Quarterly Report

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FIRST QUARTER
2018

FRIEDBERG MERCANTILE GROUP LTD.

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First Quarter Report 2018

FRIEDBERG MERCANTILE GROUP LTD.

MESSAGE TO OUR INVESTORS

I am pleased to present to you the first quarter 2018 financial results for the Friedberg Funds. Our two hedge funds were set back during this quarter; the Global-Macro Hedge Fund Ltd. lost 11.2% and the Global-Macro Hedge Fund lost 11.4%, while the unleveraged Asset Allocation Fund Ltd. lost 2.6% and the Asset Allocation Fund lost 2.2%.

Towards the last week of January the equities market underwent a significant, though not unexpected, correction that saw prices fall approximately 10% from their January highs. Since touching bottom in early February, markets have marked time, experiencing some healthy rotation during the past weeks and generally taking a well deserved breather from the rapid ascent that followed the US election in late 2016.

The correction hit the Global-Macro Hedge Fund harder than the averages simply by virtue of the greater leverage it employs. Some of the extra pain can also be ascribed to the fact that homebuilders, the Fund's single largest position, fell more than the averages. Given that homebuilders had climbed more than the averages in the immediately prior period, this was not unexpected. The impossibility of timing a correction with precision and the substantial trading costs associated with moving large blocks of shares and options militated strongly against taking a precautionary stance. The only decision that made sense to us was to estimate whether the coming correction, whenever it was to come, was going to mark the end of the bull market and, more specifically, the end of the housing cycle, or whether it represented merely a pause in a longer uptrend. We inclined strongly towards the latter and have used the past few weeks to look for signs that would confirm, or not, our initial intuition. I am happy

"…SUBSURFACE CONDITIONS ARE IN GOOD SHAPE AND IMPROVING: THE LIST OF STOCKS MAKING NEW LOWS IS PITIFULLY SMALL AND DECREASING, BREADTH IS IMPRESSIVE, VOLUME REMAINS MODERATE EVEN ON LARGE ONE-DAY DECLINES, AND OVEREXTENDED/ OVERBOUGHT STOCKS HAVE MANAGED TO CORRECT TO SLOW-MOVING BUT RISING LONG-TERM MOVING AVERAGES. EQUALLY IMPORTANT, THE EQUITY RISK PREMIUM HAS WIDENED AFTER THE RECENT DECLINE; AS WE CALCULATE IT (EARNINGS YIELD MINUS 10-YEAR TIPS), EQUITIES RETAIN AN ADVANTAGE OF 398 BASIS POINTS (4.66%-0.68% = 3.98%) PER ANNUM OVER FIXED INCOME, A PREMIUM THAT REAL-MONEY INSTITUTIONS CANNOT IGNORE."

to report that we remain of the same opinion. Nothing that we have seen thus far disproves our thesis that equities are still one of the best games in town.

The correction has had a dampening impact on sentiment; unbridled optimism has turned into guarded or even extreme caution, and there are some informed analysts who maintain that the bull market has already hit its high for the year(s) ahead. I disagree and here's why. In my considered opinion, what we already know cannot hurt us. That includes the possibility of a global trade war, rate increases on the horizon by central banks desirous to return to normalcy, tangible economic slowdowns in the Eurozone and in the US, prospects for a more left-leaning Congress this October, a dysfunctional administration (in the minds of the elites) and the much talked about threat of impeachment, historically high valuations suggesting mean reversion, so too the length of the economic cycle, political and military strife around the globe, and so on. Markets are discounting mechanisms and, as such, have already taken into account most of the above worries. How do we know? Because subsurface conditions are in good shape and improving: the list of stocks making new lows is pitifully small and decreasing, breadth is impressive, volume remains moderate even on large one-day declines, and overextended/overbought stocks have managed to correct to slow-moving but rising long-term moving averages. Equally important, the equity risk premium has widened after the recent decline; as we calculate it (earnings yield minus 10-year TIPS), equities retain an advantage of 398 basis points (4.66%-0.68% = 3.98%) per annum over fixed income, a premium that real-money institutions cannot ignore.

What do we need to worry about? The danger that creeps up silently, the danger that no one is focused on.

There is no doubt that conditions for an eventual crash exist already. The long expansion has seriously weakened balance sheets. By some reckonings, private debt as a percentage of GDP is today greater than it was in 2007; the ratio of corporate debt to EBIT (earnings before interest and taxes) is also higher than it was at the peak of the last expansion. Credit downgrades have multiplied;

the number of bonds with BBB ratings, the lowest investment category, has soared in recent years. The amount of outstanding sovereign debt carried by the world's largest debtors — Italy, Portugal, and Spain, to name just a few — is greater in relative terms to income than it was 10 years ago. Private and semi-private debt as a percentage of GDP in China now exceeds the corresponding debt ratio contracted by Japan just prior to the onset of the most spectacular burst in post war history. The list goes on and on.

Vulnerability, however, does not guarantee that a crash is imminent. With money relatively easy, rolling corrections across different sectors need not spread throughout the economy as long as they do not represent too large a proportion of bank lending or bond borrowings; in fact, rolling corrections are "healthy" in a Schumpeterian sense and allow the economy to maintain its upward momentum. The spectacular Florida crash of 1926 did not spread to other sectors; the stock market, as we know, did not crash until three years later, and the economy did not enter a depression until late 1930, possibly not even caused by the stock market crash (a fiercely debated question for the past 80 years). By the same token, the current depression in retail, affecting store chains and malls, has not sent the economy into a tailspin. On a negative note, low rates can keep solvent an inordinate number of "dead" companies (zombies) and a significant number of potentially defaulting sovereigns, as is now the case, and this retards productivity and growth. Good things can also happen, as for instance, a sharp (and overdue) acceleration in productivity, triggered by big increases in capital expenditure, as is now happening, which would help to further the expansion and service the large debt. The point is that this state of affairs, with relatively easy money, rolling corrections, and moderate growth, can last a great deal longer than we can imagine.

Bears list deteriorating conditions but don't emphasize sufficiently the need for triggers; as well, they mistake vulnerabilities for actual stresses. The trigger for the 2008-09 recession was the 2006-2007 rise in rates, which affected home prices and diminished the value of the underlying mortgages, the proximate causes of the financial crisis. Because mortgages represented

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a very large portion of lending, credit stresses spread throughout the financial system. Vulnerability was already present in 2004-2005, but the trigger came later. At this time, a sustained rise in interest rates can trigger stresses, but the rise would have to be quite large to affect large enough sectors to sink the economy. An increase of 100 to 150 basis points in the federal funds rate is not likely to affect the economy in a dramatic way. For one thing, these increases are already priced in and therefore largely discounted. For another, it needs to affect a very large segment of borrowers and lenders. There are no good candidates at this time to play the role that mortgages played in 2007-2008. A large increase in rates, however, one that is not being contemplated at this time, would affect many sectors. The stresses would be sure to spread and the economy would contract.

What might trigger a large increase in rates? If inflation were to stay below 2.5%, the central bank would likely stop just short of the neutral rate, now thought to be around 2% to 2.5%. Such levels, as I said earlier, are already built into the present structure of rates. They cannot harm. A trigger that could set off damaging stresses can only occur if and when inflation runs out of control. Long rates would reflect this new phenomenon and the central bank would have to adjust its rates upwards.

Is the inflation rate headed upwards, beyond 2.5% per annum? It might be, but it is still too soon to tell. As we said in previous communications, accelerating inflation is very likely to be preceded by a sustained and meaningful rise in commodity prices. The rise per se might not cause inflation to accelerate, but it would certainly signal an inflection in the rate of inflation. For now, however, commodity prices remain quiescent in a base that goes back more than two and half years.

The corollary to the above is that equity prices remain poised to move higher for the near to medium term. Undemanding valuations and strong economic tailwinds should drive US homebuilders, Brazilian equities and bonds, and Greek banks considerably higher. These represent an exposure of approximately

160.0% and 82.0% of NAV in the Global-Macro Hedge Fund and Asset Allocation Fund respectively. We have also built a cheap long position in gold via options, betting that prices will soon break through the four-and-a-half-year lid, around 1365. I expect that political tension and increasing Balkanization around the world will encourage central banks to up their allocation to gold and reduce dependency on the US dollar and the euro. Small increases in allocation to gold bullion, especially by countries with large international reserves, can have a very dramatic impact on gold prices.

While global markets remain technically well behaved, and this is to be expected considering global growth and the abundance of cheap money, small pockets of weakness are beginning to appear in isolated instances. By following these around and acting on them one can slowly shift a portfolio towards a more defensive stance. With this idea in mind, we have taken note of the weakness of financial institutions in Australia, weighted down by excessive exposure to a rolling-over residential real estate sector. The Global-Macro Hedge Fund has therefore built up a significant short position in Australian banks and other lenders. Our sights are also set on other pressured sectors, such as mainland Chinese real estate developers, Hong Kong auto manufacturers and, once again, Indian banks, but we have deemed it prudent not to act on these sectors for now, pending more evidence of a genuine turn.

We look forward to a good quarter and another excellent year.

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 March 31, 2018

	NAV	Quarterly	One Year	Two Years	Three Years	Five Years
Friedberg Asset Allocation Fund Ltd.	1,701.90	-2.64%	7.53%	9.33%	5.52%	2.72%
Friedberg Asset Allocation Fund	18.19[2]	-2.15%	8.08%	9.97%	5.91%	2.99%
CSFB/Tremont Hedge Fund Index[3]		N.A.%	5.91%	5.75%	2.05%	3.87%

[1] Net of fees
[2] NAV adjusted to reflect distributions reinvested in the fund
[3] Compounded annual rate of return through February 2018

Friedberg Asset Allocation Funds

Capital allocation of the Friedberg Asset Allocation Fund Ltd. as of March 31, 2018 is as follows:

INVESTMENT		CURRENT ALLOCATION	TARGET
FIXED INCOME		20.66%	20.00%
Brazilian NTNF 10% Jan. 1/25	*12.04%*		
Brazilian NTNF 10% Jan. 1/27	*8.62%*		
EQUITIES		74.25%	75.00%
U.S. Homebuilders	*41.11%*		
U.S. and Australian Gold Miners	*13.26%*		
Brazilian Banks	*12.98%*		
Greek Banks	*6.90%*		
FUTURES		5.17%	5.00%
Gold	5.17%		
CASH / MONEY MARKET		-0.08%	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
2018	3.62%	-6.33%	0.31%										-2.64%
2017	6.57%	2.07%	-0.54%	-1.54%	-1.12%	3.55%	1.31%	1.99%	-0.39%	1.38%	2.60%	2.32%	19.48%
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 March 31, 2018

	NAV	Quarterly	One Year	Three Years	Five Years	Ten Years
Friedberg Global-Macro Hedge Fund Ltd.	3,607.17	-11.18%	17.78%	3.31%	-9.07%	2.63%
Friedberg Global-Macro Hedge Fund	21.43[2]	-11.41%	20.39%	4.11%	-9.05%	3.60%
CSFB/Tremont Hedge Fund Index[3]		N.A.%	5.91%	2.05%	3.87%	3.28%

[1]Net of fees
[2]NAV adjusted to reflect distributions reinvested in the fund
[3] Compounded annual rate of return through February 2018

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
2018	4.82%	-18.57%	4.07%										-11.18%
2017	0.23%	3.14%	-0.44%	-1.76%	1.05%	1.22%	-2.39%	2.14%	-0.77%	10.58%	15.85%	4.13%	36.47%
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 ***

Global-Macro Hedge Fund Ltd. (Cayman)

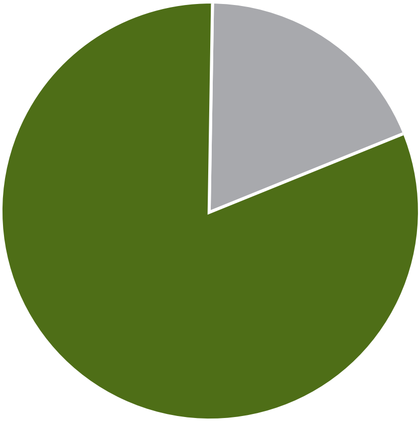
Breakdown as a Percentage of Total Assets

AS OF MARCH 31, 2018

U.S. and Global Equities*	81.50%
Fixed Income	0%
Currency Program	0%
Commodities	18.50%

Total Exposure per dollar of capital: 2.59x

* Contains long/short equities



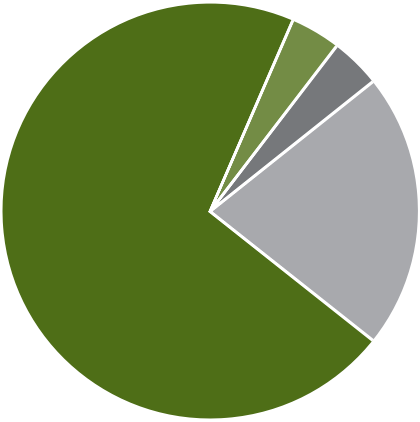
Breakdown as a Percentage of Total Assets

AS OF DECEMBER 31, 2017

U.S. and Global Equities*	70.86%
Fixed Income	3.91%
Currency Program	3.90%
Commodities	21.33%

Total Exposure per dollar of capital: 2.94x

* 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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