FRIEDBERG MERCANTILE GROUP LTD.

Third Quarter Report 2004

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Third Quarter Report 2004

Dear Investor,

It is with great pleasure that I present to you the activity report of the Friedberg Group of Funds for the quarter ended September 30, 2004.

Performance was satisfactory, especially in the context of very difficult trading conditions. These conditions were reflected in the poor results obtained by the hedge fund industry across a very wide front. In our case, all strategies, with but a minor exception, produced positive results. Consequently, we managed to recover the best levels of the year.

The two flagships, the Global Macro Hedge Fund and the Global Macro Hedge Fund Ltd., returned a positive 4.9% and 4.4% for the quarter, bringing year-to-date results to +6.6% and +4.8, respectively, in US dollars. Breaking down the results into the individual categories, we find that the fixed-income funds were up 5.8% to 6.0% in US dollars (but only 0.2% in Canadian currency because of its strong appreciation), bringing year-to-date results to 6.2% to 8.2% in US dollars and 5.4% in Canadian dollars. The equity hedge funds were up 5.5% to 6.9% (+15.4% to 17.1% ytd) and the International Securities Fund was up 5% (–6.7% ytd). The currency funds were down in a minor way, –0.5% to –0.8%, though –6.1% in Canadian currency, bringing year-to-date results to +20.4 to +22.2% in US dollars and +17.5% in Canadian dollars. Finally, the SPhinX Futures fund was up 0.4% for the quarter, reducing the year-to-date loss to 6.9%.

The strong appreciation of the Canadian dollar during this quarter (which caught us somewhat unprepared) had, as expected, a negative impact on funds and strategies based on Canadian currency. The same negative impact was felt of course by some of our unit-holders based in jurisdictions where the US dollar was weak against commodity-based currencies such as the Aussie, the Kiwi, the Chilean peso, the Colombian peso and even the Brazilian real. This is unavoidable when managing money for residents of many non-dollar areas. Since the US dollar remains the international currency of preference and the overwhelming component of international reserves, we have, as a matter of course, adopted a US-dollar base. That is, we manage our funds so as to maximize US-dollar returns, taking currency positions where and when we feel that gains can be made vis-à-vis the US dollar, but only occasionally hedging non-dollar based investors. As mentioned earlier, the US dollar remains overwhelmingly the international currency of choice. In addition, we have discovered that, in the long run, a portfolio run with an eye to maximizing US-dollar returns will produce, on average, the best long-term results. Despite fluctuations, the real value of the US dollar has remained in a fairly broad but stable range over the past 30 years. In short, dramatic changes quarter to quarter have so far not degenerated into any type of a sustained downtrend and are not likely to do so as long as the US remains the leading industrial and military power in the world. Moreover, sophisticated financial markets compensate holders of depreciating currencies in the long run by providing them with risk and depreciation premiums so that total returns are not dramatically affected. That is not to say, of course, that we would remain dollar based in the face of a broad and generalized downtrend. It only says that we will not manage the funds with an eye on particular and conjunctural circumstances. The commodity-based currencies are a case in point. They represent good trading opportunities when well anticipated but not the stuff with which one would build international portfolios. To residents of such jurisdictions, we bid you to be patient.

Our fixed-income funds continue to beat benchmarks by a wide margin (see details). For the past five years we have shunned low credit risks, be it corporate or emerging countries, and stuck, for the most part, to safe, triple A, US government bonds indexed to inflation (TIPS). In the past quarter, we ventured into long-term nominal bonds, allocating up to 20% of the funds to such instruments, via the highly cost-efficient futures markets. We guessed that 300-basis-point breakevens were excessive, near term, and that a correction in the break-evens would make nominal bonds the preferred trading instrument. Breakevens have in fact corrected by approximately 25 basis points, and consequently we have reduced our exposure to nominal bonds in half. We continue to believe that long-term real interest rates will decline from present levels (2.2%) despite, or perhaps because of, Fed tightening. Our scenario into 2005 calls for a continuing economic slowdown, caused by a combination of rising energy prices, high raw material prices in general, and a significant slowdown in the rate of growth of broad money. Cost pressures are likely to have a negative impact on corporate profits, reducing returns. So will the continuing war on terror.

We have maintained a long exposure ranging from 13% to 17% to Turkish lira and money market rates. Yields of about 20% remain extremely attractive in real terms, given inflation rates that are 10% to 12% and falling. Enormous productivity increases, good fiscal performance, a reduced debt profile and most of all a stable, serious, effective and highly popular government intent at all costs on joining the European Union, make Turkey a first-class play. For the current quarter, the lira position added a not inconsiderable 60 basis points to overall returns.

For the Canadian-based Foreign Bond Fund, we have acquired a small position (just under 5%) of Polish zloty-denominated bonds, yielding approximately a real 3.75%.

These are linked to the cost of living, now rising at about 6% per annum. Withholding-tax issues have so far precluded us from acquiring these attractive bonds for the other fixed-income funds. Poland should enter the European Union sometime over the next four years, at approximately current exchange rates, or perhaps a bit higher, i.e. stronger, given strong productivity trends. The combination of higher real yields than on similar European and US bonds, prospects for higher relative inflation and prospects for a still-stronger currency, make these bonds uniquely attractive.

The currency funds suffered from betting on the wrong side of the commodity-based currencies, in particular those of Australia and Canada. In fact, these unfortunate trades wiped out all the hard-won gains on our long-term carry trades (long East Europe versus short euro, long sterling versus short euro) and represented 94% of total losses. Our rationale for shorting the Aussie was the belief that the country's cycle of rising rates was coming to an end and that commodity prices, except for energy, were about to head lower. The Australian economy turned out more resilient than expected, and while interest rates did not continue to rise, they did not turn down either. The initial dip in commodity prices, a reaction to China's slowdown, turned out as temporary as its cause. Metal and energy prices in particular consolidated for a few months at a high plateau and have since moved to new highs. Favorable terms of trade have been behind the strength of the Aussie and the Canadian dollars. It seems clear that a correction of the latter will have to await a correction of the former, though both currencies have moved well above their value range. We have retained a small short position in the Aussie but matched it against the high-yielding Brazilian real.

In the meantime, we continue to bet on the strengthening of the East European currencies vis-à-vis the more staid euro, while getting paid better returns in the process. We have studiously avoided taking an outright US dollar short position, keeping the East European play as a cross. We have also retained the short USD/Turkish lira position, for the reasons outlined above. Given the very special circumstances surrounding the Turkish play, we have not minded the implicit US dollar short position. We think that the lira will provide positive returns even if the US dollar embarks on a sustained uptrend. As alluded earlier, we have warmed up to the Brazilian real, based on its combination of high yields (16% money market rates), stable inflation (6% to 7%), good macro-economic management (but, be warned, a far from satisfactory micro-economic management) and good economic performance, especially in the trade sector. The relatively small position, equal to less than 50% of our net capital, added more than 300 basis points to the program's return for the quarter. Finally, in recent weeks we have taken an outright short euro/USD position, in the belief that the US dollar is bound to strengthen in the coming months on the back of a flattening yield curve and continuing economic outperformance. We are very conscious of the fact that we have a long way to recover from the unfortunate Argentinean experience of 2001, but believe that it is attainable with patience, determination and good risk controls.

Wide dispersion of results in individual stocks and sectors within an over-all weak market was the key to the excellent results achieved in the equity hedge funds. As an example, our best performing long position during the quarter, Dusa Pharmaceuticals Inc., was up a resounding 20.8% while our best performing short position, American Airlines, was down a thumping 39.7%. A lackluster market, at best meandering aimlessly in a gigantic trading range, and at worst, caught in an agonizingly slow moving bear market, provides a good backdrop to our type of investing; below the surface, companies and sectors prosper and die simultaneously. The job market offers a good analogy. In the fourth quarter of 1999, the net gain in employment of 1 million was the result of the loss of over 8 million jobs and the creation of more than 9 million new jobs (Pivetz, Searson and Spletzer, "Measuring Jobs and Establishment Flows with BLS Longitudinal Microdata," in Monthly Labor Review, 2001.)

The long/short allocation never strayed from a nominally neutral 50/50 posture while leverage remained moderate to low, in a range of 2.15x to 2.64x. Our short position outperformed the S&P 500 (that is, our shorts fell more than the market) by approximately 520 basis points while our longs outperformed by approximately 330 basis points (gross returns, before rounding, interest charges, fees and commissions). The year-over-year gains of 28.3% to 29.4% compare very favorably with the benchmark's 7.88%. For some of our individual and sectoral picks and pans, see inside.

We made very few changes in the International Securities Fund during the quarter. We liquidated a couple of biotechnology and telecom issues and added a significant position in Banco de Colombia ADRs. This new position raises our overall net long position in Latin America to a little over 14%, making it the second largest country/region group in the fund. Colombia's Uribe has made significant strides in the battle against terror from the left, the right and the narco-trafficants. The country has begun to benefit from the surge in commodity prices while the banking sector has achieved remarkable balance sheet improvements, principally in the area of reduced credit losses and write-offs, and in liquidity. Banco de Colombia, a turnaround bank in a turnaround country, could be purchased at the time of our acquisition at less than 1.65 times book, a modest valuation for the region. The position has since shown a return of better than 15%.

The short position in South Korea's stock market (via the NYSE's iShares MSCI South Korea index), the single largest regional position, continues to move against us. It cost us approximately 250 basis points for the quarter. We remain very bearish for the same reasons given in previous letters, namely: poor governance, over-indebted household sector, militant unions, backtracking corporate and financial reform, Chinese competition and the ever present North Korean military threat, if not outright extortion. A severe tumble is only a matter of time. Mercifully, another long-term (perennial?) play, the short position in Japanese regional banks, finally contributed a small gain to the fund. By attribution, the most significant gains were made, in order of importance, by a long position in Treasury bonds, Latin American equities and Turkish equities (via NYSE-listed closed-end Turkey Fund). The most significant losses were made by the short position in Korean equities and the long position in US equities. In all, the 5% gain for the quarter is a respectable achievement, but much less so when viewed against the negative 3.3% year on year return.

Towards the end of this quarter, we allocated just under 5% of the Global Macro Hedge Fund Ltd. (Cayman) to the Sylvan Fund. This fund, managed by an old and extremely competent friend of mine by the name of Anthony S. Glickman, consists of a portfolio of long and short option positions on liquid financial market rates including equity indices, interest rates, foreign currencies and precious metals. The portfolio is designed to take advantage of structural mispricings in the market for volatility. I will expand on its philosophy and activities in the next quarterly report.

Strangely, we enter the final quarter of 2004 calm and with little of the usual trepidation that follows a good quarter. This is because we believe that the fourth quarter will bring, in economic terms, more of the same: a little more stagflation. Of course, political events that will be determined in the next month (the US election) and in the next few months (Iraq's election) will cast long shadows across the globe, with important economic consequences. China may introduce more orthodox measures to slow its boom, like raising rates, and the bust will become a reality before mid-year. The oil market should come to a boil in the next few months, and so on. But the real effects may be felt beyond the coming quarter. Let's take them one at a time.

Respectfully yours,

Albert D. Friedberg

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: Beat Benchmark

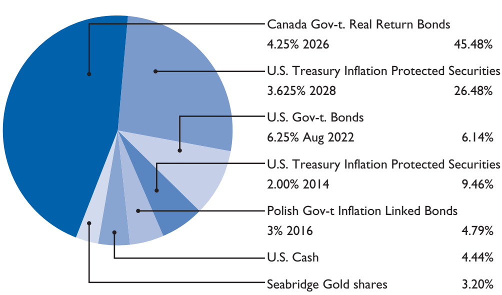
PERFORMANCE[1] as of Sept. 30, 2004

	NAV	Quarter	Year over Year[3]	Two Years[3]	Three Years[3]	Five Years[3]
Friedberg Foreign Bond Fund[2]	15.06	0.13%	11.32%	7.44%	9.51%	7.15%
Friedberg Total Return Fixed Income Fund Ltd.	1,684.93	5.96%	19.74%	16.52%	17.91%	11.54%
Friedberg Total Return Fixed Income Fund L.P.	174.67	5.83%	18.15%	17.06%	18.47%	12.49%
Benchmark[4]	—	N.A.	11.88%	13.07%	10.32%	8.14%

[1]Net of fees
[2]Priced in Canadian Dollars
[3]Compounded annual rate of return through August 2004
[4]70% Merrill Lynch Broad Market Index (Bloomberg GBMI), 30% Global High Yield and Emerging Markets Plus Index (Bloomberg HAOO)

FRIEDBERG FOREIGN BOND FUND

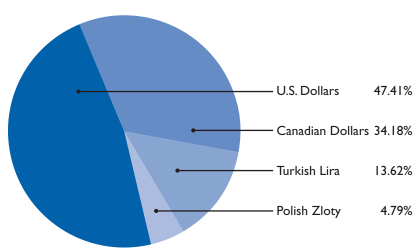
Portfolio Allocation



Weighted average yield to maturity	2.34%*
Weighted average current yield	2.72%*

*Assumes zero inflation.

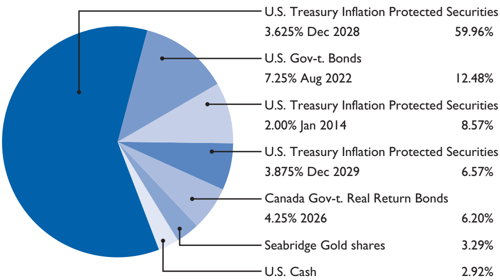
Currency Exposure



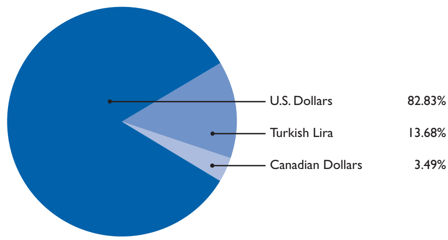
Adjusted modified duration		5.93
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	91.61%
	A	5.19%
	Unrated	3.20%

FRIEDBERG FIXED INCOME FUND LTD.

Portfolio Allocation



Currency Exposure



Weighted average yield to maturity	2.29%*
Weighted average current yield	3.26%*

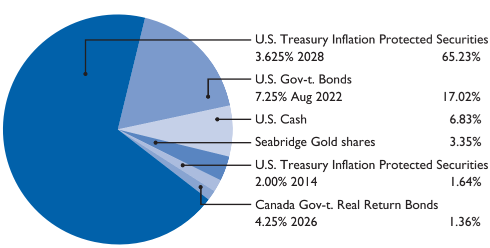
*Assumes zero inflation.

Adjusted modified duration	6.18
Approximate overall credit rating	AAA

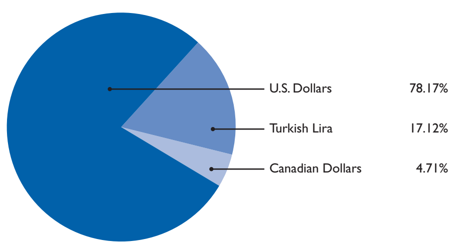
Bond rating breakdown:	AAA	96.71%
	Unrated	3.29%

FRIEDBERG FIXED INCOME FUND L.P.

Portfolio Allocation



Currency Exposure



Weighted average yield to maturity	2.36%*
Weighted average current yield	3.44%*

*Assumes zero inflation.

Adjusted modified duration	5.84
Approximate overall credit rating	AAA

Bond rating breakdown:	AAA	96.65%
	Unrated	3.35%

FRIEDBERG EQUITY HEDGE FUND LTD.
FRIEDBERG EQUITY HEDGE FUND

A leveraged market neutral fund that balances long and short positions in an attempt to eliminate market risk.

PERFORMANCE[1] as of Sept. 30, 2004

	NAV	Quarter	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Equity Hedge Fund	19.75	6.87%	29.40%	2.20%	17.94%
Friedberg Equity Hedge Fund Ltd.	2,323.92	5.49%	28.30%	4.32%	21.75%
CSFB/Tremont Equity Market Neutral Index	—	N.A.	7.88%	6.90%	9.42%

[1]Net of fees
[2]Compounded annual rate of return through August 2004

INVESTMENT ALLOCATION[3]

	30-Jun-04	31-Jul-04	31-Aug-04	30-Sep-04
LONGS	50.96%	50.19%	50.35%	50.31%
SHORTS	49.04%	49.81%	49.65%	49.69%
TOTAL GROSS LEVERAGE	2.76 x	2.15 x	2.52 x	2.64

LARGEST SECTORS (LONGS)[3]

Electric Utilities	6.73%
Environmental Services	2.87%
Biotechnology	2.83%

LARGEST SECTORS (SHORTS)[3]

Technology Large cap (NASD 100 index futures)	15.98%
Pharmaceuticals	5.24%
Semiconductors	3.78%

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

LARGEST LONG POSITIONS
Eastman Kodak Co.
Aqua America Inc.
Cuno Inc.
Catellus Development Corp.
Entergy Corp.
Cephalon Inc.
Kerr McGee Corp.
Advanced Micro Device Inc.
Duke Energy Corp.
Republic Services Inc.

LARGEST SHORT POSITIONS
NASD 100 index futures
Biovail Corp.
Univision Communications-A
Kohl's Corp.
Semiconductor HOLDRs Trust
Intl Business Machines Corp.
Viacom Inc.-B
First Health Group Corp.
Intel Corp.
Mattel Inc.

BEST QUARTERLY PERFORMANCE

LONGS

Dusa Pharmaceuticals Inc.	20.84%
Eastman Kodak Co.	19.77%
McDermott Intl Inc.	16.14%

SHORTS

AMR Corp.	39.47%
MBNA Corp.	35.42%
Intel Corp.	22.49%

WORST QUARTERLY PERFORMANCE

LONGS

Imclone Systems	-36.74%
Atmel Corp.	-20.10%
Geron Corp.	-19.38%

SHORTS

Kohl's Corp.	-13.98%
Boston Scientific Corp.	-11.98%
Apartment Invt. & Mgmt. Co.-A	-11.73%

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 Sept. 30, 2004

	NAV	Quarter	Year over Year[3]	Three Years[3]	Five Years[3]
Friedberg Currency Fund[2]	8.31	-6.10%	0.00%	-21.63%	-15.85%
The First Mercantile Currency Fund	8.00	-0.50%	5.22%	-19.70%	-13.32%
Friedberg Currency Fund II Ltd.	590.27	-0.46%	-1.89%	-20.01%	-12.31%
Friedberg Forex L.P.	8.27	-0.48%	5.38%	-19.56%	-14.51%
Barclay Trader Indexes Currency	—	N.A.	2.26%	3.94%	3.66%

[1]Net of fees
[2]Priced in Canadian Dollars
[3]Compounded annual rate of return through August 2004

OPEN POSITIONS - Sept. 30, 2004

	Leverage
Long Hungarian Forint / Long Polish Zloty / Short Euro Currency	4.49
Short Euro Currency	1.04
Long Turkish Lira	0.78
Brazilian Real	0.53
Short Australian Dollar	0.52

gross leverage at Sept. 30, 2004	7.36 x
maximum gross leverage during quarter	9.59 x

ACTIVITY REPORT - Third Quarter 2004

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long Hungarian Forint / Long Polish Zloty / Short Euro	8.75	57.05
Long Brazilian Real	3.19	20.77
Long Turkish Lira	3.12	20.32
Long British Pound	0.29	1.86

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Short Australian Dollar	-6.20	38.30
Short Canadian Dollar	-5.95	36.76
Long Japanese Yen / Short Australian Dollar	-3.00	18.50
Short Euro Currency	-1.04	6.44

DIVERSIFIED TRADING PROGRAM

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

PERFORMANCE[1] as of Sept. 30, 2004

	NAV	Quarter	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Diversified Fund	5.35	55.52%	-12.82%	-18.44%	-14.67%
CSFB/Tremont Managed Futures Index	—	N.A.	-2.25%	7.91%	5.65%
Refco SPhinX Managed Futures Index Fund	937.69	1.18%			

[1]Net of fees
[2]Compounded annual rate of return through August 2004

OPEN POSITIONS - Sept. 30, 2004

Strategy I

	Leverage
Long Japanese Govt Bond	3.07
Short Mini Nasdaq	1.39
Long US Treasury Bonds	1.37
Long Mar Crude 39 Call	0.34
Long Mar Crude 38 Call	0.24
gross leverage at Sept. 30, 2004	6.40 x
maximum gross leverage during quarter	16.66 x

Strategy II

Long Wheat	1.18
gross leverage at Sept. 30, 2004	1.18 x
maximum gross leverage during quarter	5.06 x

ACTIVITY REPORT - Third Quarter 2004

Strategy I

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long / Short Crude Oil	67.50	52.12
Long / Short US Treasury Bonds	41.06	31.70
Long Japanese Gov't Bonds	17.68	13.65
Short Index Futures	3.27	2.52

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Short Cocoa	(14.00)	47.87
Long / Short Soybeans	(9.18)	31.39
Short Copper	(6.06)	20.74

Strategy II

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

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Short Natural Gas	(21.86)	66.45
Long Wheat	(6.79)	20.63
Short Sugar	(4.16)	12.65
Short US Treasury Bonds	(0.09)	0.27

FRIEDBERG INTERNATIONAL SECURITIES FUND

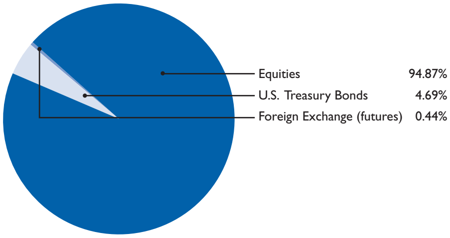
The fund seeks to capitalize on the rise and fall of local markets throughout the world by anticipating long term secular trends or by identifying, at an early stage, cyclical economic expansions and contractions of economies of selected countries. The fund uses leverage, and trades fixed income and equity index futures.

PERFORMANCE[1] as of Sept. 30, 2004

	NAV	Quarter	Year over Year[2]	Three Years[2]
Friedberg International Securites Fund	13.14	4.95%	-3.33%	1.98%
CSFB/Tremont Hedge Fund Index	—	N.A.	8.97%	7.39%

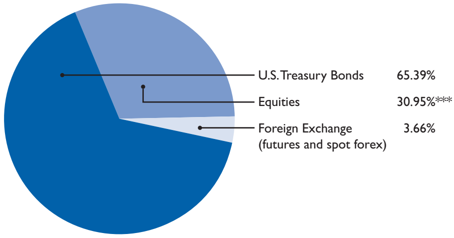
[1]Net of fees
[2]Compounded annual rate of return through August 2004

BREAKDOWN BY INVESTED AMOUNTS*



*Based on margins used in each category

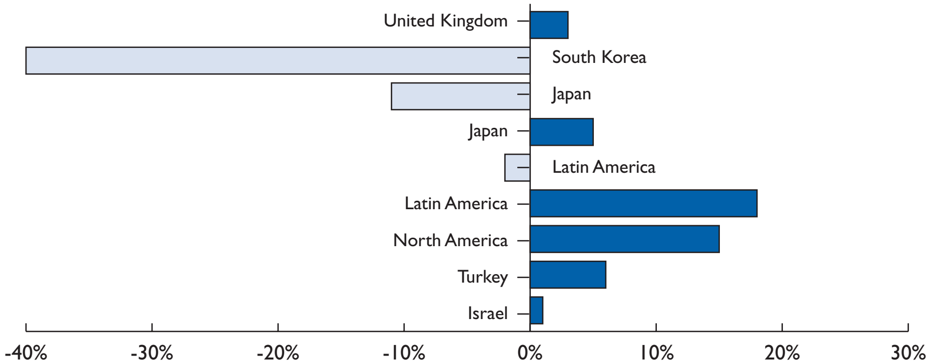
BREAKDOWN BY TOTAL GROSS EXPOSURE**



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

TOTAL GROSS LEVERAGE **1.35 x**

EQUITIES ALLOCATION BY COUNTRY



NEW POSITIONS ESTABLISHED DURING THE QTR.
1) Long Bancolombia (Colombia)

POSITIONS LIQUIDATED DURING THE QTR.
1) Long Atmel (U.S.)
2) Long Immunogen (U.S.)
3) Long Vical (U.S.)
4) Long Cable and Wireless (U.K.)

FRIEDBERG INTERNATIONAL SECURITIES FUND cont'd

APPROXIMATE GROSS RETURNS ON BEGINNING EQUITY BY MAJOR SECTORS
(July 1 - Sept. 30)[2]

North America	-1.42%	Korea	-2.48%
Latin America	1.85%	Japan[3]	0.51%
U.S. Treasury Bonds	6.31%	Israel	0.01%
Europe	-0.53%	Turkey	0.74%

[1]not time adjusted
[2]includes currency hedge

FRIEDBERG GLOBAL OPPORTUNITIES FUND LTD.

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[1] as of Sept. 30, 2004

	NAV	Quarter	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Global Opportunites Fund Ltd.	452.30	2.95%	-11.00%	-12.97%	-6.93%

[1]Net of fees
[2]Compounded annual rate of return through August 2004

FRIEDBERG GLOBAL-MACRO HEDGE FUNDS

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

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

PERFORMANCE[1] as of Sept. 30, 2004

	NAV	Quarterly	Year over Year[2]	Two Years[2]
Friedberg Global-Macro Hedge Fund Ltd.	1,388.95	4.43%	13.76%	8.36%
Friedberg Global-Macro Hedge Fund	13.15	4.95%	15.28%	10.68%
CSFB/Tremont Hedge Fund Index	—	N.A.	8.97%	10.01%

[1]Net of fees
[2]Compounded annual rate of return through August 2004

Allocation of the Friedberg Global-Macro Hedge Fund Ltd. as of Sept. 30, 2004 is as follows:

FUND	CURRENT ALLOCATION	TOTAL $ VALUE	PROPOSED NEW ALLOCATION
Fixed Income Fund Ltd.	58.97%	$66,340,315.45	60.00%
U.S. Treasury 2.75% 30/6/2006	1.06%	$1,195,939.06	0.00%
Equity Hedge Fund Ltd.	15.09%	$16,979,779.92	15.00%
Currency Fund II Ltd.	11.40%	$12,823,157.65	12.00%
International Securities	6.27%	$7,053,568.09	6.50%
Refco SPhinX Managed Futures Index Fund Ltd.	2.53%	$2,850,944.94	3.40%
Sylvan Fund Ltd.	4.46%	$5,014,950.00	3.10%
Cash	0.21%	$237,893.11	0.00%
	100.00%	$112,496,548.22	100.00%

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 SKILL-BASED MANAGERS 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 Sept. 30, 2004

	NAV	Quarter	Year over Year[2]	Three Years[2]
Friedberg Skill-Based Managers Fund	14.28	1.64%	8.65%	7.53%
CSFB/Tremont Hedge Fund Index	—	N.A.	8.97%	7.39%

[1]Net of fees
[2]Compounded annual rate of return through August 2004

David Rothberg Comments:

Despite a particularly murky investment environment, the Skill Based Managers Fund earned remarkably steady returns of 0.57%, 0.50% and 0.56% during July, August, and September respectively; 1.64% during the quarter in total, net of all fees.

Year to date the Fund has earned 5.15%.

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.	34.33	3.36
Event Driven	23.06	2.05
Convertible Arbitrage	27.11	0.10
CTA / Managed Futures	15.47	3.07
Cash & Treasuries	0.027	N/A

During a quarter which was characterized by extremely low volatility in equities markets and a flattening yield curve, it is hardly surprising that convertible arbitrage continued to suffer. Event driven strategies, while suffering still from narrow spreads and a deal environment which is still relatively muted, has an advantage that convertible arbitrage doesn't enjoy: the differences between one deal and another tend to be greater than are the differences between convertibles bonds. In other words, there's room for astute bottom-up investors. Likewise, of course, equities and futures markets. Comparing the Fund's investments by style with the returns earned by other managers in that style categorically shows that the positive results that the Fund enjoyed during the quarter is largely attributable to manager skill. Our investment in Event Driven strategies outperformed the Hedge Fund Research (HFR) Event Driven Index by 0.65%; our investments in Long Short Equity outperformed the HFR Equity Hedge Index by better than 3%; and our investment in Managed Futures outperformed the benchmark S&P managed futures index, by just under 1.5%.

While we are constantly on guard against reduced inefficiencies available by strategy category and against any deterioration of a manager's capabilities, and are not averse to altering the portfolio to achieve the Fund's objectives of consistent returns in the high single-digits, this marks the 5th consecutive quarter that we have not made a change in either strategy or manager.

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