MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, July 2004

July was a good month for the fund, which returned +2.51% while the index was also strong relative to its norms, returning +1.39%. Trading was relatively light during the month, which may perhaps be explained as summer doldrums reducing the market's usually voracious appetite for liquidity.

Month	MAPF Total Return*	NB-50 Total Return	
August, 2003	+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	+1.23%	-0.02%	
June	+1.49%	+0.86%	
July, 2004	+2.51%	+1.39%	
Last 12 Months	**+19.21%**	**+6.02%**	
Last 2 Years (annualized)	**+16.26%**	**+6.14%**	
Last 3 Years (annualized)	**+14.59%**	**+5.43%**	
Total Since Inception (March, 2001)	**+57.92%**	**+15.88%**	
***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 "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.

The good return on the index in July was the result of a largely parallel shift in the yield curve, with the base rate declining by 16 basis points. This decline in the base rate was, oddly, accompanied by a decrease in the retractibility spread, from -55 bp to -71 bp. It is rather strange that retractions, in general, should become more valuable as they simultaneously become less likely to be exercised, but it should be remembered that not only is the market inefficient, but that there is no guarantee that the analytical process will result in a precise dissection of preferred share yields.

As has been noted before (June, 2004, report), a major difficulty in preferred share analysis is the heterogeneity of the investable universe when selected for a single characteristic – there are no floating rate preferreds that are retractible, for instance. In addition, retractibility implies a shorter term-to-maturity than would otherwise be the case, so there is the possibility that the retractiblility premium could be confounded with

the short term premium. While the decomposition of the preferred share yield-curve is a very useful exercise that greatly assists in the determination of trades, its fallibilities must be kept in mind at all times and one must refrain from reading too much into the data.

A new methodology of comparing returns by risk-group is being introduced this month. In an effort to minimize the effect of risk-group heterogeneity, a regression of risk factors against returns has been performed and the results of this regression are included in the "relative return" table, below.

Curve Attribute	June 30, 2004 (After Tax Figures)	July 30, 2004 (After Tax Figures)
Base Rate	3.35%	3.19%
Short Term Premium	-3.51%	-3.31%
Short Term Decay Time	4.3 Years	4.1 Years
Long Term Premium	0.87%	0.97%
Long Term Decay Time	29.0 Years	28.4 Years
Interest Income Spread	0.98%	+1.10%
Cumulative Div. Spread	-0.43%	-0.34%
Split-Share Spread	+0.52%	+0.52%
Retractability Spread	-0.55%	-0.71%
Floating Rate Spread	-1.42%	-1.37%
2nd Tier Credit Spread	+0.30%	+0.28%
3rd Tier Credit Spread	+0.55%%	+0.64%
"High" Credit Spread	-0.25%	-0.28%
"Low" Credit Spread	+0.00%	+0.00%
Note: Figures for June 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.		

All risk factors analyzed by the Hymas Investment Management analytical system are regressed as independent variables against the monthly total return dependent variable – note that there are other factors which are not reported here, which attempt to provide measures of duration, modified duration and convexity for the instruments. In the regression results shown, for instance, the analysis indicates that a Floating Rate issue had a total return that was 1.88% less than its peers, all else being equal, whereas the data derived from a

Risk Factor	July 2004 Returns for "True" (Pre-Tax)	July 2004 Returns for "False" (Pre-Tax)	Regression Coefficient*
Retractable	1.00%±1.65%	1.10%±2.34%	+0.02%
Split Share Corp	0.60%±1.54%	1.17%±2.10%	+0.24%
Cumulative Dividends	0.80%±2.27%	1.45%±1.42%	-0.34%
Payments are Dividends	1.03%±2.06%	1.26%±1.08%	+0.71%
Floating Rate	0.33%±3.06%	1.28%±1.44%	-1.88%
Credit Class 2	1.53%±1.57%	0.50%±2.29%	+0.13%
Credit Class 3	0.32%±2.76%	1.20%±1.77%	-0.20%
Credit Class Modifier "High"	1.44%±0.94%	0.96%±2.18%	-0.39%
Credit Class Modifier "Low"	1.12%±2.39%	1.00%±1.70%	-0.38%
**This is the coefficient produced by a multi-linear regression of monthly return vs. all risk factors – not just those reported here. R-Squared is 0.4199. See text of report*			

straightforward average and more greatly subject to contamination due to heterogeneity of the risk factors, indicated an underperformance of only 0.95%.

For the statistically-challenged, it will be noted that R-squared is the most basic method of measuring the ability to predict the values of a dependent variable by using the set of values of the independent variables. Briefly, it represents the proportion of scatter of the dependent variable that may explained by fitting the data to the independent variables.

The regression reported here was prepared iteratively, with the second and final cycle rejecting those data points which differed from their predicted values by more than three standard deviations – ten data points were thus discarded. Of particular interest is the fact that the regression coefficient derived for the "Split-share" factor changes sign in the course of the analysis – in the initial run, which had an R-squared of only 0.2273, the split-share coefficient was –0.61%, fairly close to the amount indicated by the "straightforward average" approach. Clearly, outliers and heterogeneity can have a great impact on the results!

As an aside, to show the value of the Hymas Investment Management analytical system, I note that a regression of "Bid Valuation", as calculated on June 30, 2004, versus the actual returns experienced in July for each instrument had an R-squared of 0.2801 (instruments were restricted to those which were actually eligible for purchase – two outliers which were more than three standard deviations from the predicted value were also rejected). Clearly, while the predictions of future performance are not as accurate as attempts to fit historical data, they still seem to work fairly well!

This month's graph plots the July returns against the modified duration of the after-tax yield-to-worst scenario (chosen since this duration measure is non-proprietary) for each instrument. In such a strong month, one would expect a good fit to an upward-sloping line – but R-squared is only 0.0806!

TSE Ticker Symbol	Total Return, July 2004	Remarks (Valuation commentary based on Ontario's highest marginal tax rate)
BBD.PR.B*	-11.88%	Bombardier's slide accelerates
NTL.PR.G*	-5.13%	While Nortel gives up some of its gains in May …
NTL.PR.F*	-4.17%	… possibly due to renewed accounting woes.
STQ.E*	-3.68%	Split share, poor credit, reverses May gains
CGQ.E	-3.66%	Split share, poor credit, low liquidity
…	…	…
RY.PR.S	+4.19%	Redeemable 2006-08-24 at $26.00 – expensive at 27.75-80
NA.PR.K	+5.00%	Fixed rate non-retractible – expensive at 26.50-60
BNN.PR.J*	+5.41%	Fixed rate, retractible, good credit & liquidity, expensive at 26.50-64
BPP.PR.J	+5.63%	Floating rate, third class credit, poor liquidity
BNN.PR.A*	+9.04%	Virtually untradeable issue
**Indicates that the issue was also on June's Best/Worst Performers List.*		

James Hymas
Portfolio Manager

Universe Properties as of 2004-07-30

Tax Identifier: 7

X-Axis: Modified Duration - YTW

Y-Axis: Performance