

**MALACHITE AGGRESSIVE PREFERRED FUND**Monthly Report, June 2005

The fund performed well in June, returning 1.15%, compared to the NB-50 index return of 0.59%

Month	MAPF Total Return*	NB-50 Total Return	<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>
July, 2004	+2.51%	+1.39%	
August	+1.27%	+0.40%	
September	+0.88%	+0.47%	
October	+0.75%	+0.82%	
November	+1.49%	+0.81%	
December, 2004	+1.14%	+1.26%	
January, 2005	+0.42%	+0.33%	
February**	-0.27%**	-0.23%	
March**	-0.46%**	-0.76%	
April**	-1.07%**	+0.29%	
May**	+1.61%**	+0.98%	
June, 2005**	+1.15%**	+0.59%	
<b>Last 12 Months**</b>	<b>+9.80%**</b>	<b>+6.51%</b>	
<b>Last Two Years** (annualized)</b>	<b>+14.98%**</b>	<b>+5.38%</b>	
<b>Last Three Years** (annualized)</b>	<b>+12.29%**</b>	<b>+6.24%</b>	
<b>Last Four Years** (annualized)</b>	<b>+13.07%**</b>	<b>+5.46%</b>	
<b>Since Inception** (March, 2001)</b>	<b>+69.14%**</b>	<b>+21.74%</b>	
<i>*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.</i>			
<i>**MAPF has been unable to trade from February 10 – June 30, 2005. See <a href="http://www.himinvest.com/malachite/MAPFMain.html">http://www.himinvest.com/malachite/MAPFMain.html</a> for details.</i>			

Only minimal changes were observed in the Yield Curve during June, although it is somewhat shocking to observe the narrowness of the credit spread for second-tier credits. A spread of 13bp on both Credit Class 2 and on Credit Class Low, with 0bp on "High", implies that there is no difference observed due to credit ratings between DBRS levels P1L, P2H and P2. Together with the high premium observed for liquidity (12bp), a plausible interpretation is that the market is clamoring for high quality, liquid preferreds and that therefore the time is ripe for issuance.

Some support is provided for this interpretation by an examination of this month's graph, which compares the Credit Spread (Class 2) with the Liquidity Premium. As may be seen these spreads have been fairly well correlated over the past year.

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%
3Q03	+9.16%	+1.53%
4Q03	+5.34%	+1.94%
1Q04	+6.70%	+3.21%
2Q04	-1.87%	-2.41%
3Q04	+4.73%	+2.27%
4Q04	+3.42%	+2.92%
1Q05**	-0.31%**	-0.66%
2Q05**	+1.69%**	+1.87%

**\*\*MAPF has been unable to trade from February 10 – June 30, 2005. For details, see <http://www.himinvest.com/malachite/MAPFMain.html>**

There was a major new issue announced in June: Sun Life Financial issued a preliminary short form prospectus on the 28<sup>th</sup> for a \$300-million+ issue of perpetuals with a coupon of 4.8%.

Recent monthly fund reports have dealt with the issue of fair price calculation and this one is no exception! Given that, for many, a preferred share is something bought at the issue and held indefinitely, it is appropriate for the results of the HIMIPref™ analysis to be published before the closing date for the interest of clients and other interested readers.

As shown in the table on page 3, this issue is quite expensive when

examined solely on the basis of its cash flows, with these cash flows having an indicated fair value of \$23.70; however, the enormous premium the market is paying for liquidity at this time brings the value much closer to its issue price of \$25.00. The particularly stunning element of this analysis is the size of the liquidity premium relative to the coupon: the issue will pay \$1.20 in dividends annually, which only barely exceeds the liquidity premium of \$1.13.

In other words, investors are prepared to give up almost a full year’s income in exchange for the privilege of being able to purchase this issue in size. One can sympathize with the dilemma of managers of large funds: according to the Investment Funds Institute of Canada ([www.ific.ca](http://www.ific.ca)), net new sales of “Dividend and Income” investment funds in May, 2005, alone amounted to \$778-million, which brought the year-to-date total to over \$5.6-billion, only slightly less than half the net new sales of all funds year-to-date.

Curve Attribute	May 31, 2005 (After Tax Figures)	June 30, 2005 (After Tax Figures)
Base Rate	3.37%	3.33%
Short Term Premium	-3.36%	-3.32%
Short Term Decay Time	1.6 Years	1.5 Years
Long Term Premium	-1.13%	-1.17%
Long Term Decay Time	10.0 Years	10.0 Years
Interest Income Spread	0.73%	0.86%
Cumulative Div. Spread	0.00%	0.00%
Split-Share Spread	0.44%	0.34%
Retractability Spread	-0.59%	-0.61%
Liquidity Spread	-0.13	-0.12%
Floating Rate Spread	-1.76%	-1.76%
2 <sup>nd</sup> Tier Credit Spread	0.15%	0.13%
3 <sup>rd</sup> Tier Credit Spread	0.35%	0.41%
“High” Credit Spread	0.00%	0.00%
“Low” Credit Spread	0.15%	0.13%

*Note: Figures for May have changed somewhat from the previous report. This is due to additions of data.*

<b>Analysis of Sun Life Financial new issue, to be delivered July 15, 2005, according to HIMIPref™ Yield Curve of June 30, 2005</b>	
Price due to yield curve base-rate	\$23.62
Price due to yield curve short-term adjustment	0.06
Price due to yield curve long-term adjustment	0.63
Price due to Credit Spread	-0.63
Attribution Error	0.02
Price due to liquidity	1.13
Total "Fair Price" per Yield Curve	\$24.83

With all this money sloshing around in their coffers, there is little wonder that there is significant demand for new issues in which the cash can be put to work ... but paying a year's coupon for the privilege does strike me as being a little extreme! It would seem advantageous to purchase more reasonably priced securities in whatever size became available over time, keeping the money in treasury bills in the interim!

TSE Ticker Symbol	Total Return, June 2005	Remarks (Valuation commentary based on Ontario's highest marginal tax rate)
AR.PR.B	-14.29%	Argus' gyrations increase with every headline
NTL.PR.G	-4.89%	Nortel kept in the doghouse ...
NTL.PR.F	-4.85%	... as investors' hope for a recovery change with every news story.
FL.PR.B	-3.98%	Fixed-Floater, Credit Class 3, small volume
BCE.PR.Y	-2.25%	'Ratchet-rate', Credit Class 2, tiny volume
...	...	...
ASC.PR.A	+3.17%	Split-share, Credit Class 2, tiny volume
CGI.PR.B	+3.26%	Retractable, Credit Class 1, tiny volume
TCA.PR.Y	+3.31%	Non-retractable, Credit Class 2, good volume, expensive at \$52.72-89
POW.PR.A	+3.35%	Non-retractable, Credit Class 2, good volume, expensive at \$26.00-14
YLD.PR.A	+3.65%	Split-share, tiny volume, scheduled to mature in February 2006

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

Risk Factor	June Returns for "True" (Pre-Tax)	June Returns for "False" (Pre-Tax)	Regression Coefficient*
Retractable	1.04%±1.37%	0.80%±3.27%	-0.02%
Split Share Corp	1.24%±1.15%	0.81%±2.84%	+0.74%
Cumulative Dividends	1.04%±3.03%	0.74%±1.45%	+0.26%
Payments are Dividends	0.89%±2.59%	1.43%±1.12%	-0.45%
Floating Rate	0.35%±4.00%	1.06%±1.99%	-1.68%
Credit Class 2	1.03%±1.33%	0.78%±3.48%	+0.20%
Credit Class 3	0.13%±1.51%	1.06%±2.65%	-0.40%
Credit Class Modifier "High"	0.90%±1.28%	0.93%±2.73%	+0.53%
Credit Class Modifier "Low"	1.01%±1.52%	0.86%±1.38%	+0.34%

*\*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 0.3981 after rejection of outliers.*

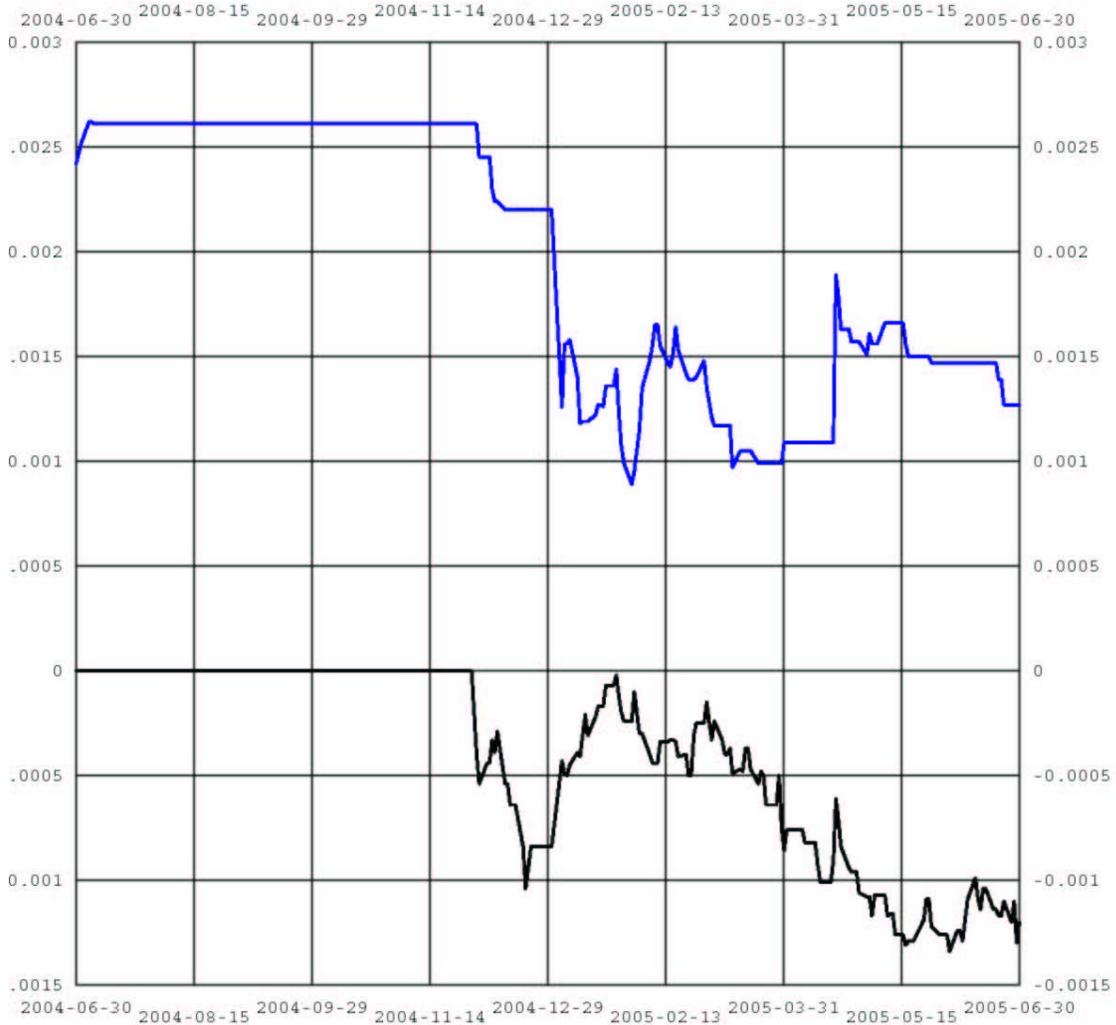
James Hymas  
Portfolio Manager

**Yield Curve Data : Period (inclusive) from 2004-06-30 to 2005-06-30**

Tax Identifier: 7

PREMIUM - LIQUIDITY MEASURE : Spot Rate  
PREMIUM - CREDIT CLASS 2 : Spot Rate

X-Axis: Date  
Y-Axis: Yield (premium) as fraction



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