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THIRD QUARTER REPORT 1999

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Dear Investor,

Very minor strategic touch-ups and a dramatic tactical shift have put us in fairly good shape to weather the gathering storm.

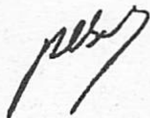
We sense that an important change is taking place at this very moment, one that we have been anticipating for more than two years: global liquidity is drying up. Stock prices everywhere are on the defensive, and corporate and sovereign defaults are on the rise.

At the same time, commodity prices are firming, and gold, freed from the absurdity of a helter-skelter demonetization process, is soaring. It seems that we are finally beginning to harvest the fruits of this century's largest money and credit inflation.

The above scenario calls for a very particular investment stance, favouring liquidity, credit quality, non-US dollar exposure and hard assets. We believe that this stance will not only land us on dry ground but it should also help us achieve the profits that have eluded us for so long.

Thanking you again for your patience and your trust,

Albert D. Friedberg



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FOREIGN BONDS

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While we managed to eke out gains in US dollar terms of just under one percent for the period, we were not fully satisfied with the outcome. Returns were affected considerably by the poor performance of one particular New Zealand dollar debt issue, the Trans-Tasman 9.5% convertible (more on this later).

As we had expected, the fixed-income environment worsened significantly over the past few months. Short-term and long-term interest rates rose, driving the long bond (using the US Government 5% of 2028) to16-month lows and as much as 27% below its October 1998 peak. Credit quality deteriorated, affecting corporate and emerging market debt spreads. A widely watched spread measure, one based on swaps, widened to its highest level in 10 years, indicating heightened fears of more defaults ahead. Actual corporate defaults, too, rose to the highest levels in this economic expansion. Finally, for the very first time since the thirties, an emerging country, Ecuador, defaulted on its external debt. This event, which will reverberate for many years, just may represent the first of a long and painful global process of debt deflation.

We have maintained a relatively short-duration portfolio to avoid being affected by rising interest rates. Our principal exposure to long maturities was via inflation-linked Treasury securities in the belief that they would, in practice, act more like floating-rate instruments than like fixed-income bonds. We predicated this belief on the fact that these securities were already trading to yield 3.9% in real terms and that, therefore, yields were more likely to fall (and prices to rise) than to rise (and prices to fall). It should be noted that 3.9% is substantially higher than the historical returns observed on long bonds after taking inflation into account.

As it turned out, real yields continued to rise, reaching at this writing, an extraordinarily attractive 4.06%. Various reasons may account for this development, none of which, in our opinion, is totally convincing. The most likely explanation, that higher real returns parallel the increased productivity of capital, is based solely on anecdotal evidence and soaring stock prices, not on measurable evidence. At any rate, it is likely that this perception will be shattered in the next bear market, making our inflation-linked Treasuries, if the rationale is correct, a reasonably secure, comfortable (and profitable) outpost from which to watch the coming meltdown in stock prices. The fall in real yields that we expect should produce substantial capital gains. In the meantime, inflation indexation coupled with the current 4% real yield should generate returns of at least 6.25% to 6.50%. These securities will continue to represent a core holding of our portfolios.

The Trans-Tasman 9.5% mandatory convertible note represented, at the beginning of the quarter, anywhere from 5.5% to 9.6% of our portfolios. Lack of foresight and plain hubris on the part of management landed Trans-Tasman, a New Zealand property trust, in an avoidable liquidity bind. On the note's maturity, we faced a choice of accepting shares (for a value equal to par, of course) instead of cash (an option anticipated by the prospectus), or taking a new five-year note bearing 50 basis points more than the expiring note but

with substantially the same terms. We chose the latter. Shares had fallen well below net tangible value but lacked market presence and were thus difficult to convert into cash. Subsequently, we attempted to sell down our new notes, trying to maintain a reasonable balance between an attractive yield (or at least one that would compensate us for the increased risk) and our desire to eliminate the holding from an essentially blue-chip-quality portfolio. Our approximate cutoff or indifference point, given what we knew about the company, was 15% (assuming once again that we would receive shares on redemption and would sell them at a 10% discount from market). This process necessitated a significant markdown in prices, from 89.85 to 76.45 (the close on September 30 and the approximate sale price of a portion of these notes). At these levels, we continue to be indifferent as to owning these securities or disposing of them. Interest charges are reasonably well covered from income, and there has been some encouraging corporate news of late, particularly the partial leasing of an important new office building in Australia. Equally important, present risks (real estate and capital structure/liquidity risks, though not necessarily macro-economic and political risks) are being properly compensated. We are continuously assessing the hold/sell tradeoff in the light of new developments. Fortunately, disposals and price reductions have lowered our exposure to a range of 3.4% to 6.2%, a level more in keeping with our objective of maximizing return within an overall S&P credit rating of at least A-.

During the quarter, we raised our exposure to lira-denominated Turkish T-bills to the maximum allowed under Canadian regulations (and to 25% in the offshore and US funds). Turkey continues to mend its ways, having introduced important economic reforms under the close tutelage of the IMF (which, for once, has not meddled with a practical, effective and successful crawling peg foreign exchange policy). We expect real returns in excess of 20% to 22% per annum. We also purchased, opportunistically, a smattering of very short term dollar-denominated Brazilian debt and peso-denominated Argentine debt securities, yielding 700 to 900 basis points more than Treasuries at the time. We do not dare to increase our exposure to this area beyond a token 5% to 6%. We expect continuous stresses and eventual defaults in many of the over-indebted emerging nations. It is not as yet very clear how even Brazil, Argentina and Mexico will deal with their sagging economies and the growing scarcity of international risk capital.

We are once again moving to convert our dollar holdings into foreign currencies via synthetic operations, as we believe that the US dollar has peaked. At quarter-end we acquired a 15% exposure to the Japanese yen. In recent days, we added a 15% exposure to a trade-weighted basket containing euros, sterling, Canadian and Australian dollars, Swiss francs and Swedish krona. It is not unlikely that we will continue to reduce our dollar exposure in coming months.

We are looking forward to a very good fourth quarter.

DIVERSIFIED TRADING PROGRAM

FRIEDBERG DIVERSIFIED FUND
FRIEDBERG DIVERSIFIED POOL

After much huffing and puffing we managed to stay even for the quarter

(edging a small gain in the Canadian dollar denominated fund) and succeeded, finally, in turning a profit on our long-time nemesis, S&P 500 futures.

During the period, we initiated and closed trades in T-bond and Eurodollar futures, copper, the (long) silver/ (short) gold spread and the aforementioned S&P 500 index futures. Except for the last named, all the trades showed losses. Of some comfort: all these closed-out trades would have shown even greater losses had we decided to be a bit more patient.

We felt more comfortable than in some time trading these markets, and clearly more focused. At no time did we trade more than two positions. Losses showed up, and were accepted, quickly. Towards the end of the quarter, we had reaffirmed our belief that inflation was on the comeback trail and that the time for financial assets was past. We are struggling a bit in deciding whether we want to participate on the commodity side or on the financial assets side. They are opposite sides of the same coin. There is no gain in doing both, as in for instance, going long gold and selling stock index futures. By now, they are highly (negatively) correlated; we will either win big or lose big. Since there is a greater variety of commodities, there is also a greater possibility of making a mistake and buying the wrong one. Therefore, we are more likely to trade financial futures from the short side than commodities from the long side.

We should caution that this program, despite its name (we have not changed it so as to not be charged with biasing our long-term performance, as many mutual fund companies do), does not intend to adopt a portfolio approach to trading commodity futures. Rather, it intends to concentrate on one or two special situations, control the non-diversified risk as well as possible, and aim for extraordinary returns. It is entirely consistent with this objective to show flat to negative returns for long periods of time. Nevertheless, the program's non-correlated returns make it a worthwhile holding for any serious investor, though there is no guaranty that we will achieve our objective of providing extraordinary gains.

Our day *should* come, soon.

CURRENCY PROGRAM

FRIEDBERG CURRENCY FUND
FRIEDBERG CURRENCY FUND LTD.
FRIEDBERG FOREX LP

Clearly our biggest disappointment, the currency program was down anywhere from 9.9% to 11.8% for the quarter.

We booked losses in practically every trade, the largest of which was the long sterling/short Euro cross. This was particularly disappointing, as we remained comfortable throughout with the fundamentals of the trade; money management rules blew us out. Of course, money management rules are not to blame. In retrospect, and given the account's erosion, we carried too large a position. As a result, a correction that was slightly larger than expected forced us out.

Last fall I warned that it was becoming increasingly difficult to trade these markets and find profitable opportunities. I was severely criticized for this statement, both inside and outside of our firm. While I stand behind what I said, I feel I should qualify it by adding that this statement is true given our particular way of trading markets. I did not imply that volatility had dimin-

ished or even that the basic economics of the foreign exchange markets had undergone a radical change. No, it was simply a way of saying that, for extraneous and varied reasons, markets were not allowing us to take advantage of the type of opportunities that had presented themselves in the past. Sadly, my intuition proved correct. After a spectacular, old style score on the Brazilian real's devaluation, our equity has suffered a continuous erosion.

Now, changing circumstances are once again opening up new vistas. I refer to the incipient US dollar bear market, an event that is reminiscent of the early days of the fall of the US dollar in the late sixties and early seventies. In many respects, conditions today are quite similar to those prevailing then: a bulging current account deficit, rapid monetary inflation, rampant stock market speculation, rising inflation, and persistent upward pressure on at least one major foreign currency despite heavy intervention. The economics are right. Sentiment is right. Going forward, we intend to monitor market reactions to news items in the hope of identifying and delineating the main contours of the big trend.

Once again I would like to remind our investors, if a reminder is needed, that the currency program is a highly leveraged and thus a highly speculative investment. The program pursues large returns and is prepared to pay the price of relatively high volatility and relatively large drawdowns to earn those returns. We remind investors, if indeed any reminder is needed, that, in our opinion, no more than 10% of investment assets should be allocated or maintained in this vehicle. It is partly for this reason that we closed the currency program to new or additional investment the past two times that the program made substantial new highs; we sought to restrain the natural human impulse to invest more when things appear most rosy but are actually most dangerous. After the drawdown we suffered last September, thanks to the Russian gangster banks, we re-opened the program. We are opening it again in the wake of the current drawdown. We intend to make permanent the policy of closing when we are substantially up and reopening when we are substantially down.

FRIEDBERG FUTURES FUND

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

FRIEDBERG GLOBAL OPPORTUNITIES FUND LTD.

FRIEDBERG INTERNATIONAL FUND

The Global Opportunities Fund comprises the Diversified Trading Program and the International Fund. Comments in this section will cover the International Fund only.

The most significant change in the portfolio was replacing the short position in European stock indexes (Germany, Switzerland and Sweden) with a short position in two Korean stocks and The Korea Fund. In our opinion, Korean equities have become highly over-extended, thanks to massive increases in liquidity caused by equally massive foreign exchange flows. These flows have

slowed down, and may go into reverse, as a result of liquidity/solvency problems among a number of gigantic chaebols. While the Daewoo and Hyundai problems are well known by now, similar situations are surely lurking behind, if only because economic reform was put on the back burner while attention was concentrated almost exclusively on the macro-economic adjustment dictated by the IMF. With the economic recovery in full swing, the dramatic turnaround in the external sector is now history. Liquidity is slowly seeping, interest rates are rising, and foreign creditors are getting edgy. Since debt/equity ratios remain exceptionally high by international standards, Korea is vulnerable to another run, one that will find the State heavily burdened with the losses absorbed in the previous bailout. Not a pretty picture.

We have retained the full short exposure to Japanese secondary regional banks. The rope is tightening around their neck as regulators move to enforce better disclosure, more realistic accounting of non-performing loans, and more realistic pricing of the underlying (and still falling) real estate collateral. A number of regional banks have recently been closed down; the rest of the walking dead will follow in the next few months. Marginal losses were still incurred on these positions as a result of a partially uncovered foreign exchange exposure (the rising yen makes it more costly to cover these short positions). This is no longer the case.

A small long position in New Zealand stocks (see our comment below on the New Zealand market) and a long position in US Treasury inflation-indexed bonds (see comment relative to these securities in our bond section, above) round out the portfolio.

We are confident that we will be able to reverse this year's accumulated losses of 17% as soon as these promising positions play themselves out. We bid you to be patient. It should not be much longer.

EQUITY HEDGE PROGRAM

FRIEDBERG EQUITY HEDGE FUND LTD.
FRIEDBERG EQUITY HEDGE FUND

The tactical change implemented towards the end of the last quarter and explained in our last letter paid off handsomely.

Our funds gained 12.5% to 13% for the period, which compares favorably with the 6.5% drop experienced by the S&P 500 index. The comparison is provided for reference only; our true benchmark is a return exceeding risk-free rate that should properly compensate investors for risk. In view of the dramatic fall we experienced in the earlier part of the year, we have begun to question (prodded by a very astute and rightly disappointed unitholder) our oft-stated objective of earning 300 to 500 basis points more than Treasuries. It is clear that no rational investor would risk losing 25% to 30% of equity to earn returns of 8% to 10%. After much soul-searching, we came to the conclusion that we had, perhaps unconsciously, "low-balled" our objective in an attempt to downplay expectations, but that, in fact, our historical returns were a great deal closer to our true objective. The historical annual compounded return for the program begun December 31, 1992, and ending September 30, 1999, was 15.46%. While we strongly caution that past returns are no guaranty of future performance, we suggest that past performance does provide a great deal more

comfort to an investor who has just experienced a terrifying draw-down of 29.4%, peak to bottom.

Our short position produced gains of 24.94% of initial equity. During the quarter, we expanded our short position in Internet providers, retailers and brokers, banks, and other financial institutions (primarily credit card issuers). We retained short positions in Coca Cola, US Airways and Revlon, all showing excellent gains from point of entry. The pay-off in Revlon was particularly satisfying (see our prescient remarks in the last quarterly letter) as the company had put itself up for sale and had even entered serious talks with suitors. We steadfastly refused to cover, even as prices shot up to $32, almost 100% more than our original entry level. (Incidentally, insider knowledge of talks drove up stock prices long before the company announced that it was for sale. Little did this information serve the insiders; they are now trapped with huge losses.) We were confident that operational problems were greater than admitted and that the company's heavy debt burden made it an extremely unappealing acquisition. As merger talks broke off and the company withdrew from the market, the price fell to new all-time lows, more than 40% from the end of the previous quarter.

On the long side, we continued to build up our position in the Russell 2000 index, an index of the smallest market capitalizations on the major exchanges. Collectively, these issues have been neglected during the great bull market of the late nineties and still trade at respectable multiples. Moreover, their overall lack of liquidity should benefit them, at least in the early stages of a market decline, as mutual funds realize cash via the more actively traded large-cap stocks. In addition, we returned with considerable success to our favourite sector, biotechnology. Seven of our eight profitable long positions were biotechnology stocks. One of them, Pe Celera, a Perkin Elmer spinoff, gained an eye-popping 148% for the quarter.

At the end of the quarter, our long/short ratio, in dollar terms, was approximately 55/45, though, in Beta terms, our short position was slightly larger. This ratio remained constant during the period. Total leverage (total market exposure divided by net capital), on the other hand, rose from the end of July, moving from 1.97 to 2.64, but did not change greatly from the end-June figure of 2.56.

We look forward to continued gains.

NEW ZEALAND

FRIEDBERG NEW ZEALAND FUND LTD.
NEW ZEALAND EQUITIES FUND
FCMI KIWI EQUITIES INVESTORS
TORONTO NZ EQUITY TRUST

Measuring in US dollars, we report decreases in net asset values of 5.7% and 6.1% for our two main New Zealand funds. These results compare favourably with the NZ40, which fell 7.4%, but unfavourably with the NZ Mid-Cap index, which fell only 3.2%. We should point out that the weaker New Zealand dollar accounted for 37% of the total loss.

Interest rates have risen anywhere from 20 to 40 basis points across the yield curve since the end of the second quarter on fears that the Reserve Bank may once again step on the brakes to contain inflation. Nevertheless, 10-year Government bonds at just under 7% pose little threat to a stock market trad-

ing on dividend yields of 7% and earning yields of 10.4% (median reading of our sample).

Overall stock market valuation has become even more compelling than it was at the end of the second quarter. Of particular interest, the median of our sample of listed securities showed the P/E ratio falling to 9.62.

We present below our 10 largest holdings accompanied by some valuation yardsticks:

Friedberg New Zealand Fund Ltd.

10 Largest Holdings in the Fund

		Price 30-Sep-99	Price /Sales	Price /Earnings Forecast	Price /Cashflow	Price /NTA	Gross Dividend Yield Forecast
CDL HOTELS	CDL.NZ	0.34	0.57	16.51	5.55	0.60	3.29%
BRIERLEY INVESTMENTS	BRY.NZ	0.45	0.68	8.92	7.01	0.48	6.67%
FERNZ	FER.NZ	4.15	0.44	8.45	5.52	2.10	8.27%
FISHER & PAYKEL	FAP.NZ	6.10	0.93	17.49	8.26	1.94	5.14%
HALL GLASSON	HLG.NZ	2.12	0.81	12.42	9.66	3.66	11.26%
KIWI INCOME PROPERTY	KIP.NZ	0.98	N.A.*	10.22	12.11	0.86	11.71%
CERAMCO	CEM.NZ	1.40	0.65	11.12	5.18	1.15	8.80%
ST LUKES	STL.NZ	1.62	N.A.*	11.33	16.10	1.12	8.02%
THE WAREHOUSE GROUP	WHS.NZ	7.20	1.36	19.08	18.72	6.40	3.73%
LWR INDUSTRIES	LWR.NZ	1.12	0.24	5.93	3.92	0.73	13.33%

*N.A. (Not applicable for property trust)

Weighted gross dividend yield 8.05%

The general election will be held November 27. The market seems to have discounted a centre-left government, made up by a coalition of Labor (somewhat radical, mostly old-fashioned unionist/socialist) and Alliance (very radical, bordering on Marxism but certainly not as bright). This would be very unfortunate but would not necessarily spell doom for this market given present valuations, especially in terms of foreign currencies. (The New Zealand trade-weighted index has recently made new multi-year lows.) On the other hand, a surprise win for the Right could spark the much awaited take-off.

We have raised cash levels to approximately 23% as a precautionary step but remain attentive to the possibility of reinvesting these reserves on any sign that the political climate is changing for the better.

FRIEDBERG SKILL/BASED MANAGERS FUND

THE FRIEDBERG GLOBAL MANAGERS FUND LTD.

David Rothberg comments:

The Friedberg Skill-Based Managers Fund started August 1, at a Net Asset Value (NAV) of $10.00 per share. The Fund's objective is to earn returns in the neighbourhood of 15% no matter what the investment environment might be. To that end, managers Albert Friedberg and I allocate the Fund's assets to a variety of other portfolio managers who practice, as do we, strategies that do not correlate positively to "traditional" asset classes. A traditional asset class is a term both imprecise and relative; from our point of view here in Toronto,

we can call an investment in listed G-7 stocks or in pension eligible G-7 bonds an investment in a traditional asset class.

Albert Friedberg and I believe that we add value to the manager-selection process and to the allocation process. We have confidence in selecting managers because FMG has practiced a wide variety of so called non-traditional or alternative strategies for the past 29 years. We have confidence in deciding which strategies are appropriate to a given investment environment because we trust that we will be well-guided by the global macro analysis we undertake for our other, proprietary programs (the ones discussed in this report).The Fund's current portfolio reflects FMG's view that a fall of considerable magnitude in stocks is likely, and that the consequences of such a fall are potentially dire. None of the seven strategies practiced by the five managers depend upon rising equity values. Neither do any of the them appear vulnerable to a sudden evaporation of liquidity that may result from a sudden flight to quality.

The NAV of the Skill-Based Managers Fund at the end of August was $9.79 and $9.84 at the end of September. Over the same two-month period the S&P 500 index was down by 3.5%. Alas, the culprit most responsible for the Fund's small decline was the 17% allocation we made to our own Currency and Diversified Programs.

FRIEDBERG ALLOCATION FUND LTD.

Neal Rackoff comments:

The Friedberg Allocation Fund LTD fell 0.62% for the quarter. For the year-to-date, it is down 5.07%.

At quarter end, the fund was allocated:

Fund	Allocation
Friedberg Total Return Fixed Income Fund Ltd.	61%
Friedberg Currency Fund Ltd.	9%
Friedberg Global Opportunities Fund Ltd.	9%
Friedberg Equity Hedge Fund Ltd.	11%
Friedberg New Zealand Fund Ltd.	9%

The point of strategic inflection is upon us. With the "good news" in tech stocks driving sentiment in almost every other asset class, the clear signs of weakness are being ignored. Witness Ecuador defaulting on its sovereign debt and General American defaulting on short-term funding agreements with money market funds in the billions of dollars. The list goes on. We continue to treasure cash and participate in areas where we feel compensated for the risks assumed. A diversified allocation to our strategies continues to offer superior upside potential while smoothing out some of the bumps in the road we travel.

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