Quarterly Report

4

FOURTH QUARTER
2016

FRIEDBERG MERCANTILE GROUP LTD.

Contents

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.

Fourth Quarter Report 2016

FRIEDBERG MERCANTILE GROUP LTD.

MESSAGE TO OUR INVESTORS

Please find below a discussion of the Funds' performance for the fourth quarter and the full year 2016.

The past quarter was a particularly punishing one. The Global-Macro Hedge Fund lost 12.3% for the last three months of the year, bringing full-year losses to 16.1%. The Asset Allocation Fund lost 8.2% over the closing quarter yet managed to achieve a 7.6% gain for the year.

The Global-Macro Hedge Fund losses for the quarter were evenly split between equities and commodities (710 basis points for each category). On the equities side, the dramatic bout of rotation that accompanied the stock market post-election rally was not kind to our positions. While our short bet on the S&P (via put options) and on Tesla understandably misfired, the long side provided no solace: homebuilders, biotech issues and energy producers recorded losses as the market moved to new highs. The only bright spots, Greek banks and airline stocks, just attenuated the pain. The commodities losses were almost all attributable to the severe drop in gold and silver futures.

The full-year attributions show a more revealing and instructive pattern. The short side of our equities book lost 16.1% of the Fund's net assets. It was made up principally of big bets on Chinese banks and developers, Indian banks, Singaporean banks, and smaller positions in Petrobras, Tesla and S&P put options. A minor portion of the above losses was recovered by gains in short Australian banks, Korean banks and a small assortment of US stocks. In all, however, the losses on the short side, heavily concentrated on Asia/emerging markets, accounted for exactly (and coincidentally) 100% of the Fund's full-year losses. It has become all too clear to me that one cannot bet against paternalistic and forbearing official institutions; for as long as it is possible, bailouts will be the preferred course of action, regardless of the long-term consequences. The motto “whatever it takes” has taken hold in officialdom thinking.

Less dramatic but just as disappointing, the long equities side of the portfolio also showed losses (750 basis points), accounted for principally by homebuilders and Nikkei futures and offset by smaller gains in airlines, energy (natural gas liquids), Google and Nintendo.

Full-year gains were achieved only in trading fixed-income instruments (240 basis points) plus an assortment of long positions in gold and other commodities (530 basis points).

The Asset Allocation Fund experienced none of the short-side stresses affecting our leveraged Fund and enjoyed the outperformance of gold miners versus gold futures.

For the quarter, the Fund gave up some of its earlier and spectacular gains in gold mining companies and lost money on its fair-sized commodity exposure. Though the corrections were as severe as they were rapid, we were persuaded that they constituted only a detour in an otherwise long bull market. By the closing days of the quarter, a modest recovery had begun.

For the full year, all asset categories were profitable: fixed-income instruments, 570 basis points; equities, 10 basis points; and commodities, 170 basis points.

The results achieved over the past number of years disheartened me to the extent that I asked a colleague, David Rothberg, to act as a sounding board for an intuition I had: that an initial premise on which our hedge fund enterprise was founded, i.e. the ability to bet on bearish outcomes, and more specifically, on near-catastrophic events was flawed. Our conversation led me to the following conclusions. (Incidentally, I asked David to describe the largely psychological process. If you’re interested, you can contact erott@niagaracapital.ca to get his description of our conversation.)

While history has shown us taking advantage of such occurrences — witness the dramatic gain we made in 2008, a year in which global equity markets fell by 38% — the overall record of the past 18 years does not demonstrate that such an ability enhances overall long-term returns. "Catastrophe," as much as it can be beneficial at times, has so far been avoided like the plague. Governments are no longer willing to endure the short-term pain that is necessary to cleanse the economic system of mal-investments and over-indebtedness. Lombard Street's old adage (late 19th century) that central banks should lend freely against good collateral and at prohibitive rates in a financial crisis is no longer the reigning principle. Today, the opposite is true: central banks lend freely against poor collateral at subsidized rates. Andrew Mellon's austere advice to President Hoover at the onset of the Great Depression to "liquidate labor, liquidate stocks, liquidate farmers, liquidate real estate… it will purge the rottenness out of the system…" — the kind of advice that helped the US recover from the post-WWI depression in record time — was not heeded, and the depression of the '30s dragged on until the onset of World War II. Today, of course, Mellon's advice is heresy of the highest order. Increasingly, governments move to abort naturally occurring corrective trends with the result that necessary economic adjustments never occur. The price will one day be paid, but the bearish bet will have expired by then.

The practical consequences of this soul-searching examination is to put an important restraint on catastrophic bets, defined as 50% or greater declines in major indices or in systemically important industry sectors like banking that lead to a generalized financial crisis. In short, we will need to exercise extraordinary circumspection before we make bearish bets that hinge on economic and financial upheavals of historic magnitude. These sorts of bets should be considered only when the burden of proof is overwhelming and only if and when limited risk options are available – at the risk of missing these opportunities or coming too late. Should these conditions not be obtained, a defensive posture, by way of a buildup of cash and near cash instruments, will be adopted.

Illiquid market conditions persist and don't bode well, as discussed in our last

"COMMODITY PRICES, SELECTIVELY FOR NOW, ARE CONTINUING TO RISE. INFLATION WILL SOON BE HITTING 2.5% TO 3.00%. WITH FED FUNDS AT 65 BASIS POINTS, THE CENTRAL BANK IS WAY BEHIND THE CURVE. GIVEN THE TORTOISE-LIKE PACE OF RATE INCREASES, THE FED IS UNLIKELY TO CATCH UP IN THE MEDIUM TERM TO ACCELERATING LABOR COSTS AND CONSUMER PRICE INFLATION."

quarterly letter. Caution is warranted. On the economic front, the US economy is clearly overheating. Unemployment is, for practical purposes, near zero. Labor costs, especially skilled labor costs, are rising very rapidly and are about to take large chunks out of corporate revenues. This, in turn, implies a continuing decline in corporate profits. Commodity prices, selectively for now, are continuing to rise. Inflation will soon be hitting 2.5% to 3.00%. With Fed Funds at 65 basis points, the Central Bank is way behind the curve. Given the tortoise-like pace of rate increases, the Fed is unlikely to catch up in the medium term to accelerating labor costs and consumer price inflation.

For the Global-Macro Hedge Fund, we entered the new year with a small number of concentrated bets: interest rates, the US dollar, Brazilian local-currency bonds, Greek banks, homebuilders and commodities. In light of our monetary discussion, sizeable bets on rising interest rates and a strong dollar seem highly justified. Brazil's local-currency bonds continue to rise on the back of much better-thanexpected inflation (as we predicted) and constructive economic policy moves. A strong privatization drive and attractive real rates will continue to be supportive for the currency and for the bonds. Brazil local-currency government bonds remain our number-one holding. Greek banks, a position which we have increased, have stabilized and yet remain highly undervalued. The homebuilders outright stock position was cut back because of views on interest rates and is now represented only by a sizable number of long-term, out-of-the-money call options on the iShares U.S. Home Construction ETF (ITB). Still, exposure is likely to rise quickly if and when prices begin to rise, while the downside is protected. Exposure to commodities has been upped significantly and now represents close to 30% of net assets. A sprinkling of put options on the S&P 500 and the Chinese yuan rounds out the portfolio. Turnover is minimal and leverage well contained, averaging 3.0x or less. As a result, volatility has fallen below that of the S&P 500, though it is hard to know for how long.

For the Asset Allocation Fund, Brazil local-currency bonds, gold mining stocks, Greek banks and cash holdings account for almost 90% of the portfolio.

We look forward to a successful year.

Thanking you for your trust,

ALBERT D. FRIEDBERG

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, 2016

	NAV	Quarterly	Year over Year	Two Years	Three Years	Five Years
Friedberg Asset Allocation Fund Ltd.	1,463.01	-8.86%	7.18%	1.71%	2.77%	0.69%
Friedberg Asset Allocation Fund	15.49[2]	-8.18%	7.57%	1.96%	2.89%	0.77%
CSFB/Tremont Hedge Fund Index[3]		1.15%	1.25%	0.26%	1.54%	4.34%

[1]Net of fees
[2]NAV adjusted to reflect distributions reinvested in the fund
[3]Compounded annual rate of return through December 2016

Friedberg Asset Allocation Funds

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

INVESTMENT		CURRENT ALLOCATION	TARGET
FIXED INCOME		37.60%	35.00%
Brazilian NTNF 10% Jan. 1/25	*22.10%*		
Brazilian NTNF 10% Jan. 1/27	*15.50%*		
EQUITIES		31.70%	33.00%
U.S. and Australian Gold	*19.80%*		
Greek Banks	*5.90%*		
U.S. Natural Gas	*2.20%*		
U.S. Biotech	*1.90%*		
U.S. Chemicals	*1.90%*		
FUTURES		8.30%	12.00%
Silver	*8.30%*		
CASH / MONEY MARKET		22.40%	20.00%
		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%	8.82%	-4.95%	7.51%	4.24%	-3.87%	1.15%	-4.46%	-5.46%	0.90%	7.18%
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 ***

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, 2016

	NAV	Quarterly	Year over Year	Three Years	Five Years	Ten Years
Friedberg Global-Macro Hedge Fund Ltd.	2,975.75	-13.04%	-15.94%	-5.84%	-12.95%	4.61%
Friedberg Global-Macro Hedge Fund	17.21[2]	-12.28%	-16.05%	-6.29%	-13.35%	5.28%
CSFB/Tremont Hedge Fund Index[3]		1.15%	1.25%	1.54%	4.34%	3.75%

[1]Net of fees
[2]NAV adjusted to reflect distributions reinvested in the fund
[3]Compounded annual rate of return through December 2016

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%	0.72%	-3.39%	1.30%	3.67%	-6.83%	-1.93%	-10.13%	-3.70%	0.49%	-15.94%
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%

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Friedberg Global-Macro Hedge Funds

Global-Macro Hedge Fund Ltd. (Cayman)

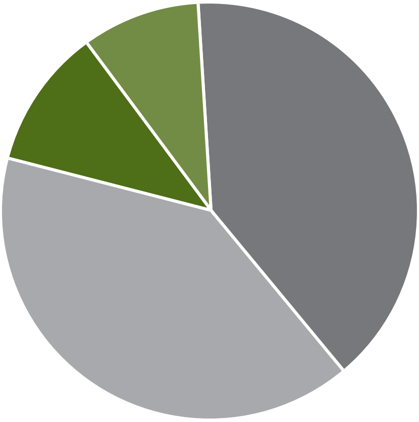
Breakdown as a Percentage of Total Assets

AS OF DECEMBER 31, 2016

U.S. and Global Equities*	11%
Commodities	9%
Fixed Income	40%
Currency Program	40%

Total Exposure per dollar of capital: 3.08x

* Contains long/short equities



Global-Macro Hedge Fund Ltd. (Cayman)

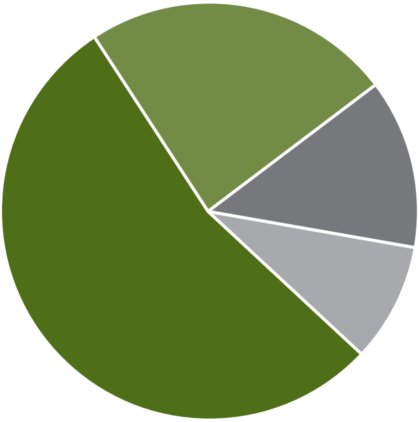
Breakdown as a Percentage of Total Assets

AS OF SEPTEMBER 30, 2016

U.S. and Global Equities*	54%
Commodities	24%
Fixed Income	13%
Currency Program	9%

Total Exposure per dollar of capital: 2.71x

* Contains long/short equities



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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