Quarterly Report

4

FOURTH QUARTER
2014

FRIEDBERG MERCANTILE GROUP LTD.

Contents

Fourth Quarter Report 2014

FRIEDBERG MERCANTILE GROUP LTD.

MESSAGE TO OUR INVESTORS

Please find below a discussion of the financial performance of our funds for the fourth quarter of 2014.

Though we guided the Global Macro Hedge funds to a solid 7 percent gain for the quarter, we were unable unfortunately to reverse the loss for the entire year (-13.7 percent). For our Canadian investors who invest in the Canadian based fund, and who view their investments against the background of the Canadian dollar, the losses for the year were somewhat smaller (-6.9 percent) while the quarterly gains were somewhat magnified (up 11.0 percent) owing to the decline of the local currency. The fund's compounded rate of return since inception December 1, 2001, in U.S. dollars, has fallen to 9 percent . The Asset Allocation funds finished the year up 4.9 percent after gaining 1.4 percent for the quarter. Again, in the perspective of Canadian dollars, gains for the quarter (5.3 percent) and for the year (14.6 percent) were magnified by the weakness of the currency. This fund's compounded rate of return since inception June 22, 2009, also in U.S. dollars, now stands at 6.40 percent.

In my previous communication to shareholders, I expressed confidence that "we are positioned to make important gains against standard benchmarks and the great majority of global macro hedge funds." I am pleased to say that this expectation has been fulfilled, especially for what it portends for future performance, as I will explain below.

During the quarter we completed the slow and very deliberate process of deleveraging and simplifying the portfolio

During the quarter we completed the slow and very deliberate process of deleveraging and simplifying the portfolio. We reduced leverage to less than 4 to 1 and narrowed our focus to three principal areas. In broad strokes, these are positions that we believe will capture the coming wave of sovereign and corporate defaults, benefit from the continuing cyclical upturn in the US economy, and benefit from global economic weakness.

The world is slowly taking note of the huge distortions created by cheap money over the past six years. Around the globe, debt has continued to pile up on top of stagnating or falling income. Balance sheets have become ever more strained and, in many cases, debt service has become possible only thanks to a politically engineered fall in rates. Rising debt superimposed on stagnant income is, sooner or later, a recipe for default. A long list of potential candidates are queuing up for that fateful moment. Some, like Venezuela, Ukraine, Greece, many Chinese corporations, and some of Russia's largest corporations, will declare a cessation of payments simply because they have run out of cash. Others, like some of the peripheral countries of the Eurozone, will do so because of a political unwillingness to put up with further "austerity," which has brought them only more debt and more misery. Either way, these defaults will erode investor confidence, leading to crashing asset prices. In this scenario, gold will be seen once again for what it is and always has been, an asset whose internationally acknowledged value does not depend on the solvency of an issuer. Very soon, its three-year underperformance against equities and bonds will reverse and in due course new historic highs will be reached.

We still maintain a number of credit default swaps (though a goodly portion of them have already expired and new positions are difficult to put on as dealer markets have become very thin and illiquid), particularly Venezuela, Spain, and a handful of European banks. Our gold holdings, held via futures and options, ranged over the course of the quarter between 30 and 40 percent of equity. And we increased our holdings of German Bunds, in our opinion the world's best credit, to 131.5 percent of equity from 120 percent. These bonds, which still provide a real return despite their lowly yield of 45 basis points (bps), have become the ideal safe haven from the debt troubles building up in Europe. It is quite conceivable that with the onset of the next debt crisis Bunds will trade up to negative nominal yields, much as the two-year and the five-year bonds have already done. For the quarter, gold made a negative contribution (-380 bps) to the funds' performance, while Bunds and credit default swaps made a positive one (360 and 70 bps respectively).

We remain convinced that homebuilders are sitting, so to speak, on a veritable launching pad. The upward launch will be powered by rising U.S. incomes, better credit availability, historically low mortgage rates, and the slow but inevitable acceleration of new household formation, a phenomenon that has muted the recovery but which promises to provide it with a much longer fuse. In an effort to take advantage of what we view as a strong U.S. cyclical recovery, we added a group of airline stocks to the portfolio, well supported by the most recent consolidation and further strengthened by falling fuel prices. Homebuyers and airlines added 570 and 190 bps respectively to the funds' quarterly results.

The third area on which we focused is the evident and still gathering weakness of the global economy. This weakness has expressed itself in falling commodity prices, such as oil and copper, and in competitive pressures caused by new and disruptive technologies, adverse currency movements, excess capacity (a product of cheap money), or simply lack of pricing power. We slowly rebuilt our short equity positions over the quarter, concentrating on individual companies. This led us to short Macau gambling houses (excess capacity, drop in attendance because of recessionary conditions in the mainland), Amazon (highly competitive conditions, razor-thin margins), some Korean companies (affected by competitive pressures emanating from China and adverse exchange fluctuations), IBM (a technological dinosaur, trying desperately to re-invent itself without much success), and so on. These short positions underperformed the strong advance of global indices, and though collectively they yielded losses of approximately 290 bps during the quarter, their true worth must be measured against the protection they afforded to our aggressive long exposure. Further protection was sporadically acquired via nimble in-and-out trading of out-of-the money S&P put options. On the other hand, short positions in oil and other commodities contributed a not-inconsiderable gain of 280 bps. Forex positions were also undertaken to take advantage of this disinflationary theme, but thus far, these operations have yielded only slight losses. We remain confident that short positions in the Brazilian real and Bulgarian lev will contribute positively in the coming year.

I began this letter saying that I was pleased with our quarterly performance, in particular for what it portends for our future performance. By this I mean to say that events are vindicating our long-standing views, expressed over and over again for the past two to three years. Economic growth cannot be purchased with cheap money and increased borrowing. Sooner or later reality will set in, stagnation and depression will become the order of the day, and debtors will be unable to make good on their commitments. Widening

> **We remain convinced that home builders are sitting, so to speak, on a veritable launching pad.**

credit spreads since just past mid-year are confirming this growing problem. Nor have producers been able to repeal the laws of economics: high prices bring about more supply, less demand, and an eventual fall in prices. There are no better examples than iron ore and oil.

What has not happened as yet, and for good reason, is the translation of central bank quantitative easing into sizeable increases in circulating money, and consequently, into inflation. In economic jargon, the money-supply-to-base-money multiplier has shrunk rather than expanded. New banking rules constraining the expansion of assets, fears of incurring more outsized and totally arbitrary fines, and the ease with which capital markets have responded to credit demands (avoiding the need for bank loans) have all conspired to keep central bank money from spilling over into the hands of the non-bank public. This moment will come, too, though perhaps not before we suffer, globally, the pangs and tribulations of shrinking liquidity. To this we attribute the feelings that the world is heading into deflation. One must pay little attention to this fear. Commodity prices will continue to fall, especially those affected by new increases in supply and capacity, but this does not make deflation. Once the pass-through of falling prices is accomplished, consumer prices will stabilize. And once money supply ratchets up from its modest pace – 5 to 7 percent in the U.S., 1 to 3 percent in the Eurozone, and 2 to 4 percent in Japan – inflation will become the next concern. But that is a story for another day.

To summarize, we have focused on three themes: 1) a painful resolution to outsized increases in debt, wherever they occur, and what flows from that event; 2) a fall in commodity prices accompanied by companies unable to generate free cash flows or industries suffering from overcapacity, of which there are more and more every day; and 3) the selective strength of certain sectors in the U.S. that have, for one reason or another, lagged the cyclical recovery. I believe that these themes will generate very interesting profits this coming year. We have had but a small foretaste over the most recent three months of the potential gains that the unfolding of these themes can generate. There is, in my opinion, much more to come.

Wishing you a prosperous new year and thanking you again 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 December 31, 2014

	NAV	Quarterly	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Global-Macro Hedge Fund Ltd.	3075.74	7.14%	-13.46%	-18.98%	-5.07%
Friedberg Global-Macro Hedge Fund	17.81[3]	7.03%	-14.72%	-19.73%	-5.65%
CSFB/Tremont Hedge Fund Index		N.A.	5.36%	7.06%	6.06%

[1]Net of fees
[2]Compounded annual rate of return through November 2014
[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
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)

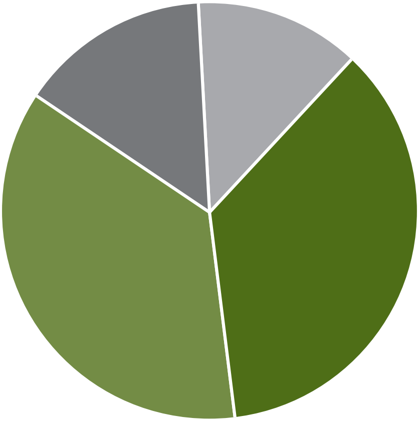
Breakdown by Total Gross Exposure

AS OF DECEMBER 31, 2014

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

Total Exposure per dollar of capital: 4.33x

* Contains international long/short equities



Global-Macro Hedge Fund Ltd. (Cayman)

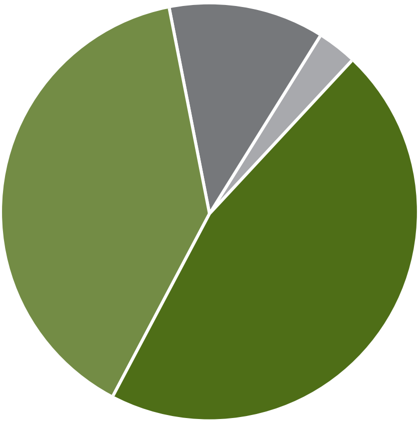
Breakdown by Total Gross Exposure

AS OF SEPTEMBER 30, 2014

U.S. and Global Equities*	46%
Fixed Income	39%
Currencies	12%
Commodities	3%

Total Exposure per dollar of capital: 4.08x

* Contains international 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 December 31, 2014

	NAV	Quarterly	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Asset Allocation Fund Ltd.	1,414.28	1.42%	1.84%	-0.77%	4.10%
Friedberg Asset Allocation Fund	14.90[3]	1.36%	1.58%	-0.69%	4.25%
CSFB/Tremont Hedge Fund Index		N.A.	5.36%	7.06%	6.06%

[1]Net of fees
[2]Compounded annual rate of return through November 2014
[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, 2014 is as follows:

INVESTMENT		CURRENT ALLOCATION	TARGET
FIXED INCOME		63.40%	63.50%
U.S. TIPS 2.125% Feb. 15/40	*21.40%*		
German Bunds 2.5% Jul. 4/44	*1.70%*		
10-Year German Bunds (via Futures)	*40.30%*		
EQUITIES		25.30%	25.00%
U.S. Homebuilders	*16.70%*		
U.S. and Australian Gold	*5.10%*		
U.S. Biotech	*3.50%*		
COMMODITIES		10.50%	11.50%
Gold (via Futures)	*3.70%*		
Palladium (via Futures)	*2.30%*		
Cocoa (via Futures)	*4.50%*		
CASH / MONEY MARKET		0.80%	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
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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