Quarterly Report

4

FOURTH QUARTER
2012

FRIEDBERG MERCANTILE GROUP LTD.
Celebrating 40 Years

Contents

Fourth Quarter Report 2012

FRIEDBERG MERCANTILE GROUP LTD.
CELEBRATING 40 YEARS

MESSAGE TO OUR INVESTORS

It gives me great pleasure to report to you on the financial activities of our hedge funds for the quarter and year ended December 31, 2012.

The Global-Macro Hedge Fund lost 6.95% for the quarter and recorded a loss of 8.72% for the year. The Friedberg Asset Allocation Fund gained 2.90% for the quarter and recorded a calendar-year gain of 4.70%.

It has been rare for us to experience a year-on-year loss, and rarer yet for us to experience a calendar-year loss. In fact, this year's results represent the first calendar-year loss in the fund's 11-year history. While disappointed, I am not terribly surprised at the results given the type of scenario that unfolded during this past year. I am referring specifically to the massive and highly distortive intervention carried out by governments around the world. Their patchworks and bandages have left the major economies highly vulnerable to accidents and this situation has prompted us to take an atypical sure-footed approach to investing.

The global economy is now perilously balanced on a sharp knife's edge. The highly indebted European nations have seen their debt levels continue to mount despite heroic and oppressive efforts to reduce them. Along the way, economic conditions have continued to deteriorate and unemployment has continued to rise in a never-ending death spiral that is looking more and more like a replay of the Thirties. The problem is not without solutions and it is not beyond the understanding of European leaders. Unfortunately, their statist and paternalistic minds refuse to accept these solutions. It is, for example, too difficult for European leaders to accept the fact that cuts in expenditures rather than higher taxes on the productive sectors of the economy are the way to go, that dismantling the highly inefficient welfare state brick by brick will, *for the same dollar of pain or less*, encourage production and revive the shrunken private sector. It is also too hurtful to their paternal pride to accept the fact that some European nations will need to default on part of their debt and start anew and that their beloved European project need not thereby come to an end.

As sure as night follows day, the present state of affairs will break down. It will almost certainly start with a unilateral declaration of default and the abandonment of fiscal restraint by one or more of the indebted nations. A disorderly default will

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bring on a second global crisis, one that will almost certainly rival, if not exceed, the 2008 crisis. Terrifyingly, governments will be unable to intervene as they have been unnecessarily maxed out over the past five years. Terrifyingly for citizens, the social unrest could turn violent and unbounded; terrifyingly for investors, it is not clear what type of investment asset, if any, will escape the crisis.

The U.S. economy has been growing at a modest though sub-optimal pace. It is not hard to think of reasons for this disappointing rate of growth; here, as in Europe, the productive private sector has gone into a state of semi-paralysis — witness the extraordinary growth of its zero-yielding cash hoards — intimidated by overregulation and the growing public sector. At the same time, regardless of the outcome of upcoming negotiations, the fiscal posture is sure to become contractionary over the next few years. As in Europe, the fiscal choices will, broadly speaking, lie between cutting or moderating the growth of expenditures by reducing the size of the unaffordable welfare state on the one hand and raising revenues via tax increases on the other. The latter choice would have a negative impact on growth and would do nothing to rein in the debt/GDP ratio over time. Under normal conditions, this impact need not be felt for a few more years. However, given the extraordinary degree of financial interconnectedness between developed economies, it is not clear to me that the U.S. economy would be able to withstand a full European crisis.

The other engines of growth, the BRIC economies, don't give us much hope for optimism. Brazil and India experience stubbornly elevated rates of inflation, a result of past and continuing monetary laxity. Economic growth has decelerated significantly in these two countries, the result of widespread and endemic corruption, a return to protectionist policies, a suffocating public sector (especially in India), heavy government interference via credits, tariffs and regulation, inflation itself, and, in general, a retreat from the successful liberalizing moves of former years. Most observers believe that China has pulled itself away from a soft landing and resumed past rates of growth. As with everything else in China, this is far from clear. Credit continues to grow much faster than production; overcapacity plagues many sectors; inflation, especially in real estate prices, has once again reared its ugly head; and the growth of shadow banking is threatening the stability of the financial system. We don't expect China to sustain global growth, and, at some point, it may in fact depress growth via pressure on prices and margins.

To cope with the above scenario, we adopted during the year — and continue to hold — the following investment posture: We have bet, going long, on assets (principally equities) and countries that are likely to benefit strongly from "muddling through" and, conversely, have sold short equivalent amounts (roughly adjusted by volatility) of assets and countries that are not likely to benefit greatly from muddling through or even from global expansion. We have also reasoned that "tail events," such as those described earlier, are likely to have a greater negative impact on overpriced assets and sectors than on reasonably priced assets and sectors. The same reasoning holds true for relative vulnerabilities: Countries enjoying solid macro fundamentals should withstand "tail events" better than those that do not. Needless to say, this strategy can generate profits if and when markets respond positively to our selection criteria.

While on the whole this balanced approach generated positive returns (almost 250 basis points), results were affected negatively by the strong rise in Indian stock prices. A short Nifty Fifty position, representing a constant 26.0% to 31.0% of net assets throughout 2012, cost the fund an estimated 500 basis points.

We also purchased direct protection against "tail events" — where we thought that it could be purchased on reasonable terms. These hedges against catastrophic events were costly: Credit default swaps (CDS) on European sovereign and bank debt, for example, impaired net asset value during this past year by as much as 550 basis points, accounting for a good portion of the year's loss. We continue to search for reasonably priced "tail event" protection, recognizing that such protection will not come cheap. We also must recognize, however, that "muddling through" represents by far the most likely course of events. As Eric Hoffer, the great American social writer and philosopher (1902-1983), put it: "In times of change learners inherit the earth; while the learned find themselves beautifully equipped to deal with a world that no longer exists."

No successful investing strategy can be based on anticipating the breakdown of the social, economic and political order, simply because long before then the world will have learned to adapt and survive. But various forms and permutations of muddling through will produce various combinations of absolute and relative winners and losers. It is therefore not enough for an investor to go on value investing and to assume that the world will muddle through; the resultant muddling through could make him a huge loser. To prepare for a tail event is to prepare for that moment of time when history changes course, when new winners and losers emerge. Like life itself, we are forced to make decisions and the only question remaining is, will protection cost more than the potential losses?

Besides equities, we did get a few things right. Our thesis that real interest rates on long-term Treasuries would descend towards zero proved correct. At year-end, the longest TIPS maturities had fallen to 0.31% and had contributed 250 basis points to our annual results. Inflation in raw materials did not materialize as broadly and as sustainably as expected. Nonetheless, our long-only operator was skilful enough to extract positive returns, contributing more than 300 basis points to the fund's performance.

On a negative note, we suffered substantial losses on our net short crude oil position, hampered by our perceived need to hedge, at substantial cost, the possibility of a sudden Middle Eastern conflict and a closure of the Straits. The entire loss (380 basis points) occurred in the first six months of the year; by the second half we hit upon a less costly hedging strategy and managed to basically break even. We plan on maintaining such a short position as we believe (and as we explained in an earlier letter) that a turning point is at hand in this long bull market.

Gold and gold equities proved a disappointment throughout the year, contributing a negative 430 basis points to overall performance. We had not read correctly the market's need to digest sizeable new secondary supplies. On a more positive note, central banks' international reserves maintain their relentless climb and will continue to provide substantial support under the market in coming months and years. On a negative note, private investors continue to favour dividend-paying equities over negative-carry bullion. These forces are expressed succinctly in the gold-to-commodities (uptrend) and gold-to-equities (downtrend) charts. We remain neutral but attentive to the possibility of an upward and independent inflexion in prices.

Our Asset Allocation Fund recorded another positive year, the fourth in a row, reflecting some of the same themes and trades highlighted in our discussion of the Global-Macro Hedge Fund but without some of the more complex — and loss-generating — trades and hedges. Equities made the single highest contribution to the fund's results, followed by fixed income. Gold, on the other hand, made a negative contribution. In deference to the greater dangers envisioned for the period ahead, we have reallocated the portfolio toward fixed income, exclusively long-term U.S. Treasury securities. The balance is held in U.S. equities, Bank of Ireland, and cash/money market (see inside exhibit).

We ended the third quarter of 2012 saying that the possibilities for substantial gains may have to wait for "that" time. By "that" we meant a permanent resolution to the European crisis, regardless of the form that it took. We have not changed our minds.

Wishing you and ourselves a healthy and prosperous year and thanking you for your continuous trust.

ALBERT D. FRIEDBERG

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P.S. Just as we go to press, I have had a chance to re-read the above lines and realize that I may sound too pessimistic. I want to assure you that I am not reflecting a state of mind or spirit. I am simply trying to be realistic on a macro level given the phenomenon that we are witnessing, namely the explosive increases of government intervention, on a worldwide basis, in the lives of its citizens. I fear that the near-breakdown of the post-war liberal economic order carries serious macro consequences. I remain, nevertheless, highly optimistic about the creativity and ability of the private sector to generate improving standards of living despite the dead weight of bureaucracy and government, especially in the US. Good opportunities to take advantage of these advances will present themselves and can arise at any time. We must remain not only prepared but patient as well.

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

A multi-strategy fund.
Allocations are reviewed periodically.

Performance[1] as of December 31, 2012

	NAV	Quarterly	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Global-Macro Hedge Fund Ltd.	5,435.42	-6.95%	0.81%	13.48%	19.81%
Friedberg Global-Macro Hedge Fund	32.41[3]	-5.95%	0.38%	13.21%	22.13%
CSFB/Tremont Hedge Fund Index		N.A.	5.83%	5.00%	2.04%

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

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

FUND	CURRENT ALLOCATION	TARGET
Fixed Income	7.63%	15.00%
U.S. Equities - Market Neutral Strategy	15.52%	15.00%
Currency Program	1.65%	2.00%
Global Opportunities	77.08%	68.00%
Cash	-1.87%	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%	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										0.00%	0.00%	-0.40%	-0.40%

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

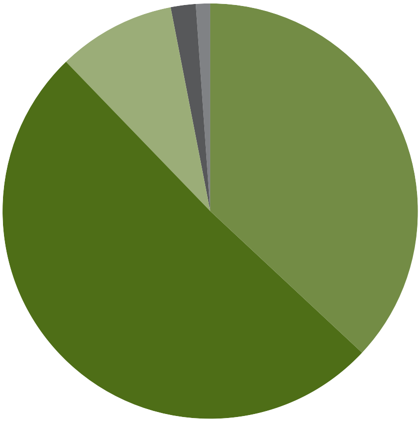
Friedberg Global-Macro Hedge Funds

Global-Macro Hedge Fund Ltd. (Cayman)

Breakdown by Total Gross Exposure

Global Opportunities	51%
Commodities	37%
U.S. Equities-Market Neutral	9%
Fixed Income	2%
Currencies	1%
Cash	0%

Total Exposure per dollar of capital: 5.36x

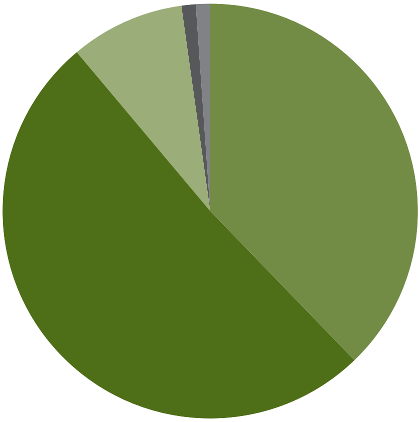


Global-Macro Hedge Fund (Canada)

Breakdown by Total Gross Exposure

Global Opportunities	51%
Commodities	38%
U.S. Equities-Market Neutral	9%
Fixed Income	1%
Currencies	1%
Cash	0%

Total Exposure per dollar of capital: 5.14x



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 December 31, 2012

	NAV (notional)	Quarter
U.S. EQUITIES		
Market Neutral Strategy of the Global-Macro Hedge Fund	1,478.28	-12.10%

Investment Allocation

	30-Sep-12	31-Oct-12	30-Nov-12	31-Dec-12
LONGS	51.70%	54.08%	52.48%	51.87%
SHORTS	48.30%	45.92%	47.52%	48.13%
TOTAL GROSS LEVERAGE	2.98x	2.83x	3.14x	3.25x

Largest Sectors (Longs)

Movies and Entertainment	14.45%
Internet Software and Services	9.50%
Paper Products	6.49%

Largest Sectors (Shorts)

Industrials Large Caps	8.35%
Automobile Manufacturers	6.55%
Managed Health Care	5.33%

Largest Long Positions

International Paper Co.
Google Inc.
NCR Corporation
General Dynamics
Time Warner Inc.

Largest Short Positions

S&P Futures
General Motors Co.
Wellpoint Inc.
Monster Beverage Corp.
YUM! Brands Inc.

Best Quarterly Performance

	Longs		Shorts
Regeneron Pharmaceuticals Inc.	12.06%	Monster Beverage Corp.	2.26%
International Paper Co.	9.72%	YUM! Brands Inc.	-1.08%
NCR Corporation	9.31%	EMC Corp.	-1.92%

Worst Quarterly Performance

	Longs		Shorts
Wal-Mart Stores Inc.	-7.55%	Netflix Inc.	-43.72%
Google Inc.	-6.25%	Abercrombie & Fitch Co.	-41.42%
General Dynamics	-4.76%	General Motors Co.	-26.68%

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 December 31, 2012

	NAV	Quarterly	Year over Year[2]	Two Years[2]
Friedberg Asset Allocation Fund Ltd.	1,480.10	2.90%	4.26%	8.65%
Friedberg Asset Allocation Fund	15.62[3]	2.97%	4.50%	8.39%
CSFB/Tremont Hedge Fund Index		N.A.	5.00%	4.57%

[1]Net of fees
[2]Compounded annual rate of return through November 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 December 31, 2012 is as follows:

INVESTMENT		CURRENT ALLOCATION	TARGET
FIXED INCOME		67.86%	67.00%
U.S. TIPS 2.125% Feb. 15/40	*45.12%*		
U.S. 30 Year Bond Futures	*22.74%*		
EQUITIES		12.10%	12.00%
U.S. Homebuilders			
U.S. Pharmaceuticals			
Miscellaneous U.S. Equities			
Bank of Ireland			
GOLD		4.90%	5.00%
Gold Futures			
CASH / MONEY MARKET *		15.14%	16.00%
		100.00%	100.00%

* Including basis trade: select basket of stocks vs. S&P 500

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%	-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 ***

Currency Fund

Friedberg Currency Fund

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

Performance[1] as of December 31, 2012

	NAV	Quarter	Year over Year[3]	Three Years[3]	Five Years[3]
Friedberg Currency Fund[2]	10.76	-2.80%	-15.79%	-0.69%	-0.42%
Barclay Currency Traders Index		N.A.	1.54%	2.19%	2.22%

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

Open Positions - December 31, 2012

	Times Dedicated Capital
Short Bulgaria Lev	2.04
Long Euro Currency	2.03
Short India Rupee	0.55
Long Norway Krone	0.51
Total Gross Leverage at	5.13x
Maximum Gross Leverage During Quarter	6.71x

Activity Report - Fourth Quarter 2012

Profitable Transactions	Profit As Percentage Of Average Equity	Percentage Of Total Profits
Long Euro Currency	4.70	79.31
Short India Rupee	0.90	15.19
Long Norway Krone	0.33	5.50

Losing Transactions	Profit As Percentage Of Average Equity	Percentage Of Total Losses
Short Bulgaria Lev	(6.41)	63.95
Short New Zealand Dollar	(3.61)	36.05

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
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GROUP LTD.
CELEBRATING 40 YEARS

FRIEDBERG MERCANTILE GROUP LTD.

Brookfield Place, 181 Bay Street, Suite 250
Toronto, Ontario M5J 2T3
Tel: (416) 364-2700
Fax: (416) 364-0572
E-mail: funds@friedberg.ca

www.friedberg.ca