FRIEDBERG MERCANTILE GROUP LTD.

Second Quarter Report 2004

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Second Quarter Report 2004

Dear Investor,

I am pleased to present to you the activity report of the Friedberg Group of Funds for the quarter ended June 30, 2004.

Performance was less than satisfactory in every one of the strategies used. The two flagship Global Macro Hedge Funds returned –7.9% and –8.4% for the quarter, bringing year-to-date results to +0.4% and +1.5%, respectively, in US dollars. Breaking down the results into the individual categories, we find that the fixed-income funds were down 3.9% to 5.6% (+0.3% to +2.1% year-to-date), the equity hedge funds were down 2.1% to 3.5% (+9.4% to +9.5% ytd), the International Securities Fund was down 9.1% (–11.1% ytd), the currency funds were down 4.6% to 6.4% (+20.9% to +25% ytd), the diversified trading fund was down 51.3% (–34.5% ytd) and the Refco SPhinX Managed Futures Index Fund Ltd. was down 14.1% (–7.3% ytd).

In our closing comments of last quarter I presaged difficulties ahead, though I must admit that I did not expect the reaction to be as severe as it has been. To quote myself, what I expected was "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."

In retrospect I believe that the market's reaction to the coming rise in interest rates was overdone, not because short-term interest rates should not be higher, but because of the nature of the Fed — a parsimonious, overly careful, political institution. It is typically slow to react and slow to move to an "appropriate" rate (called equilibrium in the jargon of economists), if such were possible to guess. The promised "measured" pace was dictated more by the dynamics of the committee than by economic considerations, despite Bernanke's brilliant rationalization. The Fed's own calculations, based on the Taylor rule, show that the intervention rate, i.e., Fed Funds rate, should be around 3% if the Fed is targeting an inflation rate of 2%.

The slow rise in interest rates should affect primarily the shape of the yield curve, tending to flatten it. If confidence in the Fed's ability to contain inflation remains high, there is no reason for 10-year money to trade much above 4%, compared with today's level of 4.6%. It compares even more favorably with the almost 5% rate touched soon after the events that made it clear that the Fed was embarking on a rate-hiking cycle. Again, if inflation does not accelerate from present levels (which it shouldn't, given snug money supply growth rates and a steady dollar), bonds should continue to recover in the coming weeks and months.

US and Canada inflation-indexed securities continue to represent the bulk (80% to 83%) of the fixed-income portfolios. Breakeven rates of 300 basis points have tempted us to purchase some 20-year nominal Treasuries (synthetically, via the purchase of futures). Still, our own confidence in the long-term inflation-fighting abilities of the Fed is not strong enough to cause us to abandon entirely indexed securities in favor of nominal bonds.

During the quarter, we increased our synthetic position in Turkish money market instruments, now yielding more than 24% per annum. The synthetic position allows us to participate in the currency and interest rate aspects of this market without credit risk and tax concerns and without having to liquidate our basic bond position. Turkey continues to make extraordinary progress in inflation, economic liberalization and relative debt reduction. It is a convergence play *par excellence* and it well deserves, in our opinion, the 15% weighting we have given it in our fixed-income portfolios. Other than this Turkish lira position and a small holding of a Canadian gold mining company, our currency exposure remains heavily weighted to the US dollar. It is likely to remain so for the foreseeable future.

Despite the poor performance for the quarter, our equity market neutral funds continue to trounce their benchmarks. For the 12 months to the end of May, for which we have figures from CSFB/Tremont, our funds are up 16.97% to 17.96% compared with the benchmark's 5.68% return. The five-year comparison is even more impressive — an annualized compounded rate of gain of 20.07% to 23.65%, compared with a gain of 9.72% for the benchmark index.

While the long side of the portfolio bettered the S&P 500 by 230 basis points, the short side underperformed, the net effect of which caused the minor loss for the quarter. Long and short positions were nearly balanced during the period under review. This had nothing to do with our directional views, as we have explained in the past. Rather, it was a function of the volatility of each side of the ledger. It so happened that the beta of the longs and of the shorts was quite similar, an indication that the market was mostly marking time. This also had a negative effect on dispersion, as stocks moved up and down in near unison — which reduced possibilities for exploiting our two-way trade. Simply stated, if all stocks moved up and down by the exact same amount, hedge funds would not make any money. In fact, they would be certain losers to the extent that they must cover slippage and transaction costs.

We have not developed strong views on particular sectors, though we have remained steadfastly bullish on biotechnology and bearish on semi-conductors and the large cap technology sector of Nasdaq. Our picks remain focused on individual situations that combine the appropriate fundamental considerations and that exhibit desired momentum. Details of positions and trades can be found on the inside pages.

Only one sector produced positive results for our International Securities Fund, and that was the short position in the I-share MSCI South Korea, an exchange-traded fund that replicates the Kospi Index. Labor problems, a highly indebted consumer sector, and a worsening political situation as North Korea continues to make threatening noises, are the perfect recipe for a bear market.

The secondary banking sector in Japan continued to benefit from the recovering economy. Japanese bank shares have traded, in some cases, near the top of their three-year to four-year trading range. Economic growth notwithstanding, deflation remains a continuing problem to banks; loan collateral depreciates and lending margins vanish in the zero interest rate scenario. Deflation is unlikely to end soon given the measly growth rate of money supply witnessed in recent months.

Our long position in Treasury bonds, equal to almost 50% of total investment exposure, cost a little over 5% of equity and represented the largest single loss for the quarter. Bond prices have begun to improve, however, and we expect them to make a positive contribution for the current quarter.

Prospects for the global markets have turned distinctively negative, in our view. As a result, our overall net exposure to all equity markets is practically nil. Long positions in the US, Europe, Latin America and Turkey, where we remain confident of long-term prospects, are balanced by short positions in Korea, Japan (secondary banks) and an Argentinean bank. Please turn to the inside pages for more specific information.

Within a very difficult environment, the Diversified Trading Program disappointed once again by performing far worse than the industry's benchmark. Effective the end of the past quarter, we eliminated the Global Macro Hedge Fund allocation to this program, in line with previous promises. Funds will either be re-allocated to existing programs or they may be invested in a new vehicle, currently being set up, that will specialize in selling volatility. With regard to the Diversified Trading Fund itself, we are considering a number of alternatives to best serve our shareholders' interests. We have decided to curtail the Fund's trading activity for now and cease all trading by the end of August, by which time we hope to be able to present these alternatives to shareholders directly.

In the currency area, we kept activity to a minimum as we were very satisfied with the positions that we established in prior months. The long Eastern Europe/short euro and long sterling/short euro trades worked out very well. While we expect the former cross to continue to allow us to take advantage of significant interest rate differentials, we do not think the same of the latter. The Bank of England (BoE) can no longer be counted on to tighten aggressively, given the increasing probability that the U.K.'s housing boom is finally wilting. A housing bust, when it comes, is likely to see the BoE reverse course. This should have a bearish impact on sterling. As a result, we first reduced and then eliminated the short euro/sterling trade, nailing down in the process a nice long-term profit.

The incursion into the short euro/yen trade proved ill timed; the trade lost more than enough to account for the entire program's quarterly loss. We continue to puzzle over the yen's relative weakness. The recent economic recovery has put Japan on a faster growth path than Euroland. At the same time, persistent deflation should work towards raising the yen's nominal exchange rate to compensate for *real* depreciation. Persuaded that it was only a matter of time before the yen appreciated and fearing that the euro would soon be supported by a less accommodative monetary policy, we substituted a short Australian dollar for the short euro. The trade is still not working out…Finally, we profited from the early Canadian dollar short position, but may have overdone it by re-instating the position in its most recent bout of strength. We can't see the recently elected minority government doing much good; nor can we see the Bank of Canada being much more aggressive than the Fed. Finally, we believe that Canada's terms of trade are more likely to deteriorate than improve now that the commodity boom has crested.

We want our investors to realize — or rather, to internalize — that their return baseline, ex credit risks and ex interest rate risks, is a lowly 1.5% per annum. Returns in excess of this 1.5% involve a varying combination of risks and may not be attainable. Of course, every hedge fund manager in the world, including us, as well as every hedge fund client, thinks he can do better. Don't bet on it. With more than 8,000 highly leveraged hedge funds out there, it is becoming increasingly difficult to exploit market inefficiencies. The key may lie in exercising a great deal of patience and a steady hand, treating day-to-day reversals as no more than extra noise. Of course, it will be absolutely a must to get the scenario right. So here is what we see in our foggy crystal ball:

The stormy phase of the cycle is behind us, we hope. Surprises will be fewer now that the Fed has taken off the straightjacket. The economy has slowed down and inflationary pressures are still percolating, though at a lower rate of increase than in previous cycles. Corporate profits have seen their best day, as labor is likely to claw back a fair portion of the economic pie. Terrorism and the continued threat of terrorism will slow down the expansion of globalization, with undesirable effects on inflation. Still, global outsourcing, wherever it survives, will help keep stagflation to modest proportions (at least when compared with the 1970s).

The Fed will find it difficult to tighten too much under these conditions. As a result, the housing bubble will grow, and grow, and become a headache two to four years from now. Stock prices, on the other hand, should weaken under the weight of too much paper held in public hands, mediocre profit growth and stretched valuations. Credit spreads will begin to widen again, so junk bonds and emerging market debt are out.

What's in? Top-notch credits, inflation-linked fixed-income securities, the US dollar, and a bet on shrinking equity valuations. In short, after experiencing a brief intermission, we are back to the same old play.

Our results stabilized in June and through the early days of the third quarter. We hope that this is a good omen for what's left in the year.

Thanking you for your trust and wishing you and ourselves continued success,

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

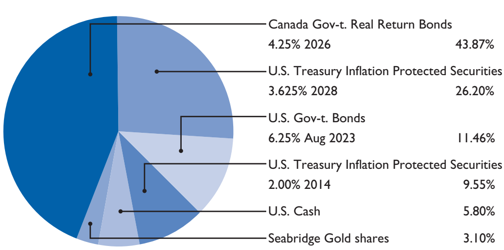
PERFORMANCE[1] as of June 30, 2004

	NAV	Quarter	Year over Year[3]	Two Years[3]	Three Years[3]	Five Years[3]
Friedberg Foreign Bond Fund[2]	15.04	-1.65%	6.60%	10.95%	8.91%	7.22%
Friedberg Total Return Fixed Income Fund Ltd.	1,590.11	-5.57%	6.61%	19.33%	15.12%	10.33%
Friedberg Total Return Fixed Income Fund L.P.	165.04	-5.47%	6.01%	20.16%	15.72%	11.35%
Benchmark[4]		N.A.	2.90%	7.54%	6.51%	6.20%

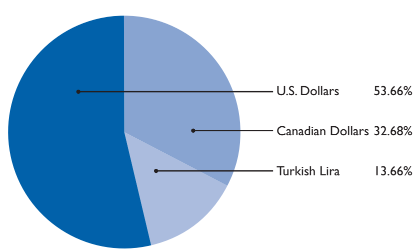
[1] Net of fees
[2] Priced in Canadian Dollars
[3] Compounded annual rate of return through May 2004
[4] 70% Merrill Lynch Broad Market Index (Bloomberg GBMI), 30% Global High Yield and Emerging Markets Plus Index (Bloomberg HAOO)

FRIEDBERG FOREIGN BOND FUND

Portfolio Allocation



Currency Exposure



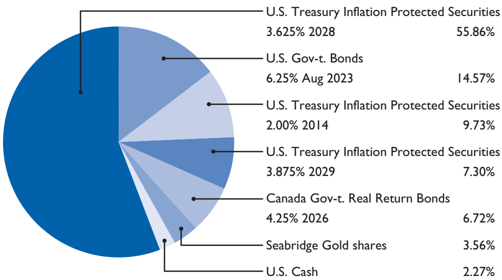
Weighted average yield to maturity	2.18%*
Weighted average current yield	2.67%*

*Assumes zero inflation.

Adjusted modified duration		5.37
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	96.90%
	Unrated	3.10%

FRIEDBERG FIXED INCOME FUND LTD.

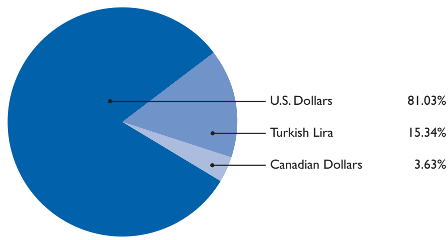
Portfolio Allocation



Weighted average yield to maturity	2.22%*
Weighted average current yield	3.33%*

*Assumes zero inflation.

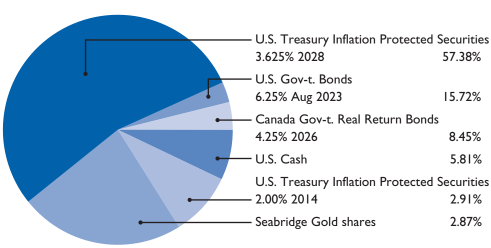
Currency Exposure



Adjusted modified duration		5.55
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	96.44%
	Unrated	3.56%

FRIEDBERG FIXED INCOME FUND L.P.

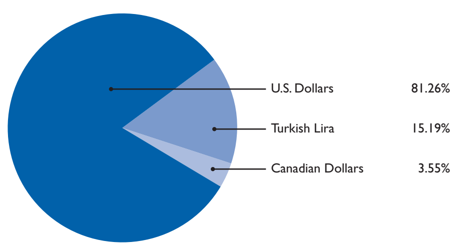
Portfolio Allocation



Weighted average yield to maturity	2.22%*
Weighted average current yield	3.35%*

*Assumes zero inflation.

Currency Exposure



Adjusted modified duration		5.24
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	97.13%
	Unrated	2.87%

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 June 30, 2004

	NAV	Quarter	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Equity Hedge Fund	18.48	-3.51%	16.97%	4.49%	20.07%
Friedberg Equity Hedge Fund Ltd.	2,202.92	-2.12%	17.96%	6.87%	23.65%
CSFB/Tremont Equity Market Neutral Index	—	N.A.	5.68%	6.27%	9.72%

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

INVESTMENT ALLOCATION[3]

	31-Mar-04	30-Apr-04	31-May-04	30-Jun-04
LONGS	53.86%	52.09%	49.91%	50.96%
SHORTS	46.14%	47.91%	50.09%	49.04%
TOTAL GROSS LEVERAGE	2.77 x	2.70 x	2.63 x	2.76 x

LARGEST SECTORS (LONGS)[3]

Biotechnology	6.54%
Communications Equipment	4.65%
Semiconductors	3.34%

LARGEST SECTORS (SHORTS)[3]

Technology Large cap (NASD 100 index futures)	22.79%
Semiconductors	4.22%
Pharmaceuticals	3.88%

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

LARGEST LONG POSITIONS

Corning Inc.
Advanced Micro Device Inc.
ECI Telecom Ltd.
Imclone Systems
Cuno Inc.
Catellus Development Corp.
Aqua America Inc.
Entergy Corp.
Kerr McGee Corp.
Readers Digest Association Inc.

LARGEST SHORT POSITIONS

NASD 100 index futures
Biovail Corp.
Semiconductor HOLDRs Trust
Viacom Inc. class B
AMR Corp.
Kohl's Corp.
Intel Corp.
Microsoft Corp.
Mattel Inc.
Dow Chemical Co.

BEST QUARTERLY PERFORMANCE

LONGS	
Imclone Systems	69.04%
ABX Air Inc.	45.41%
Valero Energy Corp.	23.02%

SHORTS	
Krispy Kreme Doughnuts Inc.	37.43%
Weight Watchers International Inc.	7.40%
Viacom Inc. class B	7.36%

WORST QUARTERLY PERFORMANCE

LONGS	
Enterasys Networks Inc.	-28.31%
Cubic Corp.	-19.50%
Novell Inc.	-17.63%

SHORTS	
Amazon.Com Inc.	-25.32%
Biovail Corp.	-21.67%
Ford Motor Co.	-20.12%

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

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

PERFORMANCE[1] as of June 30, 2004

	NAV	Quarter	Year over Year[3]	Three Years[3]	Five Years[3]
Friedberg Currency Fund[2]	8.85	-4.01%	4.95%	-20.93%	-17.31%
The First Mercantile Currency Fund	8.04	-2.21%	5.91%	-20.17%	-15.38%
Friedberg Currency Fund II Ltd.	593.00	-6.41%	1.94%	-19.47%	-13.70%
Friedberg Forex L.P.	8.31	-4.59%	11.97%	-20.10%	-16.92%
Barclay Trader Indexes Currency	—	N.A.	1.00%	4.34%	4.04%

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

OPEN POSITIONS - June 30, 2004

	Leverage
Long Hungarian Forint / Long Polish Zloty / Short Euro Currency	4.30
Short Canadian Dollar	2.05
Short Australian Dollar	1.01
Long Japanese Yen / Short Australian Dollar	1.00
Long Turkish Lira	0.82
gross leverage at June 30, 2004	9.18 x
maximum gross leverage during quarter	11.76 x

ACTIVITY REPORT - Second Quarter 2004

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long Hungarian Forint/ Long Polish Zloty / Short Euro Currency	6.59	54.05
Short Canadian Dollar	5.01	41.12
Long British Pound / Short Euro Currency	0.48	3.96
Long Japanese Yen / Short Australian Dollar	0.11	0.87

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Long Japanese Yen / Short Euro Currency	-9.20	51.54
Long Turkish Lira	-6.12	34.27
Short Australian Dollar	-2.53	14.20

Model account value March 31, 2004	40,717.79
Model account value June 30, 2004	38,415.22
Percentage gain (loss) in quarter:	-5.65%

DIVERSIFIED TRADING PROGRAM

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

PERFORMANCE[1] as of June 30, 2004

	NAV	Quarter	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Diversified Fund	3.44	-51.28%	-45.99%	-20.19%	-16.75%
CSFB/Tremont Managed Futures Index	—	N.A.	0.14%	10.89%	7.37%
Refco SPhinX Managed Futures Index Fund	926.73	-14.08%			

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

OPEN POSITIONS - June 30, 2004

	Leverage
Long Japanese Gov't Bonds	3.04
Long U.S. Treasury Bonds	2.60
Short S&P	1.40
Long Soybean	0.48
Short Copper	0.37
Short Cocoa	0.33
Short Aug Soybean 900 Put	0.08
Long Aug Soybean 1140 Call	0.00
gross leverage at June 30, 2004	8.29 x
maximum gross leverage during quarter	11.41 x

ACTIVITY REPORT - Second Quarter 2004

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Short Coffee	2.27	100.00

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Long / Short Soybeans	(14.36)	31.04
Long / Short U.S. Treasury Bonds	(8.46)	18.29
Short Natural Gas	(7.77)	16.80
Long / Short Crude Oil	(3.80)	8.21
Long / Short Index Futures	(2.88)	6.22
Long Gold	(2.31)	4.99
Long / Short Corn	(1.61)	3.49
Long / Short Cocoa	(1.54)	3.33
Long Wheat	(1.52)	3.29
Long / Short Copper	(0.82)	1.76
Long Japanese Gov't Bonds	(0.47)	1.01
Short Sugar	(0.42)	0.90
Long Cotton	(0.32)	0.69

FRIEDBERG INTERNATIONAL SECURITIES FUND

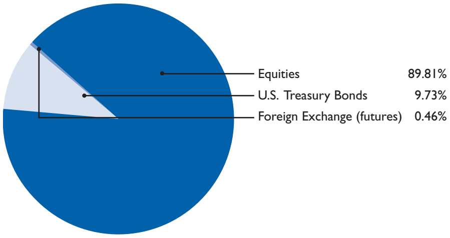
The fund seeks to capitalize on the rise and fall of local markets throughout the world by anticipating long term secular trends or by identifying, at an early stage, cyclical economic expansions and contractions of economies of selected countries. The fund uses leverage, and trades fixed income and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

PERFORMANCE[1] as of June 30, 2004

	NAV	Quarter	Year over Year[2]	Three Years[2]
Friedberg International Securities Fund	12.52	-9.07%	-24.79%	-4.97%
CSFB/Tremont Hedge Fund Index	—	N.A.	10.62%	7.86%

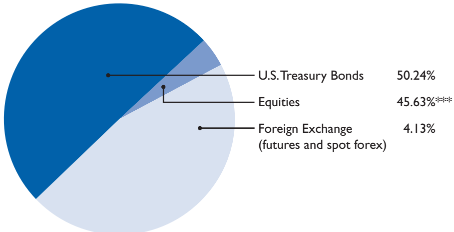
[1]Net of fees
[2]Compounded annual rate of return through May 2004

BREAKDOWN BY INVESTED AMOUNTS*



*Based on margins used in each category

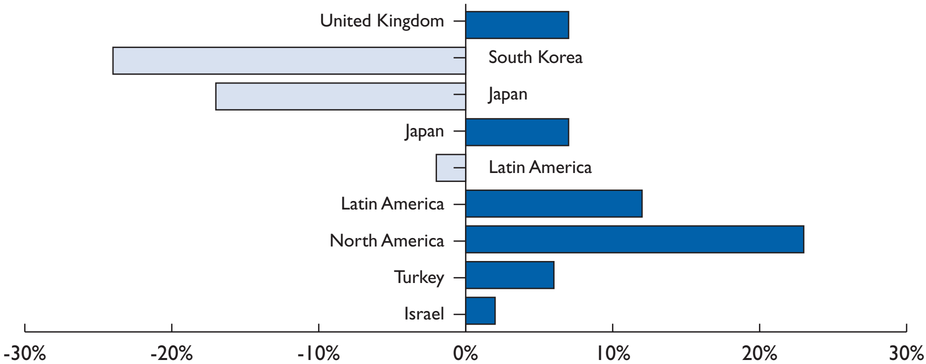
BREAKDOWN BY TOTAL GROSS EXPOSURE**



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

TOTAL GROSS LEVERAGE 1.81 x

EQUITIES ALLOCATION BY COUNTRY



NEW POSITIONS ESTABLISHED DURING THE QTR.
1) Long Human Genome (U.S.)
2) Long International Uranium (Canada)
3) Long Cephalon (U.S.)

POSITIONS LIQUIDATED DURING THE QTR.
1) Long Tokyu Construction (Japan)
2) Long Aventis ADR (France)
3) Long Comverse Technology (U.S.)
4) Long Enterasys (U.S.)
5) Long Intermune (U.S.)
6) Long Solectron (U.S.)
7) Long ThreeCom (U.S.)
8) Long Arena Pharmaceutical (U.S.)
9) Long Novell (U.S.)
10) Long Myogen (U.S.)
11) Short mini Nasdaq 100 futures (U.S.)

APPROXIMATE GROSS RETURNS ON BEGINNING EQUITY BY MAJOR SECTORS

(Apr. 1 - June 30)[2]

North America	-3.78%	Korea	5.11%
Latin America	-0.23%	Japan[3]	-1.79%
U.S. Treasury Bonds	-5.28%	Israel	0.21%
Europe	-0.12%	Turkey	-2.78

[2]not time adjusted
[3]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 June 30, 2004

	NAV	Quarter	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Global Opportunities Fund Ltd.	439.33	-22.13%	-29.40%	-15.70%	-8.46%

[1]Net of fees
[2]Compounded annual rate of return through May 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 June 30, 2004

	NAV	Quarterly	Year over Year[2]	Two Years[2]
Friedberg Global-Macro Hedge Fund Ltd.	1,329.97	-7.95%	0.36%	0.36%
Friedberg Global-Macro Hedge Fund	12.53	-8.41%	2.64%	2.64%
CSFB/Tremont Hedge Fund Index	—	N.A.	10.62%	10.62%

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

Allocation of the Friedberg Global-Macro Hedge Fund Ltd. as of June 30, 2004 is as follows:[3]

FUND	CURRENT ALLOCATION	TOTAL $ VALUE	PROPOSED NEW ALLOCATION
Fixed Income Fund Ltd.	60.36%	$56,013,229.03	60.00%
Equity Hedge Fund Ltd.	15.07%	$13,980,422.46	15.00%
Currency Fund II Ltd.	12.31%	$11,602,585.90	12.00%
International Securities	6.64%	$5,982,683.53	6.50%
Refco SPhinX Managed Futures Index Fund Ltd.	3.06%	$2,840,615.21	3.40%
Commodities Program	2.42%	$2,248,992.11	0.00%
Cash	0.14%	$128,085.04	3.10%[4]
	100.00%	$92,796,613.28	100.00%

[3]As a percentage of assets of the Friedberg Global-Macro Hedge Funds Ltd.
[4]Expected to be allocated towards the end of August.

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 June 30, 2004

	NAV	Quarter	Year over Year[2]	Three Years[2]
Friedberg Skill-Based Managers Fund	14.05	-0.57%	12.11%	7.77%
CSFB/Tremont Hedge Fund Index	—	N.A.	10.62%	7.86%

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

David Rothberg Comments:

The Skill-Based Managers Fund lost 0.57% during the second quarter, net of all fees. Year to date the Fund has earned 3.69%. The allocation as of the end of June and returns during the quarter, by strategy, were as follows:

Strategy	Allocation in Percent	Return in Percent
Long/Short Value U.S.	33.6	-3.71
Event Driven specializing in Risk Arbitrage	22.8	0.78
Convertible Arbitrage	27.4	-2.31
CTA	15.2	10.57
Cash & Treasuries	00.9	N/A

Anxiety over the Fed's reversal of its interest rate policy and the slowdown in China convinced some investors of a potent yet manageable economy, and others of an economy doomed now to slow. The two competing theses have left the dollar and the stock market range bound, and in the process made life difficult for long short equity strategists and large, mechanical-trend-following CTAS. (Our CTA component is neither large nor a mechanical trend follower, and was able to capture a decent chunk of the collapse in grains and some of the rise in energy prices).

Convertible arbitrage which likes volatility and doesn't, at least in the short term, like rising rates, found the quarter especially difficult. Added to its woes were anxieties (held especially by market scholars who adhere to the slowdown thesis) that credit spreads were vulnerable.

Event driven strategies muddled along, buoyed by the relatively bountiful crop of available deals and weighed down by narrow spreads.

The quarter was a tough one for hedge funds generally. As of the end of June the Hedge Fund Research (HFR) Composite index was up 2.8% on the year. Some believe that the problem was not the range boundedness of the stock and dollar markets, nor the seismic shift in interest rate policy, but rather a symptom of the proliferation of funds themselves.

Too much money chasing too few deals has created a market too efficient goes the argument. The ongoing success of Distressed, Reg D, and Real Estate strategies suggests it would be unwise to apply the argument categorically.

On a micro basis, ie., applied to some strategies, the argument may hold some validity. Overall we see the process as a reflection of Adam Smith's invisible hand. Low returns, to the extent that they are a function of too large a supply of money, can be thought of as cheap prices that ultimately will serve to right the imbalance.

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