4ht Quarter Report, 2005 - FRIEDBERG MERCANTILE GROUP LTD.

FIXED INCOME FUNDS
EQUITY HEDGE FUNDS
CURRENCY FUNDS
DIVERSIFIED TRADING PROGRAM
FRIEDBERG GLOBAL-MACRO HEDGE FUNDS
FRIEDBERG FUTURES FUND
NIAGARA COMFORT CLASS "B" FUND

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FRIEDBERG MERCANTILE GROUP LTD.

Fourth Quarter Report 2005

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Fourth Quarter Report 2005

Dear Investor,

It gives me great pleasure to present to you the financial report of the Friedberg Group of Funds for the quarter and year ended December 31, 2005.

Our two flagships, the Friedberg Global Macro Hedge Fund Ltd. and the Friedberg Global Macro Hedge Fund, once again posted solid gains for the quarter. In US-dollar terms, the funds gained 3.3% and 4.3%, respectively. For the year, again in US-dollar terms, our two funds were up 13.3% and 21.1% respectively. We explained the disparity between the Canadian-based fund and the Cayman-based fund in detail in our last communication to shareholders. The disparity grew again during this past quarter, but by a more modest 100 basis points. Once more, the difference can be attributed mostly to currency considerations, which will be briefly explained below. I am satisfied that these disparities are of a random nature and that, in the longer run, their results will certainly converge, given the almost identical portfolio holdings and the tendency for total returns of US$ and CD$ assets to converge. On an attribution basis, the fixed-income strategies once again provided the bulk of the returns: just 10 and 70 basis points less than the entire quarterly gain of the Cayman and Canadian funds, respectively, with the rest of the sub-funds and strategies gaining some and losing some, to make up the returns noted above.

The extraordinary returns of the fixed-income strategies came primarily from three sources: total bond returns (including a profitable partial hedge liquidated during the quarter), approximately 140 basis points; Turkish money market position (synthetic), approximately 40 basis points; and Seabridge, a US gold mining stock, approximately 250 basis points. Rounding and management expenses moderately reduced these gains.

Using the larger Cayman fund as the base of our discussion, we find that slightly over 60% remains invested in TIPS and a growing proportion, now over 33%, is invested in short-term US Government paper, all of it under two years to maturity. The incentive to hold longer maturities has diminished with the flattening of the yield curve. I continue to believe that interest rates are headed higher, though I am no longer as sure as I was that the yield curve will continue to invert going forward – or at least not for quite some time. My reasoning is as follows. I expect that the global economy will continue to grow, allowing US exports to expand further and putting more strain on US capacity. With unemployment at 4.9%, the US is slowly moving to full capacity utilization. This is inconveniently timed with strong (and seemingly still rising) commodity prices and the likely end of the historically huge gains in productivity before it resumes the long-term pace of 1.5% to 1.7% per annum. (I don't know any more than anyone else, but productivity spurts of this magnitude, associated with technological breakthroughs, generally don't last more than a decade.) I expect inflation therefore to grind its way higher, and move towards an unacceptable core rate of 3% soon after the present pause. The Fed, satisfied at the attainment of more "normal" rates and now data-dependent, no doubt will look at the stabilization of house prices as a cue to slow any further increase in the Fed Funds rate. In fact, I am quite certain that, by spring at the latest, the Fed will pause to reassess the picture. This is because the FOMC is now tilted towards a more dovish view and is of course led by a renowned deflation-fighter. David Rosenberg, the first-class economic observer at Merrill Lynch, recently noted that in the new line-up, the FOMC loses three hawks, gains one hawk and adds one dove. This will not mean, as many are hoping, that the Fed will start climbing down by year end. Very likely, it will stay on hold for some months. However, in our opinion, long-term rates will begin to reflect the new up-leg in inflation that we are expecting. By the end of the year, the Fed will resume raising rates, but this time the Fed's actions will lag market rates. In this scenario, there is a real risk that bond prices could fall hard.

Why are we so sure that inflation is going higher? Because US (and global) liquidity remains excessive even after this "dramatic" rise in rates. Only this excessive liquidity can explain the extraordinary rise in commodity prices, especially gold and other precious metals, record highs in world stock markets, incredibly narrow (and still falling) credit spreads and the formation of new and huge private equities pools, in the face of rising rates. If real estate prices are softening, which we believe is true, it is only because they, more than any other asset category, are a direct function of discount rates. As interest rates rise, regardless of liquidity conditions, real estate prices must begin to adjust to new returns. From being negative not long ago, real mortgage rates have climbed to somewhere between 1% (for the short-term adjustable kind) to 3.5%. In theory, rental properties can now trade between 10 and 30 times income, compared with the infinite multiples of yesteryear. So a cap on real estate prices is inevitable.

A cap is less inevitable for assets that do not trade as faithfully off income. The gradation, from assets most sensitive to discount rates to those least sensitive, is intuitive. Most affected are long duration fixed income for poor credits; next, the same for better credits. Then come blue chip, large market cap stocks for emerging markets, followed by the same in developed economies; speculative, low market caps in emerging markets and, again, the same for developed countries; industrial commodity prices (affected by underlying economic cycles); and finally, precious metals.

After this digression, let me return to our fixed-income strategy. TIPS will continue to do well in a scenario of rising inflation and a lagging Fed, which is what we foresee for the next six to 12 months. This is because breakevens, as we explained in the past, will rise in line with inflation expectations. Only when the Fed steps on the accelerator will TIPS fall, and then less than nominal bonds. In the meantime, our significant (and rising) proportion of near-cash, high-quality assets will position us to take advantage of the coming bear market in bonds.

Our gold mining stock has continued to shine, up 57%, compared with the rise in bullion of 10%. From a very modest 3% proportion of the fixed-income funds, this position has grown to as much as 6.1% of assets. The idea of putting up to 5% of the funds in gold was originally conceived as protection against unexpected inflation and the consequent damage to bond prices. We were mindful that the allocation was very modest but we bet on the optionality built in to the price of the shares. It was purchased as a perpetual option on gold, with the possibility that the funds could lose no more than about 30% of the value of the original stake, causing an insignificant dent in the fixed-income portfolios. On the upside, as any option would, it delivered more than what its small stake appeared to promise. The growth of the position makes the fixed-income funds more vulnerable to a setback. For example, a return of gold to the mid-$400s would cut the price of these shares in half or more, representing a potential loss of 350 basis points for the fixed-income funds and approximately 2% for the global macro ones. We will be taking some chips off the table to cut back on this risk.

Our currency strategy produced a satisfactory return, with the Friedberg Currency Fund up 4.37% for the quarter and the various other programs up 3.2% to 3.6%. For the year, we were up 30.25% (31.07% to 31.52%) and for three years, 21.17% (26.37% to 27.53%) annualized. We are still behind 0.08% to 4.32% at an annualized rate over the past five years, which includes the infamous Argentina episode. Thankfully, full recovery is in sight. We very much appreciate those of you who have had the confidence and the patience to stay with us.

There has been little newsworthy to report. We continue to be dollar friendly, hence we remain moderately short yen and euros. In addition, we are modestly short euro/long Czech and long Singapore/short euros. The market is digesting the Fed's signals of an ostensible pause in the climb of rates, but, as noted earlier, I don't believe that the Fed is on permanent hold. Still, persistent rally attempts on the part of the yen and euro may force us to move to the sidelines. Occasionally, we have ventured on the short side of the British pound, Aussie dollar and Kiwi dollar, outright or as a substitute for euros in a cross trade but without much success. From where we stand, there are few tradable ideas and the going is tough. Where we did have some success, unexpectedly, was in the granting of Canadian dollar puts, undertaken to help the Canadian fund (denominated in CD$) survive the relentless rise of the northern peso. This explains the extra 100 to 120 basis points return for the fund compared with the other programs.

Our only disappointment for the quarter was the performance of the equity hedge funds. Down for the quarter 3.8% to 3.9% and up for the year only 3.0% to 3.1%, the funds were hit by a paucity of very few large movers. For example, our biggest two winners on the long side, Checkfree Corp. and Novell Inc., produced returns of 21.3% and 17.2%, respectively. On the short side, Abitibi-Consolidated Inc. returned 13.8% and New York Times Co., 11.1%. These are paltry results for a widely diversified portfolio that hopes to outperform on both sides of the market. These are in fact the lowest returns for best performers for as long as we can remember. The poor quarterly performance is due to underperformance on both sides of the market, up .69% on the long side and down 3.94% on the short side vs. the S&P 500 rise of 1.6%.

As always, when faced with dismal returns, we move to hypothesize that, perhaps, markets have become more efficient. We have advanced this pessimistic assessment a number of other times in the 16-year life of this program but, eventually, the sun has always shone through the dark clouds and we have managed to bounce back. What worries us more now than other times, however, is that our five-year performance is coming down to earth: up 7.53% (5.99% for the smaller Canadian fund) annualized versus 7.24% for the benchmark. Could it really be…? If our five-year performance does not open a more significant gap over the benchmark in the next quarter or two, we will think of reducing somewhat the Global Macro funds' allocation to this program.

Again this quarter the more interesting developments occurred in the miscellaneous pocket, the one we have come to call "global opportunities." It returned an extraordinary 77.8% on this section's equity, which as you recall, is designed to receive a maximum allocation of 3.5% from the Global Macro's total net assets. (In effect, this means that the margin dedicated to this section should at no time exceed 3.5 % of the total net assets of the Global Macro funds.) At December 31, the margin dedicated to the global opportunities section equaled

2.9% and 2.7% of the Cayman and Canadian funds, respectively. The substantial leverage inherent in futures and securities markets afforded us a substantial long exposure to gold (representing 21% of the Global Macro funds), as well as sizeable commitments to crude oil (by way of bear spreads and the granting of short-term calls), the US-dollar-denominated Japanese Nikkei index traded in Chicago (representing 1.4% of the Global Macro Funds), and copper (long but tempered with some bear spreads). See exhibits inside for details of the futures' and securities' positions. The 77.8% performance of this section contributed a net 274 basis points to the Global Macro funds' quarterly performance.

I remain very bullish on gold. Exploring and bringing new mines into production has become an enormously expensive, lengthy and politically risky affair. Gold will have to attain much higher levels on a sustainable basis to reverse the present decline in production. From an investment point of view, the precious metal has come into its own as an asset class (some might say it has regained its status), displaying excellent returns over three and five years (48% and 89% respectively). This is bound not to escape the attention of asset allocators, who now enjoy the luxury of betting on gold via a NYSE-listed ETF. Also, it should be noted that the enormous interest of pension funds in participating in commodities via fully paid futures (with cash earning money market returns) can have a significant impact on gold prices. Their investments recently reached $100 billion to $120 billion from less than $40 billion two years ago. Gold is one of the most liquid commodities traded on global exchanges and is likely to be over-represented if only by virtue of this liquidity and the perception that it represents a useful proxy for all commodities. Finally, it is well known that rising gold prices induce a sort of primal fear among holders of fiduciary money. Central bankers, being human beings, are almost certain to return to gold once the advance breaks through some psychological price barriers (round numbers like 600, 700 or 800), and panic sets in.

To the puzzlement of most observers, gold accelerated its uptrend even as the US dollar strengthened (note that our long position was established against euros). The paradox, however, is readily explained. As long as the US dollar was falling, hard money investors were happy buying euros, Swiss francs and yen. When the trend reversed, these visceral US dollar bears could not countenance buying dollars and hedging their depreciating assets. They turned to the next best thing, gold.

A note on our investment in Refco's SPhinX Managed Futures Fund Ltd.: The moneys, being managed by 15 of the best performing and largest CTAs in the world, were "salvaged" from the Refco train wreck in mid-October and transferred to Lehman Brothers, Inc., where they have continued to be managed on a daily basis. Quarterly performance was satisfactory, up 2.62%, though the fund remained down 6.59% for the year. In late December we were informed of a temporary restraining order entered into the bankruptcy court pursuant to a complaint filed by the Official Committee of Unsecured Creditors of Refco freezing the assets of the fund pending a hearing to take place in mid-January. The claim is that the funds' managers transferred money out 5 days prior to the October 17 Refco Bankruptcy filing. As a result, redemption rights were suspended. Under legal advice, we wrote down the value of the holding to 50% of its NAV, which represented an 85 basis points charge to the Global Macro funds' NAV, given our 1.7% exposure. We are unsure of the final outcome and believe that the write-down is realistic. Should we need to write down the entire investment, an unlikely event we think, the additional charge will equal approximately 85 basis points. Irrespective of the outcome, we have been developing for the past year and a half an in-house capability that essentially shadows the results of these trend-following CTAs with the intention to take their place. We are close to making that decision.

In sum, we ended the year on a far better note than we had expected. (This is what we said last year: "Though somehow we feel that the present positions will keep us whole, risk/reward ratios are no longer lopsidedly in our favor. This much we know: Every hundred basis points above the risk-free 3% per annum will be a struggle. Let's hope we sin of pessimism.") Some of that success can be attributed to catching the train on gold, directly via futures and indirectly via shares of Seabridge, and to other felicitous commodity and currency operations. Equally important, we held our own in most other areas, where returns turned out to be as skimpy as expected and/or feared. Valuation metrics are over-extended everywhere and complacency rules the globe. It all feels like another swift and unforeseen crisis is about to erupt, à la 1998 or worse, and yet the triggering event is unforeseeable and the cost of betting on such an event, even if foreseeable, is too onerous. For the year ahead, we have a scenario but are unsure of its precise timing. Absent exquisite precision, we should still bring home Treasury returns; the hope is that we can spruce them up again with some intelligent speculations.

Thanking you for your confidence and trust,

Albert D. Friedberg

FRIEDBERG MERCANTILE GROUP LTD.

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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 denominated in a variety of currencies.
LOW RISK. Objective: Absolute Returns

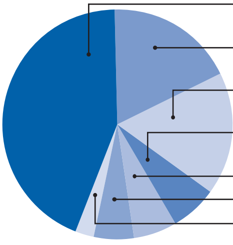
PERFORMANCE[1] as of December 31, 2005

	NAV	Quarter	Year over Year[3]	Two Years[3]	Three Years[3]	Five Years[3]
Friedberg Foreign Bond Fund[2]	16.84	2.75%	12.38%	10.03%	9.29%	9.34%
Friedberg Total Return Fixed Income Fund Ltd.	1,991.95	3.15%	10.80%	11.34%	16.46%	13.85%
Friedberg Total Return Fixed Income Fund L.P.	210.71	4.10%	11.94%	11.69%	17.32%	14.80%
Benchmark[4]		N.A.	-1.12%	5.41%	9.65%	8.77%

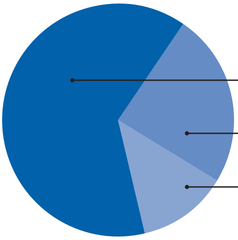
[1]Net of fees
[2]Priced in Canadian Dollars
[3]Compounded annual rate of return through November 2005
[4]70% Merrill Lynch Broad Market Index (Bloomberg GBMI), 30% Global High Yield and Emerging Markets Plus Index (Bloomberg HAOO)

FRIEDBERG FOREIGN BOND FUND

Portfolio Allocation



Currency Exposure



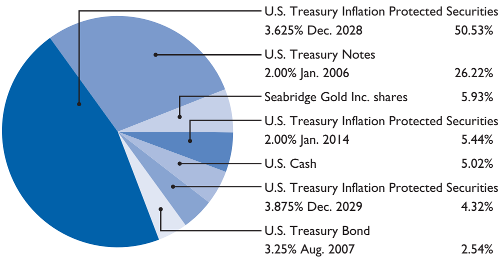
Weighted average yield to maturity	2.31%*
Weighted average current yield	2.48%*

*Assumes zero inflation.

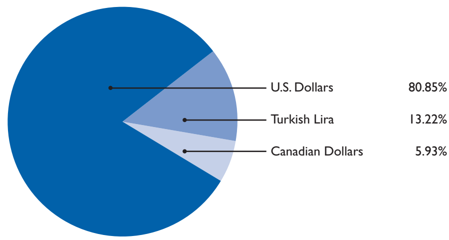
Adjusted modified duration		4.58
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	93.89%
	Unrated	6.11%

FRIEDBERG TOTAL RETURN FIXED INCOME FUND LTD.

Portfolio Allocation



Currency Exposure



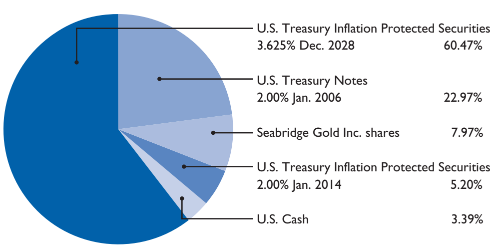
Weighted average yield to maturity	2.59%*
Weighted average current yield	2.40%*

*Assumes zero inflation.

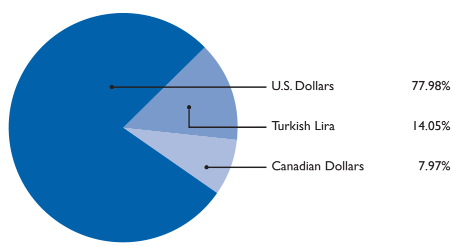
Adjusted modified duration		4.12
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	94.07%
	Unrated	5.93%

FRIEDBERG TOTAL RETURN FIXED INCOME FUND L.P.

Portfolio Allocation



Currency Exposure



Weighted average yield to maturity	1.84%*
Weighted average current yield	2.41%*

*Assumes zero inflation.

Adjusted modified duration		5.22
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	92.03%
	Unrated	7.97%

FRIEDBERG EQUITY HEDGE FUND LTD.
FRIEDBERG EQUITY HEDGE FUND

An equity fund that seeks absolute returns through the judicious selection of long and short positions while maintaining a market neutral posture.

PERFORMANCE[1] as of December 31, 2005

	NAV	Quarter	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Equity Hedge Fund	21.86	-3.91%	0.93%	13.98%	5.99%
Friedberg Equity Hedge Fund Ltd.	2,551.48	-3.78%	0.80%	13.06%	7.53%
CSFB/Tremont Equity Market Neutral Index		N.A.	5.53%	6.35%	7.24%

[1]Net of fees
[2]Compounded annual rate of return through November 2005

INVESTMENT ALLOCATION[3]

	30-Sep-05	31-Oct-05	30-Nov-05	31-Dec-05
LONGS	48.77%	47.74%	48.28%	48.36%
SHORTS	51.23%	52.26%	51.72%	51.64%
TOTAL GROSS LEVERAGE	1.45 x	1.60 x	1.58 x	1.73 x

LARGEST SECTORS (LONGS)[3]

Electric Utilities	8.54%
Industrials Large Caps (S&P 500 index)	7.07%
Semiconductors	3.81%

LARGEST SECTORS (SHORTS)[3]

Thrifts and Mortgage Finance	8.57%
Publishing	6.52%
Pharmaceuticals	5.35%

[3]As percentage of total gross assets (based upon the Friedberg Equity Hedge Fund Ltd.)

LARGEST LONG POSITIONS

S&P 500 index
Syngenta AG-ADR
GATX Corp.
Aqua America Inc.
Raytheon Co.
Firstenergy
Home Depot Inc.
Exelon Corp.
Checkfree Corp.
Centerpoint Energy Inc.

PAIRS

Long Advanced Micro Device Inc. / Short Intel Corp.

LARGEST SHORT POSITIONS

Eli Lilly & Co.
Imclone Systems
Colgate-Palmolive Co.
Sara Lee Corp.
Forest Laboratories Inc.
Bowater Inc.
Waddell & Reed Financial
Univision Communications
Estee Lauder Companies
Knight Ridder

BEST QUARTERLY PERFORMANCE

LONGS		SHORTS	
Checkfree Corp.	21.36%	Abitibi-Consolidated Inc.	13.83%
Novell Inc.	17.26%	New York Times Co.	11.09%
Syngenta AG-ADR	16.57%	Flagstar Bancorp Inc.	10.39%

WORST QUARTERLY PERFORMANCE

LONGS		SHORTS	
M T R Gaming	-14.36%	Ryder System Inc.	-19.87%
Fresh Del Monte Corp.	-16.35%	Estee Lauder Companies	-22.64%
Human Genome	-41.28%	Georgia-Pacific Corp.	-52.75%

CURRENCY FUNDS

FRIEDBERG CURRENCY FUND
THE FIRST MERCANTILE CURRENCY FUND
FRIEDBERG CURRENCY FUND II LTD.
FRIEDBERG FOREX L.P.

Speculative trading in currency futures instruments, currency forwards and options.

PERFORMANCE[1] as of December 31, 2005

	NAV	Quarter	Year over Year[3]	Three Years[3]	Five Years[3]
Friedberg Currency Fund[2]	11.46	4.37%	30.25%	21.17%	-4.01%
The First Mercantile Currency Fund	10.08	2.34%	18.88%	19.61%	-4.32%
Friedberg Currency Fund II Ltd.	850.54	3.12%	31.07%	27.53%	2.74%
Friedberg Forex L.P.	12.04	3.26%	31.52%	26.37%	-0.08%
Barclay Currency Traders Index		N.A.	1.31%	5.55%	5.30%

[1]Net of fees
[2]Priced in Canadian Dollars
[3]Compounded annual rate of return through November 2005

OPEN POSITIONS - December 31, 2005

Long Czech Koruna / Short Euro Currency	2.07
Short Euro Currency	1.51
Long Singapore Dollar / Short British Pound	1.01
Short Japanese Yen	0.90
Long Turkish Lira	0.73
Short Japanese Yen 8662 Calls	0.00
	Leverage
gross leverage at December 31, 2005	6.22 x
maximum gross leverage during quarter	6.71 x

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PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Short Japanese Yen	4.52	51.56
Long Turkish Lira	1.61	18.33
Long Singapore Dollar / Short British Pound	1.24	14.20
Short Euro Currency	1.19	13.62
Short Japanese Call Options	0.20	2.29

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Short New Zealand Dollar	-3.32	62.11
Long Czech Koruna / Short British Pound / Short Euro Currency	-1.43	26.77
Long Czech Koruna	-0.19	3.64
Short Australian Dollar	-0.40	7.48

FRIEDBERG DIVERSIFIED FUND

Speculative trading of commodity, interest rate, and stock index futures, over-the-counter forwards and options markets.

PERFORMANCE[1] as of December 31, 2005

	NAV	Quarter	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Diversified Fund	21.39	27.70%	166.39%	31.69%	25.57%
CSFB/Tremont Managed Futures Index		N.A.	3.22%	9.35%	10.00%

[1]Net of fees
[2]Compounded annual rate of return through November 2005

OPEN POSITIONS - December 31, 2005

Strategy I

	Leverage
Long distant / Short nearby Crude Oil	5.83
Long distant / Short nearby Copper	1.90
Long Gold / Short Euro Currency	2.96
Long distant / Short nearby Natural Gas	0.52
Short Mini Nasdaq Futures	0.39
Long Wheat	0.32
Long Orange Juice	0.09
gross leverage at December 31, 2005	12.01 x
maximum gross leverage during quarter	29.27 x

Strategy II (discontinued November 28, 2005)

gross leverage at December 31, 2005	0.00 x
maximum gross leverage during quarter	561.92 x

Strategy III

Long distant / Short nearby Lean Hogs	0.38
gross leverage at December 31, 2005	0.38 x
maximum gross leverage during quarter	1.98 x

ACTIVITY REPORT - Fourth Quarter 2005

Strategy I

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long distant / Short nearby Crude Oil	25.33	49.06
Long Gold / Short Euro Currency / Short Australian Dollar	17.51	35.51
Long distant / Short nearby Natural Gas	6.62	12.82
Long Orange Juice	0.87	1.68
Long Wheat	0.49	0.94

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Long U.S. T-Bonds	-2.69	50.48
Long distant / Short nearby Copper	-1.34	25.12
Short Nasdaq Futures	-1.02	19.24
Short Eurodollar Interest Rates	-0.27	5.16

Strategy II (discontinued November 28, 2005)

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Long nearby / Short distant Heating Oil	-99.29	98.24
Short Copper	-0.80	0.79
Long distant / Short nearby Crude Oil	-0.68	0.67
Long 3-Yr. Bund / Short U.S. 5-Yr. Note	0.18	0.17
Long Corn	-0.13	0.12

Strategy III

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long distant / Short nearby Natural Gas	0.25	100.00

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Long / Short Lean Hogs	-0.02	100.00

FRIEDBERG GLOBAL-MACRO HEDGE FUNDS

FRIEDBERG GLOBAL-MACRO HEDGE FUND LTD.
FRIEDBERG GLOBAL-MACRO HEDGE FUND

A fund of (Friedberg) funds and strategies. Allocations are reviewed periodically.

PERFORMANCE[1] as of December 31, 2005

	NAV	Quarterly	Year over Year[2]	3 Years[2]
Friedberg Global-Macro Hedge Fund Ltd.	1,697.94	3.31%	14.57%	13.97%
Friedberg Global-Macro Hedge Fund	17.55	4.34%	21.34%	19.37%
CSFB/Tremont Hedge Fund Index		N.A.	7.60%	10.65%

[1]Net of fees
[2]Compounded annual rate of return through November 2005

Allocation of the Friedberg Global-Macro Hedge Fund Ltd. as of December 31, 2005 is as follows:

FUND	**CURRENT ALLOCATION**	**PROPOSED NEW ALLOCATION**
Fixed Income Fund Ltd.	64.107%	60.00%
Equity Hedge Fund Ltd.	13.910%	10.00%
Currency Fund II Ltd.	14.310%	10.00%
Commodities	0.000%	14.15%[3]
Equities	0.000%	5.00%
Miscellaneous / Special Situations	6.452%	0.00%
Refco SPhinX Managed Futures Index Fund Ltd.[4]	0.854%	0.85%
Cash	0.366%	0.00%
	100.00%	100.00%

	Quarterly return	Year-to-date return
[3]Equal to maximum 3.5% margin of the entire program		
[4]Refco SPhinX Managed Futures Index Fund Ltd.	2.62%*	-6.59%*

*as of December 29, 2005

GLOBAL-MACRO HEDGE FUND LTD. - miscellaneous special situation sector

EQUITIES

NAME	opening price	closing price	% change for the Quarter by price
New Germany Fund	10.47	10.15	-3.06%
Cardero Resources	3.84	5.20	35.42%
Japan Small Cap Fund	17.58	17.78	1.13%
CANTV ADR (short)	12.32	14.30	-16.05%
Enersis	11.47	10.99	-4.18%
Counsel Corp	0.36	0.37	2.53%

	% return
Equities	0.05%
Options	1.78%
Commodity Futures	72.95%

FRIEDBERG GLOBAL-MACRO HEDGE FUNDS cont'd

OPEN COMMODITY POSITIONS - December 31, 2005

Long Gold / Short Euro Currency	9.32
Long distant / Short nearby Copper	1.00
Long distant / Short nearby Crude Oil	3.23
Long Nikkei Futures	0.32
Short February Crude Oil 61 calls	2.02

	Leverage
gross leverage at December 31, 2005	15.89 x

ACTIVITY REPORT - Fourth Quarter 2005

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long Gold / Short Euro Currency / Short Australian Dollar	101.39	65.77
Long distant / Short nearby Crude Oil	42.63	27.65
Long Nikkei Futures	9.81	6.36
Long distant / Short nearby Copper	0.33	0.21

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.

LIQUIDATED FUNDS

Funds	Inception Date	Inception N.A.V.	Liquidation Date	Liquidation N.A.V.	Size of Fund at liquidation	Annual % Rate of Return
Friedberg Global Opportunities Fund Ltd.	13-May-97	1,000.00	28-Feb-05	501.89	US$ 5,700,000	-8.46%
Friedberg International Securities Fund	31-Mar-98	10.00	30-Nov-05	11.49	US$ 4,500,000	1.83%

NIAGARA COMFORT CLASS "B" FUND

The fund is a multi-strategy fund-of-funds. The objective is to generate steady returns in all environments. Albert Friedberg and David Rothberg co-manage.

PERFORMANCE[1] as of December 31, 2005

	NAV	Quarterly	Year over Year[2]	Three Years[2]
Niagara Comfort Class 'B' Fund	14.38	-1.91%	-1.30%	6.44%
CSFB/Tremont Hedge Fund Index		N.A.	7.60%	10.65%

[1]Net of fees
[2]Compounded annual rate of return through November 2005

David Rothberg Comments:

The Comfort Fund was down 1.91% during the fourth quarter, net of all fees.

The allocation as of the end of the quarter and returns per strategy were as follows:

Strategy	Allocation in Percent	Return in Percent
Long/Short Value U.S.	36.90	-1.00
Long/Short Momentum	20.66	-3.91
CTA / Managed Futures	14.57	-1.44
Convertible Arbitrage	22.65	0.10
Cash & Treasuries	5.23	N/A

This quarter is the fourth in a row in which we've failed to keep pace with our objectives. Our objectives are to earn bond like returns that are not subject to bond or stock market risk. Since we started the fund in 1999 we've come close to achieving our goal by investing in a concentrated portfolio of convertible bond arbitrage, risk arbitrage, equity long/short, and managed futures strategies. I don't believe those strategies will satisfy us going forward and have decided to change the Fund's strategy by focusing only upon managed futures.

Too much inefficiency has been mined out of arbitrage strategies. Despite the wave of mergers in recent years, we saw the risk arbitrage specialist with whom we had been invested since our debut devoting ever fewer assets to risk arbitrage, and ever more to other corporate events; i.e. gambits which ultimately are highly correlated to equities. Convertible arbitrage confounded the views I expressed in these pages at the end of each of the past three quarters — namely, that the strategy would recover after the slew of redemptions it suffered during the first and second quarters reduced the demand upon issuance. Clearly, the problem has as much to do with issuers being much more sophisticated, that is, able to price supply more efficiently than I had thought, as it does with aggregate assets, or demand.

Equity long/short has suffered from a dearth of dispersion; that is, of lack of stocks going up by a goodly amount at the same time as another decent swath of stocks is doing the opposite. In other words, equities have been too bland. Now maybe dispersion is a function of volatility, in which case we'd be inclined to diagnose the lull as temporary. On the other hand, it may be that options specialists have managed to temper the play of stocks, or to put it another way, have mined an inefficiency from stock markets in much the same way as specialists have sucked the juice out of arbitrage strategies.

These problems are compounded by our small size and by fees that, in the current environment, are too high. If we want to maneuver into different strategies we have to undertake more due diligence than we have resources to devote. This leaves us vulnerable to a number of risks, the worst of which is business risk. If billion-dollar funds of funds could get caught in the Bayou debacle, who are we to claim invincibility?

Finally, as far as fees go: charging a management fee of 1% and an incentive fee of 10% on top of the 2% management and 20% incentive fees that the underlying managers charge is simply too onerous when there is, as there has been, so little gravy on the plate.

Managed futures offer us a much better opportunity to achieve the fund's objectives than the current portfolio. The strategy provides five distinct advantages:

- The fifty-odd futures markets available to trade give us more and better diversified opportunities than the sum of the four strategies to which we have been allocating so far.
- Having started in the futures business in the 1970s, it is the strategy we understand best — probably as well as anyone in the world.
- Managed futures cannot correlate to stocks or to bonds except coincidentally.
- Because of the asymmetrical needs of hedgers and speculators, and because of a significant non-professional speculative presence in futures markets, the inefficiencies in futures markets are unlikely to vanish.
- We can invest in managed futures via managed accounts which can be held at Friedberg (rather than investing them in funds controlled by outside managers). This eliminates all business risk. In addition, we get daily transparency thrown in for free.

Albert Friedberg and I have been working since April on selecting CTAs or managed futures managers. We've developed an original process. When we started, our intention was to construct a portfolio that would aim for returns in the high teens. While we render that portfolio into fund format by mid-year, we can use a de-leveraged version of the portfolio beginning in February to achieve our goals in the Comfort Fund. We have sent redemption notices to the managers with whom we have been invested — not a pleasant task given that each performed scrupulously — and will start as soon as we retrieve assets.

Finally, the new portfolio allows us to reduce fees to a 2% management fee and 20% incentive fee net; in other words, the same as the underlying managers have been charging us thus far, without the 1% and 10% surcharge.

In summary, out with the old and in with the tried and new. We hope you share our enthusiasm.

If you have any questions, please contact me.

Thank you for your confidence and trust.

David Rothberg

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