

MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, October 2004

October was a quiet month for the fund, which returned +0.75% - estimated as being equal to the not yet available index.

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>
November, 2003	+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	+2.51%	+1.39%	
August	+1.27%	+0.40%	
September	+0.88%	+0.47%	
October, 2004	+0.75%	+0.75%**	
Last 12 Months	+15.42%	+5.53%**	
Last 2 Years (annualized)	+20.81%	+6.44%**	
Last 3 Years (annualized)	+13.00%	+5.45%**	
Total Since Inception (March, 2001)	+62.56%	+17.76%**	
<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>			
<i>**Index data for October 2004 is not available at time of writing and has been estimated.</i>			

Of note during the month was the increase in the Canada Prime Rate from 4.00% to 4.25% on October 20, which helped cheapen the yield curve premium applicable to floating rate issues from -1.19% to 1.08% (after tax). None-the-less, Floating Rate issues underperformed for during the month. This underperformance may be expected to continue in the future, as this class of security remains extremely expensive.

Regular readers of these reports will remember that the other class of security considered very expensive by the Hymas Investment Management analytical system is retractibles, for which the premium got even more expensive, moving from -92bp to -97bp. It is growing increasingly difficult to rationalize the level of this premium and one may expect

that retractable issues will commence a long period of compensating underperformance in the relatively near future.

It can be of interest to decompose the sources of return of a particular issue according to changes in the yield curve, as it may provide a more intuitive grasp of the Hymas

Investment Management analytical system.

To this end, one of the month's top performers, GWO.PR.X, is analyzed in the top table of page 3 of this report. The most important move is shown in the change of "curve price", calculated by discounting all the expected cash flows of the instrument to the yield curve (reported at right) to determine their net present value. The issue's "curve price" increased by \$0.29, an important move since it reflects the self-consistent fitting of all issues in the analytical universe to the yield curve formula. Further, roughly half of this increase reflects the change in the

"Retractability Spread": the increasing expensiveness of the "retractable" attribute, shown as a change in the yield curve premium from -0.92% to -0.97%, was responsible for an

Curve Attribute	September 30, 2004 (After Tax Figures)	October 29, 2004 (After Tax Figures)
Base Rate	3.10%	3.09%
Short Term Premium	-3.12%	-3.18%
Short Term Decay Time	5.0 Years	5.5 Years
Long Term Premium	1.79%	2.19%
Long Term Decay Time	16.7 Years	13.2 Years
Interest Income Spread	1.26%	1.03%
Cumulative Div. Spread	-0.28%	-0.21%
Split-Share Spread	0.47%	0.44%
Retractability Spread	-0.92%	-0.97%
Floating Rate Spread	-1.19%	-1.08%
2 nd Tier Credit Spread	0.23%	0.23%
3 rd Tier Credit Spread	0.61%	0.65%
"High" Credit Spread	-0.23%	-0.23%
"Low" Credit Spread	0.00%	0.00%
<i>Note: Figures for September 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	October 2004 Returns for "True" (Pre-Tax)	October 2004 Returns for "False" (Pre-Tax)	Regression Coefficient*
Retractable	0.46%±1.12%	0.85%±2.04%	+0.51%
Split Share Corp	0.13%±1.09%	0.80%±1.75%	-0.26%
Cumulative Dividends	0.54%±1.95%	0.84%±0.95%	-0.58%
Payments are Dividends	0.62%±1.69%	1.12%±0.79%	+0.21%
Floating Rate	0.28%±1.72%	0.77%±1.60%	-0.53%
Credit Class 2	0.70%±1.41%	0.60%±1.87%	0.44%
Credit Class 3	0.60%±2.56%	0.66%±1.32%	0.15%
Credit Class Modifier "High"	0.46%±1.38%	0.70%±1.71%	-1.01%
Credit Class Modifier "Low"	0.85%±2.09%	0.52%±1.28%	-0.11%
<i>*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 0.3370 after rejection of outliers.</i>			

increase in the fair price of this issue of \$0.12.

Most dramatic was the change in “Price Disparity” – that amount by which the actual quotation deviates from fair, with a negative value indicating a relatively expensive issue.

Comparison of Curve-Price Components, GWO.PR.X			
Yield Curve Component	Sep. 30, 2004, Dollar Value	October 29, 2004, Dollar Value	Change
Base Rate	25.44	25.58	+0.14
Short Term Premium	1.18	1.40	+0.22
Long Term Premium	-2.32	-2.53	-0.21
Retractibility	1.82	1.94	+0.12
Credit Spread (2)	-0.47	-0.48	-0.01
Credit Spread (High)	0.47	0.47	0
Error	0.20	0.23	+0.03
Curve Price	26.32	26.61	+0.29
Quotation	27.50-55	28.30-50	
Price Disparity	-1.18	-1.69	-0.51

The concept of “price disparity” must be handled with care, as there is no guarantee that it will result from mere random noise and be the sole focus of a trading strategy. “Price Disparity” is only as good an indicator as “Curve Price” is, which is only as good as the underlying model.

For example, if holding this issue were to entitle the owner to purchase insurance from the issuer at

a discounted price, one would expect the market price of the security to reflect this perk while being an attribute virtually impossible to model and quite impossible to test on a consistent basis. Thus the analysis of relative value includes a large component that reflects the tendency of “Price Disparity” to revert to historic norms, rather than zero; and the analysis is under constant scrutiny to determine whether “Price Disparity” contains any elements that can be extracted and tested.

TSE Ticker Symbol	Total Return, October 2004	Remarks (Valuation commentary based on Ontario’s highest marginal tax rate)
BNN.PR.B*	-3.97%	Floating rate, Credit Class 2, quite liquid
BNF.PR.A*	-3.36%	Floating rate, Credit Class 2, fairly liquid
BNF.PR.C	-3.31%	Floating rate, Credit Class 3, illiquid
BNA.PR.A*	-3.30%	Split share, currently redeemable at \$25.60, current quote \$26.35-87
STR.E	-3.00%	Split share, poor credit
...
GWO.PR.X	+2.91%	Retractable, Credit Class 2, very liquid, expensive at \$28.30-50
CL.PR.B	+3.90%	Perpetual, Credit Class 2, fairly liquid, expensive at \$28.25-43
AR.PR.B	+4.14%	Unrated, part of Conrad Black’s empire
AIT.PR.A	+5.07%	Fixed-Floater, Credit Class 2, expensive at \$26.95-24
BBD.PR.C*	+12.49%	A strong turnaround for Bombardier Preferreds!
<i>*Indicates that the issue was also on September’s Best/Worst Performers List.</i>		

James Hymas
Portfolio Manager

GWO.PR.X (Security A46006) Properties from 2003-10-31 to 2004-10-29

Tax Identifier: 7

X-Axis: Date

Price Disparity

Y-Axis: Price Disparity

