Quarterly Report

2

SECOND QUARTER

2015

FRIEDBERG MERCANTILE GROUP LTD.

Contents

Second Quarter Report 2015

FRIEDBERG MERCANTILE GROUP LTD.

MESSAGE TO OUR INVESTORS

Please find below a discussion of our funds' latest performance.

For the second quarter of 2015 the Global-Macro Hedge Fund lost 11.2%, erasing unfortunately first-quarter gains, and then some, and bringing the year-to-date loss to 5.6%. The Asset Allocation Funds lost 3.3% for the quarter, bringing year-to-date losses to 1.1%.

Ironically, and despite these poor results, our confidence has continued to grow. It has taken us much longer than we thought to turn this boat around, but we now feel that we are sailing in an absolutely correct direction.

The discussion below is one of tactics. Through the quarter, we continued to simplify positions and reduce gross leverage. The portfolio has become even more concentrated, comprising fewer but relatively larger exposures. I can confidently assert that all present positions, long and short, represent high-conviction trades. We have insisted on trades that can perform well for us over horizons as short as six months and also feel that most of them will outperform for far longer periods, some as long as two years. In the process, we have reduced gross leverage even further. It now stands at 3.0x. This ratio compares with 4.5x at the end of the first quarter, 4.3x at the end of 2014, and a peak of 6.4x reached at the end of the first quarter of 2013, just as we began the worst phase of the longest-lasting drawdown in our past.

I do not want to give the impression that low leverage is the key to profits and that profits will inevitably follow once we have attained a low and "desirable" leverage ratio. This is categorically not so. Good selection is and will remain

Through the quarter we continued to simplify positions and reduce gross leverage

the most important ingredient for successful investing. Nevertheless, low leverage accomplishes two important things: it ensures that losses, when they occur, are relatively modest, and, more importantly, it serves admirably well to focus the mind of the manager on his best trades. The converse, high leverage, allows for far too many trades and can be a sign of lazy thinking. This is a serious problem and I admit to having fallen into that trap. Furthermore, high gross leverage can betray too much confidence in one's abilities to select appropriate hedges. In the past, much of the portfolio, in very broad strokes, was built around a long and heavily concentrated view on U.S. housing hedged by a deeply negative view of Europe and emerging markets. Re-reading older letters will confirm that this was the case. Unfortunately, our timing was off, and the hedges turned toxic. Only now are we starting to see serious weakness in emerging markets, particularly Russia, Southeast Asia, Latin America and Brazil in particular (where we still own a few bearish bets) and, of course, Europe (our bearish credit bets on Spain, Italy and certain European banks will be maturing soon; realistically, it's unlikely that we will have enough time left to profit from some or all of these eventual credit defaults).

Despite generalized beliefs to the contrary, we now believe that it is foolish and dangerous to build a portfolio around a "balanced" approach as we did in the past. The lesson of the last three years is that patterns of correlation between assets are highly erratic and almost unpredictable, at least in the short and medium term. It is for this reason that we have now placed such a strong emphasis on low and sustainable levels of leverage. Self-imposed limits on gross leverage are also, by necessity, forcing us to take views on market direction. Generally, a bearish view will have us reduce or eliminate long positions, not look for protection. Conversely, a bullish view will force us to reduce or eliminate short positions and not look for long hedges. The use of options, if nimbly executed, does allow us to perform some hedging operations, but that is only because options imply very limited losses in adverse market moves.

Strategically, we have continued to build around previously discussed and familiar themes. On the long equity side, our holdings include U.S. home builders and airlines, Nikkei futures, and a solid position in Blackstone, which we have called in the past "the best private capital practitioner, a smart user of leverage and an extremely opportunistic asset manager." In recent weeks, we have built three modest positions on the basis of very strong technical indications and constructive fundamentals: Eli Lilly, eBay and Facebook. Combined, these three represent less than 15% of assets. All together, our long exposure represents 163% of net assets, an aggressive and concentrated bet on the continuation of the U.S. bull market (below I will have something to say about this view). On the short equity side, we remain short, entirely on their own merits, a small basket of poorly performing Indian, South Korean and Brazilian equities and two U.S. stocks, Alcoa and IBM. All together, our short equity exposure amounts to a mere 27% of net assets. We continue to scout actively for more short opportunities, not for hedging purposes, as explained earlier, but with the idea that there are an increasing number of companies around the globe that are not well managed, that have been disrupted by new technologies, and, most important of all, that have taken on too much debt. As they begin to fight for their life, these types of companies offer the possibility of outsized returns.

On the commodity side, we have retained a short position in December 2016 crude oil. We expect prices to fall below US$40/barrel. We have also retained a modest long position in gold, fluctuating between 12% and 25% of assets, on the back of ever weaker sovereign and corporate credit and what this phenomenon implies for official holders of international reserves and for substantial and cautious international investors looking to diversify away from real estate, equities and bonds. As you know, we have outsourced most of our commodity trading (other than our own trading in the more liquid contracts, such as crude oil and gold) to Covenant. I am happy to report that the manager has significantly bumped up his positions in recent weeks and has been able to take advantage of strong grain and weak metal markets. At quarter end, our combined commodities positions represented 54% of net assets. A short position in the Brazilian real represented our single currency position, and it was equal to only 7% of net assets. We did not feel confident enough to wade into the main currency markets given the cross currents caused by the interminable Greek drama. A relatively strong economy and prospects for higher rates will undoubtedly provide good support for the dollar and will clearly delay the onset of inflation.

A few words about the global economy. The surprising "no" vote in Greece is not at all surprising considering the length of time Greece had been experiencing economic depression. As we have repeated ad nauseam, democratic governments are unable to endure long periods of austerity, especially when those austerity programs are ill-designed, lacking possibilities of eventual growth. It should become quite evident to all that the IMF/European Union plan is not workable. Austerity must begin and end with governments. Government must shrink and make room for the private sector. Spending cuts, government layoffs, tax cuts, privatization and labour reform are the sine qua non conditions for "austerity" to work. Unfortunately, the statist mentalities of these supranational bodies and the pass given to the failing states by the ECB in reducing their cost to borrow money (and the urgency to implement reforms) have condemned Europe to long-term stagnation at best and long-term depression at worst. Coupled

I can confidently assert that all present positions, long and short, represent high-conviction trades

with powerful demographic changes — a declining native population and the sharp rise of an ill-prepared, ill-educated immigrant population — the future for Western Europe is quite bleak.

For the foreseeable future, the odds are heavily stacked against any sort of balanced recovery in Europe, and certainly against gains in growth per capita, unless, by miracle, officialdom changes its ways. In blunt terms, Europe is an economic write-off. Latin American countries are also beginning to reap a harvest of discontent because they did not carry out necessary economic reforms when the opportunity arose, namely, during the years when terms of trade were favourable. Now, with commodity prices having turned against them, it is unlikely that they will do what needs to be done. In sum, these countries, too, are condemned to stagnation, inflation and renewed social unrest.

By contrast, the U.S. economy is in excellent shape. Low and falling oil prices are providing strong and lasting stimulus. So are years of household deleveraging and a huge pent-up demand for housing and rental accommodations. As soon as wages pick up a little more speed, capital spending will rev up, providing an additional push to economic activity. Single and multi-family construction activity, as well as Capex levels, indicate that we are just mid-way in the economic cycle. This is supported by still-modest rates of monetary growth and a normal term structure of interest rates.

It will take time for money supply to accelerate (though loans have just accelerated to a cycle high), for consumer prices to accelerate from their humdrum pace, for margins to shrink significantly and for the Fed to react firmly enough to produce the only sure indicator of a coming bear market: a negatively sloped interest rate curve. Despite weak global growth, the U.S. economy should chug along for at least two to three years before hitting the next recession.

This scenario is highly favourable for U.S. equities, especially cyclical groups like home builders and airlines, which have not as yet fully participated in the recovery. Dispersion will become much more pronounced in the months and years ahead, offering discretionary investors and managers a fertile field of investment ideas. In fact, indexers should not do well in this scenario, just of course as the benefits of indexing are being touted as the preferred way of investing. In line with increasing dispersion, we will see stocks and stock sectors succumb to high levels of debt, competition from technologically savvy disrupters and globalized competitive pressures. This will generate a growing pool of interesting short candidates. But possibly the most interesting short candidates will be found, as previously discussed, in foreign markets — one stock, one sector, and one country at a time. For now, however, the strong cyclical expansion in the U.S. is offering the best investment opportunities anywhere.

We look forward to a strong second half.

Thanking you for your support,

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, 2015

	NAV	Quarterly	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Global-Macro Hedge Fund Ltd.	2,903.94	-11.23%	-9.48%	-21.07%	-7.44%
Friedberg Global-Macro Hedge Fund	16.85[3]	-11.27%	-9.91%	-21.58%	-8.15%
CSFB/Tremont Hedge Fund Index		N.A.	5.65%	7.41%	6.26%

[1]Net of fees
[2]Compounded annual rate of return through May 2015
[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
2015	4.75%	-1.16%	2.73%	-14.00%	3.14%	0.08%							-5.59%
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)

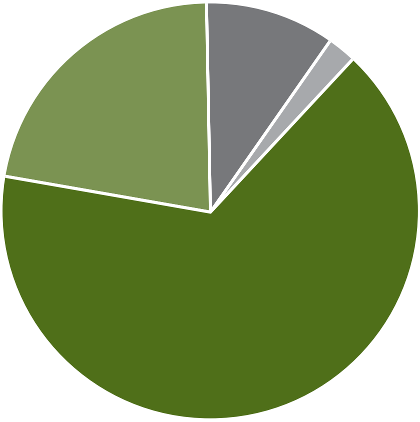
Breakdown by Total Gross Exposure

AS OF JUNE 30, 2015

U.S. and Global Equities*	66%
Commodities	22%
Fixed Income	10%
Currencies	2%

Total Exposure per dollar of capital: 3.03x

* Contains international long/short equities



Global-Macro Hedge Fund Ltd. (Cayman)

Breakdown by Total Gross Exposure

AS OF MARCH 31, 2015

U.S. and Global Equities*	44%
Fixed Income	34%
Commodities	14%
Currencies	8%

Total Exposure per dollar of capital: 4.58x

* Contains international long/short equities

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, 2015

	NAV	Quarterly	Year over Year[2]	Two Years[2]	Three Years[2]	Five Years[2]
Friedberg Asset Allocation Fund Ltd.	1,399.15	-3.40%	-0.27%	-0.38%	0.89%	4.05%
Friedberg Asset Allocation Fund	14.81[3]	-3.27%	-0.13%	-0.33%	0.97%	3.92%
CSFB/Tremont Hedge Fund Index		N.A.	5.65%	5.84%	7.41%	6.26%

[1]Net of fees
[2]Compounded annual rate of return through May 2015
[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, 2015 is as follows:

INVESTMENT		CURRENT ALLOCATION	TARGET
FIXED INCOME		37.80%	37.50%
U.S. TIPS 2.125% Feb. 15/40	*32.10%*		
10-Year German Bunds (via Futures)	*5.70%*		
EQUITIES		47.60%	48.50%
U.S. Homebuilders	*32.50%*		
U.S. and Australian Gold Miners	*5.44%*		
U.S. Biotech	*4.72%*		
Miscellaneous U.S. Equities	*4.94%*		
FUTURES		14.40%	14.00%
Gold (via Futures)	*9.40%*		
Cocoa (via Futures)	*5.00%*		
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
2015	3.54%	0.31%	-1.31%	-0.74%	-1.03%	-1.67%							-1.07%
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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