	Total Return, November 2003	Remarks (Valuation commentary based on Ontario’s highest marginal tax rate)
GWO.PR.D	-6.09%	Redeemable October 31/04 @ \$25 – Current quote 26.20-27.24
AR.PR.B*	-5.56%	The flight continues from Conrad Black’s empire!
GT.PR.A*	-3.45%	This issue remains in default, although markets are improving.
BPP.PR.J*	-2.63%	Credit class 3, Floating Rate, little volume, still expensive
BPP.PR.G*	-2.44%	Credit class 3, Floating Rate, little volume, still expensive
...
BNN.PR.H	+3.58%	Credit class 2, good volume, quite expensive at 27.45-27.75
NRD.PR.F	+3.63%	Credit class 3, Floating Rate, little volume
CGQ.E	+3.72%	Credit class 4 – hold only as “equity equivalent”
SPL.A*	+4.03%	Credit class 3, split share, expensive at 9.10-9.24
BT.PR.E*	+12.33%	Credit class 3, low volume, very expensive at 25.50-25.75

**Indicates issue was also listed in October’s Best/Worst Returns list.*

James Hymas
Portfolio Manager

SU.PR.A Period (inclusive) from 2002-11-29 to 2003-11-28

Tax Identifier: 7

X-Axis: Date

Bid Yield-To-Worst : Spot Rate

Y-Axis: Yield as Fraction

