

MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, May 2005

The fund returned +1.62% in May, exceeding the index return of +0.98%.

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, 2004	+1.49%	+0.86%	
July	+2.51%	+1.39%	
August	+1.27%	+0.40%	
September	+0.88%	+0.47%	
October	+0.75%	+0.82%	
November	+1.49%	+0.81%	
December, 2004	+1.14%	+1.26%	
January, 2005	+0.42%	+0.33%	
February	-0.27%**	-0.23%	
March	-0.46%**	-0.76%	
April	-1.07%**	+0.29%	
May, 2005	+1.62%**	+0.98%	
Last 12 Months	+10.18%**	+6.80%	
Last 2 Years (annualized)	+15.61%**	+5.49%	
Last 3 Years (annualized)	+12.49%**	+6.27%	
Last 4 Years (annualized)	+13.46%**	+5.15%	
Total Since Inception (March, 2001)	+67.23%**	+21.03%	
<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>**MAPF was not traded for all or part of the period; HIMI is absorbing fees and expenses for the duration this circumstance. See text.</i>			

The fund is currently addressing custodial issues and will recommence trading as soon as these issues are resolved. The fund's audited financials for 2004 are now available on the internet at <http://www.himinvest.com/malachite/financials/MAPFAudit041231.pdf>. Hymas Investment Management (HIMI) is currently preparing documentation for renewal of its OSC registration and anticipates that this renewal will be a routine matter. Until such time as HIMI re-assumes portfolio management duties, HIMI will cover all fund expenses and is waiving management fees.

The market performed well in May, following the bond market in a broadly based advance that left only floating rate issues floundering in the wake of the fixed-rate issues. However, even after the appalling performance of the floaters, the class remains absurdly expensive and one can only speculate on the motivations of those portfolio managers who continue to hold them in size. One possibility is that these issues are being financed with floating rate loans, a position that will have a positive after-tax carry in a taxable portfolio (for investors in Ontario's highest marginal tax bracket), but there is no solid information on this.

Another possibility is a desire on the part of retail investors to minimize (in some senses) yield curve risk by holding floating rate preferreds irregardless of the spread between these issues and fixed-rate shares. Certainly the after-tax return on floaters exceeds the rate paid on bank deposits! The behavior of retail investors, always a tricky subject, seems to get more peculiar with every new product that panders to their desires – the popularity of Income Trusts (which, for investment purposes, are generally small- to medium-sized companies with very specialized product lines) is an example, as is the popularity (at least until the Portus fiasco cast a pall over the sector) of principal-protected notes.

Curve Attribute	April 29, 2005 (After Tax Figures)	May 31, 2005 (After Tax Figures)
Base Rate	3.46%	3.37%
Short Term Premium	-3.52%	-3.36%
Short Term Decay Time	1.4 Years	1.6 Years
Long Term Premium	-1.62%	-1.13%
Long Term Decay Time	10.1 Years	10.0 Years
Interest Income Spread	0.64%	0.73%
Cumulative Div. Spread	0.00%	0.00%
Split-Share Spread	0.46%	0.44%
Retractability Spread	-0.42%	-0.59%
Floating Rate Spread	-1.82%	-1.76%
Liquidity Spread	-0.11%	-0.13%
2 nd Tier Credit Spread	0.16%	0.15%
3 rd Tier Credit Spread	0.39%	0.35%
“High” Credit Spread	0.00%	0.00%
“Low” Credit Spread	0.14%	0.15%
<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 2005 Returns for “True” (Pre-Tax)	May 2005 Returns for “False” (Pre-Tax)	Regression Coefficient*
Retractable	+1.08%±1.33%	+0.91%±1.57%	+0.64%
Split Share Corp	+0.98%±1.30%	+0.99%±1.52%	-0.22%
Cumulative Dividends	+0.94%±1.67%	+1.06%±1.06%	+0.13%
Payments are Dividends	+0.97%±1.50%	+1.32%±0.61%	+0.14%
Floating Rate	+0.01%±1.35%	+1.22%±1.39%	-1.92%
Credit Class 2	+1.02%±1.30%	+0.95%±1.63%	+0.19%
Credit Class 3	+0.70%±1.26%	+1.04%±1.49%	-0.13%
Credit Class Modifier “High”	+0.97%±1.01%	+1.00%±1.55%	+0.03%
Credit Class Modifier “Low”	+1.13%±1.03%	+0.90%±1.69%	+0.10%
<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 0.2443 after rejection of outliers.</i>			

The issue WN.PR.C (listing date 2005-04-18) was mentioned in the April report in the discussion of the major new issues of the year and it appears in this month's report as the third-best performing stock in the universe examined – the market quotation was up nearly

WN.PR.C – Components of Curve Price		
Component of Price	April 29, 2005	May 31, 2005
Base Rate	24.52	24.92
Short-Term Shape Factor	0.06	0.07
Long-Term Shape Factor	0.91	0.62
Liquidity	0.95	1.17
Credit Class 2 Spread	-0.74	-0.72
Credit Class Low Spread	-0.67	-0.72
Error	0.06	0.07
Curve Price (Total – may not add due to rounding)	25.10	25.42
Quotation	24.17-24	25.10-15
Price Disparity	0.86	0.27

\$1/share over the month.

The accompanying table shows an analysis of the reasons behind this jump: the fair value of the stock increased by approximately \$0.32/share in May, as favorable movements in the yield curve's base-rate and liquidity premium overpowered a negative effect due to the curve's long-term-shape factor.

The major portion of the price increase, however, was due to a sharp reduction in the Price

Disparity of the stock, with its value relative to the curve moving from \$0.86 cheap to only \$0.27 cheap – in other words, the price of the stock moved closer to a price consistent with its peers, while still remaining relatively cheap (as long as you don't mind paying over \$1 per share for liquidity!).

This month's graph shows the spot-values of the floating-rate premium and the retractibility premium over the past year. As both attributes will be of interest to those investors seeking to minimize price-exposure to interest-rate risk, one would expect these two measures to move somewhat in tandem – the fact that directional differences are observed may mean that there are those who are using floating-rate issues to bet on changes to the Canadian Prime Rate.

TSE Ticker Symbol	Total Return, May 2005	Remarks (Valuation commentary based on Ontario's highest marginal tax rate)
DCF.PR.A	-3.40%	Now redeemable at \$25.75 (\$25.50 next month) – quote 27.35-59
NTL.PR.G	-3.25%	Nortel keeps gyrating ...
BPP.PR.G	-3.16%	Floating Rate, Credit Class 3, very low volume
NTL.PR.F	-2.46%	... the Nortel issues are an equity substitute
YLD.PR.B	-2.44%	Still in default
....
SPL.A	+3.45%	Split Share, Credit Class 3, reasonable volume, cheap at \$9.70-83
PWF.PR.D	+3.54%	Retractable, Credit Class 2, reasonable volume, rich at \$27.75-80
WN.PR.C	+3.85%	Perpetual, Credit Class 2, highly liquid (see text for discussion)
BNA.PR.B	+4.51%	Split Share, Credit Class 2, good volume, expensive at \$26.23-94
AR.PR.B	+9.38%	Another equity substitute! Very low volume.

James Hymas
Trustee

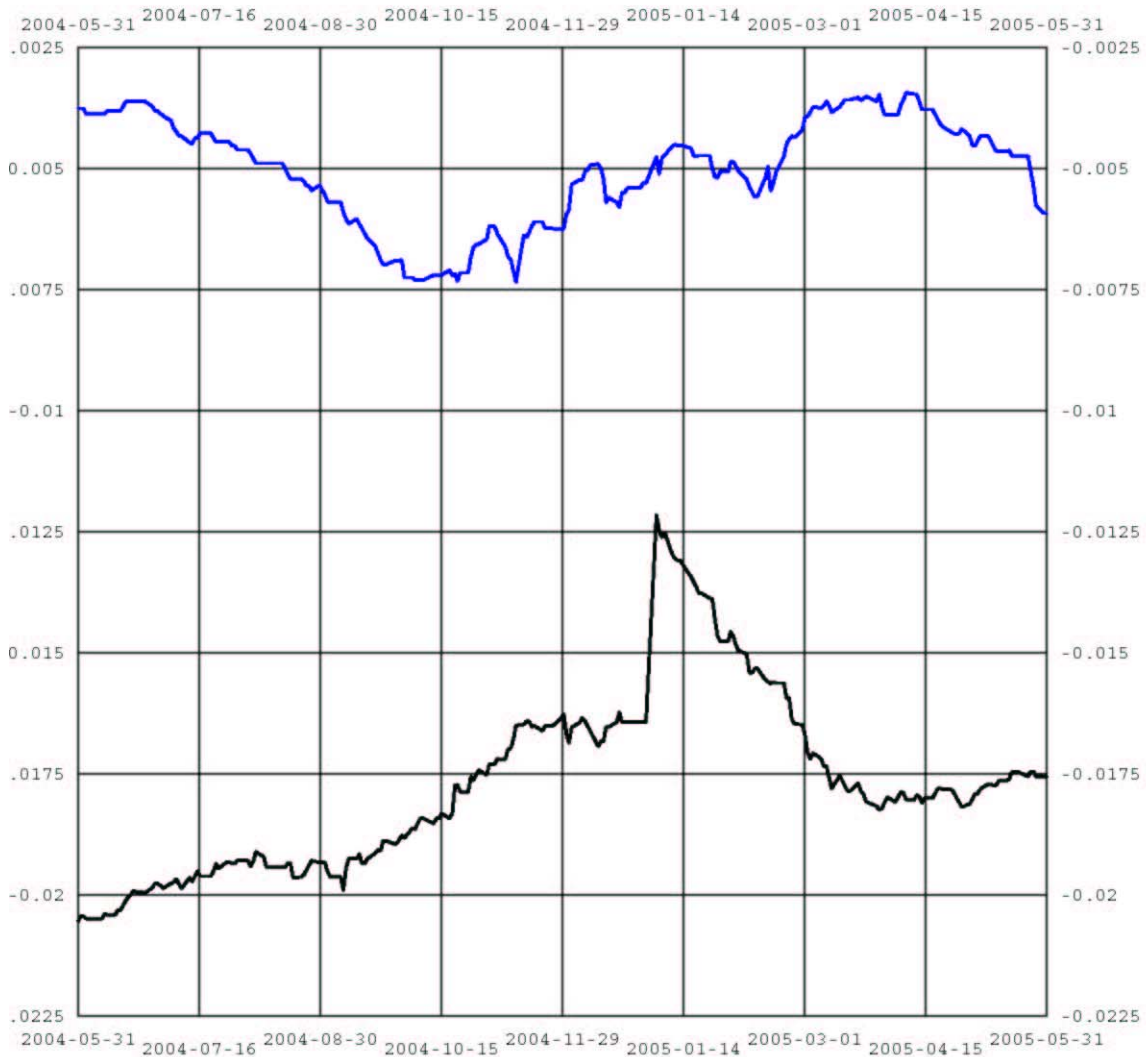
Yield Curve Data : Period (inclusive) from 2004-05-31 to 2005-05-31

Tax Identifier: 7

PREMIUM - FLOATING RATE : Spot Rate
PREMIUM - RETRACTIBLE : Spot Rate

X-Axis: Date

Y-Axis: Yield (premium) as fraction



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