Quarterly Report

3

THIRD QUARTER

2013

FRIEDBERG MERCANTILE GROUP LTD.

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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.

Third Quarter Report 2013

FRIEDBERG MERCANTILE GROUP LTD.

MESSAGE TO OUR INVESTORS

I present to you the financial activities of our hedge funds for the quarter ended September 30, 2013.

Results continued the deterioration that began in the second quarter. In fact, losses accelerated just after the Fed countered early indications that it would taper the rate of purchase of Treasury and mortgage securities, producing third-quarter losses of 24.9% and bringing year-to-date losses to 35.5% and year-on-year losses to 40%. These are by far the worst losses suffered by the fund in its 12 year history and take back our NAV to levels last seen in August 2009. The drawdown in effect wiped out more than 4 years' worth of gains and reduced the fund's compounded rate of growth from inception to only 11.18%.

To be sure, our risk-management style can produce just such deep draw-downs given that we are discretionary, non-systematic managers, focused primarily on fundamental factors. This implies a risk of overstaying and riding unfavourable trends, treating them as if they were merely intermediate and insignificant countertrends. We tend to give markets wide latitude, in the understanding that a great deal of daily and weekly activity can be categorized simply as noise; only fundamental changes or very dramatic moves will force us out of entrenched positions.

Our first and most important line of defense has been structuring the portfolio so as to avoid serious daily fluctuations, serious being defined as an overnight move of 4% or more. Thus, overnight moves of less than 4% can occur in a sustained manner and cumulatively produce painful results, as they did, without necessarily triggering corrective action. This is admittedly a weakness of our investing style but, in our experience, it is superior to a stop-loss method that can give rise to multiple re-entries and innumerable whipsaws. In short, we know of no better method for controlling risk and keeping losses to modest proportions given our fundamental bent and our objective of earning extraordinary absolute returns.

An attribution analysis makes it very clear that we erred spectacularly in our short bet on global equity markets. Eighty-seven percent of the losses are attributable to emerging markets, among them and principally Brazil, Gazprom, and a smattering of countries included in the EEM i-shares, as well as losses on some developed markets such as European banks (mostly Spanish) and markets thought to be dependent on China directly or indirectly (via weaker demand for commodities), such as Australia (Fortescue and banks), Canadian energy stocks and Canadian banks.

With the exception of India, where we obtained a small profit, all these positions turned sour. Compounding the problem, our relatively smaller long position, mostly U.S. homebuilders, *"We tend to give markets wide latitude, in the understanding that a great deal of daily and weekly activity can be categorized simply as noise; only fundamental changes or very dramatic moves will force us out of entrenched positions."*

underperformed the S&P 500, yielding losses of 250 basis points instead of what might have been gains of 450 basis points. Only Bank of Ireland produced a significant gain on the long side.

Only 13% of all losses were caused by a miscellany of fixed income (primarily long TIPS and Bunds), oil spreads and other commodities, credit protection swaps purchased on European Banks, Spain, Portugal, Italy and Venezuela, and a few currency trades, all partially mitigated by interesting gains in our equity hedge program.

Throughout the quarter, our risk committee placed a great deal of emphasis on excessive leverage, but in truth, while leverage has proven to be excessive, our poor selection/allocation was, in fact, more damaging. To put it simply, had we been as highly leveraged in global/emerging stocks as we were but long instead of short, we would be popping champagne bottles. Or, had we been long S&P instead of homebuilders and in a proportion of 1.6 to 1 to the long side instead of the reverse, it is doubtful that we would be nursing losses this quarter. The imaginary permutations and combinations are infinite but they all come back to one point: one has to be able to call it right, and we didn't.

Having said that, it is a truism that moderate leverage protects the investor in situations where the investor makes a wrong call on the market. One need not go too far to observe this phenomenon. Following essentially the same macro philosophy as the one driving the Global Macro Hedge Fund, the unleveraged Asset Allocation Fund managed to post a 2.3% gain this quarter, narrowing year-to-date losses to 8% and year-on-year losses to 5.3%.

By the end of the quarter we managed to reduce leverage to levels comparable to the end of the previous quarter (see pie chart in inside pages), despite the 24% reduction in net assets. At this writing, leverage has been reduced further and now stands approximately 14% lower than at quarter end. Much lower leverage levels would endanger our recovery potential; we are therefore unlikely to go there. Instead, we have focused on aggressively cutting losses even as our longer-term fundamental outlook has not changed. As a result, our long-to-short equity ratio has now moved in favour of the former, to 1.34 x.

Our bet that European peripheral countries would default on their debt is now primarily confined to the credit-default swap sector. These swaps, expiring gradually over the next 24 months, have been written down to absurdly low levels but carry, of course, the potential to offer outsized gains should a default or restructuring materialize in the near future. A long position in German 10- and 30-year bunds equal to slightly more than net capital and profitably carried at about 10 basis points per annum provides us with an additional layer of protection, with, what we view as, minimal downside risk given Europe's miniscule growth in nominal GDP.

We remain committed to a short crude-oil deferred position, partially hedged via front months in case military disturbances emerge around the Straits of Hormuz. We have retained a modest long position in gold (equal to approximately 20% of capital) but have taken a trading approach to it, selling on strength and buying on dips, until we can be sure that a firmer base has been established. We believe that for this to happen, gold needs to begin outperforming equities on a sustained basis.

"We are discretionary, non-systematic managers, focused primarily on fundamental factors. This implies a risk of overstaying and riding unfavourable trends, treating them as if they were merely intermediate and insignificant countertrends"

The Fed is now trapped in a situation from which it will find itself almost impossible to extricate itself under normal conditions. That is to say, inflation will have to become a serious problem before it can begin to tighten. In the interim, cheap money will continue to fuel an asset boom, which, in our opinion, will be led by U.S. house prices. Not far behind these events, as the growth of money begins to accelerate, commodity prices will follow to the upside. Only then will interest rates be forced up. Rising interest rates will put the final nail in the coffin of the European debt situation and will force a torrent of capital out of emerging markets. These themes, postponed only by an irresponsible and highly explosive U.S. monetary policy, are sure to re-assert themselves and will do so with a vengeance.

The portfolio displays a more concentrated but, at the same time, more balanced tone. Going forward, medium-term performance will hinge heavily on the behaviour of U.S. homebuilders and Bank of Ireland on the long side, Brazil, India and a handful of emerging markets on the short side, the partially hedged short crude oil position and Bunds. We are aiming to keep average daily volatility to no more than 50% above that of the S&P, and we will continue to reduce leverage to attain this objective. Longer-term, performance will be affected by an eventual resolution of the European and Venezuelan debt crises. Costs to carry these positions are not likely to exceed 4% of assets, spread over the next 24 months. The equity hedge program should continue to produce good results, provided a fair amount of dispersion is present. Longer-term (12 to 18 months), we expect to put in place a substantial long commodity position in line with our expectations regarding inflation.

We look forward to substantially better returns over the next few months.

Thanking you for your continued 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 September 30, 2013

	NAV	Quarterly	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Global-Macro Hedge Fund Ltd.	3,505.31	-24.87%	-31.80%	-1.44%	7.56%
Friedberg Global-Macro Hedge Fund	20.52[3]	-26.16%	-32.07%	-2.76%	10.14%
CSFB/Tremont Hedge Fund Index		N.A.	7.16%	5.74%	3.80%

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

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%	-14.23%	-1.28%	-11.27%				-35.51%
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)

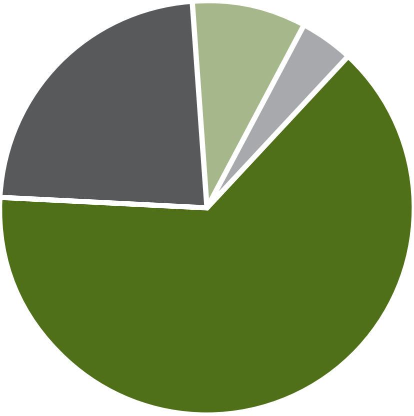
Breakdown by Total Gross Exposure

AS OF JUNE 30, 2013

Global Opportunities**	64%
Fixed Income	23%
U.S. Equities-Market Neutral	9%
Currencies	4%

Total Exposure per dollar of capital: 5.38x*

* Originally reported as 6.04x. Recalculated for comparison purposes to September 30 figures.



Global-Macro Hedge Fund Ltd. (Cayman)

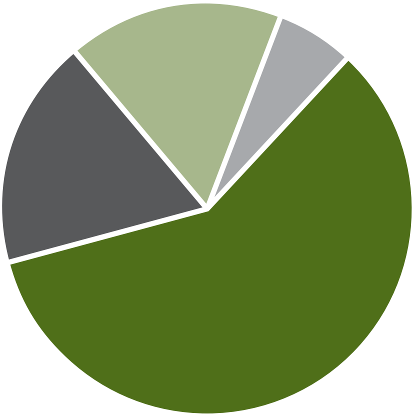
Breakdown by Total Gross Exposure

AS OF SEPTEMBER 30, 2013

Global Opportunities**	59%
Fixed Income	18%
U.S. Equities-Market Neutral	17%
Currencies	6%

Total Exposure per dollar of capital: 5.36x

** Contains international long/short equities, CDS exposure and commodities



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 September 30, 2013

	NAV (notional)	Quarter
U.S. EQUITIES		
Market Neutral Strategy of the Global-Macro Hedge Fund	1,910.41	10.29%

Investment Allocation

	30-Jun-13	31-Jul-13	31-Aug-13	30-Sep-13
LONGS	49.22%	50.60%	48.92%	48.66%
SHORTS	50.78%	49.40%	51.08%	51.34%
TOTAL GROSS LEVERAGE	2.74x	2.86x	3.01x	3.11x

Largest Sectors (Longs)

Biotechnology	11.59%
Movies and Entertainment	10.62%
Utilities Sector	5.16%

Largest Sectors (Shorts)

Industrials Large Caps	28.34%
IT Consulting and Other Services	5.79%
Restaurants	5.36%

Largest Long Positions

Regeneron Pharmaceuticals Inc.	6.38%
Celgene Corp.	5.21%
Utilities Select Sector SPDR	5.16%
NCR Corp.	4.48%
Time Warner Inc.	4.12%

Largest Short Positions

S&P Futures	28.34%
International Business Machines Corp.	5.79%
YUM! Brands Inc.	5.36%
Domtar Corp.	5.16%
Kohl's Corp.	3.42%

Best Quarterly Performance

	Longs
Rite Aid Corp.	66.43%
Regeneron Pharmaceuticals Inc.	39.13%
Celgene Corp.	31.76%

	Shorts
International Business Machines Corp.	3.10%
Kohl's Corp.	-2.45%
YUM! Brands Inc.	-2.96%

Worst Quarterly Performance

	Longs
Computer Sciences Corp.	-3.34%
Select Sector Utilities Spdr ETF	-0.69%
Google Inc.	-0.51%

	Shorts
Walter Energy Inc.	-28.10%
Domtar Corp.	-19.43%
Credicorp Ltd.	-11.16%

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 September 30, 2013

	NAV	Quarterly	Year over Year[2]	Two Years[2]	Three Years[2]
Friedberg Asset Allocation Fund Ltd.	1,362.08	2.25%	-5.11%	-3.55%	4.15%
Friedberg Asset Allocation Fund	14.39[3]	2.35%	-4.81%	-3.49%	3.97%
CSFB/Tremont Hedge Fund Index		N.A.	7.16%	4.49%	5.74%

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

INVESTMENT		CURRENT ALLOCATION	TARGET
FIXED INCOME		66.60%	65.00%
U.S. TIPS 2.125% Feb. 15/40	*31.40%*		
Israel CPI 2.75% Aug. 30/41	*3.90%*		
German Bund 2.5% Jul. 4/44	*17.20%*		
10-Year German Bunds (Futures)	*14.10%*		
EQUITIES		18.50%	18.00%
U.S. Homebuilders	*10.40%*		
Miscellaneous U.S. Equities	*2.20%*		
Bank of Ireland	*5.90%*		
PRECIOUS METALS		15.80%	17.00%
Gold (Futures)	*11.80%*		
Silver (Futures)	*4.00%*		
CASH / MONEY MARKET		-0.90%	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
2013	0.91%	-1.21%	0.89%	1.47%	-5.07%	-7.09%	1.98%	-0.95%	1.22%				-7.97%
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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