Quarterly Report

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SECOND QUARTER
2013

FRIEDBERG MERCANTILE GROUP LTD.

Contents

Second Quarter Report 2013

FRIEDBERG MERCANTILE GROUP LTD.

MESSAGE TO OUR INVESTORS

I present to you a report on the financial activities of our hedge funds for the quarter ended June 30, 2013.

Our Global Macro Hedge Fund portfolio continued to perform poorly, culminating in a drawdown of over 19% for the quarter and leaving us down 14.2% for the year to date and 19.2% year over year. At the same time, our Asset Allocation Fund lost 10.5% in the quarter and is down 10% in the year to date and 5.0% year over year. Losses in both funds were entirely attributable to two long positions, gold and U.S. Treasurys. With the benefit of hindsight, these losses can be well explained. The positions, now largely liquidated, represent mistaken forms of trying to implement a strategic vision that still retains, in our view, coherence and vitality.

There is little that I need to add to last quarter's discussion. The European situation continues to deteriorate and now debtor fatigue and political paralysis are setting in, as we see in the cases of Portugal and Italy. Some of the erstwhile strong countries, e.g. Netherlands and Finland, are also sinking under a mountain of debt as well as feeling the toxic effect of falling real estate prices. Despite the token recovery in the periphery, which mostly takes the form of a decelerating rate of decline in economic activity or an improvement in the deficit on current account, debt continues to mount; for the periphery as a whole, debt-gdp ratios will exceed the not-long-ago unthinkable 100%. It will not be long before some or all of these countries begin to discuss restructuring their debts. The impact of such an event on global banking is difficult to overstate, especially now that a Cyprus-type approach has been adopted by the EZ for resolving banking failures. Germany has clearly hardened its attitude towards bailouts. Going forward, it is not likely to risk much more money than it has committed to date. I have concluded, therefore, that despite some potential impairment caused by previous commitments, Germany's credit has managed to preserve the status of a first-class safe haven.

Global prospects for growth have received a further setback in recent months as evidence accumulates that China's economic activity is decelerating rapidly, or in fact shrinking, under the weight of rising costs and deteriorating credit conditions. Beijing must now struggle with having to revive business conditions without stirring an undesirable explosion in real estate prices, mindful that previous efforts to stimulate the economy caused enormous distortions in the country's balance sheet. The contractionary impact on the global economy has begun to be felt as far away as Germany, where trade performance has nearly collapsed in recent months. Needless to say, commodity prices will take the brunt of the Chinese "adjustment."

Matters are only slightly better in the U.S., where growth remains stuck at 2% per annum or less, barely enough to make a dent in per-capita incomes. The Fed's program of monetary stimulation has succeeded in creating an incipient bubble in asset prices but has had almost no effect on real growth, nominal growth or inflation. These have remained subdued as QE fails to translate into a more rapid growth of money. Monetarists have theorized that the monetary base multiplier will stop shrinking as soon as the Fed stops paying interest on commercial bank reserves. If so, the Fed has one more arrow in its quiver: It may decide after all to taper or even end QE and offset perceptions of tightening by ceasing to pay interest on reserves, thus ending, at the same time, its unfair policy of subsidizing commercial banks. Sooner or later, with or without this move, excess reserves will multiply into deposits and nominal income growth will reappear, probably as a combination of low real income and high inflation.

We are, however, still some time away from this occurrence. As the Fed-induced bubble of asset prices gains momentum, U.S. markets will become ever more vulnerable to setbacks arising from problems in other parts of the globe. Sharp drops will puncture the aging bull market, with no one knowing for sure which drop represents the final descent into a bear market. Waiting to protect portfolios on reactions, such as the one experienced in early July, becomes an unacceptably expensive proposition. My aim has been to build a portfolio that is designed to capture this inevitable day of reckoning without having to lose money along the way. This, as we explained in our last letter, is most difficult to accomplish. In fact, the recent months have shown that we have not as yet succeeded to design such an ideal portfolio.

"Losses in both funds were entirely attributable to two long positions, gold and U.S. Treasurys. With the benefit of hindsight, these losses can be well explained. The positions, now largely liquidated, represent mistaken forms of trying to implement a strategic vision that still retains, in our view, coherence and vitality."

Future prospects are not hopeless by any means since, fortunately, we gained a measure of clarity even as we were losing money. For example, and it is here I can discuss the two major tactical errors I committed, I made the acquisition of triple-A fixed-income securities into one of the pillars of the portfolio since I expected them to act as safe havens in a world beset by sudden defaults. While the yield on these securities is almost laughable, they can be financed at even more laughable rates. This allowed us to earn decent returns from them and, at the same time, acquire a form of catastrophe insurance. Where I erred was in choosing U.S. Treasurys, mindless of their dependency on QE. In effect, given the natural narrowing of the U.S. fiscal deficit, I reasoned that a fixed amount QE would be absorbing an ever smaller supply of Treasurys and would thus provide excellent support to this sector of the market. I failed (as the Fed did, too) to account for the Treasury bonds' vulnerability to the market's perception of Fed "tightening." How much of today's low Treasury yields are accounted for by the Fed's routine purchases of these bonds? Could 30-year Treasurys trade below 3%? Unlikely, but perhaps not much higher than 3% either, if we compare the rate to the crawling pace of nominal income (around 3% per annum). Be that as

> *" While I am intent on re-establishing a long position as I believe that gold will shine through in the next financial crisis..."*

it may, the Fed's tapering comment spiked long-term interest rates and inflicted heavy losses on our Treasury position.

Not ready to abandon the idea that triple-A fixed-income securities provide a useful safe haven, we liquidated the entire position of nominal 30-year Treasurys and took refuge in 10-year German Bunds, adding to an already existing position of long-term Bunds. As discussed above, these bonds should provide some upside when European sovereigns begin to restructure. At this time, German bunds represent approximately 60% of our long fixed-income position and Tips represent 40%, a mix that I find far less vulnerable to the whims of the Fed. Depending on trading opportunities, we may shift some Tips into more Bunds in the next few weeks, though reasonable break-evens are holding us back from aggressively pursuing this switch.

My second tactical error was in believing that gold would provide upside benefit in case of a disruption in the global financial system and, crucially, little or no loss while waiting for that to happen. I was blindsided by that notion and missed seeing that reduced inflationary expectations would exert a more powerful and immediate impact on prices. Moreover, I did not pay sufficient heed to the falling ratio of gold prices to U.S. stock prices as an early indicator of a shift in investor preferences – and paid the price. The position was liquidated for the Global Macro Hedge Fund but not before the violent and rapid downside draft cost us almost 1300 basis points. While I am intent on re-establishing a long position as I believe that gold will shine through in the next financial crisis (that being the reason we retained the 15% allocation in the non-leveraged Asset Allocation Funds), I hope to become more sensitive to those shifts in investor sentiment that presage a change in trend.

Normal group rotation added to our woes. The long and heavily concentrated U.S. homebuilders position that we owned underwent a severe 20% reaction, which resulted in a 700-basis-point hit to our NAV. We took profits on approximately 20% of the position and doggedly maintained the balance, still believing that the normal housing cycle would be extended beyond historical norms thanks to ZIRP and to pent-up demand for housing built up in recent years. Our bearish posture on emerging markets, especially Brazil, performed well and offset some of the above hits. The same is true of the market-neutral equity portfolio, which showed an 11% return and contributed 180 basis points.

Markets will do what they need to do, albeit in their own time and in their own way. And we, in turn, must craft portfolios that are consistent with these time horizons and well attuned to early shifts in investor sentiment. I believe that we have made important strides in that direction. As a result, I remain highly optimistic and look to attain, G-D willing, new NAV highs in the months and years to come.

Thanking you for your trust and confidence,

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 June 30, 2013

	NAV	Quarterly	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Global-Macro Hedge Fund Ltd.	4,665.39	-19.61%	-8.94%	7.95%	14.58%
Friedberg Global-Macro Hedge Fund	27.79[3]	-19.29%	-8.51%	7.44%	17.32%
CSFB/Tremont Hedge Fund Index		N.A.	10.63%	6.55%	3.22%

[1]Net of fees
[2]Compounded annual rate of return through May 2013
[3]NAV adjusted to reflect distributions reinvested in the fund

Capital allocation of the Friedberg Global-Macro Hedge Fund Ltd. as of June 30, 2013 is as follows:

INVESTMENT	CURRENT ALLOCATION	TARGET
Fixed Income	7.41%	7.00%
U.S. Equities - Market Neutral Strategy	19.53%	15.00%
Currency Program	3.12%	3.00%
Global Opportunities	71.68%	75.00%
Cash	-1.74%	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
2013	7.65%	-3.74%	3.04%	-1.90%	-5.62%	-13.17%							-14.17%
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 ***

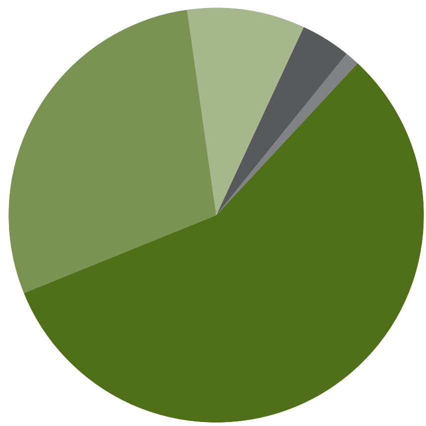
Friedberg Global-Macro Hedge Funds

Global-Macro Hedge Fund Ltd. (Cayman)

Breakdown by Total Gross Exposure

Global Opportunities	57%
Commodities	29%
U.S. Equities-Market Neutral	9%
Currencies	4%
Fixed Income	1%
Cash	0%

Total Exposure per dollar of capital: 6.04x

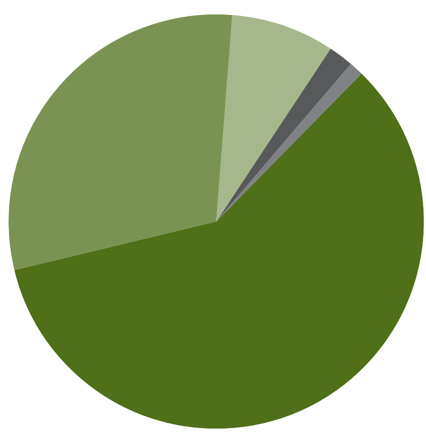


Global-Macro Hedge Fund (Canada)

Breakdown by Total Gross Exposure

Global Opportunities	59%
Commodities	30%
U.S. Equities-Market Neutral	8%
Currencies	2%
Fixed Income	1%
Cash	0%

Total Exposure per dollar of capital: 5.67x



Friedberg Global-Macro Hedge Funds

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 June 30, 2013

	NAV (notional)	Quarter
U.S. EQUITIES		
Market Neutral Strategy of the Global-Macro Hedge Fund	1,732.09	11.39%

Investment Allocation

	31-Mar-12	30-Apr-13	31-May-13	30-Jun-13
LONGS	52.08%	48.70%	49.83%	49.22%
SHORTS	47.92%	51.30%	50.17%	50.78%
TOTAL GROSS LEVERAGE	3.22x	2.89x	3.14x	2.74x

Largest Sectors (Longs)

Movies and Entertainment	12.53%
Biotechnology	9.42%
Utilities	6.51%

Largest Sectors (Shorts)

Industrials Large Caps	21.13%
IT Consulting and Other Services	6.70%
Restaurants	6.51%

Largest Long Positions

Utilities Select Sector SPDR
Regeneron Pharmaceuticals Inc.
NCR Corporation
News Corp. B
Time Warner Inc.

Largest Short Positions

S&P Futures
International Business Machines Corp.
YUM! Brands Inc.
EMC Corp.
Domtar Corp.

Best Quarterly Performance

	Longs
Regeneron Pharmaceuticals Inc.	27.48%
NCR Corporation	19.70%
Rite Aid Corp.	14.45%

	Shorts
Walter Energy Inc.	63.51%
YUM! Brands Inc.	3.61%
International Business Machines Corp.	1.42%

Worst Quarterly Performance

	Longs
Celgene Corp.	-10.02%
EBay Inc.	-5.53%
International Paper Co.	-4.87%

	Shorts
Monster Beverage Corp.	-16.15%
Kohl's Corp.	-9.49%
Tiffany & Co.	-6.01%

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 June 30, 2013

	NAV	Quarterly	Year over Year[2]	Two Years[2]	Three Years[2]
Friedberg Asset Allocation Fund Ltd.	1,332.09	-10.51%	3.49%	3.40%	7.11%
Friedberg Asset Allocation Fund	14.06[3]	-10.45%	3.63%	3.25%	6.85%
CSFB/Tremont Hedge Fund Index		N.A.	10.63%	3.62%	6.55%

[1]Net of fees
[2]Compounded annual rate of return through May 2013
[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 June 30, 2013 is as follows:

INVESTMENT		CURRENT ALLOCATION	TARGET
FIXED INCOME		70.10%	70.00%
U.S. TIPS 2.125% Feb. 15/40	*41.00%*		
U.S. 30 Year Bond Futures	*10.90%*		
Israel CPI 2.75% Aug. 30/41	*3.20%*		
Deutschland Bund 2.5% Jul. 4/44	*15.00%*		
EQUITIES		15.10%	15.00%
U.S. Homebuilders	*6.60%*		
Miscellaneous U.S. Equities	*1.90%*		
Bank of Ireland	*6.60%*		
PRECIOUS METALS		14.10%	15.00%
Gold Futures	*11.00%*		
Palladium Futures	*3.10%*		
CASH / MONEY MARKET *		0.70%	0.00%
		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
2013	0.91%	-1.21%	0.89%	1.47%	-5.07%	-7.09%							-10.00%
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 ***

Friedberg Currency Fund

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

Performance[1] as of June 30, 2013

	NAV	Quarter	Year over Year[3]	Three Years[3]	Five Years[3]
Friedberg Currency Fund[2]	8.41	-8.98%	-43.21%	-15.53%	-3.55%
Barclay Currency Traders Index		N.A.	1.98%	2.12%	2.40%

[1]Net of fees
[2]Priced in Canadian Dollars
[3]Compounded annual rate of return through May 2013

Open Positions - June 30, 2013

	Times Dedicated Capital
Short Bulgaria Lev	2.59
Long Euro Currency	2.57
Short Brazillian Real Future	1.16
Total Gross Leverage at	6.32x
Maximum Gross Leverage During Quarter	9.69x

Activity Report - Second Quarter 2013

Profitable Transactions	Profit As Percentage Of Average Equity	Percentage Of Total Profits
Short Brazil Real Future	3.64	51.18
Long Euro Currency	3.47	48.82

Losing Transactions	Profit As Percentage Of Average Equity	Percentage Of Total Losses
Long Dollar Index Future	-4.86	27.27
Long Japanese Yen	-4.47	25.10
Short Bulgaria Lev	-4.07	22.82
Short New Zealand Dollar	-3.58	20.07
Short Japanese Yen	-0.84	4.74

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%

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