MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, December 2003

The fund finished another very good quarter with solid outperformance in December, returning +2.42% to investors before fees vs. an index return estimated at +1.55%. This continued a streak of nine consecutive months in which returns were both positive and better than the index – a very gratifying performance. It should be noted explicitly that this performance has been achieved using only preferred shares and securities; and that the portfolio has had a very high credit quality throughout. The only issues of suspicious credit quality held during the year were the very volatile Bombardier preferreds; this name was purchased in 2002 prior to its downgrade.

Month	MAPF Total Return*	NB-50 Total Return
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	+1.99%	+0.35%
December 2003	+2.42%	+1.55%**
Last 12 Months	**+33.54%**	**+7.57%****
Last Two Years (annualized)	**+16.23%**	**+5.97%****
Since Inception (March, 2001)	**+47.12%**	**+13.73%****

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 December 2003 Index value is not yet available and has been estimated by Hymas Investment Management Inc.*

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%	+2.25%
4Q02	+4.05%	+1.84%
1Q03	+1.65%	-0.15%
2Q03	+14.24%	+3.85%
3Q03	+9.16%	+1.53%
4Q03	+5.34%	+2.17%**

If the estimate of index performance is accurate, December will have been the second best month in 2003 for the index. This may be connected to a large new issue during the month – a group of underwriters led by RBC Dominion Securities was able to sell a $140-million dollar issue of Diversified Preferred Share Trust (DPS.UN on the Toronto Exchange), which is simply a passive collection of holdings. This issue is of interest largely due to its fees – a 4.5% commission was paid to the underwriters, while expenses of the offering were projected to be a further 0.35%. Continuing administration fees are declared to be 0.30% p.a., while direct expenses will add another 0.18% p.a.

Curve Attribute	November 28, 2003(After Tax Figures)	December 31, 2003 (After Tax Figures)
Base Rate	3.22%	3.11%
Short Term Premium	-3.20%	-3.15%
Short Term Decay Time	4.8 Years	4.1 Years
Long Term Premium	0.56%	0.48%
Long Term Decay Time	19.6 Years	20.2 Years
Interest Income Spread	0.79%	1.03%
Cumulative Div. Spread	-0.28%	-0.28%
Split-Share Spread	0.75%	0.76%
Retractability Spread	-0.49%	-0.59%
Floating Rate Spread	-1.13%	-1.11%
2nd Tier Credit Spread	0.38%	0.33%
3rd Tier Credit Spread	1.07%	1.01%
“High” Credit Spread	-0.13%	-0.04%
“Low” Credit Spread	0.08%	0.11%
Note: Figures for November have changed somewhat from the previous report. This is due to additions of data.		

Risk Factor	Returns for “True” (Pre-Tax)	Returns for “False” (Pre-Tax)
Retractable	1.46%±1.52%	1.70%±2.16%
Split Share Corp	1.90%±1.86%	1.50%±1.85%
Cumulative Dividends	1.71%±2.16%	1.36%±1.22%
Payments are Dividends	1.58%±1.91%	1.53%±1.09%
Floating Rate	1.96%±2.29%	1.45%±1.67%
Credit Class 2	1.69%±1.68%	1.46%±2.01%
Credit Class 3	1.44%±2.11%	1.60%±1.79%
Credit Class Modifier “High”	1.48%±1.66%	1.59%±1.90%
Credit Class Modifier “Low”	1.71%±1.69%	1.46%±1.98%

The continuing fees are defensible – 0.50% is certainly lower than even the index funds available in Canada and some may consider the price a fair one for the large amount of diversification implied by an investment in the fund units. It is more difficult to make a good case for an initial investment in the fund as a new issue – even a full-service broker filling an order for a single lot of 100 shares will find it hard to justify a commission equal to the $121.25 which will be paid by the fund from the subscription amount and one may be sure that there were a great many orders in excess of 100 shares! Casual readers of these monthly reports would be much better advised, if interested in investing in such a vehicle, to wait until the share price has approached the Net Asset Value (which, of course, will be lower than the issue price by approximately the 4.85% paid in fees and expenses) and then purchase the units through a discount broker with a commission of about $29 for any part of the first 1000 shares. Some brave souls may even choose to short the units in anticipation of such a decline, although shorting by retail clients is fraught with danger and expense.

December was a strong month for the preferred share market, in line with the corporate bond market in which yields dropped about 20 b.p. (on a pre-tax basis), according to the Bank of Canada (www.bankofcanada.ca), citing Scotia Capital Inc. Floating Rate issues and Split Share Corporations, in particular, did very well. The latter class is relatively easy to understand – given the continued strong performance of the stock market in December, it is only reasonable to suppose that asset-coverage ratios at the Split-Share corporations has improved, leading to greater confidence in their ability to meet obligations – implying an improvement in the Credit Rating as determined by the market if not by the credit rating agencies. Just why Floating Rate issues should be doing so well, however, is something I confess not to understand.

Hymas Investment Management Inc. will continue to manage funds in accordance with the philosophy that there is a great deal of inefficiency in the marketplace – that is to say, that there are many opportunities to exploit valuation differences between issues with similar investment characteristics – and that forecasting of interest rates is not necessary to outperform with preferred share investments.

One of the criteria that the Diversified Preferred Share Trust is using to determine suitability for investment is the yield-to-worst (YTW), which has often been mentioned in these reports as being an important indicator of value (though not as important as the proprietary “Cost Yield”!). This month’s graph plots YTW against total return for 2003 for all but a few outliers … a definite correlation exists, although R-Squared is only 0.1464.

TSE Ticker Symbol	Total Return, December 2003	Remarks (Valuation commentary based on Ontario’s highest marginal tax rate)
AR.PR.B*	-5.88%	Investors continue to sour on Conrad Black’s empire
BT.PR.E*	-4.68%	DBRS upgraded rating slightly – but some of November’s gains lost
MMF.PR.B	-1.62%	Low volume, but quite cheap at $25.60-98
BCE.PR.P	-1.47%	Issue has been called for redemption
LB.PR.C	-0.93%	DBRS downgraded credit … remains expensive at $26.50-85
…	…	…
BNN.PR.B	+6.67%	Floating Rate, Credit Class 2, very expensive at $23.04-23.30
CGQ.E*	+7.31%	Split Share Corporation, Credit Class 4 … equity substitute only!
BNF.PR.C	+7.43%	Floating Rate, Credit Class 3, very expensive at $23.10-23.55
STQ.E	+7.43%	Split Share Corporation, Credit Class 4 … equity substitute only!
BNF.PR.A	+8.85%	Floating Rate, Credit Class 2, very expensive at $23.70-23.85
*indicates that the issue was also on last month’s best/worst performers table		

James Hymas
Portfolio Manager

Universe Properties as of 2002-12-31

Tax Identifier: 7

X-Axis: Yield-to-Worst (at Bid)

Y-Axis: Performance