Quarterly Report

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FIRST QUARTER
2016

FRIEDBERG MERCANTILE GROUP LTD.

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First Quarter Report 2016

FRIEDBERG MERCANTILE GROUP LTD.

MESSAGE TO OUR INVESTORS

I am pleased to present to you a report of our funds' activities for the first quarter of 2016.

The strong gains achieved from January through mid-February faded towards the second half of the quarter, in almost inverse proportion to the initial fall and subsequent dramatic stock market reversal that occurred during the period. This unusually volatile episode left the Global-Macro Hedge Fund up only 3.6% for the quarter, a modest result but one that compares favourably nevertheless with the 1.3% total return gain achieved by the S&P 500. It also left the fund up a more substantial 12.1% on a year ago, a result that compares very favourably with the total return gain of 1.8% recorded by the S&P 500 during that same stretch. Despite its more defensive features (and perhaps because of them), the Asset Allocation Fund gained 4.3% for the quarter, a result that left it down only 1.7 % on a year ago.

Market conditions around the globe have now become almost totally dependent on central bank pronouncements – sometimes even on a daily basis – and interventions. This state of affairs is unprecedented in the brief 200-year history of central banking, and we have therefore no way to judge the ultimate consequences. However, we can make the following observations:

1) What is undertaken in emergency conditions becomes the norm. There has not yet been an impulse to review and revalue emergency measures, and there is certainly no hint of taking them back. And so, quantitative easing, taken as a last gasp measure to avoid (presumed) depression-cum-deflation, has continued to this date, a full six to eight years (depending on country) after THE CRISIS. Has it worked? Did it accomplish its objectives? What specifically were its objectives? Without being willing to weigh alternatives, how can we judge and value results? None of these questions have been asked, let alone answered.

Monetary manipulation has succeeded in generating an explosion in debt, debt that has grown much faster than income and the value of assets This debt will slow real incomes, much as dirt grinds the wheels of a moving vehicle While debt service is still reasonably cheap, credit spreads will continue to widen and will make it increasingly difficult for debtors to service their debt.

2) Because the initial and ongoing emergency measures and, the "global situation" in general have not been subjected to unbiased evaluations, new and again unprecedented policy measures are being piled upon previous ones – the ratcheting effect – to solve alleged shortcomings. These measures, such as negative interest rates, follow the same pattern. They are undertaken at first timidly and in one financial centre by one central bank. Soon, more such measures are undertaken by other central banks, this time in a number of financial centres. Emboldened by the absence of immediately visible deleterious effects, these normally conservative bureaucratic bodies press ahead with their kerygmatic vision, making sure along the way to convert the "blind and the lame." Hundreds of articles in the financial press read by hundreds of thousands of investors and financial commentators discuss with great seriousness and pomp the ins and outs of these measures. No negative macroeconomic effects have as yet been detected; but on a more micro plane, banking shares have been crushed, practically all trading well below book, the victims of an impossible intermediation.

3) The lunacy of this unevaluated approach leads one to expect a ratcheting of totally new and unprecedented measures to deepen and strengthen previous moves. Since previous measures have never been subjected to proper tests of effectiveness, new measures are being prepared, building on vague ideas. Some are in the purview of monetary policy, such as faster inflation rates, though then we must ask, how fast? By what measure? With or without energy prices, which fortuitously for the West, collapsed to multi-year lows (without, can you believe, the help of government)? Some are outside the realm of what monetary policy can accomplish, such as real income growth/productivity.

This Alice in Wonderland world, dear readers, is the world in which investors must operate. Global central banks pride themselves on being more open and transparent than ever, but a look at what has happened since 2009 categorically belies these assertions. The uncertainties created by central banks already match the uncertainties associated with geopolitical events. In effect, we don't know what we don't know. But investors, and economic agents in general, are a sturdy and clever class. Soon they will find ways to game the central banks, and when they do, all hell will break loose. Inflation may or may not accelerate, unless central banks resort to helicopter money, in which case it is sure to accelerate, but debt deflation is also sure to occur.

Monetary manipulation has succeeded in generating an explosion in debt, debt that has grown much faster than income and the value of assets. This debt will slow real incomes, much as dirt grinds the wheels of a moving vehicle. While debt service is still reasonably cheap, credit spreads will continue to widen and will make it increasingly difficult for debtors to service their debt. Finally, principal repayment when the debt is due will force liquidation. Massive debt liquidation is highly contractionary. So while central banks have been able to operate — to experiment is a better word — with impunity until now, rising inflation rates and widening spreads will eventually ambush them.

How does an investor invest in this strange Alice in Wonderland world? Above all, he must recognize and trust in value. Value is not necessarily recognized in the marketplace in good time, and patience must be exercised. To shorten the wait, one must pay some attention to momentum and look out for special catalysts. As we survey the investment scene we come to the conclusion that high-yield bonds do not represent value since current yields do not adequately protect investors from debt deflation. In fact, HYG, a high-yield ETF, represents one of our largest short positions. Needless to say, and other than for trading purposes, nominal-yield government debt must be avoided at all costs. Index-linked government debt issues are still available, though we have shied away from them in recent months because of poor liquidity. U.S. equities, on the other hand, with earning yields of 8% or so, compare quite favourably with high-quality corporate debt yielding 2% to 3% per annum as the premium more than compensates for risk. For this reason we maintain a substantial long position in homebuilders and airlines and look to increase exposure to equities in coming months via a number of other industries. Our short positions are primarily Indian, Korean and Singaporean banks, in the belief that the epicentre of the coming debt crisis will be located in China and its surroundings.

In recent weeks, and consistent with the idea that investor survival will depend on choosing securities that exhibit good value, we have taken two rather unusual positions: Brazilian government bonds, denominated in local currency and yielding 14%; and Greek privately owned, exchange-traded commercial banks. Strangely, these assets reside in high-risk areas. In the past, and in anticipation of the crisis that eventually came to pass, we were short these markets. And yet, they now yield returns that, in our opinion, more than compensate for the risk.

The Brazilian story is compelling. A central bank that lost control of its mandated inflation target (4.5%, with a 200-basis-point band around that target) began to tighten monetary policy more than one year ago, only after inflation exceeded 10%. With enormous determination and courage, in the face of the deepest economic contraction since the depression of the '30s and a political crisis that may yet see the country's president removed from office, the central bank raised the bank rate to 14.5%. As a result, real rates turned sharply positive and money and credit aggregates began to deflate. In recent months, narrow money has contracted at an annual pace of 3% or so, and broad money is growing at 5% to 6% per annum, well below inflation and, needless to say, well below average consumer loan interest rates of 30% to 50%. The extent and duration of the monetary squeeze is unprecedented in Brazil and almost unheard of in the rest of the World (Volcker and 1981-82 is the only incident that comes to mind). Our bet is that inflation will fall to within the targeted band faster than expected, bringing long-term rates down to around 8%. If and when this occurs, our 10-year bonds should show excellent capital gains. We have, for now, hedged the forex risk (the carry remains positive even after the hedge).

The Greek banks story cannot be constructed in as neat and logical a way as the Brazilian story. No doubt, bank stocks carry a great deal of risk since their portfolios are studded with heavy and as yet undetermined losses. Moreover, these securities trade lightly and as a result are quite illiquid despite the fact that they are collectively worth more than 7 billion euros. Finally, we all know that Greece is forever on the threshold

In recent weeks, and consistent with the idea that investor survival will depend on choosing securities that exhibit good value, we have taken two rather unusual positions: Brazilian government bonds, denominated in local currency and yielding 14%; and Greek privately owned, exchange-traded commercial banks.

of being expelled from the Eurozone for failure to meet agreed-upon targets. So where's the beef? These banks trade at 20% of book value, well below the P/B ratio of European Banks (about 0.80). Since they have been recapitalized a number of times in recent years, it stands to reason that losses have been absorbed better than generally expected. Moreover, economic recovery can considerably improve many deadbeat loans. The migrant crisis has brought Greece closer to the main EU player, Germany. Greece is acting as a shock absorber and is likely to be treated more delicately in coming months and years, in terms of forbearance and in terms of being able to receive substantial subsidies. Economic reforms are proceeding haltingly and reluctantly but are moving ahead nonetheless. In recent days, some important privatizations have been approved. For example, the port of Athens was sold, partially, to a Chinese operator. In all, a small case can be made to buy Greek equities. Since a modern economy cannot (for now) operate without banks, banks must be kept alive and functional. Buying the four largest banks at 20% of their book value appears to be an intriguing speculation. Unfortunately, liquidity considerations do not permit us to acquire a position that is greater than 5% of the portfolio (for now).

Our single largest exposure in both funds is a position in gold via futures. Here again, we view gold as a value play. Gold is an asset that, history teaches us, will perform well in an environment of accelerating inflation. This condition existed in the '70s when the banking system was able to intermediate, growing bank reserves, causing money supply to grow at an accelerated pace. This is clearly not the case today and therefore we do not foresee accelerating inflation, although central banks, in their desperation, may experiment with more effective methods of growing money in the future. But gold also performs well when economic agents lose faith in the monetary authorities. The latter was probably the trigger to the Great Inflation of the '70s and the extraordinarily long and powerful bull market in gold: the U.S. closed the gold window, terminating the international convertibility of the U.S. dollar and marking the beginning of a new era for fiat currency. Similarly, the adoption of helicopter money may trigger just such a psychological reaction.

Finally, it stands to reason that debt deflation enhances the value of gold since it is an asset that does not depend on the creditworthiness of debtors. It is worth pointing out that from 1980 to early 2009 gold traded flat and in a fairly narrow range relative to the commodities represented in the CRB index. It was during this time that governments around the world demonetized gold; that is, they reduced their gold holdings in relation to currency and bond holdings. In this interlude, gold was seen mostly as a commodity and not as money. It should be remembered that during this time, oil experienced sharp falls, some as dramatic as those experienced in recent years. And yet, the price of gold kept a close relation to oil and other commodities.

Since 2009, gold has risen against the CRB index and now stands almost 50% higher than its highest point in 1980-2009. In my opinion, this suggests that gold has re-acquired its old qualities of “money-ness.” In a world where money is the other side of the full faith and credit of a debtor and where the quality of credit is constantly diminishing, gold must by necessity gain in stature. Gold mining shares are likely to continue outperforming gold bullion, but unfortunately, liquidity considerations preclude us from buying them for the Global-Macro Hedge Fund. The Asset Allocation Fund owns gold mining shares along with gold futures (see exhibit, inside page, for a breakdown).

Value considerations have also moved us to establish a long position in a variety of commodities. The value factor here is the proximity of prices to their marginal cost and the concomitant impact on supplies. Slight changes in demand are likely to bring about relatively sustained increases in prices in at least some commodities. Rather than patiently holding on to a group of commodities, a sort of basket approach, we have asked Covenant to select them on the basis of momentum and have given them authority to raise exposure to about 20% of assets. We are quite confident that their time-tested technical abilities will make an excellent contribution if and when our value proposition plays out.

Here ends our Alice in Wonderland tour. Unfortunately, many of our esteemed colleagues have been felled by this topsy turvy world, blind to the categoric change in conditions occurring under our very noses, whether central banks naively and irresponsibly experimenting with our money or rapidly moving and ruthless technology dethroning the reigning lords.

We pray and hope to have the wisdom to navigate through this maze, to have the discipline to withstand the seduction of easy trades, and to have the fortitude to hold on to what is good.

Thanking you for your continued trust,

ALBERT D. FRIEDBERG

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, 2016

	NAV	Quarterly	Year over Year	Three Years	Five Years	Ten Years
Friedberg Global-Macro Hedge Fund Ltd.	3,667.77	3.61%	12.12%	-14.18%	-1.99%	3.36%
Friedberg Global-Macro Hedge Fund[2]	21.20[3]	3.40%	11.64%	-14.93%	-2.82%	N.A.
CSFB/Tremont Hedge Fund Index[4]		N.A.	-4.93%	2.64%	2.61%	4.34

PERFORMANCE ATTRIBUTION

Fixed Income		-0.10%
Equities		-4.90%
Longs	*-5.70%*	
Shorts	*0.10%*	
S&P Options	*0.70%*	
CD's		-0.10%
Commodities		1.80%
Gold		7.90%
Currencies		-1.20%
TOTAL		3.40%
S&P 500 (total return)		1.35%

[1]Net of fees
[2]Attributions for the quarter ending March 31, 2016
[3]NAV adjusted to reflect distributions reinvested in the fund
[4]Compounded annual rate of return through March 2016

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
2016	4.54%	9.86%	-9.79%										3.61%
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

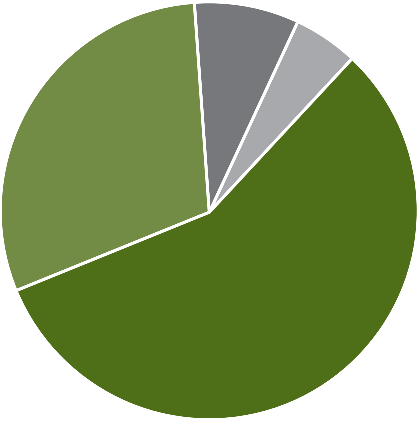
Global-Macro Hedge Fund Ltd. (Cayman)

Breakdown by Total Gross Exposure

AS OF MARCH 31, 2016

U.S. and Global Equities*	57%
Commodities	30%
Fixed Income	8%
Currencies	5%

Total Exposure per dollar of capital: 3.00x



* Contains long/short equities

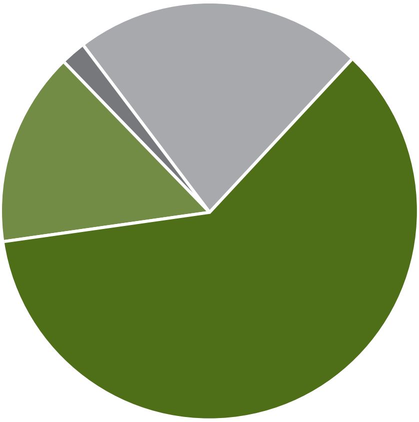
Global-Macro Hedge Fund Ltd. (Cayman)

Breakdown by Total Gross Exposure

AS OF DECEMBER 31, 2015

U.S. and Global Equities*	61%
Commodities	15%
Fixed Income	2%
Currencies	22%

Total Exposure per dollar of capital: 2.91x



* Contains long/short equities

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, 2016

	NAV	Quarterly	Year over Year	Two Years	Three Years	Five Years
Friedberg Asset Allocation Fund Ltd.	1,423.90	4.32%	-1.70%	0.18%	-1.47%	1.96%
Friedberg Asset Allocation Fund[2]	15.04[3]	4.40%	-1.76%	0.23%	-1.42%	1.88%
CSFB/Tremont Hedge Fund Index[4]		N.A.	-4.93%	-29.10%	2.64%	2.61%

PERFORMANCE ATTRIBUTION

Fixed Income	2.70%
Equities	0.10%
Commodities	1.60%
TOTAL	4.40%
S&P 500 (total return)	1.35%

[1]Net of fees
[2]Attributions for the quarter ending March 31, 2016
[3]NAV adjusted to reflect distributions reinvested in the fund
[4]Compounded annual rate of return through March 2016

Friedberg Asset Allocation Funds

Capital allocation of the Friedberg Asset Allocation Fund Ltd. as of March 31, 2016 is as follows:

INVESTMENT		CURRENT ALLOCATION	TARGET
FIXED INCOME		18.20%	18.00%
Brazilian NTNF 10% Jan. 1/25	*15.90%*		
U.S. Ultra Bond Futures	*2.30%*		
EQUITIES		42.40%	42.00%
U.S. Homebuilders	*18.10%*		
U.S. and Australian Gold	*18.40%*		
U.S. Airlines	*5.90%*		
FUTURES		39.60%	40.00%
Platinum	*2.20%*		
Gold	*37.40%*		
CASH / MONEY MARKET		-0.20%	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
2016	-3.94%	5.15%	3.28%										4.32%
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 ***

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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