

## MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, March 2004

The fund finished another very good quarter with solid outperformance in March, returning +2.57% to investors before fees vs. an index return of +0.83%. This continued a streak of twelve full months in which returns were both positive and better than the index.

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>
April, 2003	+6.84%	+1.01%	
May	+4.56%	+1.99%	
June	+2.27%	+0.81%	
July	+3.54%	-0.30%	
August	+2.26%	+0.52%	
September	+3.10%	+1.31%	
October	+0.84%	+0.26%	
November	+1.99%	+0.35%	
December, 2003	+2.42%	+1.32%	
January, 2004	+2.03%	+1.74%	
February	+1.95%	+0.62%	
March, 2004	+2.57%	+0.83%	
<b>Last 12 Months</b>	<b>+40.16%</b>	<b>+10.94%</b>	
<b>Last Two Years (annualized)</b>	<b>+16.30%</b>	<b>+7.55%</b>	
<b>Last Three Years (annualized)</b>	<b>+16.22%</b>	<b>+5.41%</b>	
<b>Since Inception (March, 2001)</b>	<b>+56.98%</b>	<b>+17.11%</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>			

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%

Floating rate issues continued to be extremely expensive throughout the month, this price bubble being accentuated by the quarter-point reduction in the Canada Prime Rate to 4% on March 2. It is very difficult to assign a logical rationale to such a lengthy period of gravity-defying yield curve premia – but, as was most recently illustrated on a grand

scale during the tech boom of the late nineties, the market is not necessarily logical at all times and occasionally shows irrationality over the medium term. While there may from time to time be a floating rate issue that is attractively priced, the floating rate sector of the market is not one I would feel comfortable recommending to my friends and clients! It would take a very steep increase in the Canadian Prime Rate indeed, coupled with a sharp reaction in the fixed-rate sector of the market, to make a significant holding in floating rate issues a profitable element of portfolio strategy.

Curve Attribute	February 27, 2004 (After Tax Figures)	March 31, 2004 (After Tax Figures)
Base Rate	2.94%	2.87%
Short Term Premium	-2.89%	-2.88%
Short Term Decay Time	4.8 Years	4.3 Years
Long Term Premium	0.45 %	0.51%
Long Term Decay Time	23.4 Years	26.2 Years
Interest Income Spread	1.24%	1.38%
Cumulative Div. Spread	-0.34%	-0.33%
Split-Share Spread	0.93%	0.82%
Retractability Spread	-0.64%	-0.79%
Floating Rate Spread	-1.19%	-1.24%
2 <sup>nd</sup> Tier Credit Spread	0.39%	0.33%
3 <sup>rd</sup> Tier Credit Spread	0.94%	0.84%
“High” Credit Spread	-0.10%	-0.02%
“Low” Credit Spread	0.18%	0.17%
<i>Note: Figures for February have changed somewhat from the previous report. This is due to additions of data.</i>		

As the accompanying table shows, the increase in the premium occurred event though the sector grossly underperformed in March. The outperformance among the lower quality “Credit Class 3” issues (with the accompanying decrease in the premium for these issues over the baseline yield) indicates some optimism about business conditions going forward – but it must be remembered that Hymas Investment Management Inc. does not,

Risk Factor	Returns for “True” (Pre-Tax)	Returns for “False” (Pre-Tax)
Retractable	1.10%±1.84%	0.87%±2.55%
Split Share Corp	1.28%±1.33%	0.93%±2.35%
Cumulative Dividends	1.08%±2.60%	0.84%±1.38%
Payments are Dividends	0.97%±2.28%	1.23%±0.68%
Floating Rate	0.27%±3.68%	1.22%±1.34%
Credit Class 2	0.72%±1.90%	1.30%±2.47%
Credit Class 3	1.73%±3.10%	0.82%±1.89%
Credit Class Modifier “High”	0.69%±1.58%	1.10%±2.38%
Credit Class Modifier “Low”	0.77%±2.06%	1.11%±2.27%

as a rule, invest clients’ money in these more dubious credits. There is quite enough incremental return available through a quantitative analysis of expected cash flows from higher quality issues to risk predictions

based on economic health! Long term readers of these reports will recall the extreme volatility of Bombardier issues which, until they were sold earlier this year, had a

disproportionate effect on fund returns, gyrating with every headline to the point where incremental yearly outperformance was, in effect, shifted from 2002 to 2003.

This month's graph plots the value of the yield curve's floating rate premium over the past year and shows that the present spot rate of -1.24% (on an *after tax* basis!) is equal to the prior low reached in mid-February. This huge premium, indicating that issues classified as Floating Rate in the Hymas Investment Management analytical system are extremely expensive, is expected to decline in the future – just how long in the future is a mystery, but mean-reversion with respect to such indicators is generally a fairly good prediction.

This cheapening from current levels could occur either through increases in the Canada Prime Rate or through underperformance in price relative to fixed rate issues – investors who firmly believe in the concept of efficient markets will, of course, take the view that the market is predicting an imminent sharp rise in Prime, but the magnitude of the required future increase is very large.

In any event, as has often been noted, Hymas Investment Management has as the bedrock of its philosophy that such macro-economic phenomena cannot be predicted accurately and consistently enough to be a useful guide for investment strategy. Instead, predicted cash flows are calculated on the basis that overall conditions as they are today will continue for the foreseeable future – a methodology that certainly has its limitations, but when taken together with judicious risk management has served very well in the past.

TSE Ticker Symbol	Total Return, March 2004	Remarks (Valuation commentary based on Ontario's highest marginal tax rate)
BNN.PR.A	-11.28%	Tiny volume and frequent wild gyrations in quotations
NTL.PR.G	-4.50%	Latest accounting revision leads to decline in price ...
NTL.PR.F	-4.00%	... and a negative rating trend from DBRS (from P5L!) doesn't help!
BBD.PR.B*	-3.65%	Bombardier suffered a rating downgrade from DBRS in March ...
BBD.PR.D*	-3.01%	... and the issues remain expensive after these losses.
...	...	....
HPF.PR.B	+4.45%	Split share, small volume, expensive at \$16.10-40
BPP.PR.G*	+5.81%	Tiny volume, extremely expensive at \$22.75-85
AR.PR.B*	+7.23%	Continued gyrations in Conrad Black's empire!
BPP.PR.J*	+8.50%	Tiny volume, floating rate, Credit Class 3, expensive at \$21.70-75
BPP.PR.M	+12.35%	Tiny volume, floating rate, Credit Class 3, very expensive at 22.75-90
*indicates that the issue was also on last month's best/worst performers table		

James Hymas  
Portfolio Manager

# Yield Curve Data : Period (inclusive) from 2003-03-31 to 2004-03-31

Tax Identifier: 7

X-Axis: Date

PREMIUM - FLOATING RATE : Spot Rate Y-Axis: Yield as fraction (positive implies cheaper th

