

MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, February 2003

The fund drew back somewhat after its superb performance in January, recording a loss of 0.57% compared with an index loss of 0.43%. Trading was quite active during the month as a number of new issues came to market or were announced, leading to some relative price movement as dealers and major investors adjusted their holdings to make room for the supply.

Month	MAPF Total Return*	NB-50 Total Return	
March, 2002	-0.08%	-2.16%	<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>
April	+1.22%	-0.65%	
May	+0.01%	+0.25%	
June	+1.67%	+0.67%	
July	- 2.19%	+1.31%	
August	- 2.05%	+0.39%	
September	- 7.48%	+0.54%	
October	+5.19%	+0.13%	
November	-1.26%	+0.06%	
December, 2002	+0.18%	+1.65%	
January, 2003	+7.10%	+0.46%	
February, 2003	-0.57%	-0.43%	
Last 12 Months	+1.01%	+2.19%	
Since Inception (March, 2001)	+17.33%	+5.75%	

**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.*

In addition to the Brascan issue (BNN.PR.J, \$150 million, soft-retractable, fixed rate, cumulative) mentioned in last month's report, issuances or announcements included Noranda Inc. (\$150 million, soft-retractable, fixed rate, cumulative, announced March 4), two Power Financial issues totaling at least \$350 million (\$150 million+, perpetual, fixed-rate, non-cumulative and \$150 million+, soft-retractable, fixed rate, non-cumulative) and BCE Inc (BCE.PR.C, \$153 million, convertible to other preferred series (net effect: perpetual), fixed/floater, cumulative).

It is good to see these high-quality (with the possible exception of Noranda!) issuers raising significant capital in the preferred share market: more tradable issues means more trading opportunities!

The yield curve was fairly stable during the month, with the major change being the change in the premium paid for floating rate issues – issues of this nature became more expensive, presumably with some anticipation of the Bank of Canada interest rate hike announced March 4.

Hymas Investment Management does not “take a view” in the portfolio management sense of the term on future changes in interest rates: we seek simply to hold a portfolio of the cheapest instruments relative to their peers. However, it may be noted that the premium currently being paid for floating rate issues, 0.94% on an after-tax basis, is still extremely high and, given a portfolio with no set liabilities to offset, such issues should be avoided. There are certainly a lot of other opportunities available!

Curve Attribute	January 31, 2003 (After Tax Figures)	February 28, 2003 (After Tax Figures)
Base Rate	3.36%	3.52%
Short Term Premium	-3.40%	-3.56%
Short Term Decay Time	5.3 Years	5.0 Years
Long Term Premium	1.98%	1.85%
Long Term Decay Time	12.4 Years	12.1 Years
Interest Income Spread	0.93%	0.81%
Cumulative Div. Spread	-0.24%	-0.26%
Split-Share Spread	0.91%	1.00%
Retractability Spread	-0.89%	-0.85%
Floating Rate Spread	-0.84%	-0.94%
2 nd Tier Credit Spread	0.56%	0.53%
3 rd Tier Credit Spread	1.17%	1.08%
“High” Credit Spread	-0.47%	-0.52%
“Low” Credit Spread	0.00%	0.00%
<i>Note: Figures for January 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	Returns for “True” (Pre-Tax)	Returns for “False” (Pre-Tax)
Retractable	-0.25%±1.66%	0.13%±2.46%
Split Share Corp	-0.93%±2.34%	0.11%±1.96%
Cumulative Dividends	0.09%±2.46%	-0.32%±1.29%
Payments are Dividends	-0.12%±2.14%	0.47%±0.91%
Floating Rate	1.23% ±2.02%	-0.51%±1.91%
Credit Class 2	-0.08%±2.06%	-0.07%±2.09%
Credit Class 3	1.27%±2.16%	-0.32%±1.96%
Credit Class Modifier “High”	0.91%±1.94%	-0.26%±2.05%
Credit Class Modifier “Low”	-0.27%±1.84%	0.12%±2.27%

As implied by the movement in the yield spread for floating rate issues, this class of preferred outperformed significantly during the month, barely exceeded by the rather surprising performance of

the “Credit Class 3” issues. However, not only were the returns as segregated by class fairly consistent this month, but the standard deviations within each class were fairly low. This relative homogeneity of return might normally be expected to work against the fund’s interests but, as noted earlier, trading volume was heavy during the month due to some sharp changes in the market valuations of individual issues. There is no reason to believe that the market’s efficiency is increasing to any significant extent.

One of the more interesting events to happen during the month in the preferred share market was the collapse in the price of the liquid Westcoast Energy issues, which performed sufficiently poorly to be included in this month's list of the five worst performers (the illiquid ones actually performed quite well). The fund purchased shares of W.PR.J during the month (alas, before they had achieved their lowest level!) and this position is being maintained. This issue is usually about thirty cents expensive relative to its peers: on February 28, it was almost ninety cents cheap.

As shown in this month's chart, such volatility is unusual for this issue, and there would appear to be no reason for such a steep drop. Volume has not increased appreciably, so it may simply be another case of the market simply having lost its objectivity on a given issue and bids having dried up for no rational reason. We shall see.

It should be noted that the Y-axis of the chart shows the "flat bid price" of the issue. This price is the closing bid as reported by the Toronto Stock Exchange (that is, the price at which there were outstanding buy orders at the end of the day). This price will be only loosely comparable to the closing price, which is the last price at which the security actually traded and is generally used by stockbrokers when reporting the value of clients' holdings. Hymas Investment Management takes the view that the closing bid is a much more accurate reflection of value than the closing price, since the issue could actually have been sold at this level, at least to some extent. Many issues trade irregularly, some with very large bid-offer spreads: if an issue is constantly quoted at 25.00 – 25.50, for example, the price on executed "market" orders will vary up and down by fifty cents depending on whether the bid or the offer is applicable without any variation whatsoever in the underlying market.

TSE Ticker Symbol	Total Return, December, 2002	Remarks (Valuation commentary based on Ontario's highest marginal tax rate)
BBD.PR.C	-7.38%	Very cheap at \$20.05. Credit Class 2, some concern about downgrade
YLD.PR.B	-7.32%	Now in default
STR.E	-6.77%	Credit class 4
W.PR.H	-6.74%	Cheap at \$22.00. Fixed rate perpetual, Credit class 2 (low)
W.PR.J	-6.64%	Cheap at \$22.50. Fund owns. Fixed Rate perpetual, credit class 2 (low)
...	...	
IQW.PR.D	+3.38%	Credit class 3 (high), fixed floater
MMF.PR.A	+4.55%	Credit class 2 (high), floating rate
CCS.PR.A*	+4.60%	Credit class 3, floating rate with floor.
BNF.PR.C	+5.62%	Credit class 3 (high), floating rate
TOC.PR.B*	+6.13%	Credit class 2 (low), ratcheted floating rate.

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

James Hymas
Portfolio Manager

W.PR.J Period (inclusive) from 2002-02-28 to 2003-02-28

Tax Identifier: 7

X-Axis: Date

Flat Bid Price : Spot Rate

Y-Axis: Dollars

