

FRIEDBERG
MERCANTILE
GROUP

FIRST
QUARTER
REPORT
2002

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First QUARTER REPORT 2002

Dear Investor,

It was, simply, a quarter that we would rather forget (if we could only do so). It encompassed the sorry Argentine fiasco, which nearly decimated our currency program, an embarrassing performance in the diversified trading program and a sub-standard performance in our fixed-income activities. To boot, our International Securities Fund was down (-4.1%) for the quarter, though mostly in line with its peers. Only our equity hedge funds traded with some degree of success, producing positive results (+4.3%) in a generally sluggish and trendless equity environment.

There is little need to review in this letter the peso debacle. Though the losses were realized in early January, the effects were already anticipated in our last communication to you. As well, the rationale of the trade was spelled out at the time in considerable detail. The passage of time has afforded us some new insights into our risk-taking activities, allowing us to draw some valuable lessons. One of them is that we are unlikely to rely as heavily on probabilistic calculations — a logic that underlies, for example, option-granting — as we did in the past. Instead, stress testing and financial ruin considerations will be given much more weight, despite the speculative nature of these vehicles.

The events that have transpired since Argentina chose to renege on its commitments to the currency board gives us (cold) comfort that our calculation was not only rational, but that it represented Argentina's only way out of its crisis. The unreasonableness of the trade lay not in its conceptualization but in the size of the exposure. This, unfortunately, cannot explain the extremely poor handling of

the diversified trading program, where almost every trade resulted in a loss (see exhibit for the gory details). Since most of the trades were not correlated, and therefore cannot be pinned on one single conceptual miscalculation, I can only conclude that the time has come for me to call in some reinforcements when trading futures. This I had begun to do towards the end of last year, allocating a very small percentage of assets to a capable group of five analysts/traders at our firm, led by the commodity specialist who is the author of *Focus on Futures*. Their allocation to the diversified trading program was increased this past quarter to 30%. The group's performance for the past three months was excellent (+17.08%). Were it not for that, our overall performance would have been much worse. It is my intention to increase the group's allocation to at least 50% as it gains experience in dealing with size and liquidity issues. In the meantime, I have made substantial changes to my own risk management paradigm. The upshot is that I will no longer allow blow-out conditions (i.e., forced liquidation after hitting a pre-determined loss threshold) to prevent me from seizing on new trading opportunities on a more timely basis. This inability to act was an important source of some of the losses in the last period.

Poor credit conditions and prospects for a renewed rise in interest rates have not been kind to fixed-income managers. We remain nestled in the safety of inflation-indexed Treasury securities (TIPS and the Canadian RRBs) and in the strong conviction that no more money can be extracted from the inflation premium of nominal bonds. If anything, it is our firm belief that any prospective bond gains will come from a decline in real rates of return, which, at 3.3% to 3.55%, remain historically and unwarrantedly high. Towards the end of the quarter, we accepted a small unhedged exposure to the Canadian currency. Changes to regulations permitting Canadian pension funds to increase foreign investment content have had a particularly depressing effect on the currency. In our opinion, these effects have largely been absorbed. Consequently, we believe that, barring another relapse into commodity deflation, the Canadian unit has some important upside from these levels. We also remain attentive to the overall performance of the U.S. dollar. There are faint signs that the six-year surge is almost exhausted and that a correction of significance may be at hand. We have developed a unique and effective indexed response to this contingency and are prepared to implement it as soon as we are convinced that the dollar has rolled over.

In our International Securities Fund, we continue to believe that the secondary banks in Japan are heading to extinction. We therefore remain committed to the short side of this sector. The *terminus ad quem* for this momentous event is April 2003, when unlimited deposit insurance is lifted from *all* accounts (not just savings accounts). In the meantime, heavy Bank of Japan reflation (the monetary base is up more than 33% year-over-year in March!) threatens to ignite a powerful bout of inflation. In the first instance, it will reinvigorate the economy. Later, it will force long-term rates sharply higher. With the collapse of Japanese Government Bonds (JGBs), banks and other financial institutions will take further losses on their portfolios. We are also short JGBs.

Our exposure to the Canadian oil and gas sector has been rewarding. We have taken the opportunity to take some profits and reduce the position accordingly.

We have come back to “the Chinese play” via the H shares traded in Hong Kong. They change hands at a 70% discount from their A counterparts in mainland China, sport attractive earning multiples and also offer attractive dividend yields. We can thus patiently wait for the Chinese government to relax restrictions on trans-border investments.

Our equity hedge funds have once again trounced their benchmark. The long position nearly replicated the performance of the S&P 500 (−0.4% vs. −0.6%) but our short exposure gained slightly more than 4%, producing an overall gain of around 4%. As the exhibits on page 9 show, overall leverage was reduced somewhat during the quarter, mostly for lack of interesting opportunities. Since the extraordinary excesses of the bubble era have largely been dealt with (and we are happy to say that we took good advantage of the situation), we are left with the far less rewarding task of “squeezing” extra fat out of current prices. While, admittedly, valuations remain excessive, timing has become an issue: how long will it take for the market to squeeze out this fat? Obviously, timing affects rates of return (as the saying goes, time is money). With respect to the long side, the funds are studded, for the most part, with value plays: stocks trading at very reasonable earning multiples, low price-to-sales ratios, positive cash flow (and even free cash flow), reasonable price/earning multiples in relation to earnings growth rates and solid balance sheets.

Finally, we are happy to inform you that the new Global-Macro Hedge Fund Ltd. began to trade on December 1, 2001, with US\$53,504,000 of capital and has now

completed one full quarter of operations. The fund operates on the very principles that we have been advocating for the past number of years, namely, diversifying among the various Friedberg trading strategies. Notwithstanding this, and in the interest of adding value, we have made provisions for eventually incorporating other managers into the fund.

The Global-Macro-Hedge Fund Ltd. began life with the following allocation:

Fixed Income Fund Ltd.	65%
Global Opportunities Fund Ltd.	10%
Equity Hedge Fund Ltd.	15%
Currency Fund Ltd.	10%

Note should be taken of the fact that the Global-Macro Hedge Fund Ltd. did not allocate funds to the currency program until February 1, 2002, given that it was nearly impossible to mark to market these positions just prior to the peso devaluation. In retrospect, it was a fortunate break.

As explained in previous letters, we have chosen the HFRI Macro Index (offshore) as the benchmark for this fund. For the quarter, the Global-Macro Hedge Fund Ltd. lost 1.69% versus the benchmark's nearly identical loss of 1.72%.

At the end of the quarter, the allocation among the various strategies remained materially unchanged. Therefore no rebalancing will be undertaken.

One last note — we have launched a similar global macro fund in Canada for local investors. An offering memorandum detailing fees and minimum subscriptions is available upon request.

With the onset of spring, our funds have taken on a decidedly rosier hue. It is at least an auspicious start.

Thank you for your continued support and, as always, please feel free to call your representative if you have any questions or comments.



Albert D. Friedberg

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FOREIGN BOND FUND

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 March 31, 2002

	NAV	Quarter	Year over Year	Two Years ²	Three Years ²
Friedberg Foreign Bond Fund ¹	11.91	0.17%	-1.08%	5.01%	3.31%
Friedberg Total Return Fixed Income Fund Ltd.	1,021.66	-0.32%	-1.52%	2.14%	2.21%
Friedberg Total Return Fixed Income Fund L.P.	104.99	1.64%	-0.42%	3.42%	3.38%
Benchmark ³		0.79%	2.30%	2.59%	2.80%

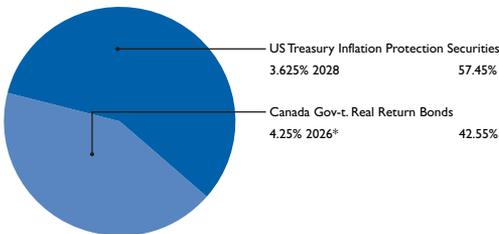
¹Priced in Canadian Dollars

²Compounded Annual Rate of Return

³70% Merrill Lynch Broad Market Index (Bloomberg GBMI), 30% Global High Yield and Emerging Markets Plus Index (Bloomberg HA00)

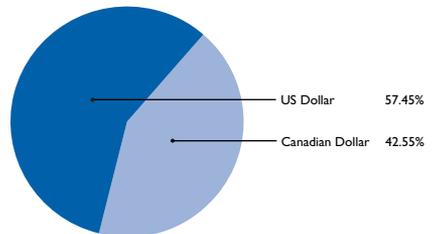
FRIEDBERG FOREIGN BOND FUND

Portfolio Allocation



Weighted average yield to maturity 4.85%
Weighted average current yield 3.05%

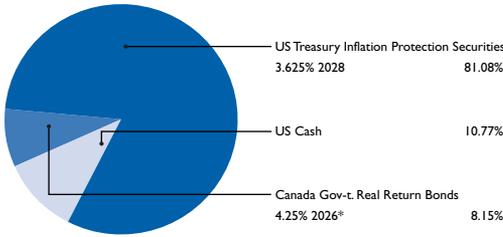
Currency Exposure



Adjusted modified duration 7.20%
Approximate overall credit rating AAA
Bond rating breakdown: AAA 100.00%, Unrated 0.00%

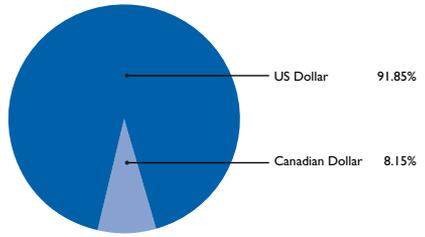
FRIEDBERG FIXED INCOME FUND L.P.

Portfolio Allocation



Weighted average yield to maturity 4.44%
 Weighted average current yield 3.29%

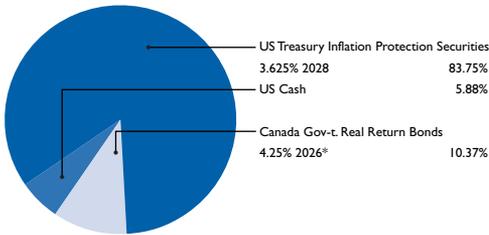
Currency Exposure



Adjusted modified duration 6.57%
 Approximate overall credit rating AAA
 Bond rating breakdown: AAA 100.00%
 Unrated 0.00%

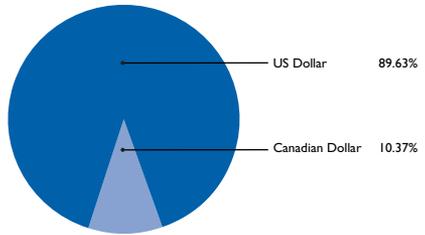
FRIEDBERG FIXED INCOME FUND LTD.

Portfolio Allocation



Weighted average yield to maturity 4.57%
 Weighted average current yield 3.34%

Currency Exposure



Adjusted modified duration 6.92%
 Approximate overall credit rating AAA
 Bond rating breakdown: AAA 100.00%
 Unrated 0.00%

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

PERFORMANCE¹ as of March 31, 2002

	NAV	Quarter	Year over Year	Three Years ²
Friedberg Equity-Hedge Fund Ltd.	1,898.12	4.27%	6.20%	34.99%
Friedberg Equity-Hedge Fund	16.96	3.54%	6.27%	32.32%
HFRI Equity Hedge Fund Index		1.29%	-0.15%	15.17%

¹Net of fees

²Compounded annual rate of return

INVESTMENT ALLOCATION³

	31-Dec-01	31-Jan-02	28-Feb-02	31-Mar-02
LONGS	54.80%	57.28%	56.53%	57.89%
SHORTS	45.20%	42.72%	43.47%	42.11%
TOTAL GROSS LEVERAGE	2.44 x	2.47 x	2.34 x	2.36 x

LARGEST SECTORS (LONGS)³

Misc. Industrials (S&P 500 Index)	10.45%
Energy-Electric Integrated	8.50%
Aerospace/Defence Equipment	8.44%

LARGEST SECTORS (SHORTS)³

Computers	7.28%
Investment Banking/Brokers	6.61%
Internet	4.42%

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

LARGEST LONG POSITIONS

S&P 500 Index futures
Valero Energy Corp.
Philadelphia Suburban Corp.
Fedex Corp.
Cott Corp.
Raytheon Company
Southern Corp.
Conectiv
Borgwarner Inc.
TXU Corp.

LARGEST SHORT POSITIONS

General Electric Co.
Morgan Stanley Dean Witter & Co.
Goldman Sachs Group Inc.
Waddell & Reed Financial
International Business Machines Corp.
Maxim Integrated Products
AOL Time Warner
Amazon.Com Inc.
Capital One Financial Corp.
American International Group

BEST QUARTERLY PERFORMANCE

LONGS		SHORTS	
Valero Energy	29.91%	Elan Corp.	43.02%
Cubic Corp.	27.33%	Qwest Communications	41.83%
Ethyl Corp.	25.00%	Ciena Corp.	37.11%

WORST QUARTERLY PERFORMANCE

LONGS		SHORTS	
Massey Energy Co.	-31.84%	Viacom Inc.	-25.13%
Imclone Systems	-57.82%	Amazon.com	-32.16%
Cubist Pharmaceuticals Inc.	-58.92%	Georgia-Pacific Corp.	-33.63%

CURRENCY PROGRAM

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

Speculative trading in currency futures instruments, currency forwards and options.
 The Fund uses of leverage and trades fixed income and equity index futures.
HIGH RISK. Objective: 25% per annum.

PERFORMANCE as of March 31, 2002

	NAV	Quarter ³	Year over Year	Three Years ²
Friedberg Currency Fund ¹	6.27	-55.09%	-65.17%	-36.41%
The First Mercantile Currency Fund	5.63	-52.97%	-63.30%	-33.20%
Friedberg Currency Fund II Ltd.	371.71	-49.92%	-65.65%	-34.36%
Friedberg Forex L.P.	6.03	-51.17%	-61.22%	-34.19%
CMI Total Return Currency Index		-1.14%	0.03%	-1.29%

¹Priced in Canadian Dollars

²Compounded Annual Rate of Return

³For financial statement purposes the loss on the Argentina peso transaction was accrued in 2001.

OPEN POSITIONS - March 31, 2002

	leverage
Long British Pound	2.04
Short Euro Currency	2.00
Long U.S.Treasury Inflation Protection Securities	0.95
gross leverage at March 31, 2002	4.99 x
maximum gross leverage during quarter	8.58 x

ACTIVITY REPORT - First Quarter 2002

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long British Pound	1.34	48.03
Short Japanese Yen	0.91	32.60
Short Euro Currency	0.54	19.36

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Long Argentina Peso	(43.54)	91.09
Short Swiss Franc	(3.41)	7.13
Long US treasury Inflation Index Securities	(0.85)	1.78

Model account value December 31, 2001	42,746.38
Model account value March 31, 2002	23,742.05
Percentage gain (loss) in quarter:	-44.46%

Diversified Trading Program

FRIEDBERG DIVERSIFIED FUND

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

HIGH RISK. Objective: 40% per annum

PERFORMANCE as of March 31, 2002

	NAV	Quarter	Year over Year	Three Years ¹
Friedberg Diversified Fund	5.05	-20.60%	-31.11%	-20.55%
CMI Total Return Diversified Index		1.16%	9.69%	7.52%

¹ Compounded Annual Rate of Return

OPEN POSITIONS - March 31, 2002

	leverage
Long U.S. Treasury Inflation Protection Securities	1.56
Long Gold	1.44
Long Soybeans	0.75
Short E-Mini S&P	0.45
Long Wheat	0.23
Long LIFFE Coffee	0.21
Long Cocoa	0.12
gross leverage at March 31, 2002	7.85 x
maximum gross leverage during quarter	17.24 x

ACTIVITY REPORT - First Quarter 2002

	profit as percentage of beginning equity	percentage of total profits
PROFITABLE TRANSACTIONS		
Gold	3.72	47.43
Soybeans	1.82	23.23
Cocoa	1.64	20.95
Coffee	0.66	8.39
	loss as percentage of beginning equity	percentage of total losses
LOSING TRANSACTIONS		
Crude Oil	(4.79)	27.57
Equity Futures	(2.63)	15.14
Japanese Government Bonds	(2.38)	13.67
U.S. Treasury Inflation Protection Securities	(1.81)	10.41
Sugar	(1.62)	9.33
Soymeal	(1.54)	8.86
Platinum	(1.26)	7.27
Wheat	(1.15)	6.60
Copper	(0.20)	1.15

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.

The fund uses leverage, and trades fixed income and equity index futures.

MEDIUM RISK. Objective: 20% per annum

PERFORMANCE¹ as of March 31, 2002

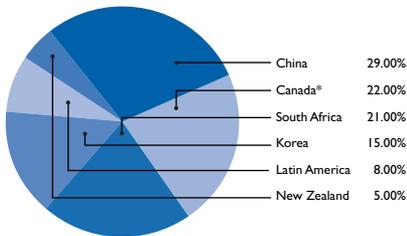
	NAV	Quarter	Year over Year	Three Years ²
Friedberg International Securities Fund	11.47	-4.10%	2.87%	10.72%

¹Net of fees

²Compounded Annual Rate of Return

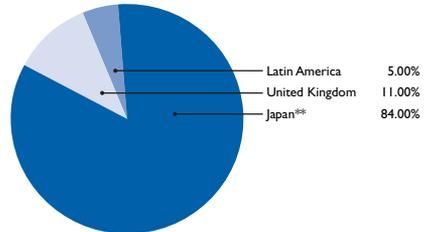
EQUITIES EXPOSURE BY COUNTRY

LONG (% of total longs)



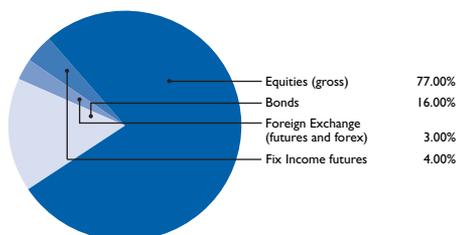
*Oil and Gas shares

SHORT (% of total shorts)



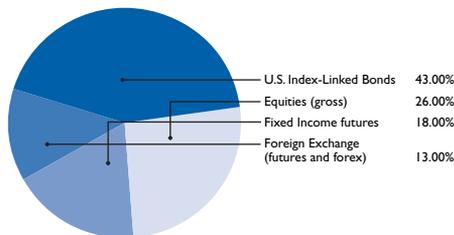
**Secondary Banks (hedged with JY futures)

BREAKDOWN BY INVESTED AMOUNTS*



*Based on margins used in each category

BREAKDOWN BY TOTAL GROSS EXPOSURE**



**Including notional values of derivatives

TOTAL GROSS LEVERAGE 3.17 x

POSITIONS ESTABLISHED DURING THE QTR.

- 1) Long China "H" shares (traded in Hong Kong)
- 2) Long ASA Ltd. (South Africa)
- 3) Long Korea Exchange Bank (Korea)
- 4) Short Invensys (U.K.)
- 5) Short Telecom Argentina (Argentina)
- 6) Short Japanese Government Bond

POSITIONS LIQUIDATED DURING THE QTR.

- 1) Long China "B" shares (traded in Shanghai)
- 2) Long Japanese Government Bonds

APPROXIMATE RETURN ON BEGINNING EQUITY BY MAJOR SECTORS - (Jan. 1 - March. 31)²

China	-2.88%
Japan	-0.18%
Canada	1.09%
Latin America	0.59%
Japan-JGB Futures	-1.25%
U.S. Index-linked bonds	-0.78%
Miscellaneous	0.23%

²not time adjusted

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.

PERFORMANCE¹ as of March 31, 2002

	NAV	Quarter	Year over Year	Three Years ²
Friedberg Global Opportunities Fund Ltd.	508.36	-15.56%	-20.04%	-9.15%

¹Net of fees

²Compounded Annual Rate of Return

FRIEDBERG GLOBAL-MACRO HEDGE FUND

PERFORMANCE as of March 31, 2002

	NAV	Quarter
Friedberg Global-Macro Hedge Fund Ltd.	979.22	-1.69%
HFRI Macro Hedge Index (offshore)		-1.72%

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 as of March 31, 2002

	NAV	Quarter	Year over Year	Two Years ¹
Friedberg Skilled Based Managers Fund	11.53	0.09%	3.04%	8.36%

¹Compounded Annual Rate of Return

David Rothberg Comments:

Returns during the quarter were flat, volatility was dull, correlation to equities zero. The table below shows the allocation and the attribution to results by strategy.

Strategy	Allocation	Return in Percent
Long/Short Value U.S.	37.00%	0.42
Long/Short Value Asia	7.00%	0.51
Event Driven	17.00%	-1.49
Convertible Arbitrage	26.00%	0.99
Cash	11.00%	0.49

Good stock pickers continued to enjoy overpriced and neglected securities, the legacy of the emotional boom/bust. We think this could last for years. Cheap Japan performed well for us during Q1. We expect, over the long term it will perform even better. Convertible arbitrage, while vulnerable to an oversupply of *arriviste* managers, is now an accepted tool of modern finance used by the largest and most sophisticated corporations in the world. It sputtered a bit in the wake of anxious rates and reduced equity volatility, however current valuations in the U.S. in particular are attractive. Drastically reduced deal flow and even more drastically diminished spreads have made risk arbitrage, formerly the poster strategy of alternative investments, a very difficult strategy to practice – even by our exemplary team. During the quarter we reduced our exposure accordingly. The cash component is destined for deployment to a discretionary CTA.

The logo for Friedberg Mercantile Group is enclosed in a blue double-line border with an octagonal shape. The text "FRIEDBERG", "MERCANTILE", and "GROUP" is stacked vertically in a blue, serif, all-caps font.

FRIEDBERG
MERCANTILE
GROUP

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A horizontal blue gradient bar is located at the bottom of the page.