MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, July 2002

July was a poor month for MAPF, which experienced a loss of -2.19%, compared to an index gain of +1.31%. This is directly attributable to a large position in SPL.A, the price of which collapsed during the month for no readily discernable reason; the value of these shares – as opposed to their price – is discussed later in this report. This loss was mitigated by gains on BCE.PR.A and PWF.PR.F, both of which showed up on the list of "top 5 gainers" for July.

<table>
<tr><td>Month</td><td>MAPF Total Return*</td><td>NB-50 Total Return</td><td rowspan="14">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.</td></tr>
<tr><td>August, 2001</td><td>+1.74%</td><td>+1.13%</td></tr>
<tr><td>September</td><td>+4.20%</td><td>+0.51%</td></tr>
<tr><td>October</td><td>+1.25%</td><td>-0.06%</td></tr>
<tr><td>November</td><td>-0.81%</td><td>+0.98%</td></tr>
<tr><td>December, 2001</td><td>-2.54%</td><td>-0.14%</td></tr>
<tr><td>January, 2002</td><td>+5.43%</td><td>+2.01%</td></tr>
<tr><td>February</td><td>+1.16%</td><td>+0.17%</td></tr>
<tr><td>March</td><td>-0.08%</td><td>-2.16%</td></tr>
<tr><td>April</td><td>+1.22%</td><td>-0.65%</td></tr>
<tr><td>May</td><td>+0.01%</td><td>+0.25%</td></tr>
<tr><td>June</td><td>+1.67%</td><td>+0.67%</td></tr>
<tr><td>July, 2002</td><td>-2.19%</td><td>+1.31%</td></tr>
<tr><td>Last 12 Months</td><td>+11.32%</td><td>+4.03%</td></tr>
<tr><td colspan="4">*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.</td></tr>
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The collapse in the price of SPL.A was not an isolated event, as the "split-share" class performed poorly on the month, although SPL.A was egregious in this respect. It could be that with the common-equity markets diving, investors are wary of split-share corporations in general although it would be rash to draw firm conclusions from limited data. Yet another fertile field for research! There are always aspects of the market ripe for investigation, testing and, rarely, subsequent exploitation.

As shown on the table of "Curve Attributes", the split-share premium increased from 1.34% to 1.50% during the month – that is to say, a split-share can be expected to yield 1.50% more than a "normal" share on an after-tax basis with all other characteristics of the issues being held constant. This is quite a substantial premium, to say the least. Another change is the increase in the retractibility spread to –0.61% from its June 28 level of –0.54%. There have been brokerage reports that the lack of supply of retractible issues is growing critical and these levels may well tempt one issuer or another to step up to the plate and do next year's financing in advance.

Further changes of note in the yield curve over the month are the decline in the 2nd tier credit spread and the sharp drop in the floating rate premium.

The lower first tier is not accorded any meaningful premium over the upper second tier, which may reflect unease regarding credit-worthiness of the banks (which make up the bulk of first-tier credits) rather than any conviction that the better second tier credits are now worthy of an increased price.

Curve Attribute	June 28, 2002 (After Tax Figures)	July 31, 2002 (After Tax Figures)
Base Rate	3.45%	3.51%
Short Term Premium	-3.31%	-2.44%
Short Term Decay Time	4.2 Years	5.9 Years
Long Term Premium	0.86%	0.87%
Long Term Decay Time	28.5 Years	24.8 Years
Interest Income Spread	0.58%	0.62%
Cumulative Div. Spread	-0.32%	-0.24%
Split-Share Spread	1.34%	1.50%
Retractability Spread	-0.54%	-0.61%
Floating Rate Spread	-1.26%	-1.11%
2nd Tier Credit Spread	0.52%	0.47%
3rd Tier Credit Spread	1.09%	1.04%
"High" Credit Spread	-0.36%	-0.45%
"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.		

The July 18 increase in the Canadian Prime Rate might have been expected to improve prices of floating rate issues, but the "Risk Factor" table shows these issues to have under-performed during the month, while the spread itself narrowed by 15 basis points ("bp" – 0.01%). This may be taken as reflecting a change in view by the market which has also led to woes in the common-share markets: business conditions may not improve, hence inflation may not worry the Bank of Canada, therefore the Bank will not increase its target rate as rapidly as thought previously and so Floating Rate issues will not pay as much dividend as thought over the medium term.

Risk Factor	Returns for "True" (Pre-Tax)	Returns for "False" (Pre-Tax)
Retractable	-0.51%±3.32%	-0.68%±5.28%
Split Share Corp	-2.11%±4.60%	0.27%±4.09%
Cumulative Dividends	-1.22%±4.57%	0.36%±3.48%
Payments are Dividends	-0.66%±4.40%	0.31%±1.44%
Floating Rate	-2.37%±6.67%	-0.03%±2.90%
Credit Class 2	-0.46%±3.15%	-0.70%±5.12%
Credit Class 3	-1.68%±3.84%	-0.43%±4.26%
Credit Class Modifier "High"	0.04%±2.85%	-0.71%±4.48%
Credit Class Modifier "Low"	0.01%±2.83%	-1.32%±5.41%

And now, as promised, a defense of the Fund's holdings of SPL.A.

This issue, Mulvihill Pro-AMS RRSP 6.5% Split Share Corp. Class A, is the "preferred" part of the corporation's share capital. In this discussion, one SPL.A together with one SPL.B share constitute a "unit". At July 31, the total portfolio had a unit value (NAV) of $24.60 (www.mulvihill.com), of which $10.39 is in the "Fixed Portfolio", available only to holders of the "B" shares, and $14.21 in the "Managed Portfolio". Class "A" shares are entitled to receive $10.00 from the "Managed Portfolio" at the wind-up of the firm – the balance is allocated to "B" shares. Thus, the coverage ratio for the "A" shares is in excess of 1.4:1 – down sharply from the coverage at issuance of 1.8:1, but still adequate. No dividends will be paid to Class "B" shareholders if this ratio decreases below 1.2:1. The company is scheduled to be wound up on December 31, 2013, with funds being distributed to shareholders at that time.

Of particular interest over the medium term is the retraction privilege: on December 31 of each year, one "Unit" may be retracted at the NAV. This limits the decline in price of the shares to a reasonable discount to the NAV; at time of writing (August 6), the closing quotations were SPL.A 8.95-9.15; SPL.B 15.50-16.00. The bid prices of the shares, therefore, summed to approximately the NAV. This would be expected to be the case throughout the life of the corporation, barring concerns regarding the credit quality of the "Fixed Portfolio".

It should be noted that the price used to evaluate the SPL.A shares held by MAPF was the month-end closing bid on the TSE: $8.00. The current price of $8.95 would have made the fund's monthly performance much better!

TSE Ticker Symbol	Total Return, July, 2002	Remarks (Valuation commentary based on Ontario's highest marginal tax rate)
NTL.PR.F*	-25.71%	Telecom woes continue to deprecate the issue
NTL.PR.G*	-23.08%	Telecom woes continue to deprecate the issue
SPL.A	-15.92%	See discussion in main text – attractive at $8.00 bid
BNN.PR.A*	-15.22%	Trades irregularly
GT.PR.A*	-12.08%	Worthy of investigation at $8.81 bid, as is backed by assets of $12.46
…	…	…
RY.PR.O	+3.36%	Expensive at $25.75 – not retractible, redeemable in 2004
PWF.PR.F	+3.97%	MAPF sold during month – expensive at $23.05 – not retractible
MG.PR.A	+4.09%	Pays interest – very expensive at $26.75
BMO.PR.H	+5.11%	Expensive at $25.00
BCE.PR.A	+6.85%	MAPF sold during month – very expensive at $24.50
*indicates that the issue was also on last month's best/worst performers table		

James Hymas
Portfolio Manager

Yield Curve Data : Period (inclusive) from 2001-07-31 to 2002-07-31

Tax Identifier: 7

X-Axis: Date

PREMIUM - SPLIT SHARE CORPS : Spot Y-Axis: Yield as fraction positive implies cheaper