Quarterly Report

3

THIRD QUARTER
2017

FRIEDBERG
MERCANTILE
GROUP LTD.

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Third Quarter Report 2017

FRIEDBERG MERCANTILE GROUP LTD.

MESSAGE TO OUR INVESTORS

I am pleased to present you with a general discussion of our funds' performance for the third quarter of 2017.

Results were mixed. The Global Macro Fund lost 0.4% for the quarter, which pushed year-to-date results to 3.5%. The Asset Allocation Fund, on the other hand, gained 3.2% for the quarter, which brought year-to-date results to a gain of 12.8%.

As I write these lines, and in view of what has been occurring in recent weeks, a discussion of third-quarter results is not very meaningful. Markets have begun to respond positively to the unique and highly constructive fundamentals powering US homebuilders, and, as a result, we have been able to achieve double-digit gains for the year to date. We expect to build on these gains as the year comes to a close. It is, of course, a great deal safer to comment on what has happened than what will happen. For this reason I will ignore much of the intra-quarter activity and instead concentrate on some highlights of the past quarter that may help shed further light on the strategy and, more particularly, on the tactics we are following.

We have made heavy use of options — buying them, that is, spending money on premiums — and we have been criticized for that. Though an exact calculation is difficult to make because it would require making some special and debatable assumptions, it is fair to say that premium decay cost us around 150 basis points this quarter. In the present environment of low returns, that cost is indeed significant. However, let me make a case that this cost was justifiable and worthwhile. A part of it was attributable to hedging market risk at various points

“MARKETS HAVE BEGUN TO RESPOND POSITIVELY TO THE UNIQUE AND HIGHLY CONSTRUCTIVE FUNDAMENTALS POWERING US HOMEBUILDERS, AND, AS A RESULT, WE HAVE BEEN ABLE TO ACHIEVE DOUBLE-DIGIT GAINS FOR THE YEAR TO DATE. WE EXPECT TO BUILD ON THESE GAINS AS THE YEAR COMES TO A CLOSE.”

in time. That the risk did not materialize – that the market did not plunge – says little about the wisdom of purchasing the insurance. One ought to be happy to have bought fire insurance and see the premium go to waste because the house did not burn down. Had the market plunged, it is not unreasonable to believe that we would have lost far more than the 40 basis points actually lost for the quarter. But there is more.

We used options as a tool to acquire (or to short) sizeable holdings, such as a short position in Intel equal to 30% of NAV or the short position in Tesla, equal to 8% of NAV, companies that are subject to the potential risk of a takeover bid (which almost any listed company is subject to, with the exception perhaps of those with the very largest market caps). More interestingly, we acquired a very sizeable long position in homebuilders, equal at the time of acquisition to roughly 50% of our NAV, through the purchase of long-term call options. Without the use of options, such a sizeable position would have represented an unacceptable risk and we would not have done it.

A second upside to the purchase of options is that the position “grows” as prices rise – delta, in the jargon of the business, moves up as prices rise and move beyond the strikes. And so, our exposure has blown up, from 50% of NAV to now over 120% of NAV, with the consequence that further rises in homebuilder stocks will have a greater-than-proportional effect on NAV.

The downside of buying options is the cost of the premium that needs to be overcome before making a profit. It is partially for this reason that we did not harvest the benefits when homebuilders rose somewhat during the past year. As for the short positions in Intel and Tesla mentioned earlier, well, these stocks moved against us and we liquidated the options with a loss (total cost = 180 basis points); it should be noted, however, that the losses were about the same as those that would have occurred had we sold the shares outright, not utilizing options, and so can be attributed almost entirely to a wrong market call.

These two trades lead us to make a comment about individual stock and bond selections. I have come to believe that it is practically impossible for a manager to select "winning" trades, that is, to outperform the market. The rush towards passive funds is just a reflection of this phenomenon. The large and growing number of analysts in recent years covering each stock has produced a truly efficient market. In contrast to standard long-only funds or even long/short funds, global macro traders enjoy the luxury of trading away from this efficient marketplace. Primarily, they need to make macro calls, such as themes, sectors or countries that will outperform. Those decisions are based more on art than on science, on intuition rather than on algorithms, on feel rather than on knowledge. And not being forced to compete against precise benchmarks, global macro traders can vary their concentrations or exposure, again on the basis of art, intuition and feel. Last, global macro traders deal in far more imprecise variables, and the skills of the successful types cannot be easily imitated or competed away by analysts armed with slide rules and Big Data.

As a result, I have tended to move away from individual stock (and bond) selection in recent years. The exceptions have occurred where I spotted serious mispricing (caused by "emotional" factors, as in the case of Valeant or Tesla) or

“OUR SELF-IMPOSED LEVERAGE CONSTRAINT HAS ACTED AS A POWERFUL FORCE IN FOCUSING OUR MINDS ON THE VERY BEST TRADES (NATURALLY, *OUR* BEST TRADES). TIME AND AGAIN WE HAVE STRUGGLED WITH VARIOUS NEW TRADES; WE HAVE BEEN CONSTRAINED TO MAKE CHOICES – WHETHER TO MAINTAIN PRESENT POSITIONS OR LIQUIDATE THEM TO MAKE ROOM FOR NEW ONES.”

where one individual stock best represented an entire industry and was easily the most liquid trading choice (such as Intel and the semi-conductor industry). You would therefore be well justified to expect to see us capitalize in months and years ahead on themes, sectors and countries, rather than on the next Amazon or Netflix.

Our self-imposed leverage constraint has acted as a powerful force in focusing our minds on the very best trades (naturally, *our* best trades). Time and again we have struggled with various new trades; we have been constrained to make choices – whether to maintain present positions or liquidate them to make room for new ones. This has made us revalue, reassess and question the rationale for existing positions on an almost daily basis, a healthy process. The Brazilian bonds and Greek banks (plus three industrials), along with the homebuilders, have survived our every impetus to go into new trades. Japanese shares did not, and since we were persuaded this trade was more crowded than the others, we thought it best to take a small profit (during this new quarter) and make room for other trades. A long position in gold was built up and then partially dismounted in the small space allowed under our maximum leverage cap; yet, with all that, we never exceeded a leverage ratio of more than 3.1x for more than a day or two.

Equity markets continue their relentless upward climb, closing, very slowly, the enormous yield gap versus fixed income. On present trends, equities would have to rise well above 30 times earnings before the "arbitrage" is completed, as we have explained in previous communications. On the other hand, risks of a sharp setback remain ever present, likely to be triggered by events of a geopolitical nature. Volumes remain unusually low (they have contracted during this bull market, a first in history). As we commented in the past, it is not clear to us that there is a sufficient reservoir of liquidity to soften the impact of a sudden "event." For that reason, options are still the way to go for leveraged portfolios.

The Asset Allocation Funds have done very well, having ignored potential lurking risks and thus avoided all the extra costs associated with option premiums and losses from short sales. Such a posture is justifiable for unleveraged portfolios. Still, we remain very conscious of market risks and are prepared to move quickly to the sidelines, as we recently did with Japanese equities. The portfolio has otherwise remained as it was for most of the year (for details, see inside pages). Thanks to the local Brazil bonds and the Greek banks, our currency exposure is 30% Brazilian real, 5% euros and 65% US dollars. In the current scenario, we deem this combination to be near ideal.

Looking ahead, we remain very bullish about our present positions, though ever cognizant of the possibility of sharp setbacks on the way to final heights. Military conflicts and inflation remain the two largest risks facing the market; the former is difficult to hedge but not so the latter, where we feel the risks are manageable and may even lead to trades that will be conducive to interesting profits.

Thanking you for your continuing trust,

ALBERT D. FRIEDBERG

Friedberg Asset Allocation Funds

Friedberg Asset Allocation Fund Ltd.
Friedberg Asset Allocation Fund

The Fund is a multi-strategy fund whose investment objective is to seek significant total investment returns, consisting of a combination of interest income, dividend income, currency gains and capital appreciation. Allocations are reviewed periodically.

MODEST RISK: Absolute return.

Performance[1] as of September 30, 2017

	NAV	Quarterly	Year over Year	Two Years	Three Years	Five Years
Friedberg Asset Allocation Fund Ltd.	1,642.27	2.93%	2.30%	10.64%	5.60%	2.69%
Friedberg Asset Allocation Fund	17.48[2]	3.13%	3.62%	11.11%	5.94%	2.88%
CSFB/Tremont Hedge Fund Index		1.81%	5.91%	2.89%	1.96%	4.16%

[1]Net of fees
[2]NAV adjusted to reflect distributions reinvested in the fund

Friedberg Asset Allocation Funds

**Capital allocation of the Friedberg Asset Allocation Fund Ltd.
as of September 30, 2017 is as follows:**

INVESTMENT		CURRENT ALLOCATION	TARGET
FIXED INCOME		34.20%	35.00%
Brazilian NTNF 10% Jan. 1/25	*19.10%*		
Brazilian NTNF 10% Jan. 1/27	*15.10%*		
EQUITIES		60.90%	60.00%
U.S. Homebuilders	*31.60%*		
U.S. and Australian Gold Miners	*13.40%*		
Japanese TOPIX Index	*10.30%*		
Greek Banks	*5.50%*		
FUTURES		4.40%	5.00%
Gold	*4.40%*		
CASH / MONEY MARKET		0.50%	0.00%
		100.00%	100.00%

Friedberg Asset Allocation Fund Ltd.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017	6.57%	2.07%	-0.54%	-1.54%	-1.12%	3.55%	1.31%	1.99%	-0.39%				12.25%
2016	-3.94%	5.15%	3.28%	8.82%	-4.95%	7.51%	4.24%	-3.87%	1.15%	-4.46%	-5.46%	0.90%	7.18%
2015	3.45%	0.31%	-1.31%	-0.74%	-1.03%	-1.67%	0.74%	-2.21%	-2.67%	3.79%	0.91%	-2.86%	-3.49%
2014	3.55%	3.30%	-1.58%	0.25%	0.32%	3.29%	-2.41%	2.93%	-5.79%	-1.39%	2.06%	0.78%	4.94%
2013	0.91%	-1.21%	0.89%	1.47%	-5.07%	-7.09%	1.98%	-0.95%	1.22%	1.99%	-0.80%	-2.20%	-8.94%
2012	5.10%	-0.08%	-2.83%	-0.77%	-3.22%	1.21%	0.40%	0.72%	1.43%	1.24%	2.83%	-1.16%	4.70%
2011	-4.11%	4.18%	1.11%	5.56%	-1.67%	-1.98%	4.65%	5.15%	-2.86%	3.31%	-1.05%	-1.58%	10.52%
2010	-0.27%	0.99%	0.56%	3.47%	1.10%	0.99%	-2.23%	3.36%	3.91%	2.57%	-0.06%	0.83%	16.14%
2009						0.38%	2.62%	0.09%	2.91%	0.53%	7.15%	-3.63%	10.13%

*** PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS ***

Friedberg Global-Macro Hedge Funds

Friedberg Global-Macro Hedge Fund Ltd.
Friedberg Global-Macro Hedge Fund

A multi-strategy fund. Allocations are reviewed periodically.

Performance[1] as of September 30, 2017

	NAV	Quarterly	Year over Year	Three Years	Five Years	Ten Years
Friedberg Global-Macro Hedge Fund Ltd.	3,044.26	-1.07%	-11.04%	1.97%	-12.22%	4.11%
Friedberg Global-Macro Hedge Fund	17.82[2]	-0.39%	-9.17%	2.31%	-12.36%	5.02%
CSFB/Tremont Hedge Fund Index		1.81%	5.91%	1.96%	4.16%	3.24%

[1]Net of fees
[2]NAV adjusted to reflect distributions reinvested in the fund

Friedberg Global-Macro Hedge Funds

Friedberg Global-Macro Hedge Fund Ltd.

Monthly Performance (%) Net of Fees

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017	0.23%	3.14%	-0.44%	-1.76%	1.05%	1.22%	-2.39%	2.14%	-0.77%				2.30%
2016	4.54%	9.86%	-9.79%	0.72%	-3.39%	1.30%	3.67%	-6.83%	-1.93%	-10.13%	-3.70%	0.49%	-15.94%
2015	4.75%	-1.16%	2.73%	-14.00%	3.14%	0.08%	11.12%	6.69%	-0.21%	0.16%	5.70%	-2.68%	15.09%
2014	17.06%	0.30%	-17.58%	-3.84%	-3.35%	1.27%	-12.07%	5.19%	-4.38%	-1.53%	7.09%	1.60%	-13.70%
2013	7.65%	-3.74%	3.04%	-1.90%	-5.62%	-13.17%	-14.23%	-1.28%	-11.27%	-4.80%	4.84%	1.87%	-34.43%
2012	-15.04%	-5.20%	1.64%	8.84%	11.22%	-2.12%	-0.69%	1.00%	0.84%	0.70%	-2.43%	-5.29%	-8.72%
2011	-10.28%	7.67%	-0.71%	9.53%	-5.06%	-3.23%	15.96%	16.22%	18.69%	-21.76%	11.47%	4.60%	40.86%
2010	2.99%	0.36%	-7.34%	3.76%	13.22%	4.75%	-13.76%	6.95%	9.11%	1.69%	-1.61%	-6.16%	11.36%
2009	-5.85%	-3.88%	3.65%	-7.15%	14.97%	-7.85%	9.47%	1.97%	5.02%	-2.21%	9.56%	-3.34%	12.02%
2008	7.18%	9.57%	-1.04%	-6.48%	4.51%	8.58%	-0.24%	-6.85%	4.18%	-5.96%	5.85%	19.06%	41.52%
2007	-1.01%	1.07%	-3.44%	-1.28%	-0.80%	1.57%	10.06%	2.80%	-1.33%	5.89%	7.91%	3.00%	26.27%
2006	1.88%	1.06%	-1.81%	2.07%	-0.75%	1.27%	2.04%	-0.09%	-0.56%	3.10%	2.43%	0.54%	11.64%
2005	1.04%	0.84%	-1.13%	1.31%	1.06%	2.47%	0.08%	0.95%	2.75%	-1.38%	2.56%	2.20%	13.41%
2004	4.03%	3.44%	1.36%	-7.84%	-0.39%	0.27%	1.02%	1.90%	1.45%	1.67%	2.76%	3.24%	13.09%
2003	3.11%	3.06%	-4.58%	-1.15%	9.26%	-3.77%	-8.04%	2.91%	5.49%	1.69%	1.49%	1.10%	9.76%
2002	-1.46%	2.04%	-2.22%	4.41%	5.41%	6.16%	-2.42%	4.45%	2.80%	-6.70%	0.32%	7.56%	21.17%
2001											0.00	-0.40%	-0.40%

*** PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS ***

Friedberg Global-Macro Hedge Funds

Global-Macro Hedge Fund Ltd. (Cayman)

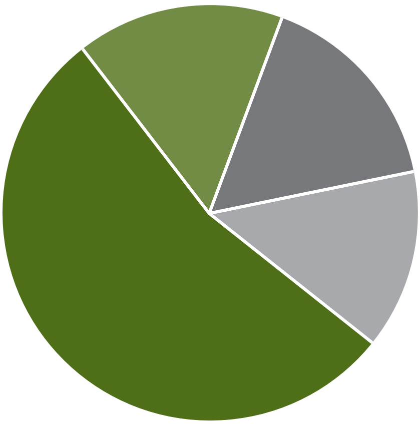
Breakdown as a Percentage of Total Assets

AS OF SEPTEMBER 30, 2017

U.S. and Global Equities*	53.91%
Fixed Income	16.16%
Currency Program	16.15%
Commodities	13.77%

Total Exposure per dollar of capital: 2.80x

* Contains long/short equities



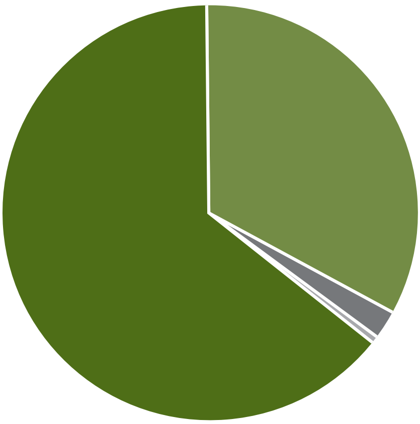
Breakdown as a Percentage of Total Assets

AS OF JUNE 30, 2017

U.S. and Global Equities*	64.43%
Fixed Income	33.05%
Currency Program	2.13%
Commodities	0.39%

Total Exposure per dollar of capital: 2.46x

* Contains long/short equities



Closed Funds

Fund	Inception Date	Inception NAV	Liquidation Date	Liquidation NAV	Size of Fund at Liquidation	Annual % Rate of Return
Friedberg Diversified Fund	13-Sep-96	10.00	31-Oct-06	48.43	$4,642,228	16.90%
Friedberg Global Opportunities Fund Ltd.	13-May-97	1000.00	28-Feb-05	501.89	$5,700,000	-8.46%
Friedberg Equity Hedge Fund L.P.	15-Feb-98	10.00	31-Oct-06	22.12	$6,784,836	9.50%
Friedberg International Securities Fund	31-Mar-98	10.00	30-Nov-05	11.49	$4,500,000	1.83%
Friedberg Futures Fund	8-May-98	10.00	31-Oct-06	19.59	$1,126,409	8.10%
Friedberg Global-Macro Hedge Fund L.P.	31-May-02	10.00	31-Oct-06	19.00	$30,691,202	15.64%
Friedberg Equity Hedge Fund Ltd.	16-Oct-96	1000.00	30-Apr-07	2951.78	$31,540,284	10.81%
Friedberg Currency Fund II Ltd.	6-Mar-97	1000.00	30-Jun-08	1019.23	$35,599,879	0.17%
Friedberg Total Return Fixed Income Fund Ltd.	2-Oct-96	1000.00	31-Jul-09	2155.93	$94,686,020	6.17%
First Mercantile Currency Fund	7-Sep-85	10.00	30-Dec-09	8.29	$848,443	N.A.
Friedberg Foreign Bond Fund	19-Aug-96	10.00	30-Jul-10	9.84	$13,336,465	6.91%
Friedberg Total Return Fixed Income Fund L.P.	19-Feb-97	100.00	28-Dec-11	325.47	$11,776,462	8.27%
Friedberg Forex L.P.	13-Jun-91	10.00	28-Dec-11	11.78	$2,558,382	2.66%
Friedberg Currency Fund	3-Jan-95	10.00	30-June-13	8.41	$1,932,936	-0.93%

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