MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, June 2003

The fund capped a superb quarter with solid outperformance in June, returning +2.27% to investors before fees vs. an index return of +0.81%. This outperformance may be ascribed to trading activity by the fund – markets were volatile during the period and it was possible to turn over a great number of profitable positions.

 "Turnover" has become a dirty word in the industry in recent years, but Hymas Investment Management pays very little attention to such considerations: if an issue held in an account has been analyzed as being expensive relative to the alternatives, it is sold and replaced – to do otherwise would imply holding an issue that we believe to be inferior. Tax considerations play an important role, but these are high quality fixed-income investments – the incremental after-tax reward for a buy-and-hold strategy is nowhere nearly as high as such a policy can be when considering common shares with a time horizon of several years.

Month	MAPF Total Return*	NB-50 Total Return	
July, 2002	- 2.19%	+1.31%	
August	- 2.05%	+0.39%	*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.*
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	-0.57%	-0.43%	
March	-4.54%	-0.18%	
April	+6.84%	+1.01%	
May	+4.56%	+1.99%	
June, 2003	+2.27%	+0.81%	
Last 12 Months	**+7.11%**	**+7.99%**	
Since Inception (March, 2001)	**+27.95%**	**+9.63%**	

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.

Quarter	MAPF Total Return	NB-50 Total Return
2Q01	+3.50%	-1.59%
3Q01	+7.50%	+2.12%
4Q01	-2.12%	+0.78%
1Q02	+6.57%	-0.02%
2Q02	+2.92%	+0.27%
3Q02	-11.35%	+2.25%
4Q02	+4.05%	+1.84%
1Q03	+1.65%	-0.15%
2Q03	+14.24%	+3.85%

The major change in the yield curve during the period was a marked decline in the long-term inversion, which has declined to the point at which its effect simply counter-balances the yield-curve shape adjustment that is measured by the "Short Term Premium". The equation for the shape of the "base" yield curve, which ignores adjustments applicable to different risk classes such as "retractibility" and "floating-rate", is:

$$Y(t) = Base + ShortPrem * \exp(-t / shortDecay) + LongPrem * \exp(-t / longDecay)$$

Therefore, while the curve will gradually become flatter as the time to maturity becomes longer (one would certainly not expect much difference in the yields between two similar instruments with tenors of 30 and 31 years!), the details of how this limit (which is the BaseRate) is approached will vary according to the interactions between the 4 shape descriptors. When the short premium is large and of opposite sign to the long premium, it's effect can dominate the shape of the curve during the period (out to 30 years term) of interest, especially when the decay times are similar.

Curve Attribute	May 30, 2003 (After Tax Figures)	June 30, 2003 (After Tax Figures)
Base Rate	3.20%	3.25%
Short Term Premium	-3.44%	-3.36%
Short Term Decay Time	6.2 Years	6.3 Years
Long Term Premium	1.20%	0.66%
Long Term Decay Time	11.3 Years	10.0 Years
Interest Income Spread	0.51%	0.57%
Cumulative Div. Spread	-0.14%	-0.26%
Split-Share Spread	0.86%	1.00%
Retractability Spread	-0.56%	-0.42%
Floating Rate Spread	-0.87%	-0.79%
2nd Tier Credit Spread	0.35%	0.39%
3rd Tier Credit Spread	1.58%	1.51%
"High" Credit Spread	-0.04%	-0.06%
"Low" Credit Spread	0.23%	0.27%
Note: Figures for May have changed somewhat from the previous report. This is due to additions of data.		

It should be noted that the value of these variables is determined entirely from the data, subject to some restrictions in order to ensure that the variables retain a well-defined physical meaning. Thus, while the discussion above anthropomorphizes the variables to a certain extent, it should be kept in mind that the programme treats them merely as somewhat restricted numbers:

- The baseRate must be greater than 0
- If the longPremium or shortPremium is negative and greater in absolute value than the baseRate, the value may not become more negative
- A maximum daily change is imposed on the longPremium and shortPremium
- The shortDecay time must be less than the longDecay time, greater than an imposed minimum and within bounds of the calculated value for the previous day. Restrictions on longDecay time are similar

Risk Factor	Returns for "True" (Pre-Tax)	Returns for "False" (Pre-Tax)
Retractable	+1.26%±1.83%	+1.34%±2.69%
Split Share Corp	+2.18%±2.57%	1.11%±2.16%
Cumulative Dividends	+1.89%±2.62%	+0.42%±1.20%
Payments are Dividends	+1.31%±2.36%	+1.17%±0.53%
Floating Rate	+1.48%±3.05%	+1.24%±1.93%
Credit Class 2	+1.05%±1.02%	+1.54%±3.02%
Credit Class 3	+3.21%±3.62%	+0.90%±1.60%
Credit Class Modifier "High"	+1.65%±2.32%	+1.22%±2.26%
Credit Class Modifier "Low"	+1.04%±1.92%	+1.53%±2.54%

The greatest differentiation determined in June for the binary risk indicators was for "Credit Class 3", the lowest credit class for which Hymas Investment Management Inc. will invest client funds. These companies are all quite credit-worthy – for instance, Bombardier, Noranda and Transalta Utilities – but are not considered quite as certain as issuers such as the major banks, which DBRS rates at Pfd-1 (low).

Given all the speculation in June regarding possible cuts in North American short-term rates, it is somewhat surprising that the floating rate issues should continue to out-perform. However, comparison with the table showing the derived risk-factor spreads shows that such issues, in general, became less expensive relative to their fixed-rate peers during the month, leading one to conclude that data inhomogenieties are to blame for this – e.g., that Credit Class 3 issues are over-represented amongst floating rate issues and that the perceived outperformance is not meaningful

This month's chart shows the value of the Long Term Premium of the Yield Curve (taken on a "spot" basis for the past year), and shows how the long-term inversion of the yield curve, so important six months ago, has now disappeared.

TSE Ticker Symbol	Total Return, June 2003	Remarks (Valuation commentary based on Ontario's highest marginal tax rate)
NTL.PR.G*	-3.26%	A minor pull-back after last month's stellar performance.
NTL.PR.F*	-2.23%	As above
CM.PR.M	-2.03%	Relatively low volume, inexpensive at $26.16 bid
RY.PR.S	-1.57%	Within fair-value range at $27.61 bid
RY.PR.O	-1.49%	Within fair-value range at $26.36 bid
…	…	…
YLD.PR.B	+8.64%	Continues to be in default of dividend obligations
STR.E	+9.60%	Poor credit quality, low volume, expensive at $21.61
BPP.PR.J	+9.91%	Credit Class 3, tiny volume, expensive at $17.75
BT.PR.E*	+10.71%	Credit Class 3, low volume, very expensive at $23.75
BBD.PR.B	+11.43%	Credit Class 3, good volume, expensive at $20.51
*indicates that the issue was also on last month's best/worst performers table		

James Hymas
Portfolio Manager

YIELD CURVE - CORE RATE
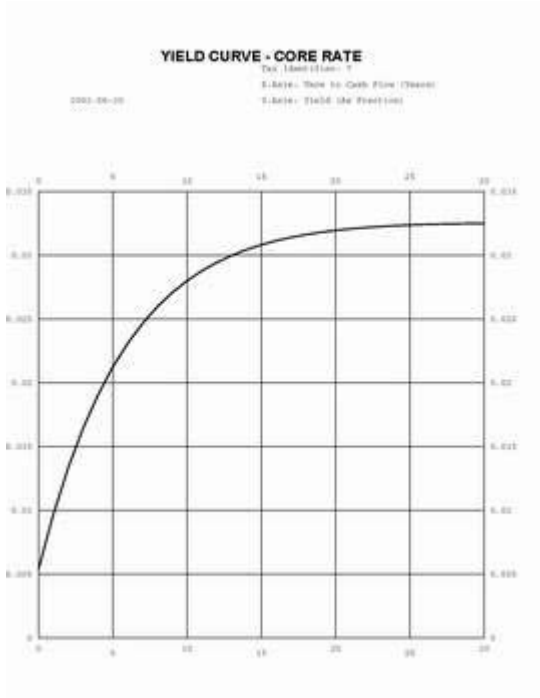
The graph of the yield curve core-rate shows the after-tax (for an investor subject to Ontario's highest marginal tax rate) yield curve on June 30, 2003, as determined by the base rate and the four shape factors – Short Premium, Short Decay Time, Long Premium (graphed for the prior year below) and Long Decay Time.

Yield Curve Data : Period (inclusive) from 2002-06-28 to 2003-06-30

Tax Identifier: 7

X-Axis: Date

LONG TERM PREMIUM : Spot Rate   Y-Axis: Yield as fraction (positive implies inversion)