FRIEDBERG MERCANTILE GROUP

Fourth Quarter Report 2000

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Dear Investor,

We are pleased to present the financial results of our funds for the quarter and year ended December 31, 2000.

Only late in the year did our basic thesis, held for the better part of the past three years, begin to come into focus. As a result, our managed products scored some dramatic gains for the quarter. The late run-up helped us to achieve high double-digit gains for the year in two funds, as well as a benchmark-busting 14.3% annual return for the US dollar-based fixed income funds. Our two main futures funds recovered dramatically, one of them erasing an earlier loss of 24%.

You will recall that we maintained that the US economy had been lifted in recent years by a powerful dose of cheap money and credit along with official assurances that poor investment decisions would not result in financial losses. The latter had the effect of increasing moral hazard and encouraging excessive risk-taking. Coupled with a ridiculously permissive monetary policy, it produced the greatest speculative bubble in financial history. There is little need for us to go into details. Readers of our shareholders' letters and our financial comments are well acquainted with the gigantic trap that was being laid for the unwary (which included the media and nearly all official and Wall Street economists). What we ought to discuss is what we expect from the unraveling of the boom and how we plan to take advantage of it for our clients.

We believe unhesitatingly that the US economy, and much of the world, will undergo a one-of-a-kind and little understood economic phase over the next few years — one that will frustrate the great majority of investors and probably produce huge financial losses. As well, it will threaten to undermine all the positive developments achieved since the Great War. Only good luck, a steady nerve and an urgent re-appraisal of present, accident-prone, monetary arrangements can save the day.

At best, we can expect stagflation — a combination of little or no growth and a relatively high and accelerating inflation. At worst, we could see a deep economic depression accompanied by an unacceptably high, though probably not accelerating, rate of inflation. Higher levels of inflation, long repressed by a strong currency (mainly the result of enormous speculative capital inflows) and a widening and record trade deficit, will begin to manifest themselves almost immediately with the swooning of the US dollar. The weakness in the real economy will be aggravated by a number of factors, namely, falling purchasing power, existing over-capacity in many sectors of the economy and its depressing effect on capital expenditures, heavy wealth losses and their psychological (and real) effect on consumer spending, the inability of monetary authorities to ease conditions in the face of rising inflation and a collapsing currency, and high levels of corporate and consumer debt. This list can be expanded if and when we witness runs on mutual funds (which we fully expect) and/or an implosion of financial leverage such as a blow up of huge derivative positions, etc.

How can we take advantage of this scenario? The answer is to position ourselves in much the same way as we have for the past three years. Specifically, we have filled our fixed-income portfolios with heretofore unexciting and unglamorous US and Canadian Treasury inflation-linked securities (TIPS), yielding a robust 3.9% real return per annum (now down to a lower 3.59%). We should note that much of the extraordinary profits that we achieved in the last quarter came from significant capital gains in these triple-A securities. We expect more of the same in the coming year as we believe that real rates will fall to 2% or less. Deepening and difficult-to-analyze credit problems have kept us away from corporate and emerging country debt and are likely to continue doing so, despite ostensibly juicy yields. Finally, in line with our outlook for the US dollar, we have shifted, via derivatives, our currency exposure to euros. (Readers interested in details can refer to the pie charts and graphs that follow this letter.) Going forward, this euro exposure is likely only to increase.

In the currency fund we have followed a similar strategy, though of course our exposure is more leveraged. As explained in the most recent letter, we waited patiently for a US dollar reversal before pouncing on the euro. A “full” euro/dollar position was established between 87 and 89 cents per euro. At the same time, cheap funding and worsening economic troubles in Japan encouraged us to take a long euro/short yen position in the low 90s. Our overall leverage ratio of three to one is lower than the leverage that we have been accustomed to in years past. Nevertheless, it is in line with our new policy of seeking, finding, and riding mega-trends with a position that can withstand increased volatility.

The scenario outlined above has opened new opportunities for our diversified futures trading program. Financial futures were featured during the quarter. A leveraged long bet on TIPS and a modest short position in Nasdaq paid off handsomely; we intend to maintain these positions for the time being. Dollar weakness is providing fresh ammunition for internationally traded commodities. This justifies long positions in cocoa and, more recently (after the month-end), sugar and wheat. Indiscriminate over-use of energy because of low real prices has underpinned natural gas and petroleum prices. We are relatively confident that new highs still lie ahead. Despite extreme volatility, we have chosen to participate in these markets. Hedge funds such as ours require high volatility if they are to be profitable. Paradoxically, high volatility, if not managed properly, can also ruin a hedge fund — too cautious and your returns become less than attractive, too aggressive and you risk blowing out. After 30 years of trading futures markets, the manager can say for certain that managing risk is, and will remain, his greatest challenge. Thankfully, our recent experience has taught us a trick or two that should help achieve a better balance. Or so we hope.

By weaving our positions in the International Fund around the same common threads, we managed to produce some exciting results, most of which came in the last quarter. In our mid-year report we pledged to close the fund if we did not achieve a minimum 15% annualized return. This desperate gambit was the outgrowth of a deep sense of frustration and disappointment at carrying positions for months and years on end without seeing positive results. Happily, a stunning 40.6% gain for the quarter translated into a 31.1% gain for the year, keeping the fund alive. The manager is confident of better and bigger things in the coming year. Details of transactions and open positions can be gleaned from the enclosed graphs and tables.

The top marks still go to our equity hedge fund, up 19.4 % for the quarter and 62.7% for the year. Our value orientation served us well, particularly during the last quarter. Excessive valuations continued to weigh on the high-technology sector while reasonable valuations in low-growth industries, such as utilities, attracted fresh funds. Macro views in this market-neutral fund are not critical. Instead, the manager is obliged to pay attention to micro issues such as security analysis, credit developments, fashions in investment thinking, and technical considerations. It is highly unlikely that we will be able to reproduce these types of gains this coming year. For the most part, the glaring excesses that gave rise to extraordinary profits have been eliminated.

In sum, we have been partly vindicated, although there is still a long way to go to make up for lost opportunity. We believe that the coming year will be marked by incredulity, shock, fear, and desperation. Over the past many months, we have carefully and deliberately chosen the single best positions to benefit from expected market developments. If we are right, we should earn extraordinary returns.

Albert D. Friedberg

FRIEDBERG MERCANTILE GROUP

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Neil Rackoff Comments:

The Friedberg Allocation Model returned 14.70% for the quarter and was up 20.08% for the year.

Needless to say we are quite proud.

Some of our clients expressed concern that I was insensitive in my 3rd quarter remarks when I criticized those who had sustained larger losses in our programs as a result of not having diversified among the managers' various programs.

Please allow me to explain.

More than two years ago, we noticed an overly large percentage of our clients were purchasing those programs in which Mr. Friedberg had recently demonstrated a "hot hand."

We argued at that time and have continued to write that following the "hot hand" course of action only makes for a rougher ride as opposed to allocating the money given to Friedberg in a manner similar to the way he allocates money. All of our programs individually tend to reflect a particular aspect of our global view. In order to capture our overall view, it is necessary to participate with us in an integrated way.

Toward this goal, we have every quarter since then pointed out that a balanced approach (which also takes into consideration the inherent risks for each of our strategies) has produced a more even ride. At times, it may perhaps produce a loss, but a much smaller loss than trying to pick the hot funds.

John Maynard Keynes is quoted as having said: "Markets can remain irrational longer than you can stay solvent." We would like to add: "But when they do return, that is when the excitement begins."

We thank you for the trust you have shown as we have ridden together over very rough seas, and we invite you to move forward with us into a promising future.

The recommended allocation going forward is:

Fixed Income – 65%

Equity Hedge – 15%

Currency – 10%

Global Opp. – 10%

Please note: Insofar as securities regulations often limit investments in *some* of the funds to a minimum of $150,000, the allocation above pertains only to our high net worth clients.

FRIEDBERG FOREIGN BOND FUND
FRIEDBERG TOTAL RETURN FIXED INCOME FUND LTD.
FRIEDBERG TOTAL RETURN FIXED INCOME FUND L.P.

The Funds seek total investment return, consisting of a combination of interest income, currency gains, and capital appreciation, by investing in both investment grade and non-investment grade fixed income obligations and convertible corporate bonds denominated in a variety of currencies.
LOW RISK. Objective: LIBOR+4% per annum

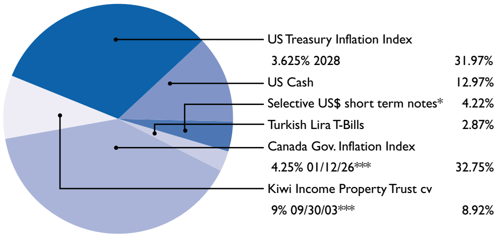
PERFORMANCE as of December 31, 2000

	NAV	Quarter	Year over Year	Three Years[2]
Friedberg Foreign Bond Fund[1]	9.99	7.05%	13.94%	3.66%
Friedberg Total Return Fixed Income Fund Ltd	1079.52	8.93%	14.23%	1.85%
Friedberg Total Return Fixed Income Fund L.P.	108.71	9.74%	15.15%	2.28%

[1]Priced in Canadian Dollars
[2]Compounded Annual Rate of Return

FRIEDBERG FOREIGN BOND FUND

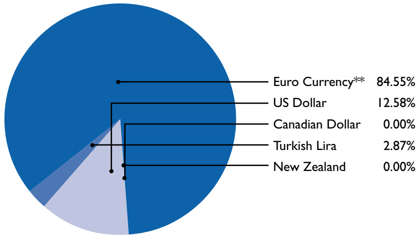
FRIEDBERG FOREIGN BOND FUND
Portfolio Allocation



Weighted average yield to maturity	9.81%
Weighted average current yield	4.58%

*TVX Gold 5% 03/28/02, Argentina BOCON Pre 2 04/01/01
**Synthetic Position
***Currency Partially or Totally Hedged

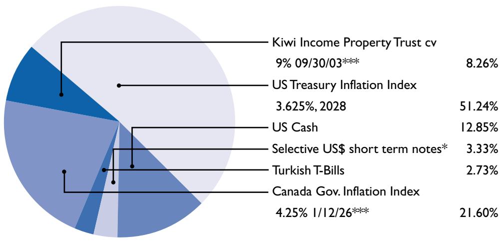
FRIEDBERG FOREIGN BOND FUND
Currency Exposure



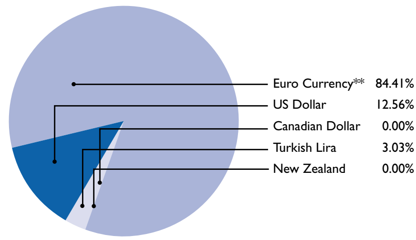
Adjusted modified duration	5.54 years
Estimated overall credit rating	AA

FRIEDBERG FIXED INCOME FUND LTD.

FRIEDBERG FIXED INCOME FUND Ltd.
Portfolio Allocation



FRIEDBERG FIXED INCOME FUND Ltd.
Currency Exposure



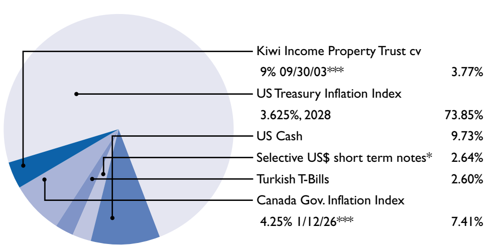
Weighted average yield to maturity	10.01%
Weighted average current yield	4.39%

*TVX Gold 5% 03/28/02, Argentina BOCON Pre 2 04/01/01
**Synthetic Position
***Currency Partially or Totally Hedged

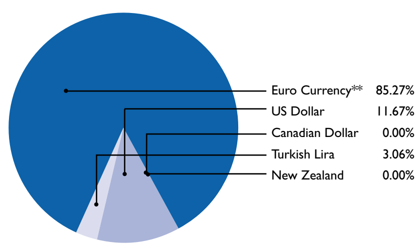
Adjusted modified duration	5.45 years
Estimated overall credit rating	AA

FRIEDBERG FIXED INCOME FUND L.P.

FRIEDBERG FIXED INCOME FUND L.P.
Portfolio Allocation



FRIEDBERG FIXED INCOME FUND L.P.
Currency Exposure



Weighted average yield to maturity	9.99%
Weighted average current yield	3.86%

*TVX Gold 5% 03/28/02
**Synthetic Position
***Currency Partially or Totally Hedged

Adjusted modified duration	5.99 years
Estimated overall credit rating	AA+

EQUITY HEDGE PROGRAM

FRIEDBERG EQUITY HEDGE FUND LTD.
FRIEDBERG EQUITY HEDGE FUND

The fund uses leverage to trade equity securities and stock index futures contracts and related options. The fund balances long and short positions in an attempt to eliminate systematic or market risk.
MEDIUM RISK. Objective: 20-25% per annum

PERFORMANCE as of December 31, 2000

	NAV	Quarter	Year over Year	Three Years[1]
Friedberg Equity-Hedge Fund Ltd.	1868.99	19.41%	62.70%	22.44%
Friedberg Equity-Hedge Fund	17.12	20.14%	57.06%	20.90%[2]

[1]Compounded Annual Rate of Return
[2]Since inception Feb/1998 at 10.00

INVESTMENT ALLOCATION[4]

	Sep-00	Oct-00	Nov-00	Dec-00
LONGS	56.04%	57.17%	58.04%	57.58%
SHORTS	43.96%	42.83%	41.96%	42.42%
TOTAL GROSS LEVERAGE	2.07	2.90	2.13	2.22

LARGEST SECTORS (LONGS)[3]

Misc. Industrials (Dow Jones futures)[4]	16.16%
Medical-HMO/Hospitals	8.06%
Electric Utilities	7.64%

LARGEST SECTORS (SHORTS)[3]

Telecom	7.64%
Regional Banks	6.76%
Internet	6.45%

[3]As percentage of total gross assets (as per the Friedberg Equity-Hedge Fund Ltd.)
[4]Market value of futures contracts

LARGEST LONG POSITIONS

Dow Jones Industrial Avg. futures
Exelon Corporation
Entergy Corporation
Reliant Energy
Devon Energy
Apache Corporation
Trigon Healthcare Inc.
Oxford Health
Hershey Foods
HCA Healthcare

LARGEST PAIRS

Darden Restaurants (Long)/
McDonalds Corporation (Short)

Lehman Brothers (Long)/
Goldman Sachs (Short)

LARGEST SHORT POSITIONS

America Online
Cisco Systems
Wal-Mart Stores
Qwest Communications
Vodafone Group PLC
Telefonica ADR
I.B.M.
General Electric
Suntrust Banks Inc.
Sprint PCS Group

BEST QUARTERLY PERFORMANCE

LONGS		SHORTS	
Health Net Inc.	30.94%	Ask Jeeves	89.58%
Oxford Health	28.52%	Verticalnet	77.97%
Chieftain Energy	20.90%	F5 Networks	70.35%

WORST QUARTERLY PERFORMANCE

LONGS		SHORTS	
Dusa Pharmaceutical	-46.28%	Adelphia	-79.14%
COR Therapeutic	-41.99%	US Bancorp	-40.68%
MTR Gaming	-37.32%	Providian Financial	-39.29%

CURRENCY PROGRAM

FRIEDBERG CURRENCY FUND
THE FIRST MERCANTILE CURRENCY FUND
FRIEDBERG CURRENCY FUND LTD.
FRIEDBERG FOREX LP

Speculative trading in currency futures instruments, currency forwards and options.
HIGH RISK. Objective: 25% per annum

PERFORMANCE as of December 31, 2000

	NAV	Quarter	Year over Year	Three Years[2]
Friedberg Currency Fund.[1]	18.01	30.51%	2.45%	0.30%
Friedberg Currency Fund Ltd.	1099.52	37.56%	10.19%	6.17%
Friedberg Forex L.P.	15.96	31.14%	-1.24%	0.58%

[1]Priced in Canadian Dollars
[2]Compounded Annual Rate of Return

OPEN POSITIONS - December 31, 2000

	leverage
Long Treasury Inflation Protection Securities	0.77
Long Euro Currency	1.17
Long Euro Currency/Short Japanese Yen	1.44
Long Polish Zloty	0.25
gross leverage at December 31, 2000	5.07 x
maximum gross leverage during quarter	5.65 x

ACTIVITY REPORT - Fourth Quarter 2000

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long Euro Currency-Short British Pound	3.46	10.45
Long Euro Currency-Short Japanese Yen	24.87	75.11
Euro Currency	2.21	6.69
Polish Zloty	0.03	0.09
Treasury Inflation Protection Securities	2.54	7.66

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total profits
Short Brazilian Real	(1.16)	95.67
Short Japanese Yen	(0.05)	4.33

Model account value Sept. 30, 2000 48,308.97
Model account value Dec. 31, 2000 **63,753.11**
Percentage gain (loss) in quarter: 31.97%

FRIEDBERG DIVERSIFIED FUND

Speculative trading of commodity, interest rates, and stock index futures, over the counter forwards and options markets.
HIGH RISK. Objective: 40% per annum

PERFORMANCE as of December 31, 2000

	NAV	Quarter	Year over Year	Three Years[1]
Friedberg Diversified Fund	5.38	16.45%	-38.09%	-23.01%

[1]Compounded Annual Rate of Return

OPEN POSITIONS - December 31, 2000

	leverage
Long Cocoa	0.58
Long Gold	0.26
Long Natural Gas	0.51
Long Soymeal	0.36
Long Treasury Inflation Protection Securities	2.16
Short Copper	0.40
Short Cotton	0.29
Short FTSE	0.29
Short NASDAQ	0.30
gross leverage at December 31, 2000	5.15 x
maximum gross leverage during quarter	5.31 x

ACTIVITY REPORT - Fourth Quarter 2000

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Cotton	2.63	13.57
Crude Oil	2.47	12.77
Nasdaq	4.82	24.91
Treasury Inflation Protection Securities	5.84	30.16
Miscellaneous (copper, gold, natural gas, 10-yr. Note)	3.60	18.59

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total profits
Nickel	(3.10)	28.14
Sugar	(4.32)	39.25
Miscellaneous (cocoa, FTSE, silver, soybeans, soymeal, wheat)	(3.59)	32.61

FRIEDBERG FUTURES FUND

The Futures Fund combines the Currency and Diversified programs in approximately equal weights. Please refer to our earlier graphs and tables regarding these programs.

FRIEDBERG INTERNATIONAL SECURITIES FUND

The fund seeks to capitalize on the rise and fall of local markets throughout the world by anticipating long term secular trends or by identifying, at an early stage, cyclical economic expansions and contractions of economies of selected countries.
MEDIUM RISK. Objective: 20% per annum

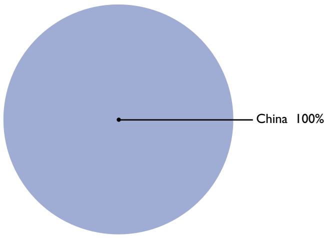
PERFORMANCE as of December 31, 2000

NAV	Quarter	Year over Year	Three Years[1]
9.87	40.60%	31.08%	-0.30%

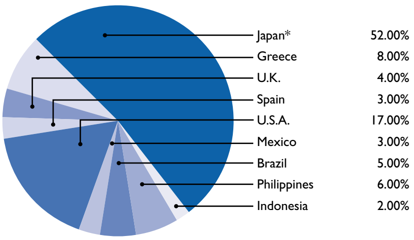
[1]Compounded Annual Rate of Return

EQUITIES EXPOSURE BY COUNTRY

LONG (% of total longs)



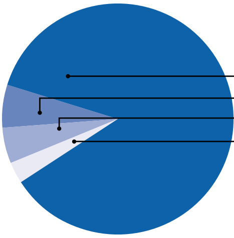
SHORT (% of total shorts)



*Secondary Banks

FRIEDBERG INTERNATIONAL SECURITIES FUND con't

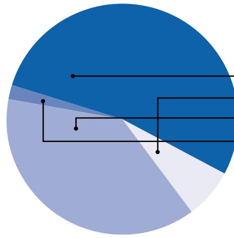
BREAKDOWN BY INVESTED AMOUNTS*



*Based on margins used in each category

POSITIONS ESTABLISHED DURING THE QTR.
1) Sold short British Sky Broadcasting
2) Sold short Repsol (Spain)
3) Bought long Turkish Treasury Bills

BREAKDOWN BY TOTAL GROSS EXPOSURE



TOTAL GROSS LEVERAGE 2.02

POSITIONS LIQUIDATED DURING THE QTR.
1) Sold long Japanese Yen futures
2) Covered partially short Eighteenth Bank (Japan) & Kagoshima Bank (Japan)
3) Covered short N.Z. Bank Bills

FRIEDBERG GLOBAL OPPORTUNITIES FUND

The Global Opportunities Fund comprises the Diversified Trading Program and the International Fund. Please refer to corresponding graphs and tables for these two programs.

PERFORMANCE as of December 31, 2000

NAV	Quarter	Year over Year	Three Years
464.03	38.03%	-25.15%	-33.59%

[1]Compounded Annual Rate of Return

David Rothberg Comments:

The Skill-Based Managers Fund is designed to generate consistent returns between 10% and 15% no matter what the investment environment may be. In the 4th quarter the Fund outdid itself slightly, earning 6% over the period. Volatility remained well beneath the historical volatility of the stock market (S&P 500 Index). Correlation to stocks (which fell more than 8% over the period) obviously was negative.

Our current portfolio includes classic long/short, convertible arbitrage, event-driven, and foreign exchange strategies. Each strategy is managed by highly-skilled investors whose capital is at risk alongside our own.

The investment environment has decidedly lost the benign glow that it enjoyed for the past three years. Greed has turned to fear. The new economy has become the uncertain economy. The Skill-Based Fund is structurally well-suited, and currently well-positioned, to take advantage of the evolving era.

NOTES

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MERCANTILE
GROUP

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