MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, January 2002

The fund performed excellently in January, beginning the new year with a gain of 5.43%. This brings the total return (including reinvestment of dividends) to 14.82% in the ten months since inception.

Month	MAPF Total Return	NB-50 Total Return
April, 2001	+1.11%	-0.32%
May	-0.20%	-0.66%
June	+2.56%	-0.62%
July	+1.40%	+0.48%
August	+1.74%	+1.13%
September	+4.20%	+0.51%
October	+1.25%	-0.06%
November	-0.81%	+0.98%
December, 2001	-2.54%	-0.14%
January, 2002	+5.43%	NA

The yield curve continued to show important changes in the month, as summarized in the table. Clients will note a change in the table: "high" and "low" modifiers for the credit tiers have been added to the analysis and therefore the figures given for December in this month's report are not directly comparable to the figures reported last month. Credit spreads will be the focus of this month's report, but there are other indicators worthy of note. The retractability spread moved towards more normal levels after its plunge in December, having an effect on Risk Group returns that is shown very dramatically in the next table. Additionally, the "interest income" spread increased quite substantially, which may be presumed as

Curve Attribute	December 31, 2001 (After Tax Figures)	January 31, 2002 (After Tax Figures)
Base Rate	3.22%	3.06%
Short Term Premium	-3.30%	-3.30%
Short Term Decay Time	4.5 Years	6.0Years
Long Term Premium	1.66%	1.66%
Long Term Decay Time	18.4 Years	20.1 Years
Interest Income Spread	0.36%	0.51%
Cumulative Div. Spread	-0.13%	-0.12%
Split-Share Spread	0.11%	0.32%
Retractability Spread	-0.53%	-0.45%
Floating Rate Spread	-1.18%	-1.25%
2nd Tier Credit Spread	0.47%	0.48%
3rd Tier Credit Spread	1.53%	1.36%
"High" Credit Spread	-0.39%	-0.36%
"Low" Credit Spread	0.07%	0.11%

having to do with supply concerns after the announcement of a new issue of Enbridge Preferred Securities to be brought to market by BMO Nesbitt Burns. Floating rate instruments, as a group, continue to be quite expensive.

The group returns for the month continue to show the great importance careful analysis of the properties of each preferred share when selecting investments. While the most dramatic difference in returns is between those which pay dividends (preferred *shares*) and those which pay interest (preferred *securities*), the difference in return between retractable and non-retractable issues is not to be sneezed at, while the difference in returns due to credit rating differences clearly shows the effect of the changes in credit spreads previously mentioned.

Risk Factor	Returns for "True"	Returns for "False"
Retractable	1.37% ± 1.92%	2.47% ± 2.68%
Split Share Corp	1.77% ± 1.99%	1.79% ± 2.35%
Cumulative Dividends	1.46% ± 2.33%	2.21% ± 2.21%
Payments are Dividends	2.01% ± 2.24%	-0.80% ± 1.46%
Floating Rate	1.66% ± 2.32%	1.82% ± 2.30%
Credit Class 2	1.57% ± 2.06%	1.99% ± 2.50%
Credit Class 3	2.13% ± 2.96%	1.74% ± 2.19%
Credit Class Modifier "High"	2.51% ± 1.92%	1.63% ± 2.36%
Credit Class Modifier "Low"	1.93% ± 2.28%	1.58% ± 2.33%

Credit spreads are the focus of this month's report, as it is important for clients to understand the risks of investing in the various credit classes as well as how analysis of the pricing of these risks can lead to higher returns. With every investment there is, of course, the risk of loss - even a bank issued GIC can be problematic if the bank goes under. Treasury bills are considered the epitome of safety, as sovereign governments have unlimited ability to tax, or at worst, "print" money.

The objective of credit ratings is to quantify this risk so that non-specialist investors and traders can focus their efforts on the determination of price. Credit ratings are produced by very specialized companies (such as Moody's, Standard & Poors and the Dominion Bond Rating Service (DBRS); DBRS maintains a very good web-site at www.dbrs.com) who, despite their very well publicized failures, do a very good job on the whole of estimating the credit risk inherent in publicly traded securities. Credit rating companies do not make investment recommendations: their evaluation of a financial instrument will not explicitly address the issue of whether it should be bought, sold or held by a rational investor. The focus is on whether the company will be willing and able to meet its obligations under the terms of issue (e.g., to pay the dividends or interest on time; to pay back the principal on the agreed date). These efforts allow investors to determine whether the particulars of the investment (its terms, its price in the market and its credit risk) are an appropriate match for portfolio objectives.

The market, rationally enough, places a value on credit ratings, but the precise level of this value is constantly changing. Factors affecting the market value of a higher credit rating include:

- **Segmentation**. Some investors will have a cut-off point for acceptable investments. The best known cut-off is the distinction between "investment-grade" and "junk" bonds.
- **Historical risk of loss**. The use of credit ratings as a statistical predictor of future rate of defaults is under constant scrutiny.
- **Level of interest rates**. In times of low rates, investors may be more willing to buy lower rated credits in order to lessen the effect on income.
- **Economic conditions.** When the economy is doing well, the risk of default can seem very far away. This effect is well-illustrated by this month's chart: note the spike in the spread for third-tier credits after September 11, 2001.

Hymas Investment Management Inc. emphasizes credit quality in our funds under management: this allows us to concentrate our efforts on our fortes of yield curve and cash flow analysis.

Finally, we present our table of the best and worst performing issues of the month.

TSE Ticker Symbol	Total Return, January 2002	Remarks (Valuation Commentary based on Ontario's highest marginal tax rate)
PWF.PR.F *	+11.76%	Still reasonably inexpensive at $23.25
IQW.PR.A	+7.79%	Third Tier Credit
BT.PR.E	+6.98%	Very low volume issue, Third Tier Credit
GT.PR.A	+6.94%	Low volume issue, Third Tier Credit
YLD.PR.B	+6.16%	Fourth Tier Credit
…	…	…
AR.PR.B *	-2.01%	Low volume issue; 12% bid-offer spread!
NSI.PR.D	-2.29%	Inexpensive at $25.50
BPP.PR.J	-3.10%	Floating Rate, Third Tier credit
BPP.PR.M *	-3.12%	Floating Rate, Third Tier credit
ENB.PR.C *	-4.30%	Interest paying

*indicates that the issue was also on last month's best/worst performers table.

Of the issues listed in the above table, the fund traded in both PWF.PR.F and NSI.PR.D during the month, ending the period with no holdings in either issue, on a trade-date basis.

James Hymas, CFA
Portfolio Manager

Yield Curve Data : Period (inclusive) from 2001-01-31 to 2002-01-31

Tax Identifier: 2

PREMIUM - CREDIT CLASS 3 : Spot Rate