FRIEDBERG MERCANTILE GROUP LTD.

First Quarter Report 2004

1

First Quarter Report 2004

Dear Investor,

It gives me great pleasure to present to you the activity report of the Friedberg Group of Funds for the quarter ended March 31, 2004.

Overall performance continued to show excellent results: our flagship funds, the Friedberg Global–Macro Hedge Fund (Canada) and the Friedberg Global–Macro Hedge Fund Ltd. (Cayman), were up a very respectable 10.9% and 9% respectively for the quarter, capping a 22.8% and 18.1% twelve-month return. The individual components of these funds all showed positive returns, with the single exception of the International Securities Fund, which was down 2.2% for the period. The Fixed Income funds were up 6.1% to 6.5% (7.5% in local currency terms) and the Equity Hedge funds 11.8% to 13.5%. The leveraged funds, specifically, the Currency Funds and the Diversified Trading Program, recorded blowout performances, up 17.1% to 34.5%, respectively.

Our main investment themes remain very much those discussed in our previous quarterly letter. Long-term inflation indexed securities (U.S. TIPS and Canadian Real Return Bonds (RRB)) continue to form the backbone of our fixed income funds. Via their allocation in the Global–Macro Hedge Funds, these securities represent as much as 60% of our overall investment. After a precipitous correction last July and August, long-term bonds have recovered a good part of lost ground and are once again approaching multi-year highs. Break-even levels, i.e. TIPS yields minus yields on nominal bonds of an equivalent maturity, continue to expand. At approximately 300 basis points, they represent a hefty premium over current inflation rates of around 1.5%. The phenomenon of rising inflationary expectations can be attributed to the strong global economy and the extraordinary rise of raw commodity prices in recent months. We have already expressed elsewhere our reservation about the impact of these events — as well as the impact of strong growth in monetary aggregates — on consumer inflation rates. As a result, we have maintained a 23% weight in nominal 30 year Treasuries. Still, it is impossible to predict what inflation rates will be like over the 20-30 year span covered by these securities. We remain convinced that politicians will find some ways, somehow, sometime, to depreciate our currencies. Therefore, we have deemed it prudent to retain for now the bulk of the fixed income position in long-term TIPS and RRBs.

In general, we believe that real interest rates will continue to be pressured lower by the worldwide rise of terrorism and the diversion of resources to combat it, chronic near-stagnation in the European community, a slight growth inflection in the U.S., and a probable slowdown in China occasioned by tighter credit and infrastructural bottlenecks. Monetary policy in the U.S. is not likely to be tightened in the near future in view of the continuing improvements in productivity and its negative impact on labour absorption. At the same time, central banks in the U.K. and Australia, the two countries closest to boom conditions, are agonizing over the impact that rising rates will have on their red-hot housing markets. A collapse in those markets could lead to a severe economic contraction; they may therefore choose to deflate the bubble very gradually, by allowing new supplies to meet the demand. In all, we don't envision dramatic, or otherwise, rises in policy-determined interest rates in the next few months.

Continued economic progress and the political strengthening of the ruling party augur well for Turkey's asset market. We are taking advantage of this opportunity in three ways: our fixed income funds have a modest 5-6% exposure to money market rates (21%+ per annum), our International Securities Fund owns a fair-sized position of a Turkish closed-end equity fund, and our Currency funds are long a forward position in Turkish lira at just under one time leverage.

Reviewing our Currency funds, we note that the long held long Eastern European currencies/short Swissie, and now more recently euros, position has continued to yield good results. A downright scary drop in the Hungarian forint, caused by a fiscal deficit that threatened the country's eventual entry into the European Community, was ably reversed by the central bank, which conducted a firm and persistent monetary tightening that made bear speculators throw in the towel. In the interim, we earned one of the highest yields in Europe while paying less than 1% per annum for funds. A similar drop of the zloty/euro cross, caused by political jitters, was only partially reversed in recent weeks, not before touching historic lows (post fixing) against the euro. Fundamentals — such as very high productivity in the external sector and falling inflation — remain attractive regardless of who is in power. We continue to expect all-in gains (currency appreciation plus yields) in months ahead.

In recent weeks we have substituted euros for our short Swissie, despite the extra funding cost. We reason that the Swiss economy has been outperforming Euroland and a rise in interest rates is imminent. Moreover, Switzerland continues to enjoy, justifiably or not, a safe haven status. As a result, further terrorist attempts in Europe may lead to gains in the Swiss/euro cross. Finally, we continue to ride the short euro/long sterling cross, which represents more than one third of our total quarterly gains. The housing boom in the U.K. shows no sign of abating and further hikes in interest rates are therefore almost a foregone conclusion. Differentials vis-à-vis euro rates should widen and will probably lead euro/sterling down to the very low 60s.

Our foray in the Canadian dollar has not panned out as yet, though at quarter-end the loss on the short position was minimal. We are now more convinced than earlier this year that the Canadian dollar has seen its best levels for some time, and so we have increased our initial short position. Economic activity is declining vis-à-vis the U.S., which should lead to a looser monetary policy and more currency weakness ahead. Commodity price weakness directly ahead should also act to pressure this "commodity" currency.

Finally, we have tiptoed into a major cross in the belief that Asia will continue to outperform Europe for some time. More specifically, Japan's ongoing deflation and strong export trading easily justify a much stronger currency, while stagnating economic conditions in Europe justify a lower level for the euro. We find the short euro/long yen cross quite compelling now, especially after seeing the Bank of Japan quadruple its international reserves in the short span of two years in a bid to stop the yen's appreciation. In our view, the BOJ means to slow the yen's appreciation, not to halt it, all the time keeping an eye on export performance.

Lower leverage per position and reduced turnover — in short, a more disciplined and patient approach — yielded excellent results for the diversified trading program. A long position in T-bond futures, in keeping with our bearish views on rates, represented the single largest gain and contributed more than 25% of the program's gains for the quarter. We were fortunate to ride the copper and soybean markets to near-historic highs, convinced of their very constructive fundamentals. We recently liquidated the former, in the belief that anticipated and speculative Chinese copper purchases were nearing, or had in fact come to, an end. On the other hand, we continue to bet that far more price rationing is required to ensure that end-of-season (July-August 2004) carryover stocks of soybeans meet minimum levels. See inside for more details.

The Refco SPhinX Managed Futures Index Fund Ltd., which had a 3.4% allocation in the Global-Macro funds, enjoyed good results, gaining 7.9% for the quarter. You will recall that this fund is a futures portfolio managed by 14 leading commodity-trading advisors and now constitutes the industry's benchmark under the auspices of S&P. Regrettably, our in-house managers stumbled:

> Sholom Sanik Comments:
>
> The bulk of the losses suffered in a dismal first-quarter performance, which saw our portfolio shed 14.7%, resulted from three trades that were completely unrelated in economic and market terms. Trading-wise, however, we committed the same mistake: we established long positions in cocoa and cotton and a short position in the S&P 500 against the trend. Motivated by our fundamentally based bullish case in cocoa and cotton we became impatient and tried to pick a bottom. Overbought signs, evident throughout the two-year rise of close to

> 50%, tempted us to take the short side of the S&P 500. Here, too, we tried — prematurely — to pick a turning point. These trades represented 84% of the loss column and overshadowed several timely gains in markets in which we traded with our fundamentals *and* the trend.

Through end of February, the last period for which we have comparable data, our equity hedge funds continued to trounce the benchmark CSFB/Tremont Equity Market Neutral Index for the three- and five-year categories (using the larger offshore fund and a slightly smaller favourable margin for the Canadian fund): 11.3% vs. 7.43% and 19.63% vs. 10.83%, annualized, respectively.

Once again, the wide disparity in individual stock performance — despite the modest 1.3% net change for the overall stock market during the quarter — suited admirably our long/short strategy. As an example, our three best short positions yielded 18.1%, 8.9%, and 8%, while our three best long positions produced returns of 111.8%, 38.6%, and 32.9%, clearly demonstrating that very divergent trends operate below the calm surface. Gross leverage averaged a "normal" 2.8 times for the quarter and the long/short ratio remained around 54/46, corresponding to the greater short side beta. We have continued to emphasize beaten-down biotechnology and communication equipment issues on the long side and overvalued semiconductor and other large-cap technology issues on the short side. See inside for more details. In general, expectations will be favourable as long as we continue to witness divergent trends in the various sectors of the market.

By attribution, the greatest loss in the International Securities Fund occurred in South Korea, where we have remained short the stock index. We remain convinced that bearish fundamentals, e.g. the threatening presence of North Korea, enormous non-performing losses in the portfolio of the banking system stemming from the boom in credit card extension, union militancy, and poor corporate governance (not to speak of political governance) cannot prove a breeding ground for sustained stock price advances. Japanese secondary bank stocks continue to resist the inevitable meltdown, resulting this quarter in some additional slippage — though it must be noted that the damage was surprisingly minimal when viewed against the background of the huge rise in the stock index and the city banks. We will persevere. Individual bets in Latin American securities, such as the new short position in Banco de Galicia (Argentina) and the long position in Enersis (Chile) have not, as yet, panned out as expected, though we remain confident of the eventual outcome. We scaled back long positions in the Indian pharmaceutical sector and, in the process, gave up some of our earlier profits. We have continued to build up a long position in the U.S. biotechnology sector, which we are certain will produce excellent results. The best contributors to the plus column were the Turkish Investment Fund (discussed earlier), a long position in a handful of miscellaneous Japanese stocks, and a long position in U.S. government bonds.

The new quarter did not begin as auspiciously as the last one; a violent reaction to the employment and inflation reports is testing our medium-term scenario and our resolve with regard to the future course of interest rates. As well, it has introduced an unusual amount of volatility in the commodity and currency markets. With regard to the currency markets, we continue to feel extremely comfortable with the views expressed in the cross trades. Commodity markets will need to be dealt with case by case. A decision with respect to the future course of interest rates will have to await further confirming data. It is not entirely clear, at least to us, that the huge productivity gains seen to date — which have kept a lid on inflation and restrained employment growth — have come to an end. At any rate, we anticipate another few weeks of turbulence.

Wishing you and ourselves continued success,

Respectfully yours,

Albert D. Friedberg

FRIEDBERG MERCANTILE GROUP LTD.

CONTENTS

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

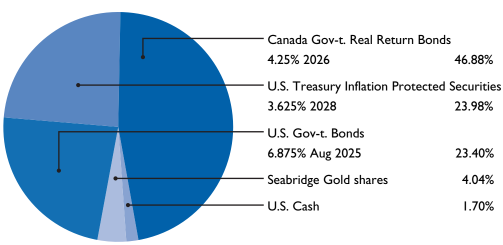
PERFORMANCE[1] as of March 31, 2004

	NAV	Quarter	Year over Year[3]	Two Years[3]	Three Years[3]	Five Years[3]
Friedberg Foreign Bond Fund[2]	15.29	5.75%	7.06%	12.34%	7.30%	6.89%
Friedberg Total Return Fixed Income Fund Ltd.	1,683.85	6.51%	18.23%	25.99%	14.87%	11.33%
Friedberg Total Return Fixed Income Fund L.P.	174.59	6.12%	19.24%	26.57%	15.69%	12.02%
Benchmark[4]		N.A.	9.30%	9.00%	7.11%	6.94%

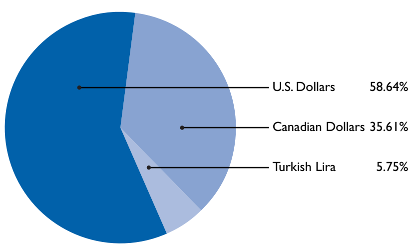
[1]Net of fees
[2]Priced in Canadian Dollars
[3]Compounded annual rate of return through February 2004
[4]70% Merrill Lynch Broad Market Index (Bloomberg GBMI), 30% Global High Yield and Emerging Markets Plus Index (Bloomberg HAOO)

FRIEDBERG FOREIGN BOND FUND

Portfolio Allocation



Currency Exposure



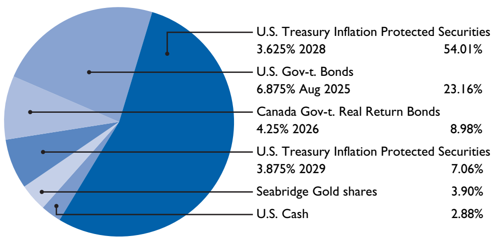
Weighted average yield to maturity	3.76%*
Weighted average current yield	3.42%*

*Assumes zero inflation.

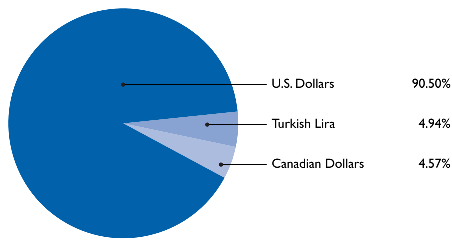
Adjusted modified duration		6.10
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	95.96%
	Unrated	4.04%

FRIEDBERG FIXED INCOME FUND LTD.

Portfolio Allocation



Currency Exposure



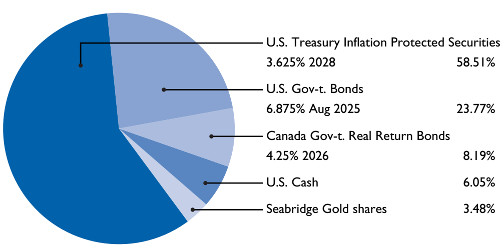
Weighted average yield to maturity	3.88%*
Weighted average current yield	3.25%*

*Assumes zero inflation.

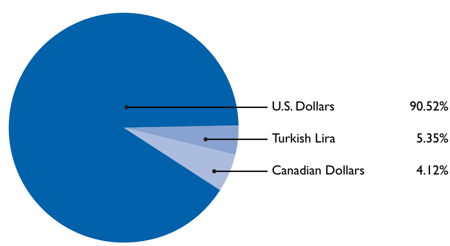
Adjusted modified duration		6.43
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	96.10%
	Unrated	3.90%

FRIEDBERG FIXED INCOME FUND L.P.

Portfolio Allocation



Currency Exposure



Weighted average yield to maturity	3.84%*
Weighted average current yield	3.23%*

*Assumes zero inflation.

Adjusted modified duration		6.21
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	96.52%
	Unrated	3.48%

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 March 31, 2004

	NAV	Quarter	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Equity-Hedge Fund	19.15	13.53%	26.01%	9.40%	16.97%
Friedberg Equity-Hedge Fund Ltd.	2,250.57	11.76%	25.30%	11.32%	19.63%
CSFB/Tremont Equity Market Neutral Index	—	N.A.	8.53%	7.43%	10.83%

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

INVESTMENT ALLOCATION[3]

	31-Dec-03	31-Jan-04	29-Feb-04	31-Mar-04
LONGS	52.91%	54.27%	54.76%	53.86%
SHORTS	47.09%	45.73%	45.24%	46.14%
TOTAL GROSS LEVERAGE	2.96 *x*	2.78 *x*	2.84 *x*	2.77 *x*

LARGEST SECTORS (LONGS)[3]

Biotechnology	7.08%
Communications Equipment	6.12%
Electric Utilities	3.75%

LARGEST SECTORS (SHORTS)[3]

Technology-large cap (NASD 100 index futures)	14.03%
Pharmaceuticals	5.71%
Semiconductors	3.86%

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

LARGEST LONG POSITIONS

Dusa Pharmaceuticals Inc.
Novell Inc.
Aqua America Inc.
Corning Inc.
Catellus Development Corp.
Imclone Systems
Entergy Corp.
Atmel Corp.
ECI Telecom Ltd.
Cuno Inc.

LARGEST SHORT POSITIONS

NASD 100 index futures
Semiconductor HOLDRs Trust
Biovail Corp.
Amazon.Com Inc.
Johnson & Johnson
Weight Watchers International Inc.
Colgate-Palmolive Co.
Ford Motor Co.
AMR Corp.
Microsoft Corp.

BEST QUARTERLY PERFORMANCE

LONGS		SHORTS	
Dusa Pharmaceuticals Inc.	111.88%	Biovail Corp.	18.15%
Service Corp. International	38.59%	Microsoft Corp.	8.91%
Toy “R” Us Inc.	32.91%	Du Pont (E.I.) De Nemours	8.00%

WORST QUARTERLY PERFORMANCE

LONGS		SHORTS	
Global Crossings Ltd.	-39.97%	Red Hat Inc.	-30.51%
Enterasys Networks Inc.	-32.53%	Waddel & Reed Financial	-15.60%
McDermott International Inc.	-29.79%	Harley-Davidson Inc.	-12.22%

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

Speculative trading in currency futures instruments, currency forwards and options.

PERFORMANCE[1] as of March 31, 2004

	NAV	Quarter	Year over Year[3]	Three Years[3]	Five Years[3]
Friedberg Currency Fund[2]	9.22	30.41%	18.17%	-21.04%	-18.85%
The First Mercantile Currency Fund	8.22	18.13%	20.12%	-21.15%	-15.94%
Friedberg Currency Fund II Ltd.	633.64	17.12%	33.24%	-12.97%	-9.95%
Friedberg Currency Fund Ltd.	744.51	23.06%	32.43%	-13.12%	-13.51%
Friedberg Forex L.P.	8.71	28.66%	27.81%	-19.75%	-17.47%
Barclay Trader Indexes Currency	—	N.A.	11.00%	7.01%	5.28%

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

OPEN POSITIONS - March 31, 2004

	Leverage
Long British Pound / Short Euro Currency	3.58
Long Hungarian Forint / Long Polish Zloty / Short Swiss Franc	3.16
Short Canadian Dollar	1.98
Long Turkish Lira	0.83
gross leverage at March 31, 2004	9.54 *x*
maximum gross leverage during quarter	11.80 *x*

ACTIVITY REPORT - First Quarter 2004

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long Turkish Lira	13.63	38.27
Long Pound / Short Euro Currency / Short Swiss	13.10	36.79
Long Hungarian Forint / Long Polish Zloty / Short Swiss / Short Euro Currency	8.88	24.94

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Short Canadian Dollar	-1.24	57.73
Long Japanese Yen	-0.91	42.27

Model account value December 31, 2003	30,519.36
Model account value March 31, 2004	40,717.79
Percentage gain (loss) in quarter:	33.42%

DIVERSIFIED TRADING PROGRAM

Speculative trading of commodity, interest rate, and stock index futures and options.

PERFORMANCE[1] as of March 31, 2004

	NAV	Quarter	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Diversified Fund	7.06	34.50%	-27.63%	-6.09%	-10.64%
CSFB/Tremont Managed Futures Index	—	N.A.	9.24%	14.10%	8.93%
Refco SPhinX Managed Futures Index Fund	1078.58	7.94%			

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

OPEN POSITIONS - March 31, 2004

	Leverage
Long U.S. Treasury Bonds	1.56
Long Japanese Govt Bond	0.90
Short Mini S&P	0.38
Long Soybeans	0.34
Long Gold	0.29
Long Crude Oil	0.24
Short Corn	0.22
Long Cotton	0.22
Short Coffee	0.19
gross leverage at March 31, 2004	4.33 *x*
maximum gross leverage during quarter	6.95 *x*

ACTIVITY REPORT - First Quarter 2004

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long U.S. Treasury Bonds	12.62	34.39
Long Soybeans	9.77	26.61
Long / Short Natural Gas	4.74	12.91
Long Copper	4.58	12.47
Long Live Cattle	2.99	8.16
Long Wheat	1.29	3.51
Long Crude Oil	0.72	1.95

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Short Stock Index Futures	(5.17)	37.70
Long Cotton	(4.59)	33.49
Long Cocoa	(1.61)	11.77
Long Sugar	(0.90)	6.57
Long Gold	(0.64)	4.66
Long / Short Corn	(0.58)	4.25
Short Coffee	(0.16)	1.15
Long Japanese Gov't Bonds	(0.06)	0.40

FRIEDBERG INTERNATIONAL SECURITIES FUND

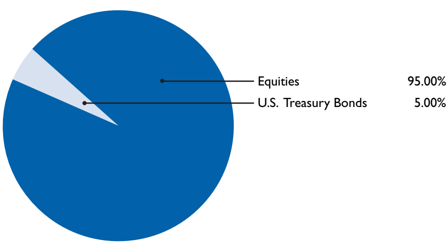
The fund seeks to capitalize on the rise and fall of local markets throughout the world by anticipating long term secular trends or by identifying, at an early stage, cyclical economic expansions and contractions of economies of selected countries. The fund uses leverage, and trades fixed income and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

PERFORMANCE[1] as of March 31, 2004

	NAV	Quarter	Year over Year[2]	Three Years[2]
Friedberg International Securites Fund	13.77	-2.21%	-7.31%	11.65%
CSFB/Tremont Hedge Fund Index	—	N.A.	16.77%	8.48%

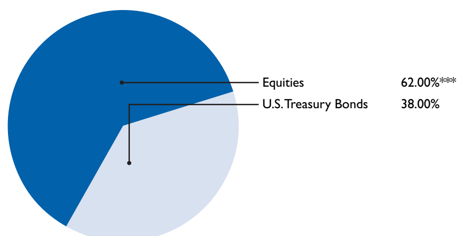
[1]Net of fees
[2]Compounded annual rate of return through February 2004

BREAKDOWN BY INVESTED AMOUNTS*



*Based on margins used in each category

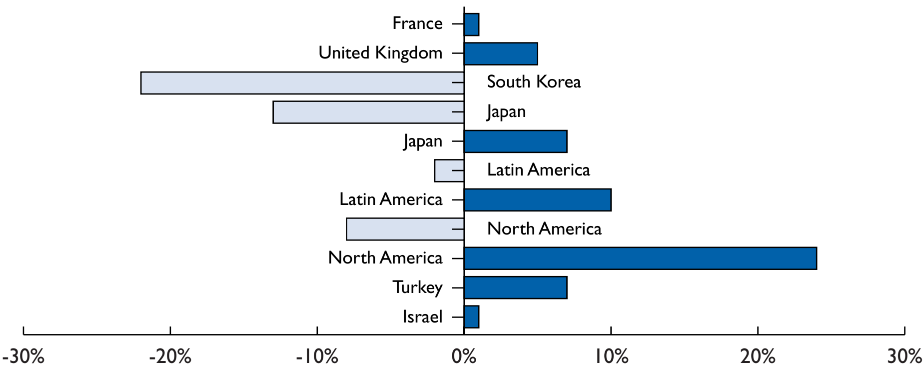
BREAKDOWN BY TOTAL GROSS EXPOSURE**



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

TOTAL GROSS LEVERAGE 2.45 *x*

EQUITIES ALLOCATION BY COUNTRY



NEW POSITIONS ESTABLISHED DURING THE QTR.
1) Short Grupo Financiero Galicia ADR (Argentina)
2) Long Aventis ADR (France)
3) Long Incyte (U.S.)
4) Long Intermune (U.S.)
5) Long Myogen (U.S.)
6) Long Sun Microsystems (U.S.)
7) Short mini Nasdaq 100 futures (U.S.)

POSITIONS LIQUIDATED DURING THE QTR.
1) Short Allied Irish Bank ADR (Ireland)
2) Long Taisei Corp. (Japan)
3) Long Hazama Corp. (Japan)
4) Long Kajima Corp. (Japan)
5) Long Kumagai Gumi Corp. (Japan)
6) Long Heiwa Real Estate (Japan)
7) Long Ranbaxy GDR (India)
8) Long Dr. Reddy ADR (India)
9) Long Trustpower (New Zealand)
10) Long Gateway (U.S.)
11) Long Sun Microsystems (U.S.)

APPROXIMATE GROSS RETURNS ON BEGINNING EQUITY BY MAJOR SECTORS
(Jan. 1 - Mar. 31)[3]

North America	-0.74%	New Zealand	0.32%
Latin America	-2.76%	Europe	-0.01%
U.S. Treasury Bonds	5.61%	Korea	-4.30%
India	-1.21%	Japan[4]	-0.49%
Middle East	2.11%		

[3]not time adjusted
[4]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 March 31, 2004

	NAV	Quarter	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Global Opportunities Fund Ltd.	564.18	-4.71%	-34.51%	-5.86%	-8.25%

[1]Net of fees
[2]Compounded annual rate of return through February 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 March 31, 2004

	NAV	Quarterly	Year over Year[2]
Friedberg Global–Macro Hedge Fund Ltd.	1,444.78	9.04%	16.46%
Friedberg Global–Macro Hedge Fund	13.68	10.86%	11.15%
CSFB/Tremont Hedge Fund Index	—	N.A.	16.77%

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

Allocation of the Friedberg Global–Macro Hedge Fund Ltd. as of March 31, 2004 is as follows:

FUND	CURRENT ALLOCATION	TOTAL $ VALUE	PROPOSED NEW ALLOCATION
Fixed Income Fund Ltd.	64.12%	$64,778,140.26	60.00%
Equity Hedge Fund Ltd.	12.27%	$12,401,387.76	15.00%
Currency Fund Ltd.	10.50%	$10,612,299.24	10.00%
International Securities	3.84%	$3,882,236.38	6.50%
Refco SPhinX Managed Futures Index Fund Ltd.	3.27%	$3,306,066.22	3.40%
Commodities Program	5.79%	$5,848,107.13	5.10%
Cash	0.20%	$206,091.31	0.00%
	100.00%	$101,034,328.30	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 March 31, 2004

	NAV	Quarter	Year over Year[2]	Three Years[2]
Friedberg Skilled-Based Managers Fund	14.13	4.28%	14.63%	7.92%
CSFB/Tremont Hedge Fund Index	—	N.A.	16.77%	8.48%

[1]Net of fees
[2]Compounded Annual Rate of Return through February 2004

David Rothberg Comments:

The Skill Based Managers Fund earned 4.28% during the first quarter, net of all fees. The allocation as of the end of March and returns during the quarter, by strategy, were as follows:

Strategy	Allocation in Percent	Return in Percent
Long/Short Value	34.73	4.87
Event Driven specializing in Risk Arbitrage	22.51	9.17
Convertible Arbitrage	27.91	1.68
CTA	13.66	5.06
Cash & Treasuries	1.19	0.38

Sector, market cap, and style dispersion gave ample opportunities to good stock pickers during the quarter. Now that the +30% honeymoon of 2003 appears over, it should be a less macro-driven, more value-type environment; i.e. still dispersed (though in different ways) and opportune.

Convertible arbitrageurs didn't have it as easy; credit spreads could only deteriorate from where they started the term, persistent interest rate anxieties were a charge against returns via rho hedges, and the market was rarely priced less than luxuriously — the strategy's single positive was the first pickup in equity volatility we've seen since Q1-03.

Re Event Driven: Record-low short term rates have kept deal spreads tight, offsetting the beneficial effect of increased deal flow — a phenomenon that has gained traction for the first time since the bubble burst three years ago. Arbs got paid for dissecting the deals with hair. Looking ahead, a strengthening economy coping with changes that are still paradigmatic — who would ever have predicted that service labour could be exported? — suggest a decent environment.

Mechanical trend following CTAs enjoyed a generally positive environment. Discretionary managers — like ours, the value investors of the futures universe — found the pickings obscured by enthusiasms of a public heeding the China/India infrastructure story, and too by the mechanical trend followers who've grown so large that in many agriculture markets they overwhelm the trade.

FRIEDBERG
MERCANTILE
GROUP LTD.

FRIEDBERG MERCANTILE GROUP LTD.

BCE Place, 181 Bay Street, Suite 250
Toronto, Ontario M5J 2T3
Tel.: (416) 364-2700
Fax: (416) 364-0572
www.friedberg.ca
e-mail: funds@friedberg.ca