Quarterly Report

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FIRST QUARTER
2015

FRIEDBERG MERCANTILE GROUP LTD.

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All Statements made herein, while not guaranteed, are based on information considered reliable and are believed by us to be accurate.

Futures and options trading is speculative and involves risk of loss.

Past trading results are not indicative of future profits.

First Quarter Report 2015

FRIEDBERG MERCANTILE GROUP LTD.

MESSAGE TO OUR INVESTORS

It is with great satisfaction that I write to you about our funds' activities for the first quarter of 2015. Results continued to improve, building on the fourth quarter of last year.

For the quarter ended March 31, the Global-Macro Hedge Fund gained 6.6% (16.4% in Canadian dollars), though it still remains down 6.1% year over year. All pockets, namely, fixed income, commodities, currencies and equities, contributed positively to the quarterly results. The Asset Allocation Fund gained 2.7% (11.9% in Canadian dollars) for the quarter and is up 2.3% year over year. Fixed income and equities contributed positively, while the commodities allocation (long positions in gold, palladium, cocoa and silver) showed a loss. It is worthwhile to note that the Asset Allocation Fund does not sell short, which explains the divergence in the commodities sector between the two funds.

This back-to-back quarterly gain is significant for two reasons. In the first place, it has been accomplished by riding some core positions, without change, indicating that some of our long-held views are finally coming into focus. We were too early rather than wrong — a small consolation for those who were forced, for diverse reasons, to exit early but a sign of hope for those who had the fortitude to withstand temporary adversity and who demonstrated their faith in our management. It is also significant in that, in contrast to the great majority of hedge fund managers (and all of the long-only managers), we achieved these gains while carrying meaningful and relatively expensive hedges to the long view. Our hedge arsenal consisted of default swaps on various sovereign credits, high-quality almost-zero-yield bonds, gold futures and options, short positions in various stocks and, from time to time, S&P puts. That is, we fought with one arm tied behind our back and still managed to achieve respectable returns two quarters running.

I need to emphasize that our aim and goal, recently and for the past three years, has been to ride a concentrated long position in U.S. home builders, supplemented

We have felt all along that home builders have been in the midst of a powerful bull market, one that began in the dark days of 2009, when we first initiated these investments and that promises to persist for quite some time.

by a fair-sized long position in asset manager Blackstone and, more recently, a package of airline stocks. We have felt all along that home builders have been in the midst of a powerful bull market, one that began in the dark days of 2009, when we first initiated these investments and that promises to persist for quite some time.

Despite the doubts and outright bearish comments expressed by the investment community during this time, especially during the frustrating flatlining that occurred between May 2013 and February 2015, we insisted that the consolidation was only a pause in an otherwise durable and powerful uptrend. The fundamental forces behind this bull move can be found in the super-easy monetary policies of the U.S. Federal Reserve (easily the most dramatic implementation of easy money in U.S. history), the dearth of new construction over the past five years, and the delayed but powerful rise in household formation that is currently taking place.

Job growth would become the catalyst for these forces. We argued that the scars of 2006-2009 were going to heal and that persistently rising prices were going to convert non-believers into believers in due time. In short, we argued that home ownership, and even condo ownership, given cheap long term financing was going to turn into America's favourite inflation pastime. With steady increases in jobs, this has begun to happen. The *Wall Street Journal* reported on April 10 that sales gains ran in the double digits in March in cities with robust job gains, including a 17.7% increase in Seattle and a 20.3% increase in Charlotte, N.C. Pending sales were up 30.6% in Houston, 27.8% in San Diego, 24.2% in Seattle and 23.7% in the Riverside and San Bernardino market in California. The boom has just begun.

We also recognized long ago that Blackstone's extraordinary ability to turn easy money to its advantage in real estate and private equity deals would make it into one of the biggest beneficiaries of the (inflationary) U.S. building boom in due course. It has not disappointed us. In recent days, Blackstone has not only touched a 52-week high but has also reached an all-time high since listing.

Late last year — admittedly not as early as we should have — we added airlines to the long portfolio in the firm belief that their "time had come." Overexpansion, made easy by liberal financing terms, led to almost half a century of mounting losses. Repeated bankruptcies eventually led to industry-wide rationalization and consolidation. As a result, pricing began to firm up. This benign supply-side effect, coupled with increased traffic and sharply lower fuel costs, turned airlines into serious cash generators. There are encouraging indications that the industry will continue to exercise restraint in adding capacity and instead use free cash flow to repurchase stock, in which case we expect stock prices to move considerably higher yet.

All our hedges were and are intended to offer protection against sharp sell-offs that may morph into a global bear market without warning. They do not represent our primary investment objective. This defensiveness is brought about by the fact that the global economy has become increasingly dependent on easy but ineffectual fixes. For one thing, excessively easy monetary policy around the world has distorted capital allocation, encouraged excessive speculation and, as discussed below, sown the seeds of the next great inflation. At the same time, fiscal policy around the world has failed to deal with the fast growing and fast approaching explosion in entitlement spending, aggravated by alarming demographic trends. Conservative projections indicate that these outlays are certain to consume all tax revenues — and then some — in the not-too-distant future. Finally, private and public debts around the world have grown well beyond prudential levels and are sustained only by artificially low interest rates induced by central banks.

When rates rise, as inevitably they must, these vulnerable debt structures will surely collapse. In short, it is our firm belief that the economic *dolce vita* of the past six years will not end well. We must continue to be on guard against an event's "not ending well." But what will that be? Rapidly accelerating inflation? Generalized debt default? Depression? And when? Since we cannot be sure of these answers, we continue to devote a substantial portion of our assets to the business of preserving capital.

In the past, when the economic recovery was still much too fragile in the U.S. and Western Europe, we rushed to acquire protective hedges, paying too little attention to timing the various "bear" trades and often failing to find timely catalysts for them. To compound the problem, while relying on these hedges, we allowed leverage to rise to what was in retrospect too high a level, resulting, as we well know, in a long period of high volatility and losses.

These days, leverage has been capped around 4.5x, regardless of how uncorrelated various components of the portfolio might be. Moreover, hedges must stand on their own; they must promise to generate a profit and pass the criterion of timeliness even if global economic conditions should "muddle through" the next few years. Their performance must not depend on the occurrence of a global economic or political catastrophe. This is no easy task, though fortunately in recent months we have begun to note a greater degree of dispersion among global investment assets than was previously the case.

A word about inflation… I thought that by now there would be little need to repeat the old monetarist proposition, that inflation is and has always been a monetary phenomenon. And yet, economic commentators and even central bank governors hardly pay attention nowadays to the monetary aspects of this phenomenon, so much so that the growth of money bears absolutely no mention in the monthly or quarterly reports of some of the world's most respectable central banks, including those of Canada and New Zealand. But it is a fact that the extremely restrained pace of money growth in Japan, the Eurozone and the U.K. — in some cases negative rates of money growth — explains well price behaviour that borders on deflation. Even in the U.S., where core consumer-price increases have been marching around 2%, little credit has been given to the modest pace of broad money growth. Instead, deflation or weak inflation has been attributed to weak economic recovery and the restrained pace of wages (owing to high rates of unemployment).

We have remarked on a number of occasions that QE, which was thought to lead to accelerating rates of inflation, has not produced the expected result — not because money growth is irrelevant or ineffectual, but rather because an increase in base money (reserves created by the central bank) never led to an increase in money supply, the kind of money (deposits) held by the public. Never, or more precisely, it has not done so *as yet*.

The reasons are complex and rather technical. For one thing, banks have faced large increases in capital/assets ratios, imposed on them by worried regulators, and these requirements have had the effect of forcing banks to stabilize or shrink their balance sheets. This is especially the case for large, systemically important banks. Second, loan demand has been weak, as the private sector has deleveraged over the past few years. In addition, less-than-qualified borrowers have bypassed the banking system, thanks to the growth of secondary lenders (shadow banking) and public bond markets.

For all these reasons and more, commercial banks in the U.S., U.K. and the Eurozone have failed to expand assets and liabilities despite the fact that they have been sitting on trillions of dollars in excess reserves. This situation is about to change, and it will have enormous consequences. Job increases have resulted in more confidence: deleveraging (after accounting for the temporary impact of falling oil prices on the savings rate) is coming to an end and will surely lead to growing loan demand. Banks are about to retake market share from shadow banking, as recent numbers indicate. This will lead to bank-created deposits and an increase in money supply.

Most importantly, small banks, less burdened by capital requirements and regulations, are starting to lend in a more aggressive way. Small banks now hold more than $1 trillion of loans, backed by commercial real estate, compared with about $583 billion at bigger banks. The amount held by smaller banks rose 9.7% in the 12 months through March, compared with 4.5% for large banks. Because large banks constitute such a large proportion of deposits (well over 60%), increases in loans outstanding do not translate into an equivalently rapid increase in money supply; this will take some time. For now, broad money, measured over the past six months, is growing at 6.4% annually, about the top end of its pace over the past few years. MZM (Money Zero Maturity), a measure of narrowly defined money, has sprinted to 7.2% annually, still broadly within its recent historical range.

But let there be no doubt that for all the reasons discussed above, money supply will begin to increase at a much more rapid pace in coming months. Talk of disinflation and even deflation will soon give way to worries about inflation. Coming wage increases, a result of lower unemployment and slowing productivity, are only one factor in the overall picture. If these wage increases are not financed by increased money growth, they will have a severe impact on profit margins, with contractionary consequences. If they are financed by increases in money growth, as we expect, then inflation will begin to accelerate. Inflation will first be felt in the services and housing sectors. More rapid rates of inflation will affect monetary policy, the shape of the yield curve, actual levels of interest rates and the currency markets. The more unexpected the outbreak of inflation, the more severe the impact will be. For that eventuality, we have acquired put options on deferred euro interest-rate contracts. It is also reasonable to suppose that gold will respond positively, especially if interest rates do not react promptly enough to the pickup in inflation.

There is a multitude of political and economic factors — many in the category of “known unknowns” and some in the category of “unknown unknowns” — that can delay, sometimes for months, the full realization of developments that, in our opinion, possess a high degree of certainty. Nevertheless, we remain confident of achieving highly competitive rates of return. We counsel continued patience.

Thank you for your trust,

ALBERT D. FRIEDBERG

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, 2015

	NAV	Quarterly	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Global-Macro Hedge Fund Ltd.	3,271.34	6.36%	-23.90%	-12.76%	-4.09%
Friedberg Global-Macro Hedge Fund	18.99[3]	6.63%	-24.85%	-13.97%	-4.75%
CSFB/Tremont Hedge Fund Index		N.A.	4.59%	6.42%	6.09%

[1]Net of fees
[2]Compounded annual rate of return through February 2015
[3]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
2015	4.75%	-1.16%	2.73%										6.36%
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%	18.62%	-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												-0.40%	-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

AS OF MARCH 31, 2015

U.S. and Global Equities*	44%
Fixed Income	34%
Commodities	14%
Currencies	8%

Total Exposure per dollar of capital: 4.58x

* Contains international long/short equities

Global-Macro Hedge Fund Ltd. (Cayman)

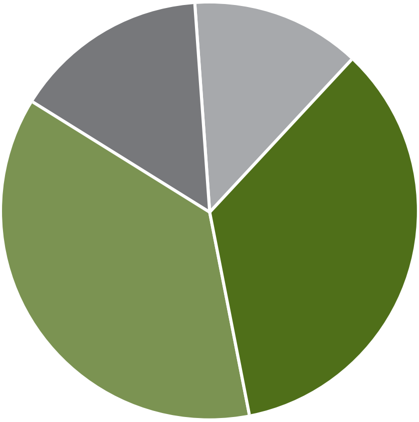
Breakdown by Total Gross Exposure

AS OF DECEMBER 31, 2014

U.S. and Global Equities*	35%
Fixed Income	37%
Commodities	15%
Currencies	13%

Total Exposure per dollar of capital: 4.33x

* Contains international long/short equities



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, 2015

	NAV	Quarterly	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Asset Allocation Fund Ltd.	1,448.46	2.42%	1.81%	-0.38%	5.76%
Friedberg Asset Allocation Fund	15.31[3]	2.75%	1.84%	-0.55%	5.69%
CSFB/Tremont Hedge Fund Index		N.A.	4.59%	6.66%	6.42%

[1]Net of fees
[2]Compounded annual rate of return through February 2015
[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, 2015 is as follows:

INVESTMENT		CURRENT ALLOCATION	TARGET
FIXED INCOME		58.80%	58.50%
U.S. TIPS 2.125% Feb. 15/40	*23.30%*		
10-Year German Bunds (via Futures)	*35.50%*		
EQUITIES		26.10%	25.00%
U.S. Homebuilders	*17.70%*		
U.S. and Australian Gold Miners	*2.80%*		
U.S. Biotech	*5.60%*		
COMMODITIES		15.60%	16.50%
Gold (via Futures)	*9.40%*		
Palladium (via Futures)	*2.10%*		
Cocoa (via Futures)	*4.10%*		
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
2015	3.54%	0.31%	-1.31%										2.42%
2014	3.54%	3.30%	-1.58%	0.25%	0.32%	3.29%	-2.41%	2.93%	-5.79%	-1.39%	2.05%	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%	-2.82%	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 ***

Closed Funds

Fund	Inception Date	Inception NAV	Liquidation Date	Liquidation NAV	Size of Fund at Liquidation	Annual % Rate of Return
Friedberg Global Opportunities Fund Ltd.	13-May-97	1000.00	28-Feb-05	501.89	$5,700,000	-8.46%
Friedberg International Securities Fund	31-Mar-98	10.00	30-Nov-05	11.49	$4,500,000	1.83%
Friedberg Diversified Fund	13-Sep-96	10.00	31-Oct-06	48.43	$4,642,228	16.90%
Friedberg Equity Hedge Fund L.P.	15-Feb-98	10.00	31-Oct-06	22.12	$6,784,836	9.50%
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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