Quarterly Report

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FIRST QUARTER
2012

FRIEDBERG MERCANTILE GROUP LTD.
Celebrating 40 Years

Contents

First Quarter Report 2012

FRIEDBERG MERCANTILE GROUP LTD.
Celebrating 40 Years

MESSAGE TO OUR INVESTORS

It gives me pleasure to report to you on the financial activities of our hedge funds for the quarter ended March 31st, 2012.

The net asset value of the Friedberg Global-Macro Hedge Fund Ltd. fell 18.1%, recording its worse quarter in its 10-year history. On a year-over-year basis, a perspective of great interest and significance to us, the fund still managed to post a 20.2% gain. The Friedberg Asset Allocation Fund Ltd., which, as you recall, is a non-leveraged hedge fund, continued its steady, winning ways, posting a 2.1% gain for the quarter and an 11.7% gain from a year ago.

The single most significant financial "event" of the past three to four months was no doubt the clever, surprising, dramatic but ultimately futile and destructive advances, at concessionary rates, made by the ECB to European banks in an effort to co-opt these nearly bankrupt institutions into financing the nearly bankrupt European sovereigns. Unlimited amounts were offered, against questionable collateral, to tempt commercial lenders to play the "carry," namely, buying Spanish and Italian debt of varying maturities yielding up to 7% while paying a piddling 1% for a three-year loan. Compared with an outright purchase of sovereign debt, this maneuver demonstrated a great deal of creativity but also hid a great deal of deception; the professional community applauded the move, describing it admiringly as another tool in the ECB's kit, and pronounced the financial crisis over. Admittedly, the crunch, the prospect for a devastating run on banks, was avoided — for now. Lombard's old banking adage exhorting the central bank (the Bank of England, at the time) to lend freely during a financial crisis had been turned on its head: instead of lending at prohibitive rates against impregnable collateral and thus cushioning the inevitable collateral damage and domino effect of a liquidity crisis, the ECB had lent freely at concessionary rates (and concessionary terms) against assets of doubtful value to solve a solvency crisis!

As the full implications of this bailout spread, financial stocks surged, leading all other asset prices higher. As one can imagine, the damage to our portfolio, structured as an

The Friedberg Asset Allocation Fund continued its steady and winning ways posting a gain for the quarter and an 11.7% gain from a year ago.

aggressive bet on a full-fledged financial debacle, was substantial. First, incredulity that such an august institution, the inheritor of the hard-money Bundesbank, could think and act in such an irresponsible and populist manner slowed our reaction. Second, the time to think through and identify 1) the salvageable parts of the portfolio, 2) the elements most at risk that needed to be weeded out at once, and finally, 3) the positions that could offer refuge in the tempest but that would not be caught in the inevitable relapse slowed our reaction even further. To my great relief, the portfolio held up better than it did in October, when the first whiffs of a bailout circulated. The portfolio was already beginning to be re-structured around the premise that, regardless of the eventual outcome, certain assets and regions would do better than others and that a certain degree of dispersion would re-assert itself. This rebalancing cushioned our fall and was to lay the foundations for a more orderly, less volatile, performance in the months to come.

Throughout it all, I repeated to myself that certain outcomes were all but inevitable: that the Eurozone, and in particular Spain, Portugal and Italy (Greece had already bankrupted) was heading into a hard landing; that the longer it took, the deeper the crisis would turn out to be and the more sovereigns would be caught in the net, with Belgium, France and Netherlands not far behind. In short, I repeated to myself that a breakup of the Eurozone sorts was only a matter of time (no, I did not nor do I mean to imply that the Euro would collapse; that is another discussion) and that China was actually slowing down, if not more than slowing, and that it had reached the limit of tinkering in order to bring down inflation, slay the housing dragon and, at the same time, attempt to stimulate the economy. There are only so many times that a state can use brute economic force and then expect its citizens to follow its entreaties to spend; there are only so many bad loans that a state can countenance before deciding to change course. The trade balance has ceased to be an engine of growth — a sign of fast-rising domestic costs — foreign exchange inflows have clearly flattened and the yuan is more likely to be looking at a gradual depreciation than further appreciation. Going forward, one must seriously discount bullish commodity talk based on Chinese demand.

I also felt quite certain of the following propositions: that a faltering China would be no good for the sunny but overextended Australian economy, already in the throes of a once-in-a-generation real estate bust; that India could not pretend to fight chronic inflation while simultaneously trying to pull out from an economic slump, certainly not when micro and macro-economic policies were in total disarray and when corruption was eating away at its institutions; that the Brazilian economic miracle could not be expected to persist if private debt to GNP continued to explode and if real interest rates on consumer loans continued to average upwards of 40% per annum; that the newly re-capitalized and bad-loans-free Bank of Ireland would outperform, hands down, all the rest of its European counterparts.

With substantially less certainty, I was willing to bet that the U.S. would provide a relative refuge from the coming storm. My doubts related to the fact that the U.S. would be negatively affected by global conditions, by eroding disposable incomes and by a very low savings rate. Despite these misgivings, I felt that many individual stocks and some sectors would emerge winners in the long run, housing for one, powered by inflation and the slow but steady liquidation of the housing overhang. Adding to the appeal was the promise of an important political change, if and when it came about, that could bring about a sea change in U.S. finances and cause an important revaluation of equity prices. The promise for now is called Paul Davis Ryan, the U.S. Representative of Wisconsin and the intellectual author of the budget plan bearing his name.

The above reflects much of what went through my mind during these trying months, challenging us to take a stand. To deal with the situation, I eliminated all “weak” positions from the portfolio, where prospects of gain, to my way of thinking, were less than 100% certain, along with relatively poor-performing assets or securities, whether long or short. In the process, I reduced leverage considerably and managed to rein in excess volatility. We went from a net short exposure to equities of 80% to 100% to a net short exposure of 40% to 60% by eliminating our short exposure to five U.S. banks and one German bank (Deutsche Bank), which I felt were better sheltered from the European crisis, and by liquidating a fair-sized short position in Gazprom, the Russian energy producer, having lost some of my confidence in its vulnerability to falling gas prices. The short "gap" was mostly filled by buying gold, on the assumption that what made equities rise would make gold rise, too. Unfortunately, my re-entry in gold, at an average price of $1755, was not as well timed as my exit had been and it ended up costing us 225 basis points. Reasoning that currencies had fallen prey to common and highly correlated macro themes, much of which mirrored positions already held in other parts of the portfolio, I cut the allocation to the currencies pocket from 7% to 2%.

In retrospect, not all these trimming decisions were as felicitous as we had expected them to be, but no matter. The exercise aimed to make us comfortable enough to withstand the adversity, and in that respect, it succeeded. It allowed us to keep our heads above water, and most importantly, to maintain those positions we felt had outstanding profit potential. In short, the exercise sharpened our focus and strengthened our determination.

While almost all positions held showed losses during the quarter, it is worth mentioning the few that contributed profits and lived up to their rationale of acting as hedges. In order of magnitude, these were: our long positions in U.S. housing stocks (490 bps), Bank of Ireland (258 bps), U.S. pharmaceutical companies (76 bps), commodity futures managed by Covenant (46 bps), and our short position in Turkish stock futures (44 basis points). On a disappointing note, the market-neutral equities hedged program lost 8.5% for the quarter, contributing a negative 140 bps to the fund. Our long-to-short ratio ranged from a low of 1.01x to a high of 1.14x, while leverage ranged from 2.79x to 3.16x. At all times, positions were held well below our self-imposed limit of 20 stocks. I could find no special reason for this underperformance other than poor selection.

During this quarter, we initiated and closed more transactions than usual in the Asset Allocation funds, a result of the very same set of confusing (to us, at least) factors described earlier. The equities and fixed-income allocations contributed positively to the fund while gold mining shares, represented by the Market Vectors Junior Gold Miners ETF, contributed negatively for the period. A portion of our U.S. Treasurys was replaced with Bunds (using Bund futures and thus avoiding heavy exposure to the Euro currency) to take advantage of the pronounced rush to safety that had emerged in the Eurozone

Our current allocation reflects a cautious outlook for the period immediately ahead.

but leaving overall exposure to medium and long-term fixed income at 35%. Towards the end of the quarter, we added gold to the portfolio (via futures), bringing our total gold exposure to 25% of the fund from 15%, and subsequently sold the Miners ETF and replaced it with more gold, leaving overall exposure to gold at the new 25% level. Also during the quarter, the equities share of the portfolio was increased to 23% from 16%. This was accomplished by adding Japanese real estate stocks and by accepting the effective revaluation of the Bank of Ireland position, now equal to 7% of the portfolio, instead of cutting back the position to our original 5% target. These changes were funded by drawing down cash and Treasurys held as cash.

Our current allocation (see inside) reflects a cautious outlook for the period immediately ahead. The financial repression being practiced by governments in most developed countries, running negative real interest rates for an extended and indefinite period of time, suggests that investors would be well advised to take capital protection in inflation-linked securities, dividend-paying stocks and gold. Risks force us, however, to temper this reasonable posture by maintaining a sizeable cushion in nominal AAA obligations.

The new quarter has begun on a propitious note, validating some of the skeptical views outlined above. We are positioned to take advantage of what we see as a renewed bout of financial difficulties, particularly in Europe and Asia, and a severe global recession. Nevertheless, we hope to have structured the portfolio in such a manner as to resist new attempts to kick forward the inevitable day of reckoning with only minimal damage and (dare we ask?) some profits.

Thanking you for your continued trust,

ALBERT D. FRIEDBERG

Friedberg Global-Macro Hedge Funds

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

A single manager multi-strategy fund.
Allocations are reviewed periodically.

Performance[1] as of March 31, 2012

	NAV	Quarterly	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Global-Macro Hedge Fund Ltd.	4,874.44	-18.14%	17.43%	16.07%	20.37%
Friedberg Global-Macro Hedge Fund	29.33[3]	-16.77%	17.71%	20.75%	23.06%
CSFB/Tremont Hedge Fund Index		N.A.	-0.70%	9.99%	3.54%

[1]Net of fees
[2]Compounded annual rate of return through February 2012
[3]NAV adjusted to reflect distributions reinvested in the fund

Capital allocation of the Friedberg Global-Macro Hedge Fund Ltd. as of March 31, 2012 is as follows:

FUND	CURRENT ALLOCATION	TARGET
Fixed Income	7.46%	7.50%
U.S. Equities - Market Neutral Strategy	15.11%	15.00%
Currency Program	1.97%	2.00%
Global Opportunities	75.42%	75.50%
Cash	0.04%	0.00%
	100.00%	100.00%

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
2012	-15.04%	-5.20%	1.64%										
2011	-10.28%	7.67%	-0.71%	9.53%	-5.06%	-3.23%	15.96%	16.22%	18.62%	-21.62%	11.47%	4.60%	40.84%
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%	14.90%	-7.85%	9.47%	1.97%	5.02%	-2.21%	9.56%	-3.34%	12.02%
2008	7.37%	9.57%	-1.04%	-6.48%	4.51%	8.58%	-0.24%	-6.85%	4.18%	-5.96%	5.85%	19.06%	41.77%
2007	-1.01%	1.07%	-3.44%	-1.28%	-0.80%	1.57%	10.06%	2.80%	-1.33%	5.89%	7.91%	2.82%	26.04%
2006	1.94%	1.06%	-1.81%	2.07%	-0.75%	1.27%	2.04%	-0.09%	-0.56%	3.10%	2.43%	0.54%	11.70%
2005	1.05%	0.84%	-1.13%	1.31%	1.06%	2.47%	0.08%	0.95%	2.75%	-1.38%	2.56%	2.14%	13.35%
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%	13.07%
2003	3.10%	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%	3.30%	7.57%	21.18%
2001										0.00%	0.00%	-0.40%	-0.40%

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

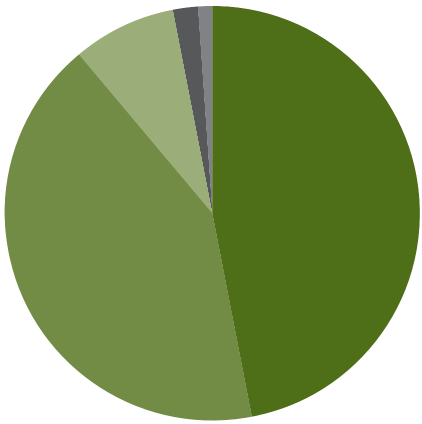
Friedberg Global-Macro Hedge Funds

Global-Macro Hedge Fund Ltd. (Cayman)

Breakdown by Total Gross Exposure

Commodities	47%
Global Opportunities	42%
U.S. Equities-Market Neutral	8%
Currencies	2%
Fixed Income	1%
Cash	0%

Total Exposure per dollar of capital: 5.45x

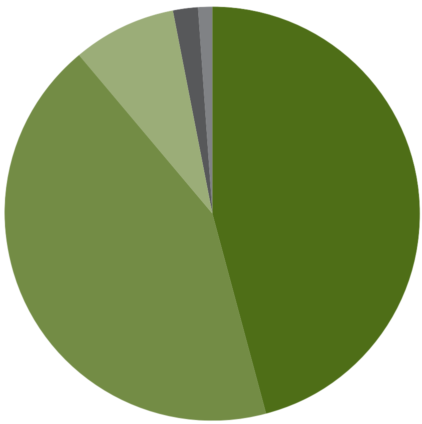


Global-Macro Hedge Fund (Canada)

Breakdown by Total Gross Exposure

Commodities	46%
Global Opportunities	43%
U.S. Equities-Market Neutral	8%
Currencies	2%
Fixed Income	1%
Cash	0%

Total Exposure per dollar of capital: 4.62x



Friedberg Global-Macro Hedge Funds

U.S. EQUITIES - Market Neutral Strategy

An equity strategy that seeks absolute returns through the judicious selection of long and short positions while maintaining a market neutral posture.

Performance as of March 31, 2012

	NAV (notional)	Quarter
U.S. EQUITIES		
Market Neutral Strategy of the Global-Macro Hedge Fund	1,291.56	-8.49%

Investment Allocation

	31-Dec-11	31-Jan-12	29-Feb-12	31-Mar-12
LONGS	54.77%	50.38%	53.27%	51.19%
SHORTS	45.23%	49.62%	46.73%	48.81%
TOTAL GROSS LEVERAGE	2.64x	2.97x	3.16x	2.79x

Largest Sectors (Longs)

Aerospace and Defense	12.54%
Utilities	10.63%
IT Consulting & Other Services	7.11%

Largest Sectors (Shorts)

Industrials Large Caps	7.53%
Steel	6.80%
Oil & Gas Exploration & Production	6.63%

Largest Long Positions

Utilities Sector SPDR
International Business Machines Corp.
United Technologies Corp.
Google Inc.
Regeneron Pharmaceuticals

Largest Short Positions

S&P Futures
United States Steel Corp.
Chesapeake Energy Corp.
General Motors Co.
Alcoa Inc.

Best Quarterly Performance

	Longs
Regeneron Pharmaceuticals	110.39%
United Technologies Corp.	13.49%
International Business Machines Corp.	13.47%

	Shorts
MBIA Inc.	15.44%
General Motors Co.	2.91%
Oshkosh Corp.	1.86%

Worst Quarterly Performance

	Longs
Watson Pharmaceuticals Inc.	-3.56%
Utilities Sector SPDR	-2.60%
Google Inc.	-0.72%

	Shorts
Skyworks Solutions Inc.	-74.62%
Whirlpool Corp.	-56.51%
Bank of America Corp.	-34.21%

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, 2012

	NAV	Quarterly	Year over Year[2]	Two Years[2]
Friedberg Asset Allocation Fund Ltd.	1,442.65	2.05%	16.18%	15.69%
Friedberg Asset Allocation Fund	15.29[3]	2.55%	16.16%	15.79%
CSFB/Tremont Hedge Fund Index		N.A.	-0.70%	5.59%

[1]Net of fees
[2]Compounded annual rate of return through February 2012
[3]NAV adjusted to reflect distributions reinvested in the fund

Friedberg Asset Allocation Funds

Capital allocation of the Friedberg Asset Allocation Fund Ltd. as of March 31, 2012 is as follows:

INVESTMENT		CURRENT ALLOCATION	TARGET
FIXED INCOME		35.30%	35.00%
U.S. TIPS 2.125% Apr. 15/28	*14.70%*		
Ten Year U.S. Notes	*5.00%*		
Ten Year German Bunds	*10.40%*		
Bank of Ireland 4% Jan. 28/15	*5.20%*		
EQUITIES		23.20%	26.00%
U.S. Equities	*9.60%*		
Foreign Equities	*13.60%*		
GOLD		24.40%	25.00%
Market Vectors Jr. Gold Miners ETF	*14.30%*		
Gold Futures	*10.10%*		
CASH AND SHORT TERM INVESTMENTS		17.10%	14.00%
		100.00%	100.00%

Friedberg Asset Allocation Fund Ltd.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2012	5.10%	-0.08%	-2.83%										
2011	-4.11%	4.18%	1.11%	5.56%	-1.67%	-1.98%	4.65%	5.15%	-2.82%	3.31%	-1.05%	-1.58%	10.53%
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%	16.13%
2009						0.38%	2.62%	0.09%	2.91%	0.53%	7.15%	-3.63%	10.14%

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

Currency Fund

Friedberg Currency Fund

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

Performance[1] as of March 31, 2012

	NAV	Quarter	Year over Year[3]	Three Years[3]	Five Years[3]
Friedberg Currency Fund[2]	11.89	-15.43%	-7.23%	-5.09%	-2.46%
Barclay Currency Traders Index		N.A.	3.81%	2.47%	2.68%

[1]Net of fees
[2]Priced in Canadian Dollars
[3]Compounded annual rate of return through February 2012

Open Positions - March 31, 2012

	Times Dedicated Capital
Short New Zealand Dollar	1.97
Long Japanese Yen	1.02
Short Hungarian Forint	0.78
Total Gross Leverage	3.77 x
Maximum Gross Leverage During Quarter	7.44 x

Activity Report - First Quarter 2012

Profitable Transactions	Profit As Percentage Of Average Equity	Percentage Of Total Profits
Long Euro Currency	8.05	100.0

Losing Transactions	Profit As Percentage Of Average Equity	Percentage Of Total Losses
Short Brazilian Real	(8.30)	36.40
Short Australian Dollar	(4.79)	21.01
Short New Zealand Dollar	(4.20)	18.43
Short British Pound	(4.02)	17.64
Long Japanese Yen	(0.92)	4.03
Short Hungarian Forint	(0.57)	2.49

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%

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CELEBRATING 40 YEARS

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