

MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, May 2004

May was a good month for the fund, which returned +1.23% while the index was essentially flat, returning -0.02%. Trading returned to more normal levels from the highs experienced in April, while the yield curve and its related spreads (with the exception of the split-share premium) barely moved as the market in general consolidated its April losses in a cautious environment.

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>
June, 2003	+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%	+1.32%	
January, 2004	+2.03%	+1.72%	
February	+1.95%	+0.62%	
March	+2.57%	+0.83%	
April	-4.49%	-3.23%	
May 2004	+1.23%	-0.02%	
Last 12 Months	+21.34%	+4.20%	
Last 2 Years (annualized)	+13.66%	+6.00%	
Last 3 Years (annualized)	+14.58%	+4.60%	
Total Since Inception (March, 2001)	+51.78%	+13.32%	
<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>			

Given that so little of interest occurred in the marketplace in May, this report will focus on an aspect of the Hymas Investment Management analytical system that has heretofore not been explicitly presented: the underlying philosophy behind the choice of quantitative methods for preferred share analysis.

Virtually any disciplined investment approach may be referred to as quantitative, since the term merely implies that a number has been assigned to some measure which determines at least in part the attractiveness of a potential investment. Any retail

customer, for instance, who has compared interest rates available from various issuers of GIC's has applied a quantitative model. However, the term "quantitative" as generally used in the investment industry implies a very thorough reliance on reproducible calculation in an attempt to take an objective view on the desirability of a particular investment, as opposed to a more classic "qualitative" approach in which common stock, for example, will be analyzed on the basis of interviews with management, customers and competitors with the analyst explicitly taking a subjective approach to the recommendation on the basis that he can perform such an analysis better than his competitors.

Each philosophical approach carries with it its own advantages and disadvantages. A quantitative system will, in general, respond poorly to a change in the investment environment, due in part to the reliance on mean-reversion that many such systems include, while a qualitative analysis may explicitly predict such a change and take advantage of it. In considering this particular attribute, however, one must remember the old joke: 'the stock market is very efficient, having predicted seventeen of the last five recessions!' There is a natural inclination amongst all analysts (not just the ones who are explicitly paid for their opinions!) to justify their

Curve Attribute	April 30, 2004 (After Tax Figures)	May 31, 2004 (After Tax Figures)
Base Rate	3.35%	3.37%
Short Term Premium	-3.37%	-3.44%
Short Term Decay Time	4.3 Years	4.6 Years
Long Term Premium	0.70%	0.79%
Long Term Decay Time	29.1 Years	29.8 Years
Interest Income Spread	1.02%	+1.02%
Cumulative Div. Spread	-0.54%	-0.52%
Split-Share Spread	+0.53%	+0.68%
Retractability Spread	-0.44%	-0.50%
Floating Rate Spread	-1.53%	-1.51%
2 nd Tier Credit Spread	+0.43%	+0.44%
3 rd Tier Credit Spread	+0.80%%	+0.75%
"High" Credit Spread	-0.29%	-0.30%
"Low" Credit Spread	+0.06%	0.00%
<i>Note: Figures for April have changed somewhat from the previous report. This is due to additions of data.</i>		
<i>Note: Figures are reported on an after-tax basis, for an investor subject to Ontario's highest marginal tax rate.</i>		

Risk Factor	May 2004 Returns for "True" (Pre-Tax)	May 2004 Returns for "False" (Pre-Tax)
Retractable	+0.42%±1.95%	-0.09%±2.33%
Split Share Corp	-0.18%±1.18%	0.26%±2.32%
Cumulative Dividends	0.19%±2.59%	0.15%±1.24%
Payments are Dividends	0.19%±2.23%	0.04%±0.80%
Floating Rate	0.21%±3.38%	0.17%±1.53%
Credit Class 2	0.26%±1.99%	0.08%±2.34%
Credit Class 3	0.26%±3.26%	0.16%±1.79%
Credit Class Modifier "High"	0.17%±1.14%	0.18%±2.41%
Credit Class Modifier "Low"	0.55%±2.26%	-0.02%±2.08%

analysis, even unconsciously, by predicting a change in environment that requires action. Part of the justification for the choice of a quantitative system involves embracing this bias and

exploiting the fact that, over time, while some genuine paradigm shifts will be missed, there will be no false positive signals.

The effect of exceptional circumstances for individual securities is also a point of difference between the two investment philosophies – to a great extent, qualitative analysis is derived from a desire to find such exceptional circumstances while such can rarely, if ever, be modeled in a quantitative system due to lack of data. A new product, for instance, may correctly be determined by a qualitative analyst to improve the prospects of a company far beyond what could be expected from examination of its balance sheet and income statement; conversely the effect of such a product on the company's competitors might reduce their prospects.

Hymas Investment Management Inc. has chosen quantitative analysis as its investment style for preferred shares: fixed-income investing is a natural field for a quantitative approach because returns are a fixed commitment of the issuer – whether a company does well or poorly is almost immaterial to the analysis (as long as the company does not do so poorly as to render its ability to meet its commitments doubtful!). In order to minimize the effect of changes in the fortunes of individual companies, we seek to hold high quality issues – the greater the certainty that the company will be successful in meeting the terms of its prospectus, the greater faith we may have that prospective cash-flows of different issues may be compared.

This month's graph shows the value of the yield premium on shares issued by split-share corporations – it is clear that this value is extremely volatile. This may be due to perceptions by investors that the risk inherent in split-share corporations is greater and more unpredictable than the risk inherent in operating companies – a reasonable belief given a perception that the share value of an operating company will vary more than its intrinsic value. Claims on actual assets are also one step removed for a split-share corporation relative to direct obligations of the operating company. This premium rebounded in May from its extreme low reached at the end of April.

TSE Ticker Symbol	Total Return, May 2004	Remarks (Valuation commentary based on Ontario's highest marginal tax rate)
BBD.PR.D	-9.51%	DBRS downgraded Bombardier in May ...
BBD.PR.C	-8.10%	... to P3L after a downgrade to P3 in March ...
BBD.PR.B	-4.21%	... and the preferred shares reacted violently.
AR.PR.B*	-3.35%	Will Argus redeem its shares or not? Speculation abounds!
HPF.PR.B	-3.29%	Split-share, Credit Class 2, fixed dividends, good value at \$15.00-10
...
ENB.PR.A	+3.17%	Credit Class 2, fixed dividends, reasonably priced at \$25.55-59
BNN.PR.J*	+4.34%	Credit Class 2, fixed dividends, perpetual, expensive at \$25.95-35
BPP.PR.M	+7.14%	Credit Class 3, floating rate, low volume, expensive at \$22.50-00...
BPP.PR.G	+7.82%	... and the same goes for this issue at \$22.75-80
BNN.PR.A	+13.64%	Very low volume, issue shows extreme volatility.

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Yield Curve Data : Period (inclusive) from 2003-05-30 to 2004-05-31

Tax Identifier: 7

X-Axis: Date

PREMIUM - SPLIT SHARE CORPS : Spot RY-Axis: Yield as fraction (positive implies cheaper th

