MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, August 2004

August was another good month for the fund, which returned +1.27% versus an index return of only +0.40%. Trading activity was within its normal levels.

<table>
<tr><td>Month</td><td>MAPF Total Return*</td><td>NB-50 Total Return</td><td rowspan="17">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>September, 2003</td><td>+3.10%</td><td>+1.31%</td></tr>
<tr><td>October</td><td>+0.84%</td><td>+0.26%</td></tr>
<tr><td>November</td><td>+1.99%</td><td>+0.35%</td></tr>
<tr><td>December, 2003</td><td>+2.42%</td><td>+1.32%</td></tr>
<tr><td>January, 2004</td><td>+2.03%</td><td>+1.72%</td></tr>
<tr><td>February</td><td>+1.95%</td><td>+0.62%</td></tr>
<tr><td>March</td><td>+2.57%</td><td>+0.83%</td></tr>
<tr><td>April</td><td>-4.49%</td><td>-3.23%</td></tr>
<tr><td>May</td><td>+1.23%</td><td>-0.02%</td></tr>
<tr><td>June</td><td>+1.49%</td><td>+0.86%</td></tr>
<tr><td>July</td><td>+2.51%</td><td>+1.39%</td></tr>
<tr><td>August, 2004</td><td>+1.27%</td><td>+0.40%</td></tr>
<tr><td>Last 12 Months</td><td>+18.06%</td><td>+5.89%</td></tr>
<tr><td>Last 2 Years (annualized)</td><td>+18.21%</td><td>+6.15%</td></tr>
<tr><td>Last 3 Years (annualized)</td><td>+14.41%</td><td>+5.18%</td></tr>
<tr><td>Total Since Inception (March, 2001)</td><td>+59.93%</td><td>+16.35%</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 major change of interest in the preferred share market in August was the continued tightening of the retractibility premium, which reached a level of –73bp by month-end. As this month’s graph shows, this continues a trend which has been in place since the end of April, when the spread was only –35bp. It should be noted that this tightening has occurred in an environment of declining interest rates in the preferred share market, with the after-tax “yield curve base rate” declining from 3.50% to 3.11%, which has been the major driver in producing a fairly good index return of +2.65% over the last four months.

Retractible preferreds are often purchased by investors who believe there is a significant risk of future increases in interest rates. Retractibility provides an “insurance policy” – the fact that the holder will have the option to exchange the shares for cash at a set price and set time in the future is very comforting to those who have an imminent fear of disasterous markets.

What is interesting about this phenomenon, however, is that it does not agree with other trends noted in the marketplace, most notably the history of the premium that the market has accorded to Floating Rate issues.

In an environment in which rates are rising, or are expected to rise, one would expect Floating Rate preferreds to trade at a premium, as defined by the Hymas Investment Management analytical system. When determining the valuation of cash flows from floating rate preferreds, analysis proceeds from the assumption that the Prime Rate will remain constant in the future, whereas an investor willing to take a view that Prime will rise will be willing to pay more for such issues, resulting in the actual trading level of these issues being at a higher price than considered fair by the cash flow analysis. Note that the opposite effect should also be observed: when prime is expected to fall, one would expect floating rate issues to trade at a discount.

Curve Attribute	July 30, 2004 (After Tax Figures)	August 31, 2004 (After Tax Figures)
Base Rate	3.18%	3.11%
Short Term Premium	-3.27%	-3.00%
Short Term Decay Time	3.9 Years	4.1 Years
Long Term Premium	0.87%	0.96%
Long Term Decay Time	28.5 Years	27.7 Years
Interest Income Spread	1.05%	1.06%
Cumulative Div. Spread	-0.28%	-0.28%
Split-Share Spread	0.45%	0.47%
Retractability Spread	-0.63%	-0.73%
Floating Rate Spread	-1.32%	-1.27%
2nd Tier Credit Spread	0.25%	0.25%
3rd Tier Credit Spread	0.56%	0.59%
“High” Credit Spread	-0.25%	-0.25%
“Low” Credit Spread	0.00%	0.00%
Note: Figures for July have changed somewhat from the previous report. This is due to additions of data.		
Note: Figures are reported on an after-tax basis, for an investor subject to Ontario’s highest marginal tax rate.		

Risk Factor	August 2004 Returns for “True” (Pre-Tax)	August 2004 Returns for “False” (Pre-Tax)	Regression Coefficient*
Retractable	0.60%±1.71%	0.50%±2.65%	0.00%
Split Share Corp	0.32%±2.28%	0.61%±2.19%	+0.03%
Cumulative Dividends	0.39%±2.68%	0.80%±1.05%	-0.31%
Payments are Dividends	0.54%±2.29%	0.61%±0.54%	+0.24%
Floating Rate	0.16%±3.21%	0.67%±1.77%	-1.03%
Credit Class 2	0.67%±1.09%	0.42%±2.98%	+0.44%
Credit Class 3	0.24%±3.90%	0.62%±1.55%	+0.53%
Credit Class Modifier “High”	1.05%±1.19%	0.42%±2.40%	+0.13%
Credit Class Modifier “Low”	0.18%±2.52%	0.78%±1.96%	+0.19%
**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 0.5299 after rejection of outliers.*			

Going further into the analysis, one would expect the level of the Floating Rate premium to be a function of the rate of increase of prime and the ultimate level assumed to be the plateau. Given that the Prime Rate at the end of August was 3.75% and the premium accorded to Floating Rate issues amounted to 1.27% after tax (equivalent to about 1.6% pre-tax), one is justified in saying that an imminent rise to the 5.25%-5.50% range for the prime rate is expected, as this is the level that will eliminate the Floating Rate premium. Whether one considers Floating Rate issues to be currently cheap or expensive at current levels will depend on one's expectations relative to what has been determined to be the market consensus.

As shown on this month's graph, the Floating Rate premium has changed from –155bp at April month-end –127bp as of August 31, in the absence of any variance in Prime from its level of 3.75% during this period. One may be justified in concluding that market expectations regarding the ultimate level of prime have been lowered through the interval.

At the same time, the premium on Retractible issues has moved from –35bp to –73bp, indicating that retractibility has become more highly prized through the period, indicating that investors consider it more likely that they will wish to exercise retraction, indicating a fear of rising interest rates.

It is possible to reconcile the two attitudes with the conclusion that the market has discounted lower short-term rates and higher medium term rates over the last four months – i.e., that current expectations are for a steeper yield curve than had been predicted at the end of April – but this reasoning seems far too complex for such an inefficient market as preferreds. Hymas Investment Management will continue to manage money by seeking to hold issues that are cheap relative to their peers at current levels and, insofar as is possible, avoid attempting to out-guess the market by taking a view on future interest rates.

TSE Ticker Symbol	Total Return, August 2004	Remarks (Valuation commentary based on Ontario's highest marginal tax rate)
BBD.PR.B*	-12.18%	Bombardier's woes continue …
BBD.PR.C	-8.89%	… as each of its three preferred issues plummets in the month.
YLD.PR.B	-8.41%	Currently in default of its obligations
BBD.PR.D	-8.10%	Is there any end in sight for Bombardier? It's a poor credit!
GT.PR.A	-3.81%	Currently in default of its obligations
…	…	…
STQ.E*	+4.46%	Split-share, credit class 4
BNF.PR.C	+4.73%	Floating Rate, credit class 3, low volume, expensive at 24.14-25
CGQ.E*	+4.94%	Split-share, credit class 4
BPP.PR.M	+6.30%	Floating Rate, credit class 3, low volume, expensive at 24.45-75
BPP.PR.G	+7.74%	Floating Rate, credit class 3, low volume, expensive at 24.35-39
**Indicates that the issue was also on July's Best/Worst Performers List.*		

James Hymas
Portfolio Manager

Yield Curve Data : Period (inclusive) from 2003-08-29 to 2004-08-31

Tax Identifier: 7

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

X-Axis: Date

Y-Axis: Yield (premium) as fraction