FRIEDBERG MERCANTILE GROUP LTD.

Second Quarter Report 2005

Second 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 ended June 30, 2005.

Our two flagships, the Friedberg Global-Macro Hedge Fund Ltd. and the Friedberg Global-Macro Hedge Fund, posted solid gains for the quarter, 4.9% and 6.1% respectively (5.69% and 7.40% year-to-date). Although the absolute performances of the various strategies showed very wide differences, varying allocations conspired to make them contribute almost evenly to the overall gains. This was fortuitous, though of course, we would have preferred, in hindsight, to have allocated strategies differently.

The heaviest traction came from our newest strategy, which we have now deemed to call "global opportunities." As its name indicates, it is both global and opportunistic. This trading platform can maximize exposure by making use of fairly large leverage, but we have limited its impact on the global macro funds by keeping its allocation down to a modest maximum of 3.5%. This trading "pocket" achieved absolute gains of 70.4%, contributing a not-insignificant 238 basis points to the global macro funds' quarterly returns.

How? We placed four highly leveraged, and unrelated, bets. The first, that the copper backwardation, that is, the premium that the spot month commands over the deferred months, would contract in view of the slowing world economy (it didn't, and we moved quickly to unwind this position). The second, that the refusal of the copper backwardation to shrink as expected would signal genuine tightness and that therefore a long position was justified (it was, it still is and we have scored big on this one).

The third bet was that the enormous popularity with pension funds and other institutions of the crude oil "roll" (buy the liquid nearby contract and profitably roll it forward into a discount, a state of affairs that prevailed for many years for a variety of reasons) combined with man's extraordinary ability to adapt to new patterns and extrapolate past behavior and Opec's decision to open up the spigots would make the longs highly vulnerable to a squeeze. We reasoned that as the nearby positions expired, the "roll" would be pressured and the spreads would move into a spiraling contango.

To give you a sense of the magnitude of the shift, you need only know that our original seven-month bear spread, short June '05/long January '06, was established with January '06 trading at a discount of 0.12 cents per barrel. As the nearby contract came to expiration, we managed to roll it forward into the next nearby month (e.g., June into July, July into August, etc.) at premiums of as much as 1.50/barrel! In other words, the ingenuous funds were being forced to pay up premiums if they wanted to stay in the game; their free lunch was over, at least for now.

Ample stocks and programmatic liquidation from overbought positions made us delirious with expectations. We had to exercise enormous restraint not to increase the size of the position and/or the length of the spread beyond seven months. It did not take a genius to figure out that one was staring at a potential gain of $10.62/barrel (a potential credit of $1.50 times seven rolls equals $10.50, plus the original 0.12 cents/barrel discount, which was totally erased). These bear spreads were working regardless of the direction of the market; that is, the contango widened as oil fell, as seemed natural, but also as oil rallied to new highs. Towards the end of the quarter we reduced the size of the spreads and significantly shortened their duration, unwilling to remain bearish into the coming winter season, a time of heavy seasonal demand. The operation has produced so far a return of approximately 42.5% on initial equity.

The fourth bet related to gold. Constructive fundamentals were underpinning gold prices: jewelry demand was on the rise (especially from emerging economies); forward selling on the part of mines had been reduced to a trickle (and, in fact, had turned at times into a factor increasing demand); central bank selling continued to be restrained; creative and hassle-free ways were found to make gold accessible to cash and institutional investors (ETFs); and finally, gold as a tangible asset was becoming cheaper by the day. A factor that remains well below most investors' radar is the possibility that Asian central banks, bulging with dollar reserves, may turn to gold (and possibly to other useful commodities such as oil) for diversification purposes. This potential re-monetization can be accomplished on a moderate scale by discreet transactions brokered by the Bank for International Settlements. The gold can be obtained, for example, from the 15 member countries that recently renewed the Washington Agreement of 1999, and who look to sell a maximum 500 tons per annum for the next five years, and the IMF, which is still considering the disposal of surplus gold for the benefit of developing nations. Needless to say, such a transaction, carried out secretly and announced unexpectedly, would have an enormous impact on the gold market, a market that has been pressured by 25 years of demonetization in the form of large-scale central bank dumping. We admit that this scenario has no basis in fact and may be a figment of our feverish imagination. Nevertheless, in our opinion, it is plausible.

Let me digress. World international reserves have grown immensely over the past quarter century. *In a co-operative, peaceful, global environment these reserves can find a home in US Treasuries and an assorted variety of other foreign currency denominated obligations.* But what if rising tensions lead to a fragmentation and to a reversal of present globalizing trends? Asian central banks, with $2.4 trillion of reserves, 65% or 70% of them invested in US Treasuries, are becoming increasingly vulnerable to US whims (as generous and well meaning as the latter may be). It is unclear how long China is willing to be restrained in its political ambitions for Taiwan. The politico-military situation with North Korea is totally unpredictable and again here it is unclear which way the Chinese will go. Will the MacArthur syndrome return? Would a US attack on North Korean nuclear facilities raise Chinese fears that China's nuclear capabilities are next? Can China afford to buy more Treasuries? And what about other nations, unhappy at US hegemonic behavior, Pakistan and Saudi Arabia run, let us say, by Islamists, Iran and Venezuela anxious to flex their muscle and hurt the US by shifting assets out of the dollar but un-persuaded by the goodness of the euro, etc. It is clear to us that dollar reserves in such a fragmented world are too high. Gold, long considered the international asset par excellence because it is the only asset that is not a liability of someone else, can become the ultimate beneficiary of this potential politico-military fragmentation. The potential for this scenario to occur rises in direct proportion to the increase in the size of liquid international holdings.

While this desire to own some gold was taking hold of our innards, we realized that a strong dollar — our medium-term scenario (see below) — could wreak havoc with gold prices. The solution was not long in coming: Buy gold in terms of euros; that is, sell euros against the equivalent notional value of gold. This we did, purchasing gold at the equivalent of 337.18 euros/oz. With gold trading at approximately 356.00 euros/oz. the position is already hugely profitable, showing a 17.1% return on initial equity. And the fun has not yet begun.

Our currency program turned in another excellent quarter, up 12.0% to 13.1%. Our bullish US dollar stance was best expressed against the euro. Almost two-thirds of our gains can be ascribed to the short euro/dollar position. Another fifth is attributable to a short euro/long Singapore dollar, an attempt on our part to position ourselves for an eventual yuan revaluation without having to pay a steep forward cost. We see little need for such a revaluation, but politics is another matter. Even here, our belief that such an eventuality has a better-than-even possibility of occurring is weakening; the pace of inflation in China is receding rapidly, inflows are moderating, and preparatory liberalizing moves have not been implemented.

The Turkish lira's steady reaction to the French and Dutch effective rejection of an enlargement of the European Community, and the lira's earlier correction, persuaded us to step back in on the long side. The carry continues to look attractive, though the fall in rates lowers the reward/risk ratio.

For the nth time we failed to establish a profitable beachhead on the Antipodean currencies. The weakening housing market, falling business confidence and the break in industrial commodities are indicators that point in the direction of lower levels for the Aussie and the Kiwi, but perhaps the signs are still too tentative. We took losses again only to watch these currencies rise a bit more and then fall with a thump. After the end of the quarter we seemed to have managed to put on a short Kiwi dollar trade that is finally showing a gain.

There is little new to report with regard to our fixed-income portfolios. For the quarter, the funds were up 2.4% to 3.2%. We have maintained our exposure to TIPS, both US and Canadian, but have hedged part of the position by selling, first, five-year Treasury futures and, then, eurodollar interest futures. The shift to the shorter instrument was made when we became convinced that rates would continue to rise and the yield curve would flatten further. The hedges have been profitable. A hedged position, albeit not a full hedge, is not a long-term state of affairs and is clearly not suitable for fixed-income investment portfolios. One may reasonably ask why then, given our expectations, we don't just move to a shorter duration. The answer lies in the level of the breakevens, that is, the inflationary expectation built into the TIPS bonds. At 2.55% the market is paying little or no premium for the possibility that inflation will exceed its present rate. The optionality of these securities and the fact that on their face they still yield at least 75 basis points more than short-term notes make them an attractive hold. So long as breakevens under-price the sum of our inflationary expectations plus the uncertainty premium, we are likely to keep TIPS in our portfolio. On the other hand, a surge in inflation is likely to push Fed Funds up to much higher levels. That push may nudge longer-term securities downward, the opposite of what has happened to date. The fall in long-term securities (rise in long-term rates) may offset the benefits of the cheap breakevens. In short, we'd like to benefit from the "free" optionality (of course, nothing is really free; e.g., inflation falls and breakevens go to new lows!) built into long-term TIPS but we are unsure how aggressive the Fed will turn out to be. Hence, we have chosen a partial hedge, via three-month euro deposits.

Credit risks are rising and risk premiums are falling. There are absolutely no values to be had in emerging or corporate debt sectors. Only a prolonged period of tight money and/or a severe business recession can change this situation. In the meantime, we accepted profits on the Argentina BOGAR, peso-denominated bonds linked to inflation. The operation yielded a 25% total return for the seven-month holding period. These securities have now become very popular in Buenos Aires, particularly with pension funds, but the business climate has deteriorated a great deal and we feel that it won't be long before new trouble arises. The flip side to these excellent returns to investors is extraordinarily high servicing costs to the government; stupidly, the Kirchner government exchanged a dollar-denominated debt bearing an historically low nominal rate of interest for a peso-denominated piece of paper indexed to inflation and struck at an all-time low real exchange rate. The difference can amount, and has amounted, to 15% to 25% per annum! How long will Buenos Aires service that kind of debt?

A discussion of our two equity hedge funds is sure to elicit yawns. The minuscule 0.2% gain for the quarter is attributable to a meaningful absence of dispersion among stocks, extremely low volatility and the lack of good short ideas. Despite our strong belief that the market is fully valued and that, consequently, there are few bargains to be had, it has been difficult to find companies that have encountered serious difficulties and entered serious downtrends. Investors have been more forgiving than ever, probably because there are so many buyers around and so few opportunities. Also, low interest rates have softened the impact of high debt ratios. Finally, many inefficient companies have been spared because they have had the wind of fast economic growth at their back. Their demise awaits more difficult times.

Throughout the quarter we maintained a relatively low profile, with gross leverage ratios somewhere between 1.15x to 1.39x. In the last few weeks of the quarter we moved to establish short positions in newspaper stocks and financial institutions heavily exposed to real estate, raising our overall gross leverage to a six-month high of 1.9x. At the end of the quarter, our long/short ratio stood at practically 50/50, having fluctuated minimally throughout the period. Year-to-date results, up 2.7% to 3.1%, have fallen short of expectations. It is our hope that the recent "freshening" of the portfolio — substituting indices for individual stocks and sectors — should help take us back to a more typical path.

The International Securities Fund was down 2.2% for the quarter and is down 7.6 % for the year to date. There has been practically no activity in the fund other than the liquidation of two small positions. The fund's largest position remains the short MSCI Web South Korea, which, together with our single Latin American holding, the Chilean energy company Enersis, accounted for all the gains during the quarter; the balance of positions showed losses. We refer the reader to the section on this fund for further details. Internal discussions have been held with respect to the future of this fund; it has been argued that the Global-Macro Hedge Fund, with its broader mandate and scope, better reflects the intentions of the International Securities Fund. We expect to make a decision one way or the other in the next six months.

In conclusion, I would like to say that the window of special opportunities has been closing very quickly. There are few if any bargains to be found in the traditional asset markets. Over the past 30 years or so markets have moved full circle, from assets that were practically given away to assets that are so fully priced that no reasonable person, even if only barely conscious of the myriad risks that exist, would choose to own them. Perhaps the only exception today is gold, for the reasons discussed earlier. On the other hand, valuations do not change without a catalyst and so, selling rich valuations may not prove profitable either. It is true, a slow-moving potential catalyst is making its way through. However, one can never be sure of its resolve. I refer to the Fed's tightening posture.

Recall that the last time the Fed shocked markets (between 1979 and 1982) was when it was *forced* — it was dragged kicking and screaming — to put an end to monetary debauchment. And, to remind you, it followed eight years of chaos and it took three years. We are, therefore, not very hopeful. The 1999-2000 experience was barely sufficient to end the most obvious excesses of the dot.com bubble. The weakening resolve brought back Google, a housing boom fed by negative-amortization mortgages and 300 basis-point-spreads on junk debt. And don't think it's only the US. The ostensibly tough central banks of the UK and Australia are already reconsidering their tight money policies, only months after housing prices have *leveled*. Chances are that the next episode of tight money will knock off only the very latecomers to the party and those most vulnerable on account of little or no equity. Though the party is likely to continue, it will morph into different shapes and forms. In this environment, it is tempting to say "neither buyer nor seller be."

We'd like to think that we are walking very, very cautiously.

Respectfully yours,

Albert D. Friedberg

Two Postscripts:

1) A note to all Cayman Fund shareholders (who have already been advised by separate letter) and to those thinking of making an investment in those funds:

   Cayman National Trust Co. Ltd. has been appointed Registrar and Transfer Agent of the Fund effective June 1, 2005. Cayman National Trust Co. is part of Cayman National Corporation, the largest financial services institution headquartered in the Cayman Islands. Cayman National Corporation has a staff complement in excess of 300 and is regulated by the Cayman Islands Monetary Authority. The group holds licenses in banking, trust, mutual fund administration, pension fund administration, general insurance and insurance management and it has operated in the island for the past thirty years.

   We would also like to note that a new fee structure for the Global-Macro Hedge Fund came into effect on May 1, 2005.

   Finally, we are happy to inform you that we have updated the Information Memorandum for the Friedberg Global-Macro Hedge Fund Ltd. and for the Friedberg Total Return Fixed Income Fund Ltd. and they are available on demand.

2) July marks the official launch of Niagara Capital Partners, a company we are proud to have incubated. The company's offerings include the newly-renamed Comfort Fund, the Legacy Fund, a tax-advantaged Fund that feeds into our own Global-Macro Hedge Fund Ltd.; and a fund of CTAs which FMG has been helping create, and which we expect will be ready to launch in the fall.

FRIEDBERG
MERCANTILE
GROUP LTD.

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FIXED INCOME FUNDS

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

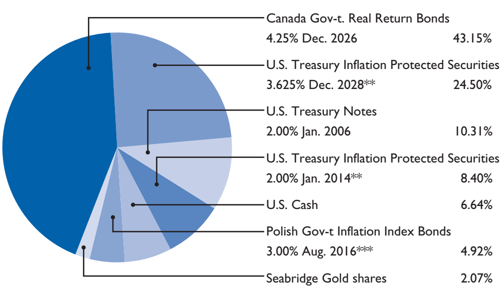
PERFORMANCE[1] as of June 30, 2005

	NAV	Quarter	Year over Year[3]	Two Years[3]	Three Years[3]	Five Years[3]
Friedberg Foreign Bond Fund[2]	16.04	2.82%	5.99%	6.29%	9.27%	6.48%
Friedberg Total Return Fixed Income Fund Ltd.	1,867.12	3.25%	16.66%	11.52%	18.43%	12.22%
Friedberg Total Return Fixed Income Fund L.P.	194.77	3.22%	17.19%	11.46%	19.16%	12.67%
Benchmark[4]	—	N.A.	9.89%	7.56%	11.56%	9.23%

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

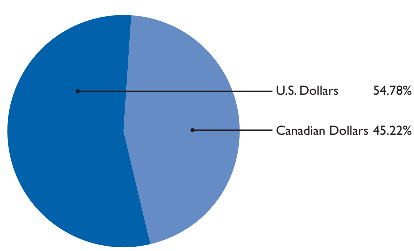


Weighted average yield to maturity	1.97%*
Weighted average current yield	2.68%*

*Assumes zero inflation.

** The Fund has hedged part of this position, selling Eurodollar interest rate futures equal in bond equivalent terms to 25.40% of the fund's total assets.
*** Currency exposure was hedged during quarter.

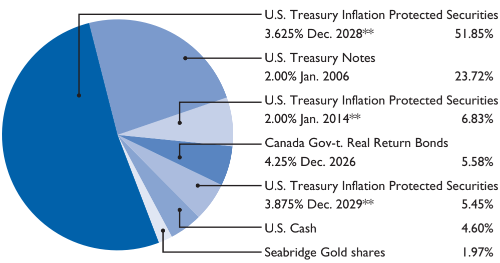
Currency Exposure



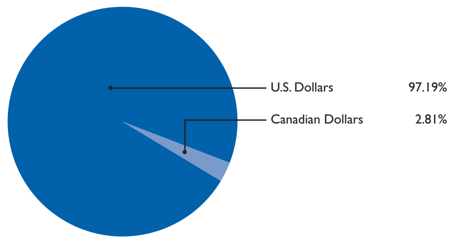
Adjusted modified duration		5.26
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	92.49%
	A	5.44%
	Unrated	2.07%

FRIEDBERG FIXED INCOME FUND LTD.

Portfolio Allocation



Currency Exposure



Weighted average yield to maturity	1.98%*
Weighted average current yield	2.45%*

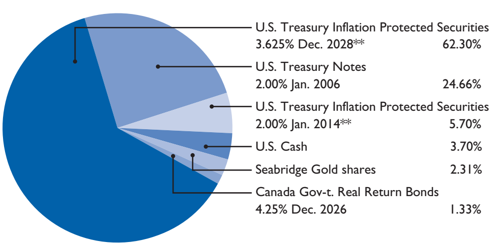
Adjusted modified duration		4.89
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	98.03%
	Unrated	1.97%

*Assumes zero inflation.

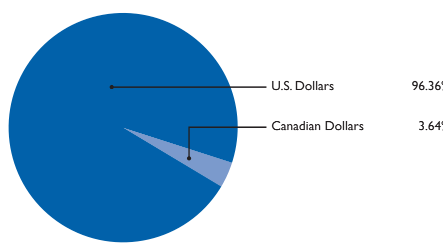
**The Fund has hedged part of this position, selling Eurodollar interest rate futures equal in bond equivalent terms to 23.30% of the fund's total assets.

FRIEDBERG FIXED INCOME FUND L.P.

Portfolio Allocation



Currency Exposure



Weighted average yield to maturity	1.96%*
Weighted average current yield	2.42%*

Adjusted modified duration		4.92
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	97.69%
	Unrated	2.31%

*Assumes zero inflation.

**The Fund has hedged part of this position, selling Euordollar interest rate futures equal in bond equivalent terms to 23.10% of the fund's total assets.

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 June 30, 2005

	NAV	Quarter	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Equity Hedge Fund	21.85	0.18%	19.12%	5.56%	6.33%
Friedberg Equity Hedge Fund Ltd.	2,545.26	0.23%	16.19%	6.84%	7.24%
CSFB/Tremont Equity Market Neutral Index	—	N.A.	6.36%	6.45%	7.70%

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

INVESTMENT ALLOCATION[3]

	31-Mar-05	30-Apr-05	31-May-05	30-Jun-05
LONGS	49.91%	50.19%	47.20%	50.47%
SHORTS	50.09%	49.81%	52.80%	49.53%
TOTAL GROSS LEVERAGE	1.39 x	1.15 x	1.33 x	1.90 x

LARGEST SECTORS (LONGS)[3]

Electric Utilities	10.31%
Integrated Telecommunication Services	3.05%
Environmental & Facilities Services	2.74%

LARGEST SECTORS (SHORTS)[3]

Pharmaceuticals	8.08%
Publishing	5.67%
Broadcasting & Cable TV	3.17%

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

LARGEST LONG POSITIONS

GATX Corp.
Centerpoint Energy Inc.
Sprint Corp.
Southern Co.
Pinnacle West Capital
Owens-Illinois Inc.
Aqua America Inc.
Catellus Development Corp.
Entergy Corp.
Checkfree Corp.

PAIRS

Long Advanced Micro Device Inc. / Short Intel Corp.

LARGEST SHORT POSITIONS

Waddell & Reed Financial
Semiconductor HOLDRs Trust
Imclone Systems
New York Times Co.
Colgate-Palmolive Co.
Pfizer Inc.
Forest Laboratories Inc.
Fannie Mae
Univision Communications
Boston Scientific Corp.

BEST QUARTERLY PERFORMANCE

LONGS		SHORTS	
Human Genome Sciences Inc.	25.60%	Magma Design Automation	29.57%
Catellus Development Corp.	23.08%	Bowater Inc.	14.07%
Aqua America Inc.	22.09%	Imclone Systems	10.23%

WORST QUARTERLY PERFORMANCE

LONGS		SHORTS	
Agere Systems Inc.	-24.05%	Allergan Inc.	-20.34%
Eastman Kodak Co.	-17.51%	Sirius Satellite Radio Inc.	-15.30%
Checkfree Corp.	-16.44%	Gaylord Entertainment Co.	-11.70%

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 June 30, 2005

	NAV	Quarter	Year over Year[3]	Three Years[3]	Five Years[3]
Friedberg Currency Fund[2]	11.57	14.22%	25.62%	18.14%	-9.09%
The First Mercantile Currency Fund	9.93	6.89%	22.18%	16.35%	-9.07%
Friedberg Currency Fund II Ltd.	829.45	12.41%	33.56%	17.30%	-6.95%
Friedberg Forex L.P.	11.74	12.02%	36.61%	19.85%	-6.97%
Barclay Trader Indexes Currency	—	N.A.	1.92%	5.54%	4.89%

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

OPEN POSITIONS - June 30, 2005

	Leverage
gross leverage at June 30, 2005	4.18 x
maximum gross leverage during quarter	4.38 x

ACTIVITY REPORT - Second Quarter 2005

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Short Euro Currency	10.85	63.88
Long Singapore Dollar / Short Euro Currency	3.39	19.94
Long Turkish Lira	2.75	16.18

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Short New Zealand Dollar	-2.44	63.48
Short Australian Dollar	-1.24	32.35
Short Indonesian Rupiah	-0.16	4.17

FRIEDBERG DIVERSIFIED FUND

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

PERFORMANCE[1] as of June 30, 2005

	NAV	Quarter	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Diversified Fund	12.7	61.37%	167.52%	17.79%	6.35%
CSFB/Tremont Managed Futures Index	—	N.A.	1.62%	11.85%	8.76%
Refco SPhinX Managed Futures Index Fund	935.77	-2.71%	-5.76%		

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

OPEN POSITIONS - June 30, 2005

Strategy I

	Leverage
Short Bankers Acceptance	8.57
Long distant / Short nearby Crude Spreads	7.51
Long distant / Short nearby Cocoa Spreads	1.52
Long Japanese Govt Bond	1.11
Long Copper	0.95
Long Gold	0.95
Short Euro FX Currency	0.95
Short Nasdaq	0.78
Short Eurodollar	0.04
gross leverage at June 30, 2005	22.37 x
maximum gross leverage during quarter	34.97 x

Strategy II

Long / Short Crude	5.75
Long German Bunds / Short U.S. Treasury Spreads	4.31
Long Cocoa	1.36
Long Corn	1.24
Long Kansas City Wheat	0.83
Long Soybeans	0.51
gross leverage at June 30, 2005	13.99 x
maximum gross leverage during quarter	16.17 x

Strategy III

Long / Short Bean Oil	0.47
Short Soymeal	0.27
Long Corn	0.07
gross leverage at June 30, 2005	0.81 x
maximum gross leverage during quarter	3.07 x

ACTIVITY REPORT - Second Quarter 2005

Strategy I

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long distant / Short nearby Crude spreads	61.84	66.67
Long / Short Copper	16.27	17.54
Short Euro Forex	11.02	11.88
Long Japanese Gov't Bonds	3.17	3.42
Short Bankers Acceptance	0.46	0.50

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Short Soybeans	(7.18)	41.23
Short Nasdaq Futures	(4.28)	24.56
Short Sugar	(3.81)	21.91
Long Gold	(1.42)	8.15
Short Eurodollar	(0.53)	3.02
Long distant / Short nearby Cocoa spreads	(0.12)	0.69
Short Corn	(0.08)	0.44

Strategy II

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long Natural Gas	10.59	53.91
Long / Short Soybeans	3.94	20.05
Long / Short Corn	3.83	19.49
Long Wheat	1.04	5.27
Long Silver	0.25	1.28

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Long Cocoa	(10.68)	71.25
Long / Short Crude	(3.27)	21.81
Short Copper	(0.66)	4.43
Long German Bunds / Short U.S. Treasuries	(0.38)	2.51

Strategy III

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Crude options	1.61	52.36
Long / Short Bean Oil	1.38	44.80
Short Crude	0.09	2.84

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Short Soymeal	(2.07)	47.00
Long Ethanol	(1.14)	25.90
Short Bonds	(1.01)	22.87
Long Corn	(0.19)	4.23

FRIEDBERG INTERNATIONAL SECURITIES FUND

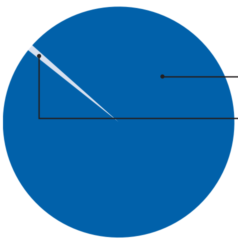
A leveraged global equity and fixed income hedge fund that seeks absolute returns.

PERFORMANCE[1] as of June 30, 2005

	NAV	Quarter	Year over Year[2]	Three Years[2]
Friedberg International Securities Fund	12.73	-2.15%	3.74%	0.77%
CSFB/Tremont Hedge Fund Index	—	N.A.	6.92%	8.48%

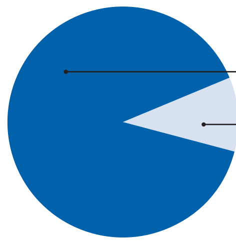
[1]Net of fees
[2]Compounded annual rate of return through May 2005

BREAKDOWN BY INVESTED AMOUNT*



*Based on margins used in each category

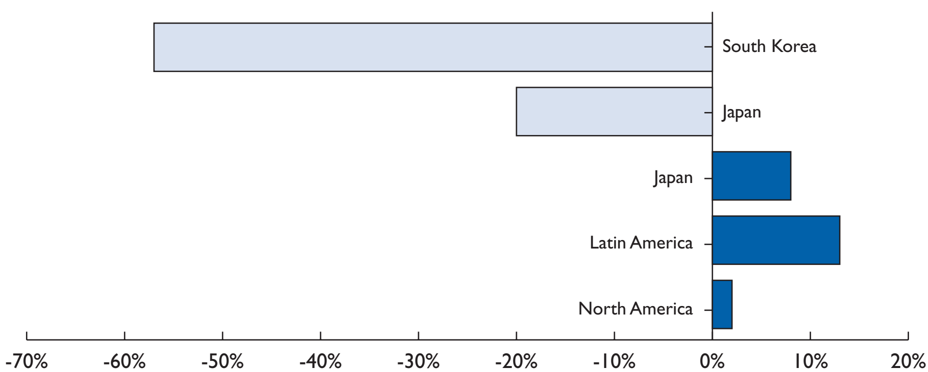
BREAKDOWN BY TOTAL GROSS EXPOSURE**



** Including notional values of derivatives
*** See chart below for breakdown

TOTAL GROSS LEVERAGE 0.82 x

EQUITIES
Allocation by Country



NEW POSITIONS ESTABLISHED DURING THE QTR.
1) Sold Short Michinoku Bank (Japan)

POSITIONS LIQUIDATED DURING THE QTR.
1) Sold Long WCM Beteiligung (Germany)

FRIEDBERG INTERNATIONAL SECURITIES FUND cont'd

APPROXIMATE GROSS RETURNS ON BEGINNING EQUITY BY MAJOR SECTORS

(Apr. 1 - June 30)[3]

NORTH AMERICA	-1.12%	KOREA	0.24%
LATIN AMERICA	1.81%	JAPAN[4]	-0.79%
EUROPE	-1.83%		

[3]not time adjusted
[4]includes currency hedge

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 June 30, 2005

	NAV	Quarterly	Year over Year[2]	Two Years[2]
Friedberg Global-Macro Hedge Fund Ltd.	1,583.20	4.91%	16.49%	8.12%
Friedberg Global-Macro Hedge Fund	15.56	6.14%	20.30%	11.12%
CSFB/Tremont Hedge Fund Index	—	N.A.	6.92%	8.76%

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

Allocation of the Friedberg Global-Macro Hedge Fund Ltd. as of June 30, 2005 is as follows:

FUND	CURRENT ALLOCATION	PROPOSED NEW ALLOCATION
Fixed Income Fund Ltd.	57.84%	60.00%
U.S. Treasury 2.75% 30/6/2006	0.19%	0.00%
Equity Hedge Fund Ltd.	13.77%	15.00%
Currency Fund II Ltd.	14.25%	15.00%
International Securities	2.63%	2.50%
Miscellaneous / Special Situations	5.27%	3.50%
Refco SPhinX Managed Futures Index Fund Ltd.[3]	1.88%	2.00%
Sylvan Fund Ltd.[4]	2.98%	2.00%
Cash	1.19%	0.00%
	100.00%	100.00%

	Quarterly return	Year-to-date return
[3]Refco SPhinX Managed Futures Index Fund Ltd.	-2.71%	-8.98%
[4]Sylvan Fund Ltd.	1.12%	2.05%

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.

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 June 30, 2005

	NAV	Quarterly	Year over Year[2]	Three Years[2]
Friedberg Skill-Based Managers Fund	14.50	-2.16%	2.06%	6.70%
CSFB/Tremont Hedge Fund Index	—	N.A.	6.92%	8.48%

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

David Rothberg Comments:

The Comfort Fund lost 2.16% during the second 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.	34.18	-3.69
Long/Short Momentum	19.34	-0.23
CTA / Managed Futures	14.25	-1.43
Convertible Arbitrage	20.87	-1.85
Cash & Treasuries	11.36	N/A

Partners and investors will note that we no longer call ourselves the Skill Based Managers Fund. The name change is occasioned by the launch this month (July) of Niagara Capital Partners. Niagara offers two alternative strategy funds: the newly christened Comfort Fund and the Legacy Fund, a tax-advantaged Ontario limited partnership that feeds assets into the Global-Macro Hedge Fund Ltd. (discussed above). There are plans for a third offering in the fall.

The name "Comfort" I owe to the late Peter Gzowski. Toward the end of the 1990s, when enthusiasm for mutual funds had reached a veritable frenzy, I heard Mr. Gzowski say to a mutual fund manager he was interviewing on CBC radio that all the excitement surrounding stocks at the time kind of bored him. What Mr. Gzowski really wanted to do with his savings was invest them in what he called "a slipper or a comfort fund" — that was to say, an investment so safe he could spend his time reading the paper in front of the fire. Inasmuch as those sentiments are a pretty accurate qualitative description of our Fund's objectives, I stole Mr. Gzowski's suggestion wholesale. Why I didn't steal it earlier confounds me. I never liked "Skill Based Managers Fund." It's too long, it's portentous, and it has no rhythm.

Clearly, the name change is auspicious. It has heralded our first quarterly loss in nearly four years. I'd like to think we can take some comfort in that.

What's odd has been the universality of this past quarter's losses. Our long/short value manager struggled to find long positions while observing his shorts remaining at mysteriously lofty ratios of prices to earnings and book values. Our long/short momentum manager complained of finding shorts and lost money lending technology names. Managed futures lost money largely in crude oil's

V-shaped move from US$60 per barrel down to $48 and back up to $60. And except for the static return, convertible arbitrage managers lost money everywhere — but mostly through liquidations needed to meet redemptions and expected redemptions by investors exiting the strategy.

Given that no macro phenomenon explains all the above, we have to conclude that the universality of the losses during the quarter is coincidental. Looking forward, I think we can reasonably expect better numbers.

From our managed futures manager, I say so partly because, as they say about hitters in slumps, "He's due." He's an experienced guy who's consistently delivered compound returns of slightly more than 10% since we started with him in 2002, and he's down more than 3.5% this year. The volatility that's hurt him has, I suspect, been caused largely by mechanical trend followers all rushing to sell at the same time and finding only one another at the proverbial post. That kind of thing tends to be self correcting.

While I doubt that convertible arbitrage will ever see its glory days (1993 to 2003) again, I do believe the worst is behind it. The success of all arbitrage strategies ultimately depends upon the ratio of assets-invested-in-the-strategy to opportunities; all else being equal, the more money chasing a set supply of opportunities, the lower the return paid for risk. In the case of convertible arb, the supply side of the equation can be measured by the number of new bonds issued; while the demand side, of course, can be measured by assets under management. Nine deals came to the convertible market in June totaling $4.8 billion in proceeds. This is a nice uptick in activity. Furthermore, the largest convertible deal in 18 months (Metlife, $2.1 billion) was issued and easily digested. And on the demand side? An estimated 35% of assets have fled the space. Need we say more?

This leaves us with the stock market. The adjective that I find most on my lips when I speak of it is "soggy." There's no volatility, very little dispersion amongst names and weirdly high multiples. And yet, I detect some despair — despair as opposed to anxiety, the feeling traditionally brought to the quotations pages. It's as though investors think that the damn thing should just go up and give them what they consider their due. That it hasn't, investors seem to regard as a betrayal. The psychological sum of these feelings is complacency.

It won't last. Both the *Times* and the *Wall Street Journal* have recently run lengthy pieces that speak of a widening gulf between the rich and the poor. My best bet is that with this sensibility permeating the cultural atmosphere, the recent rise in unit labour costs will continue, a surprising increase in inflation will result, rates will rise more than expected, and the stock market will suffer a bit of a shock. Then, alas, our long/short managers will show their mettle.

David Rothberg

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