FRIEDBERG MERCANTILE GROUP

Second Quarter Report 2001

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Dear Investor,

It is a pleasure to present you with a detailed profile of our funds at mid-year.

Performance was satisfactory, though uneven. The fixed-income vehicles, the largest recipients of our investment dollars (a suggested allocation of 65%), lost 1.8% for the quarter. The balance of the funds (with the exception of the currency funds, which lost an average 1.5%) did well to exceptionally well. The Diversified Fund gained 3.3%, the equity hedge funds returned 6.1% to 6.4% and the International Securities Fund advanced an exciting 19.4%. Those who follow our suggested allocation (a fair measure of the overall performance of the Friedberg family of funds) saw positive returns for the quarter, the year to date and year over year: 0.78%, 1.13% and 13.29% respectively. See the accompanying exhibits for details.

The worst of the economic storm is most probably behind us. Aggressive action on the part of the US Federal Reserve made it possible for broad money supply to explode into high double-digit numbers, sustaining nominal spending and asset prices despite the collapse in corporate profits. Once again, the Fed has managed to bail out the economy and the financial system.

In the long run, however, these bailouts are extremely costly. They increase moral hazard, encouraging investors to take on ever more leverage and greater risks. Additionally, they increase inflationary pressures, the effect of which may not be seen for some time. We conclude that instead of "fixing" things, the Fed has merely postponed the moment of truth. That moment will occur when the Fed ultimately finds itself unable to contain a systemic financial crisis — either because it is overwhelmed by the crisis' magnitude or because inflation stands in the way of further easing. Perhaps both.

It is worth noting that, in spite of the painful consequences of a recent bubble burst, new bubbles are springing up everywhere. One need only look at the convertible bond market, the biotechnology sector, the hedge fund industry or the housing market.

Ever since the banking bailout of the early ’90s, cycles have become shorter and more serious. It took approximately three years to get from the bailout of the savings and loans and other commercial banks to the Mexican crisis; 30 months from the Mexican bailout to the onset of the South East Asian crisis; and 12 months from the initial bailout of the latter to the Russian/ LTCM crisis. Twenty-six more months passed before the Fed’s first panicky reaction to crashing stock prices, but this cycle was stretched out by the Fed’s overly expansive reaction to Y2K. Assuming that the Fed’s bailout effort ended in July of this year, one can expect a new, and potentially more devastating, crisis inside of 12 months. Such are the sad dynamics of a paternal capitalism.

It is also worth noting that long-term yields, just short of 6%, remain considerably higher than at the time of the Fed bailout in 1998. This confirms our suspicions that the market has begun to internalize an accelerating rate of inflation, one that will become increasingly difficult to deal with if the Fed is pressed to bail out the financial system once more.

Finally, it is worth noting that economic imbalances are growing. Household savings in the US continue to fall, and their counterpart, the current account deficit, continues to widen. The US economy will be unable to resume meaningful growth for many years. At best, it is doomed to a long period of stagflation, with annual growth between 0 and 1.5%, accompanied by rising inflation.

Probing for a top in the US dollar has, once again, cost us money, particularly in the fixed-income vehicles. Had we been a little less stubborn and remained partly in US and partly in Canadian dollars, we would have generated positive quarterly results. However, since an integral part of the funds’ mandate is to search for value in the currency area, not just in the credit area, we could not dismiss out of hand the dramatic overvaluation of the US dollar. It has taken on the proportions of a bubble, an economic or financial event that occurs out of inertia and for no good reason. It is in this light that we interpret a recent news item reporting that the eurozone suffered a net investment outflow of more than 100 billion euros in the first four months of this year, or more than twice the level recorded in the same period of 2000. The vast bulk of this investment went into US equities and bonds, helping to push the euro lower against the dollar. Now, to be sure, we are not great fans of the euro, but what good reason could there be for European investors to buy into an economy whose productivity has vanished, where corporate balance sheets have deteriorated and where the consumer is in hock up to his eyeballs?

In the interim, we have quenched our thirst for value via new and increased exposure to the Canadian dollar, either synthetically or through the purchase of Real Return Federal bonds. These bonds are the equivalent of US TIPS, a bond with which our readers are well acquainted. Regardless of how many ways we analyze the global credit markets, we come away with the conclusion that inflation-indexed securities represent the single most attractive investment category in existence. They combine above-average yields with inflation protection and hence protection against higher interest rates. In addition, they offer the potential of sizeable capital gains should real interest rates continue to decline, a possibility that best fits our stagflation scenario. The Canadian dollar should benefit from the fact that, on a purchasing-power basis, it appears to be highly undervalued. Moreover, the necessary catalysts are in place: a better macro-economic balance, a corporate sector that is relatively strong, particularly in terms of balance-sheet strength, a bulging external surplus, excellent exposure to depressed raw materials and, finally, a less populist central bank.

In our diversified trading program, we are focused on a number of special situations that have the potential to provide spectacular returns. These positions have performed well for us to date and promise to prove exceptional. Among them are a long position in soybean meal (where demand is rapidly outpacing supply), a short position in copper (which has been hard hit by the global contraction) and a leveraged position in inflation-indexed bonds.

We took a new interest in gold during the past quarter and traded it successfully from the long side. Although we are now out of the position, we believe that the time is rapidly coming for gold to respond to strong underlying fundamentals. Fabrication demand is outstripping mine output by a considerable margin. The gap has been made up by a combination of official gold sales (restricted under the Washington Agreement to 400 tonnes per year for the world's largest central banks) and official leasing (which allows for speculative short sales and forward selling by mines). Reasonable estimates of the latter indicate that a very large proportion of gold reserves has already been tapped. In effect, the 20-year-long process of demonetization is almost complete. It will not take much in the way of investment demand to light a fuse under this market. We remain attentive to that possibility.

The currency trading gives the appearance of being a boring and uninspiring affair, but beneath the surface, prospects are improving. We have planted the seeds of what will become, if our expectations pan out, an exciting six months. Here is why. The Brazilian and Argentinean currencies are reacting to similar economic conditions but under different currency regimes. We are long Argentinean pesos as we try to capitalize on the high interest rates caused by pressure on the currency from the (so far, impregnable) currency board. At the same time, we are short Brazilian real as we try to capitalize on the falling floating rate caused by the same forex pressure. While this strategy did not bear fruit in time for the past quarter, we believe that it will in the coming period. Also, our new long Canadian dollar position (already profitable, as shown in the exhibits) should begin to pay off in a bigger way during the second half of the year, especially now that we are being paid to be long (that is, we enjoy positive carry). Finally, the US dollar is getting dearer by the day, bringing ever closer the day of the

Turn. When it comes, we will comfortably swim with the fundamentals, rather than against them. Certainly, that is a comforting thought.

China B shares remain the big winner for our International Securities Fund. Relative liquidity continues to improve as the government has authorized the use of more local dollar deposits for the purchase of these shares. More importantly, the B shares trade at a 39% discount to the A shares. While this discount is shrinking, it remains significant. The complete elimination of the discount should produce a gain upwards of 65%. Significant profits were made and partly realized in junior Canadian oil- and gas-exploration companies as well as in a smattering of short positions in Mexican, Brazilian, Indonesian and Greek shares. Our perennial short position in Japanese regional banks treaded water, waiting for the new program of reforms promised by the Koizumi administration to be implemented.

We were highly gratified with the performance of the equity hedge funds, having begun the quarter with low expectations. As discussed in our last letter to you, the low-hanging fruit, in the form of the overblown tech sector, had been substantially picked by the end of March and the diving-economy scenario had not, at that time, offered up any attractive long candidates. Fortunately, we were too pessimistic. As the quarter progressed, we found a fair number of long and short strategies.

We are confident that the kind of economic activity that we are projecting for the coming year should be nearly ideal for long/short strategies. We envision rolling sector leadership within a fairly broad overall trading range, privileging formerly under-owned groups such as waste disposal and defense stocks on the long side. As well, small cap stocks should shine provided market liquidity does not dry up. This explains why we have made such a large relative bet on the Russell 2000 index. On the short side, we believe that investment banks will need to retreat further under the weight of heavy fixed expenses taken on during the boom years and falling revenues from brokerage and underwriting. Rising unemployment (if only to 5% or 6%) and rising interest charges, now that the downward phase of the interest cycle has come to an end, are likely to play havoc with consumer lenders, particularly credit card issuers. We are short those stocks and plan to increase exposure over the next few weeks.

In sum, we have seen a decent quarter and see the potential for some real excitement later in the year.

Thanking you again for your trust,

Albert D. Friedberg

FRIEDBERG MERCANTILE GROUP

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Neil Rackoff Comments:

The Friedberg Allocation model returned 0.78% for the quarter, 1.13% for the year to date, and 13.29% year over year.

If you had invested instead in the individual Friedberg funds at January 1, 2001, your return for the first half of 2001 would have reflected each strategy's individual performance, as follow:

Friedberg Currency Fund Ltd:	(2.00)%
Friedberg Fixed Income Fund Ltd:	(5.67)%
Friedberg Equity Hedge Fund Ltd:	1.50%
Friedberg Global Opportunities Ltd:	52.01%

What accounts for the difference between the individual returns and the performance that we achieved? Allocation. Allocation will not capture the huge moves in total, but it does effectively smooth out the valleys. Remember, our fund allocation is not only based on our outlook for the individual asset classes but also takes into account the risk in each of those asset classes.

We have rebalanced our portfolio to maintain the following allocation:

Global Fixed Income:	65%
Equity Hedge:	15%
Currency:	10%
Global Opportunities:	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 corporate bonds denominated in a variety of currencies.
LOW RISK. Objective: LIBOR+4% per annum

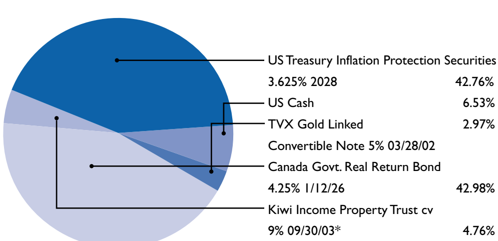
PERFORMANCE as of June 30, 2001

	NAV	Quarter	Year over Year	Three Years[2]
Friedberg Foreign Bond Fund[1]	11.59	-3.74%	3.95%	2.54%
Friedberg Total Return Fixed Income Fund Ltd.	1018.35	-1.84%	1.25%	1.59%
Friedberg Total Return Fixed Income Fund L.P.	103.49	-1.84%	1.98%	1.76%

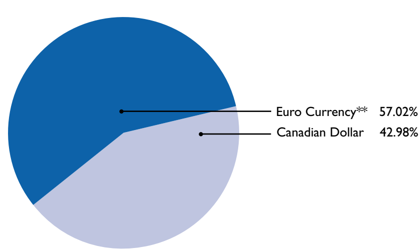
[1]Priced in Canadian Dollars
[2]Compounded Annual Rate of Return

FRIEDBERG FOREIGN BOND FUND

Portfolio Allocation



Currency Exposure



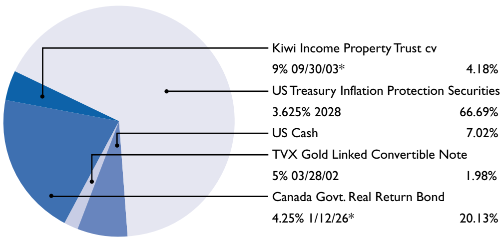
Weighted average yield to maturity	8.53%
Weighted average current yield	4.10%

*Currency Partially or Totally Hedged
**Via Derivatives

Adjusted modified duration		6.38%
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	92.27%
	Unrated	7.73%

FRIEDBERG FIXED INCOME FUND LTD.

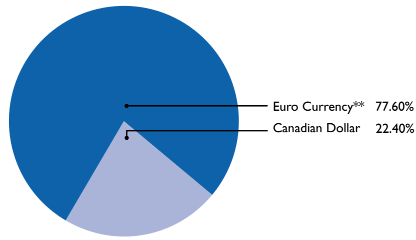
Portfolio Allocation



Weighted average yield to maturity	8.01%
Weighted average current yield	3.99%

*Currency Partially or Totally Hedged
**Via Derivatives

Currency Exposure

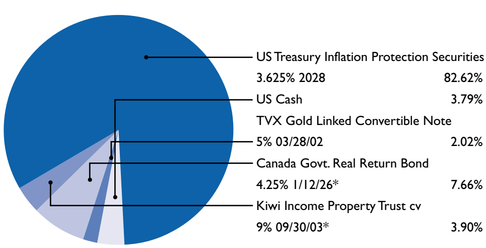


Adjusted modified duration	6.44%
Approximate overall credit rating	AAA

Bond rating breakdown:	AAA	93.84%
	Unrated	6.16%

FRIEDBERG FIXED INCOME FUND L.P.

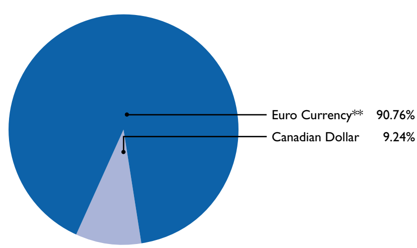
Portfolio Allocation



Weighted average yield to maturity	8.19%
Weighted average current yield	3.94%

*Currency Partially or Totally Hedged
**Via Derivatives

Currency Exposure



Adjusted modified duration	6.73%
Approximate overall credit rating	AAA

Bond rating breakdown:	AAA	94.07%
	Unrated	5.93%

EQUITY HEDGE PROGRAM

FRIEDBERG EQUITY HEDGE FUND LTD.
FRIEDBERG EQUITY HEDGE FUND

The funds use 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 June 30, 2001

	NAV	Quarter	Year over Year	Three Years[1]
Friedberg Equity-Hedge Fund Ltd.	1897.01	6.14%	23.86%	22.53%
Friedberg Equity-Hedge Fund	16.98	6.39%	21.29%	19.74%

[1]Compounded annual rate of return

INVESTMENT ALLOCATION[2]

	Mar-01	Apr-01	May-01	Jun-01
LONGS	58.00%	54.70%	56.56%	59.25%
SHORTS	42.00%	45.30%	43.44%	40.75%
TOTAL GROSS LEVERAGE	2.35 *x*	3.32 *x*	3.05 *x*	2.75 *x*

[2]As percentage of total gross assets (based on the Friedberg Equity-Hedge Fund Ltd.)

LARGEST SECTORS (LONGS)[3]

Small Cap Industrials (Russell 2000 futures)[4]	23.58%
Waste Disposal	7.78%
Aerospace/Defence Equipment	7.32%

LARGEST SECTORS (SHORTS)[3]

Telecom	7.71%
Investment Banking/Brokers	6.79%
Computers	5.70%

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

LARGEST LONG POSITIONS

Russell 2000 index futures
General Dynamics Corp.
Waste Management Inc.
Valero Energy Corp.
Allied Waste Industries Inc.
Waste Connections Inc.
Republic Services Inc.
Devon Energy Inc.
TXU Corp.
Esterline Technologies Corp.

LARGEST PAIRS

Lehman Brothers Holding (Long)/ Goldman Sachs Group (Short)

Advanced Micro Devices (Long)/ Intel Corp. (Short)

LARGEST SHORT POSITIONS

International Business Machines Corp.
Goldman Sachs Group Inc.
AOL Time Warner
Intel Corp.
Morgan Stanley Dean Witter & Co.
General Electric Co.
Providian Financial Corp.
Sprint Corp.
Maxim Integrated Products
Capital One Financial Corp.

BEST QUARTERLY PERFORMANCE

LONGS		SHORTS	
MTR Gaming Group Inc.	157.14%	Exodus Communications Inc.	41.93%
Waste Connections Inc.	24.95%	Unitedglobalcom Inc.	34.10%
Waste Management Inc.	24.78%	Telefonica SA (ADR)	22.25%

WORST QUARTERLY PERFORMANCE

LONGS		SHORTS	
Massey Energy Company	-20.02%	F5 Networks Inc.	-228.80%
Insituform Technologies	-17.24%	Veritas Software Corp.	-43.88%
XTO Energy Inc.	-13.03%	Amazon.Com Inc.	-38.32%

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 June 30, 2001

	NAV	Quarterly	Year over Year	Three Years[2]
Friedberg Currency Fund[1]	17.11	-4.94%	10.67%	-7.42%
The First Mercantile Currency Fund[1]	15.00	-2.22%	9.65%	-4.09%
Friedberg Currency Fund Ltd.	921.80	-14.82%	-16.17%	-4.85%
Friedberg Forex L.P.	15.21	-2.19%	9.66%	-7.12%

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

OPEN POSITIONS - June 30, 2001

	leverage
Long US Treasury Inflation Protection Securities	0.86
Long Canadian Dollar	2.19
Long Argentina Peso	2.12
Long Euro Currency	1.02
Short Brazilian Real	1.04
gross leverage at June 30, 2001	7.23 *x*
maximum gross leverage during quarter	7.24 *x*

ACTIVITY REPORT - Second Quarter 2001

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long Argentina Peso	5.19	57.01
Short Brazilian Real	1.75	19.16
Long Canadian Dollar	1.25	13.66
Long U.S. Treasury Inflation Protection Securities	0.93	10.17

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Long Euro Currency	(4.18)	36.00
Long Japanese Yen	(4.16)	35.84
Short Mexican Peso	(0.86)	7.45
Short New Zealand Dollar	(1.53)	13.17
Short Thailand Baht	(0.88)	7.54

Model account value Mar. 31, 2001	61,801.11
Model account value June 30, 2001	60,248.63
Percentage gain (loss) in quarter:	-2.51%

DIVERSIFIED TRADING PROGRAM as of June 30, 2001

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 June 30, 2001

	NAV	Quarterly	Year over Year	Three Years[1]
Friedberg Diversified Fund	7.58	3.41%	32.98%	-5.98%

[1]Compounded Annual Rate of Return

OPEN POSITIONS - June 30, 2001

	leverage
LONG U.S. TREASURY INFLATION PROTECTION SECURITIES	1.92
SHORT COCOA	0.12
SHORT COPPER	0.33
LONG GOLD	0.68
LONG SOYMEAL	0.53
LONG SUGAR	0.13
SHORT S&P	0.39
gross leverage at June 30, 2001	4.10 *x*
maximum gross leverage during quarter	5.79 *x*

ACTIVITY REPORT - Second Quarter 2001

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
U.S. 30 Year Treasury Bonds	0.76	6.62
Copper	2.16	18.78
Equity Futures	1.53	13.28
Gold	2.71	23.51
Soymeal	3.48	30.18
TIPS	0.88	7.64

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Cocoa	(1.11)	12.68
Energy	(1.42)	16.26
Live Hogs	(1.04)	11.85
Platinum	(1.03)	11.73
Silver	(0.96)	10.97
Soybeans	(1.38)	15.78
Sugar	(0.18)	2.08
Wheat	(1.63)	18.66

Model account value Mar. 31, 2000	155,206.24
Model account value June 30, 2001	159,547.84
Percentage gain (loss) in quarter:	2.80%

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

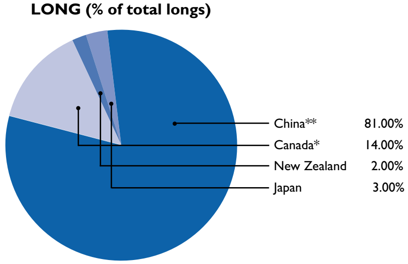
PERFORMANCE as of June 30, 2001

NAV	Quarterly	Year over Year	Three Years[1]
13.30	19.28%	82.44%	13.65%

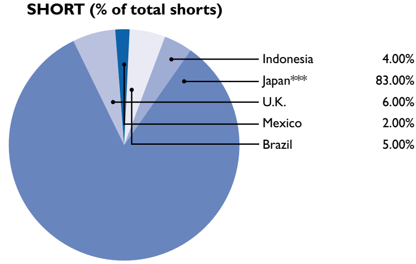
[1]Compounded Annual Rate of Return

EQUITIES EXPOSURE BY COUNTRY

LONG (% of total longs)



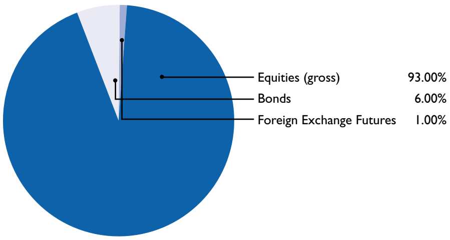
SHORT (% of total shorts)



*Oil & Gas Shares **"B" shares

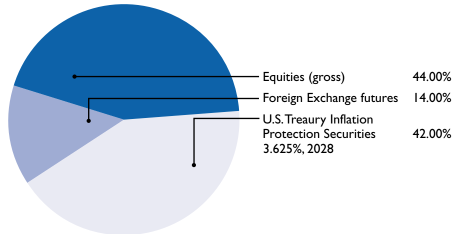
***Secondary Banks (hedged with JY futures)

BREAKDOWN BY INVESTED AMOUNTS*



*Based on margins used in each category

BREAKDOWN BY TOTAL GROSS EXPOSURE**



**Including notional values of derivatives

TOTAL GROSS LEVERAGE **2.63 *x***

POSITIONS ESTABLISHED DURING THE QTR.
1) Bought long Trustpower Corp. (New Zealand)
2) Acquired Cypress Energy A shares via Ranchero Energy tender
3) Acquired Viking Energy Royalty Trust units via BXL Energy tender

POSITIONS LIQUIDATED DURING THE QTR.
1) Covered short Eighteenth Bank and Bank of Saga (Japan)
2) Covered short Philippine Long Distance (Philippines)
3) Covered short Groupo IMSA (Mexico)
4) Covered short Repsol and National Bank of Greece (Europe)
5) Partially liquidated long Canadian Oil and Gas portfolio
6) Covered short Nasdaq

RETURN ON INVESTMENT BY MAJOR SECTORS - (April 1 - June 30)*

China	38.20%
Japan	-0.51%
Canada	14.61%
U.S. Treasury Inflation Protection Securities	1.59%

*not time adjusted

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 June 30, 2001

NAV	Quarterly	Year over Year	Three Years[1]
705.37	10.95%	67.11%	-9.44%

[1]Compounded Annual Rate of Return

David Rothberg Comments

The Fund lost 0.24% during the quarter. For the year the Fund is up 5.48%. As the comparative table below shows, the Fund continues to perform as per its mandate – that is to say to generate annualized returns of between 10% and 15% which are not correlated to equities. At the same time the Fund is managing to achieve its mandate despite an environment which its peers find difficult.

	Q2	YTD
Skill Based	-0.24%	5.48
S&P 500	5.5%	-7.2
Hedge Fund Research Fund of Funds Index	1.36%	2.08

As of the end of the quarter the fund was allocated as follows:

Long/Short Value	33.00%
Event Driven (specializing in risk arbitrage)	29.40%
Convertible Arbitrage	28.49%
Managed (Currency) Futures	9.36%

Our long short value strategists struggled in a stock market that, over the period, turned trendless. In the short term we expect that equities will enjoy the liquidity recently provided by Fed Chairman Greenspan; consequently we expect a market less choppy to emerge. Despite a marked abatement to the merger frenzy that gripped financial players of all persuasions last year, our particular risk arbitrage strategist performed steadily over the period. We are very pleased to report his having sold GE/Honeywell just weeks before the deal went bust, an event that left many of his peers reeling. Partly as a result of notably strong returns generated during the first four months of the year, convertible arbitrage suddenly found itself the poster strategy of 2001. The increased demand for product left it vulnerable to a phase of issues with less attractive coupons and less certain coverage. With many arb funds having suffered essentially flat returns in May and June – ours lost 0.13% and 0.08% respectively versus +0.79% and –0.2% for the Hedge Fund Research Index – we believe a less phlegmatic period is due. Regarding our small allocation to managed currency futures please refer to the comments written by my colleague.

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