

# Quarterly Report

*Friedberg  
Mercantile  
Group Ltd*

# 4

FOURTH QUARTER  
**2018**

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.

# Fourth Quarter Report 2018

## MESSAGE TO OUR INVESTORS

I am pleased to present to you the financial results for the fourth quarter of 2018.

The relative lateness of this presentation, as well as the arbitrariness of having to view a three-month period in isolation from a more natural “investment cycle,” has led me to include in my comments what occurred past the quarter end. This will provide you with a more faithful and fairer representation of what went on during the quarter and where we stand today. For those asking for formal reporting numbers, they can be found in the inside pages.

The last few months of 2018 witnessed one of the most violent declines in modern memory. From top to bottom, most indices fell in the vicinity of 20%, and in many areas of the market the damage was substantially greater than 20%. Implied volatility surged at one point more than 80%.

What happened can neither be considered “a grave deal” nor can it be considered “nothing.” Coming into the quarter there existed a great deal of optimism regarding earnings growth. Nevertheless, the prospective normalization of monetary policy and the China trade war continued to worry investors. As well, insistent questions were being raised about the “coming” and “inevitable” recession, though no solid evidence was being adduced for it. From time to time, growing corporate debt would set off alarm bells, but here, too, no evidence could be found that we were about to experience a chain of defaults or even that credit stresses were beginning to surface. As the decline unfolded, the search for causes took on more urgency as they would give a better clue of what lay ahead. Since none of the worst concerns became reality, increasingly the decline began to look like no more than a technical correction, which is another way of saying that the bull market was in need of a pause and

in need of a change in leadership. Of course, this verdict was not obvious in late December-early January. The correction could have been presaging, after all, a long period of deteriorating earnings growth or, worse yet, earnings declines. It could have been anticipating credit stresses, a not-implausible occurrence given the amount of debt accumulated since the last recession, or a trade war (the US-China differences are far more substantial than they appear from recent, optimistic, pronouncements). Moreover, one would have to reckon with the possibility that the decline itself, should it continue, could set off all of the above by affecting business and consumer confidence. These issues were on my mind in early January, arguing, on balance, for a go-slow approach.

Let me now return to the beginning of the quarter. The market's internal structure was crumbling: fewer and fewer companies were advancing to new 12-month highs, while an increasing number of companies were making new 12-month lows. Key sectors, like banks and investment managers, were breaking longer-term uptrends. The storied FAANG stocks (Facebook, Apple, Amazon, Netflix, and Google) were losing momentum, a sign perhaps of a change in leadership in the offing. At the same time, commodity prices were touching multi-year lows, a puzzling occurrence in the midst of a global economic upswing. China was decelerating, which was having a serious impact on commodities in general and oil in particular. In spite of the fact that oil inventories were rising, we noticed that producers were failing to hedge adequately, caught up in the general euphoria of rising prices.

Our long exposure to the market was rather modest (averaging ~13% of NAV), consisting almost entirely of a long position in Greek banks. Our risk-off exposure was made up of a substantial short position in Australian banks (~50% of NAV), a more modest short position in Chinese banks and real estate companies (~25% of NAV), and a small short position in HFDC, India's largest bank. Seeing gathering signs of weakness, we sold crude oil futures and purchased short-term out-of-the-money QQQ puts. As the market declined, these options, and some outright shorts, gained value. Uncertain about the reasons for the decline (serious? just a correction?), we did not press these positions nor did we liquidate them quickly enough, trying to buy enough time

THE ASSET ALLOCATION FUND FARED BETTER THAN THE GLOBAL-MACRO FUND DURING THIS PERIOD. UNABLE BY THE TERMS OF THE FUND TO SELL SHORT OR PURCHASE PUT OPTIONS FOR SPECULATIVE PURPOSES, I MOVED UP TO 80% OF THE PORTFOLIO INTO 10- AND 30-YEAR US TREASURY BONDS. FOR THE 113 DAYS SINCE THE BEGINNING OF LAST QUARTER, THE FUND LOST 1% COMPARED TO 9.6% FOR THE S&P 500; BONDS CONTRIBUTED 200 BASIS POINTS TO NAV, BUT EQUITIES (PRIMARILY GOLD MINERS AND GREEK BANKS) LOST 190 BASIS POINTS AND COMMODITIES (PRECIOUS METALS) LOST 110 BASIS POINTS.

to gain a certain amount of clarity. In early January, not quite convinced that the worst of the decline was over but leaning to the idea that we were not in the midst of a recession or a long bear market, we largely liquidated the Nasdaq-based short position (options and futures) and began to buy into two former areas of interest: homebuilders and Brazilian equities.

In broad strokes, over the 113 days our short position in QQQ puts and Nasdaq futures contributed 440 basis points to NAV while Australian banks contributed 220 basis points. The bear bets on China and India, carried over from the previous quarter, disappointingly contributed a negative 240 basis points. The

WHERE DO WE STAND TODAY? A NUMBER OF SIGNS HAVE BEGUN TO POINT TO A BETTER MARKET AHEAD. THOUGH FAINT AND HESITANT, THESE SIGNS SUPPORT THE NOTION THAT ASSET PRICES WILL FIND SUPPORT AROUND THESE LEVELS, EVEN IF THEY DON'T IMMEDIATELY CLIMB TO NEW HIGHS. IMPORTANTLY, SUCH LISTLESS AND RANGE-BOUND TRADING CONDITIONS TEND TO PRODUCE A GREAT DEAL OF DISPERSION AROUND THE MEAN; OPPORTUNITIES IN SELECT AREAS SHOULD ARISE FOR ACTIVE MANAGERS.

very modest Greek bank long position, falling only slightly more than a broad-based index of European banks, made a negative contribution of 300 basis points! Also on the negative side of the ledger but unrelated to the stock market swoon, at least on the surface, a large bear bet on the Chinese yuan (a position averaging over 130% of NAV) backfired and contributed a negative 240 basis points to NAV. Finally, a very well timed but much-less-than-aggressive bearish bet on crude oil prices brought in only 60 basis points. Proof of the market's still unsettled conditions, our new dive into homebuilders (~40% of NAV and established at a ~15% discount to our last exit) made a negative contribution of 300 basis points in just a few weeks.

The 113 days represented a mini-cycle of sorts, one in which we first probed the short side of the global equity and commodity markets then sheepishly retreated, having nailed down some profits along the way. Finally we moved, timidly, to the long side of two erstwhile favourite sectors, homebuilders and Brazil. No changes were made to the balance of positions carried over from earlier in 2018. Viewed over the full 113-day period, our protective operation, undertaken via QQQ put options, and a short position in crude oil added 500 basis points to our NAV. In sum, for the entire period, 113 days, we lost 2.7% compared with a loss of 8.6% for the S&P 500.

Where do we stand today? A number of signs have begun to point to a better market ahead. One, internal strength has improved, if only slightly, though we have yet to see strength in the form of many more stocks making year-long highs. Two, market breadth has confirmed index strength; in other words, the absence of any kind of divergence is positive. Three, key commodities have found strong support, among them oil, iron ore and base metals. Four, US money supply growth has begun to reaccelerate after a long period of sub-4% yearly growth. Five, Chinese money supply growth has stabilized around 8% annually. Though faint and hesitant, these signs support the notion that asset prices will find support around these levels, even if they don't immediately climb to new highs. Importantly, such listless and range-bound trading conditions tend to produce a great deal of dispersion around the mean; opportunities in select areas should arise for active managers.

Here is a rundown of our largest long positions. Homebuilders remain our number-one theme for 2019-2020. Pent-up demand for housing is likely to translate into strong sales as mortgage rates remain below 5% and supply is expanded, especially in the lower-priced sector.

We expect Brazil's market to handily outperform the US market. The new government in Brazil is market-friendly and is ready to implement a number of reforms that are sure to propel stocks much higher.

Greek banks remain abandoned in the bargain basement, so to speak, selling at a fraction of their European counterparts. In the meantime, non-performing

loans continue to shrink; interesting proposals are being floated to reduce these to minimal levels without the need to recapitalize the banks. The Greek economic recovery is not only proceeding apace, but Greece's economic growth rate now exceeds that of its European partners. Much of it, of course, has to do with the depth and length of the previous depression, but recent reforms have played a role too.

Australian banks' stock prices are being supported by high but thinly covered dividends. The banks continue to face a once-in-a-generation challenge: falling home prices and little prospect for a turnaround given the extent of previous speculative buying. Mortgages represent, on average, more than 50% of bank assets, so lending losses will soon force these banks to cut dividends. We expect stocks to fall 30% to 50% from current levels.

The Asset Allocation Fund fared better than the Global-Macro Hedge Fund during this period. Unable under the terms of the former to sell short or purchase put options for speculative purposes, I moved up to 80% of the portfolio into 10- and 30-year US Treasury bonds. For the 113 days since the beginning of last quarter, the fund lost 1% compared with 8.6% for the S&P 500; bonds contributed 200 basis points to NAV, but equities (primarily gold miners and Greek banks) lost 190 basis points and commodities (precious metals) lost 110 basis points.

As I hope to have shown above, we remain highly sensitive to conditions that may affect the course of investment assets and are prepared to move quickly to protect positions or take advantage of unusual opportunities. Nevertheless, it is not our intention to engage in short-term trading; we engage in protective operations simply to buy time and to try to assess during this time whether a major change in direction has taken place. Our objective remains to look for a few major, long-lasting trends and to try to capitalize on them by taking meaningful positions, whether long or short.

Liquidity is an uppermost concern for us and yet, it is not always easy to operate

as flexibly as we would like without incurring actual and/or anticipated large slippage costs. (Liquidity has been evaporating for years.) Because of this inability and sometimes our own strongly held convictions that hold us back from accepting changes in direction too readily (not every adverse wiggle is meaningful, and much activity needs to be filtered carefully), our trading style can produce sizeable losses at times, as it did through the first three quarters of 2018. Fortunately, it can and should also offer excellent returns.

Unless I make very substantial changes to the portfolio in coming months (which I don't expect to make), my next letter to investors will be sent in July rather than at next quarter end.

I look forward to a much better 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<sup>1</sup> as of December 31, 2018

	<b>NAV</b>	<b>Quarterly</b>	<b>One Year</b>	<b>Two Years</b>	<b>Three Years</b>	<b>Five Years</b>
Friedberg Asset Allocation Fund Ltd.	1,473.77	-0.60%	-15.69%	0.37%	2.59%	1.80%
Friedberg Asset Allocation Fund	15.83 <sup>2</sup>	-0.31%	-14.85%	1.09%	3.21%	2.17%
CSFB/Tremont Hedge Fund Index <sup>3</sup>		N.A.%	1.13%	2.94%	1.75%	2.14%

<sup>1</sup> Net of fees

<sup>2</sup> NAV adjusted to reflect distributions reinvested in the fund

<sup>3</sup> Compounded annual rate of return through November 2018

# Friedberg Asset Allocation Funds

Capital allocation of the Friedberg Asset Allocation Fund Ltd.  
as of December 31, 2018 is as follows:

INVESTMENT		CURRENT ALLOCATION	TARGET
FIXED INCOME		81.08%	80.00%
<i>U.S. Ten-Year Treasury Futures</i>	66.74%		
<i>Ultrabond Futures</i>	14.34%		
EQUITIES		17.41%	20.00%
<i>U.S. and Australian Gold Miners</i>	9.80%		
<i>Cybersecurity ETF</i>	9.10%		
<i>Short Nasdaq Futures*</i>	-5.30%		
<i>Greek Banks</i>	3.81%		
*Partial hedge against Cybersecurity ETF			
FUTURES		0%	0%
CASH / MONEY MARKET		1.51%	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
2018	3.62%	-6.33%	0.31%	-0.68	-6.06%	-2.29%	0.24%	-3.36%	-1.34%	-3.33%	0.07%	2.75%	-15.69%
2017	6.57%	2.07%	-0.54%	-1.54%	-1.12%	3.55%	1.31%	1.99%	-0.39%	1.38%	2.60%	2.32%	19.48%
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<sup>1</sup> as of December 31, 2018

	<b>NAV</b>	<b>Quarterly</b>	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
Friedberg Global-Macro Hedge Fund Ltd.	2,882.21	9.55%	-29.03%	-6.62%	-4.16%	-1.61%
Friedberg Global-Macro Hedge Fund	17.25 <sup>2</sup>	10.29%	-28.69%	-5.59%	-3.78%	-0.50%
CSFB/Tremont Hedge Fund Index <sup>3</sup>		N.A.%	1.13%	1.75%	2.14%	5.22%

<sup>1</sup>Net of fees

<sup>2</sup>NAV adjusted to reflect distributions reinvested in the fund

<sup>3</sup>Compounded annual rate of return through November 2018

# 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
2018	4.82%	-18.57%	4.07%	-3.39%	-13.97%	-5.66%	0.28%	-7.53%	0.32%	7.40%	-4.06%	6.31%	-29.03%
2017	0.23%	3.14%	-0.44%	-1.76%	1.05%	1.22%	-2.39%	2.14%	-0.77%	10.58%	15.85%	4.13%	36.47%
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%

\*\*\* PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS \*\*\*

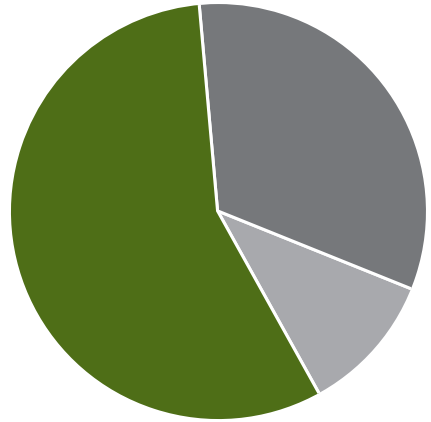
## Global-Macro Hedge Fund Ltd. (Cayman)

Breakdown as a Percentage of Total Assets  
AS OF DECEMBER 31, 2018

● U.S. and Global Equities*	56.82%
● Currency Program	32.26%
● Commodities	10.82%

Total Exposure per dollar of capital: 2.95x

\* Contains long/short equities

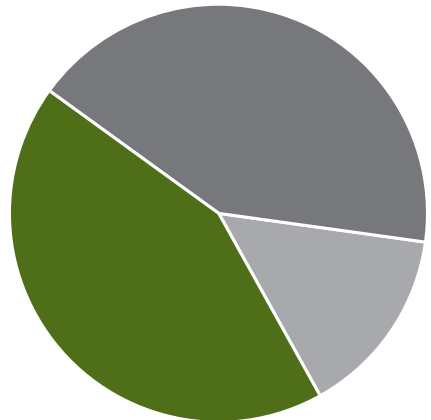


Breakdown as a Percentage of Total Assets  
AS OF SEPTEMBER 30, 2018

● U.S. and Global Equities*	43.22%
● Currency Program	42.21%
● Commodities	14.57%

Total Exposure per dollar of capital: 2.88x

\* 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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