Quarterly Report

Friedberg Mercantile Group Ltd

2

SECOND QUARTER

2021

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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.

2021
Second Quarter Report

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MESSAGE TO OUR INVESTORS

I am pleased to report to you the financial results of our two hedge funds for the quarter ended June 30, 2021.

The Global-Macro Hedge Fund returned 7.4% for the quarter, bringing year-to-date performance to 21.2%. The Asset Allocation Fund also had a positive quarter, increasing 4.9%, for a year-to-date gain of 5.2%. Both funds lagged the S&P 500 for the period, which climbed 8.5%, though the Global-Macro Hedge Fund is beating the equity benchmark's year-to-date return of 15.25%.

Our portfolios have remained relatively unchanged since our last report, with minor tweaks. The exception is the Asset Allocation Fund, which has now fully divested from its gold position (while keeping the gold mining stocks) and has invested the proceeds along with the "dry powder" held at last quarter's end into commodity indices and crude oil — more closely aligning with the exposure we have in the Global-Macro Hedge Fund.

The quarter's profit all came from the commodity exposure (combining indices, gold, silver, crude, palladium, platinum, coffee, and natural gas), which returned 13%. Housing, the major driver of the first quarter's returns, paused and closed this quarter perfectly unchanged (with some volatility in between). Small losses on a number of equity positions ate into the commodity gain. Among them: short Tesla cost 1.1%, our short basket of high-flying/no-earnings technology companies cost 1.3%, and our long cannabis basket cost us 0.7%. We also briefly reinitiated a short position in long-duration US Treasury bonds, which cost 0.9% for the period.

The Asset Allocation Fund, though producing a modest absolute return, enjoyed gains in every one of its holdings: US homebuilders +0.9%, gold miners +2.1%, commodities +0.9%, gold +0.2%, and crude +0.4%. A trade in a Greek bank issue added a final 0.6% to the quarter's return.

Despite outperforming the S&P so far this year, the Global-Macro Hedge Fund returns are disappointing given our consistent use of leverage, typically around 3x. On a risk-adjusted basis, the fund has underperformed the S&P over the past 12 months, producing a Sharpe ratio of 0.43 vs. the S&P's 0.67. This underperformance, though masked by positive absolute returns and absolute outperformance of the benchmark, bears consideration, and below we highlight some of the mistakes we have made this year.

We remain laser-focused on the theme of inflation, which is both one of the biggest financial risks facing society (especially for those on fixed incomes) and one of the most predictable and tradable financial events on the horizon. The high conviction we hold on the inevitability of a coming high-inflation environment (and with monthly CPI figures coming in at 0.9%, arguably we are well into this period already) has allowed us to build a concentrated portfolio and remain steadfast. However, as discussed in previous letters, we are watching closely for cues to shift away from the commodity-centric trade, which we argued would be the first to respond to inflationary pressures building into the later-stage trades, such as short fixed income. This led us back into the short position in ultra-long US Treasury futures. We concluded, upon reflection and in the face of nonsensically falling yields, that the distortive effect of the Fed's bond purchases had impacted liquidity to the point where any impulse to "hedge" by buying bonds (by misguided asset managers seeking safety in the wrong places) was moving markets far too much.

So, too, are we puzzled by the behaviour of gold. Despite a small contribution this quarter, it remains our most costly mistake of the year (-10.5%). In hindsight, it seems clear that rising yields throughout the first quarter sapped demand for gold, as the opportunity cost for holding the non-yielding asset grew (though yields are once again foolishly on the decline). Perhaps, too, attention to gold faltered in the face of new "alleged" inflation hedges, as fantastic rallies in cryptocurrency markets captured the imagination of small individuals and large institutions alike. The trend here has also reversed or at least reverted. With CPI running hot, Treasury yields paradoxically falling, and the sheen off of the new "alternative" inflation hedges, we expect gold to shine again soon.

With respect to gold, our worst mistake was failing to respect the severe underperformance vs. equity markets, a measure we have historically relied upon. Over the past 12 months, the S&P has outperformed gold by a whopping 34%! Why, then, have we eschewed to a large extent (with the exception of homebuilders and a few others) participation in this breathtaking equity bull market? The answer once again comes down to conviction. With respect to gold and commodities, the sound logical footing of those positions provided significantly more psychic comfort. After acknowledging the obviously superior price action of equities, we simply could not justify taking such a concentrated and highly leveraged position in the stock market; the risk felt too high, the conviction too low. The focus on commodities allowed for peaceful sleep and a steady hand unperturbed by short-term market gyrations.

US homebuilders broke even for the quarter but only after first rallying to new heights and then contracting sharply, in many cases in excess of 20% (the classic definition of a bear market). Nevertheless, our conviction never faltered. The exposure remains untouched and is once again on the march higher. By contrast, our short position in (as we saw them, Icarus-like) high-tech shares experienced a similar circumstance, falling sharply, then reverting higher. In this case, having entered the trade with less conviction, we stepped aside (too early in hindsight) and booked a small profit (though a loss for the quarter). The comparison illuminates the difficulty in successfully trading low-conviction ideas.

Such a powerful tool as conviction must also have a dangerous edge, and that is when it crosses the elusive line into stubbornness. Our continued participation in the Tesla epic might be rightfully labeled as such. Having traded in and out several times with mixed but, on balance, poor results, we find ourselves once again short, seeing conditions ripe for what we think is an unavoidable reckoning.

We enter the second half of the year with a large exposure to commodities, totalling 212% including our 88% exposure to gold (a distinct asset, having attributes unique among commodities). Housing remains our largest equity exposure at 41%. Our 10% investment in cannabis stocks along with our

7% short position in Tesla round out the portfolio. The Asset Allocation Fund has a 39% exposure to homebuilders, 28% exposure to gold miners, and a diversified commodity position of 32%.

ALBERT D. FRIEDBERG **JAIME A. MACRAE**

LETTER FROM THE MANAGER

To the great surprise of most market observers and Fed officials, inflation readings have jumped to multi-year highs and don't seem to be moderating anytime soon. As always, the blame is placed on special factors, with one well known analyst saying that for 90% of goods and services making up the CPI basket, prices have risen only around 0.2%. What a relief! But what nonsense. This kind of "segmentation" to obtain more reassuring results ignores the fact that inflation is, by its very nature, lumpy. Believers, like we are, that monetary factors, and only monetary factors, are responsible for price behaviour understand that excess money creation leads to rising prices. As a consequence, goods and services that are in adequate supply will rise in price less than those not in adequate supply or will not rise at all.

Excess money allows the price of hard-to-find goods to rise far faster than the price of easily found goods without necessitating any price accommodation. Let me illustrate with an historical example.

During the last major episode of intense inflation, the decade of the seventies, the price of oil tripled thanks to supply restrictions (whether artificial or not is

not relevant to this discussion). Such a large rise in prices in a key commodity should have caused an immediate liquidation of non-oil commodities. After all, if consumers had to spend more money at the pump, by necessity they had less money to spend on other consumer goods.

The tripling of oil prices should have represented nothing more than a relative price increase — relative to other items, oil became more expensive. But this is not exactly what happened. Consumers were able to "accommodate" the rise at the pump because they had more money to spend. So the relative price adjustment took place but took much longer to occur. And the overall price level rose, led by oil but accompanied by other goods and services, which rose "merely" a bit.

In time, overall demand, driven by excess money creation, spilled over into other goods that gradually came into short supply. First cocoa (remember how chocolate bars got smaller but the price stayed the same?), then sugar, then wheat, and so on. This is how inflation works — not in a smooth, straight line, but in a lumpy fashion. This is a simplistic explanation but should suffice to explain our present predicament.

Single homes have been in inadequate supply for some time in relation to potential demand, now put at somewhere between 4.5 million and 7 million homes. Excess money has therefore found one of its first targets, home prices. Prices rose 15% one year ago and have hastened further to rise 25% per annum in recent months. Other prices have "accommodated" these increases and have remained fairly quiescent for the most part.

The market signal, however, is unambiguous: home prices must rise in relative terms to the price of other goods and services to bring about an increase in supply. Next, the rise in home prices will very soon be reflected in rent prices that, because of lags and methods of computation, have not as yet hit the CPI basket. Just as important is the fact that goods and services in short supply, such as used cars, homes, international shipping rates, chips, etc., have skyrocketed without downwardly affecting other prices. This in itself is a sign that accelerating inflation is here to stay. Next in line will be other goods and services of which we are not even aware today. The foolish "segmentation"

argument adduced by otherwise intelligent people will begin to resemble a game of whack-a-mole.

Fed officials stated this week that they will be ready to tackle inflation whenever they feel that it ought to be done. But that's a fiction. To deal with inflation, they first need to understand what's causing it. Only then, and that could be months or years away, will they understand what needs to be done. So for now, we are bound to go through the same old steps taken prior to the Great Recession. First, a lively discussion and then a consensus about tapering must emerge. Then, a consensus on the pace of tapering. If gradual, over how long? Mortgage securities first or Treasurys? Then, as is typical, the first 1/4 point rise in the Fed funds rate. Bravo, a first step! And if inflation keeps accelerating beyond their 2.5% per annum expectation, which in our view is guaranteed, increases of 1/4% in Fed funds will be implemented on a quarterly basis. Then monthly. There is a long way to go, and a long time necessary, to reach a funds rate of just 2.5%, the last peak (2019). And, dear reader, that won't cut it when inflation is running 500 to 800 basis points higher.

It's useless for us to speculate any further. It will be a long time, measured in years, before the Fed regains control of prices. During this long period of time, inflation will rage and consumer purchasing power will shrink as wages struggle to keep up with prices. Economic activity will be severely affected by this loss of purchasing power, and slowdowns and recessions will follow. Corporate margins will shrink. Price controls, always useless and counterproductive, will almost certainly reappear on the scene. The evils of social inequality will be compounded, and social unrest will follow…

There are very few places to which we will be able to escape and find safety in the coming financial and economic disaster. But recognizing the problem is the first step and we believe that we have recognized it.

Thanking you for your continued trust,

ALBERT D. FRIEDBERG

Friedberg Asset Allocation Funds

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FRIEDBERG MERCANTILE GROUP LTD.

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, 2021

	NAV	Quarterly	One Year	Three Years	Five Years	Ten Years
Friedberg Asset Allocation Fund Ltd.	1,564.87	4.71%	10.43%	0.29%	-0.24%	1.76%
Friedberg Asset Allocation Fund	14.64[2]	4.86%	10.45%	0.00%	-0.04%	1.78%
CSFB/Tremont Hedge Fund Index[3]		N.A.	16.60%	5.84%	5.62%	4.24%

[1] Net of fees
[2] NAV adjusted to reflect distributions reinvested in the fund
[3] Compounded annual rate of return through June 2021

Sector Performance

Based on the Friedberg Asset Allocation Fund

	Q2	YTD
EQUITIES	**3.65%**	**7.28%**
U.S. Homebuilders	0.95%	8.54%
International Gold Miners	2.14%	-1.82%
Greek Construction	0.56%	0.56%
COMMODITIES	**1.46%**	**(-0.91%)**
Commodity Indices	0.86%	1.15%
Gold	0.23%	-2.61%
Crude Oil	0.37%	0.55%

Friedberg Asset Allocation Funds

Capital allocation of the Friedberg Asset Allocation Fund Ltd. as of June 30, 2021 is as follows:

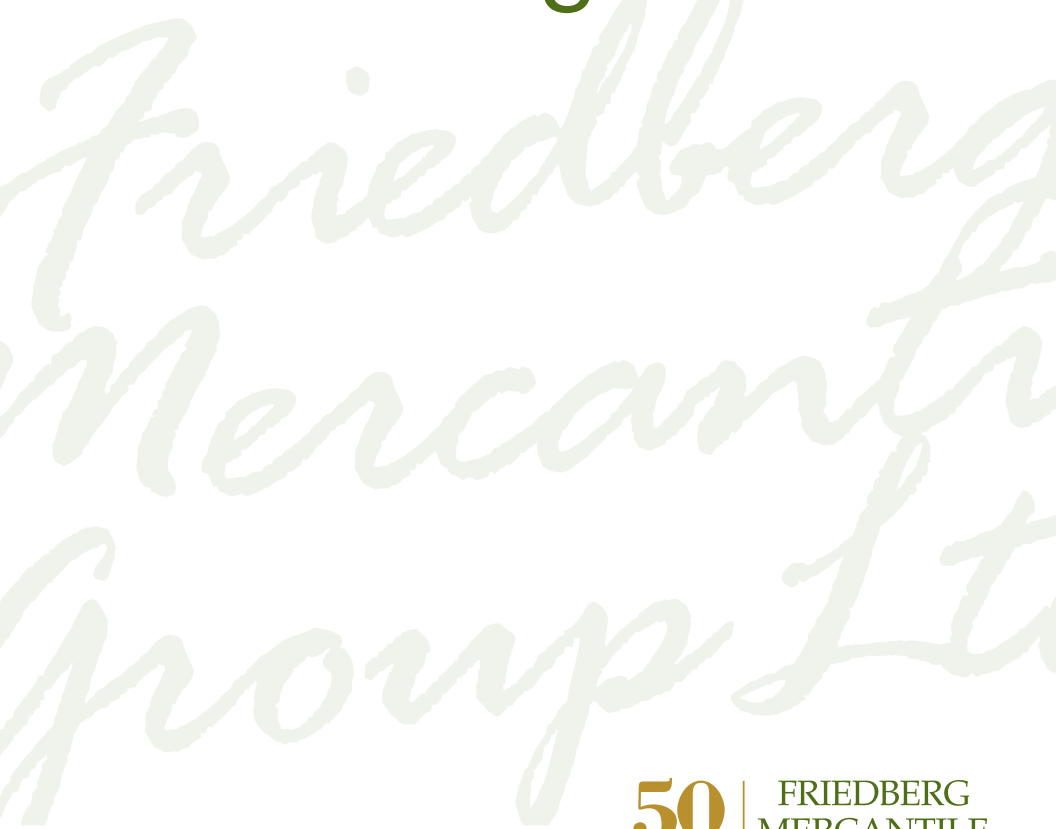
INVESTMENT		CURRENT ALLOCATION	TARGET
EQUITIES		68.27%	60.00%
U.S. Homebuilders	*38.47%*		
International Gold Miners	*29.80%*		
COMMODITIES		31.25%	40.00%
Commodity Indices	*22.81%*		
Crude Oil	*8.44%*		
CASH / MONEY MARKET		0.48%	0.00%
		100.00%	100.00%

Friedberg Asset Allocation Fund Ltd.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2021	-1.57%	-2.81%	5.00%	6.74%	4.83%	-6.42%							5.19%
2020	-3.85%	-16.37%	-21.36%	15.06%	4.50%	3.51%	11.99%	0.52%	-3.31%	-4.58%	-1.87%	3.01%	-17.38%
2019	2.63%	2.38%	-0.18%	1.19%	4.04%	3.11%	1.03%	-2.03%	-1.29%	5.06%	-1.62%	6.28%	22.19%
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



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FRIEDBERG MERCANTILE GROUP LTD.

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 June 30, 2021

	NAV	Quarterly	One Year	Three Years	Five Years	Ten Years
Friedberg Global-Macro Hedge Fund Ltd.	2,457.76	7.36%	58.99%	-4.57%	-7.41%	-4.94%
Friedberg Global-Macro Hedge Fund	14.64[2]	7.41%	59.65%	-4.37%	-6.82%	-5.03%
CSFB/Tremont Hedge Fund Index[3]		N.A.	16.60%	5.84%	5.62%	4.24%

[1]Net of fees
[2]NAV adjusted to reflect distributions reinvested in the fund
[3] Compounded annual rate of return through June 2021

Friedberg Global-Macro Hedge Funds

Sector Performance

Based on the Friedberg Global-Macro Hedge Fund

	Q2	YTD
COMMODITIES	**12.97%**	**13.94%**
Gold	0.40%	(10.54%)
Silver	0.27%	(0.17%)
Crude Oil	2.83%	9.28%
Commodity Indices	8.05%	13.85%
Palladium	0.71%	0.98%
Platinum	0.05%	(0.21%)
Coffee	0.10%	0.10%
Natural Gas	0.56%	0.65%
BONDS	**(0.91%)**	**(0.57%)**
Ultrabonds	(0.91%)	(0.57%)
EQUITIES	**(3.86%)**	**10.12%**
LONG		
Equity Indices (long)	0.33%	(0.27%)
U.S. Homebuilders	0.04%	11.48%
Amazon Inc.	0.46%	0.46%
China Electric Vehicles	0.00%	1.28%
Sport Entertainment Industry	(0.02%)	(0.06%)
Cannabis Producers and Distributors	(0.71%)	2.16%
SHORT		
Equity Indicies (Short)	(1.25%)	(3.29%)
Latin America E-Commerce	(0.34%)	(0.34%)
Tesla Inc.	(1.07%)	(2.55%)
Technology Basket	(1.30%)	1.25%
MONEY MARKET	**0.00%**	**0.00**

Friedberg Global-Macro Hedge Funds

Friedberg Global-Macro Hedge Fund Ltd.

Monthly Performance (%) Net of Fees

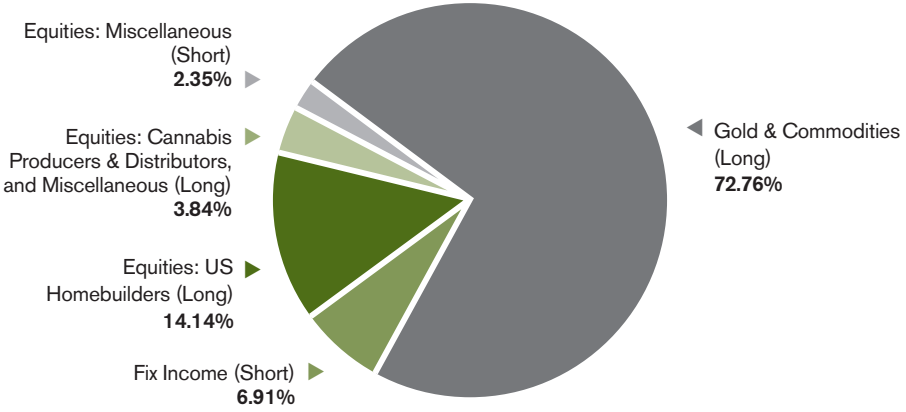
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2021	0.56%	7.91%	4.43%	7.41%	9.42%	-8.65%							21.67%
2020	-8.55%	-19.41%	-34.68%	26.35%	6.78%	4.88%	30.59%	4.78%	-10.18%	-9.35%	8.90%	7.70%	-10.99%
2019	-10.24%	-7.93%	1.86%	-1.68%	4.57%	-6.40%	-4.54%	6.83%	-2.08%	-3.45%	-3.89%	4.91%	-21.26%
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 ***

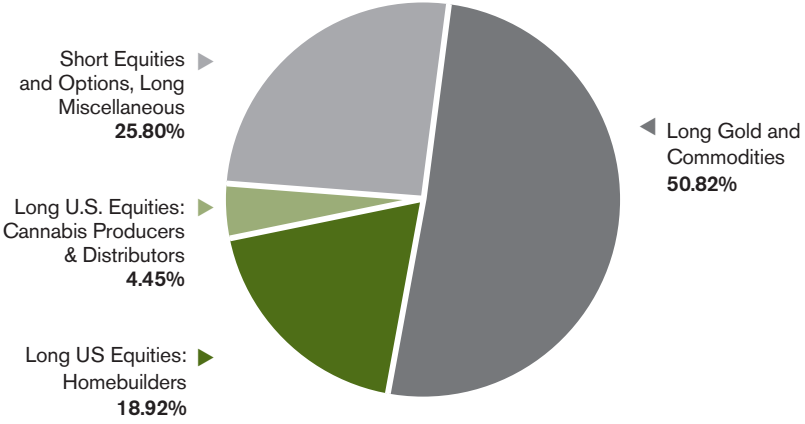
Friedberg Global-Macro Hedge Funds

Global-Macro Hedge Fund Ltd. (Cayman)

Breakdown by Total Exposure
AS OF JUNE 30, 2021
Percentages of Total Assets



Breakdown by Total Exposure
AS OF MARCH 31, 2021
Percentages of Total Assets

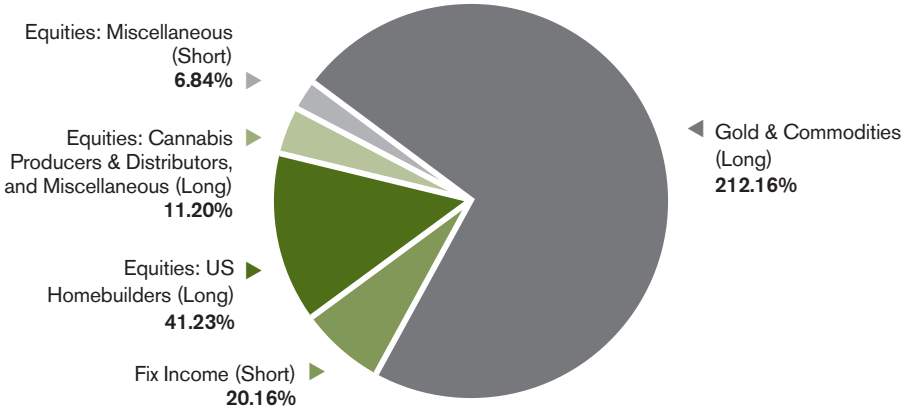


Friedberg Global-Macro Hedge Funds

Global-Macro Hedge Fund Ltd. (Cayman)

Breakdown by Total Net Exposure
AS OF JUNE 30, 2021

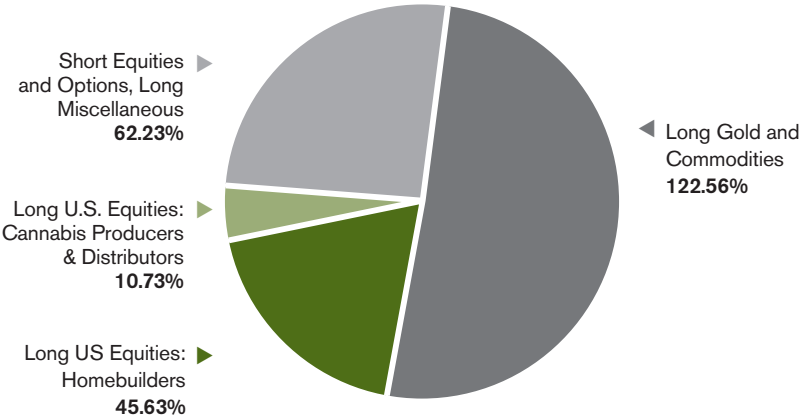
Percentages of Net Assets



TOTAL ASSETS TO NET ASSETS: 291.74%

Breakdown by Total Net Exposure
AS OF MARCH 31, 2021

Percentages of Net Assets



TOTAL ASSETS TO NET ASSETS: 241.00%

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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