

FRIEDBERG MERCANTILE GROUP LTD.

Quarterly Report

Q3
2022

*Friedberg
Mercantile
Group Ltd.*



2022 **Third Quarter Report**

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We are pleased to report to you the financial results of our two hedge funds for the quarter ended September 30, 2022.

The Global-Macro Hedge Fund posted a very disappointing loss of 20.9% for the third quarter, taking the year-to-date performance into negative territory, now down 7.9%. Worse still, the fund significantly underperformed the S&P for the period, which declined only 5.8% during the three months. Nevertheless, on a year-to-date basis the fund maintains a healthy lead compared with the 23.8% loss experienced by passive equity investors. The long-only Friedberg Asset Allocation Fund closely tracked the benchmark for the quarter, losing 5.7%, and is now down 26% for the year to date.

Blame for the poor third-quarter results is shared by a number of factors. Perhaps chief among them is a broadening of positions, some of which came and went quickly amidst a fast and choppy market that saw prices advance and fall in a violent fashion. The best example is the S&P benchmark itself, which rallied over 15% in the first half of the period then fell more than 17% through the second half — a volatile backdrop that led to losses in equity index trading on both sides, 3.9% lost on long positions and 2.4% lost on short positions. Overall, the whipsawing equity market cost the fund 12.3% for the quarter and 22.3% for 2022 to date.

Commodities were also a meaningful drag, particularly crude oil, which cost the fund 4.3%. As discussed in the previous letter, the sluggish Chinese economy, hampered by a relentless zero-COVID policy and rolling lockdowns, weighed heavily on energy prices and commodities generally. While we cut those losses early in July, we suffered a further 3.1% loss in a broad basket of commodities when we called a resurgence in commodity prices too early, a mistake once again. Now the impact of widespread global monetary tightening has taken hold and, in tandem with persistent Chinese weakness, represents a significant hurdle for commodity markets to overcome.

Gold continues to disappoint, though for the quarter cost only 1.1% as we stayed away for the most part. The relative hawkishness of the US Federal Reserve (compared with its peers around the world) has caused the US dollar to surge relentlessly and has pushed real yields to their highest levels in over a decade — two factors that have kept gold prices at bay, despite inflationary and geopolitical backdrops that might otherwise have been wildly bullish.

The co-variable of rising real yields is falling inflation expectations, the result of a forceful push by the Fed to increase borrowing costs to combat rising prices. Over the past three months the Fed has nearly doubled the discount rate from 175 basis points (bps) to 325 bps, with more hikes expected over the coming months. In light of this show of determination, we are pleased to report our large bet on inflation lost only 4.6% for the quarter and remains up 27% for the year. We have significantly reduced our exposure on this front, realizing substantial profits in the process. Moreover, with expectations having reset significantly lower, downside seems limited, and the prospects for future upside surprises have improved.

A small but highly asymmetric bet on US short rates offers the potential for a large windfall if the Fed continues to raise rates at an accelerated pace. With the one-year forward expectation for SOFR (the short-term market-based lending rate that is replacing the disgraced LIBOR) at a mere 180 bps and the Fed discount rate at 50 bps, we wagered that the response to high inflation would take interest rates well above market expectations. At the time, we felt this was a great hedge against a surprisingly strong monetary response that could hurt our inflation-related positions, and the market was assigning very little probability of such a response. We were therefore able to buy options that offered an exponential gain if rates rose very quickly, which they have. This position returned 2.5% for the quarter and offers the potential for a gain an order of magnitude larger over the coming year.

Homebuilders continue to be our most painful position, costing 16% for the year but only 2.7% for the third quarter. Given the backdrop of a plummeting stock market generally and mortgage rates that have shot up to a 20-year high, the poor performance is not surprising. What is surprising is that over the past six months, homebuilders have outperformed the S&P by 13% (based on ITB). With valuations in deep value territory and a supply deficit that may take a decade to correct, homebuilders seem well defended against further downside. In addition, they traditionally lead the equity market out of a recession. The future looks bright despite the clouds.

Losses in the Friedberg Asset Allocation Fund were broadly based. Homebuilders cost 70 bps, gold miners cost 150 bps, cannabis stocks 30 bps, and natural resource stocks 90 bps. For a long-only fund, it was hard to escape the carnage in the equity market, though a hedge expressed through a long position in a volatility ETF did cushion losses slightly, adding 100 bps.

We fared no better in commodities, losing 150 bps in a broad index and 180 bps in crude oil. A small position in long-dated natural gas returned 40 bps.

The Global-Macro Hedge Fund enters the final quarter with a slight short bias, with a gross short position of 78% and a net short position of 11.3%. We have focused on several highly liquid and over-owned mega-cap technology stocks, such as AAPL, META, and MSFT, to name a few. As markets fall, portfolio managers reach for liquidity, and stocks like these are the easiest way to reduce equity exposure quickly without incurring significant slippage costs. The single names are complemented by a 29.5% short in the S&P. On the long side, we maintain our homebuilders exposure (now 43.5%) and a small bet on cannabis companies and add new exposure to Japanese banks (19.8%). Our position in inflation-related products has been cut back substantially to 59.6%, though we maintain significant dry powder to be redeployed if and when the data support such a decision.

The Friedberg Asset Allocation Fund continues to hold US homebuilders (39.4%), a significantly reduced position in a gold miner (7.4%), an exposure to some natural-resource companies (11%, including a new position in a Chilean lithium producer), an allocation to Japanese banks (9.6%), and a small cannabis trade. To help offset the long-only equity exposure, we have a 17% exposure to a long volatility ETF, which should perform well if equity markets move sharply lower and hold up well otherwise. The current backwardation in volume lends itself to a positive yield for the strategy. In commodities, we now have only a small (5%) deferred allocation to natural gas.



ALBERT D. FRIEDBERG



JAIME A. MACRAE

Letter from the Manager

For months the air has been filled with talk of a coming recession. The probability that such will occur has risen and risen, and still the recession has not come. Two very weak quarters in the US, where real GDP has remained basically unchanged, are now being followed by a slightly stronger quarter; unemployment claims continue to decline and are now the lowest ever on a labour-force-adjusted basis. In fact, one might call this level of claims negligible.

The evidence for slowing into recession is everywhere, from falling housing sales to weak manufacturing and service activity. Yet these numbers refuse to *plunge* into negative territory. The basis for these recession forecasts lies in the belief that Fed tightening — the liftoff in rates from zero to 3% to 3.35% in the short span of six months — must bring it about. Yet while financial markets suffer, the economy holds its own. Energy troubles in Europe and the ridiculous Chinese lockdowns add to the gloomy picture, and yet the global economy has not slipped, let alone collapsed, into recession.

Will it? It might. We don't profess to know. It should be noted that well and widely advertised forecasts have a tendency not to occur. Many sectors of the US and global economy have experienced mild to significant corrections but, happily, many others have reawakened, such as the energy-producing sector and global travel, for example. If these rolling-type corrections occur over a lengthier period, they can take the place of a deep, synchronized fall. Consumers can shift their preferences from one area to another without triggering a recession so long as there is financing, even if it's more expensive. Moreover, no shrinking sector is large enough to affect this financing. Rolling corrections can be self-sustaining; as soon as one sector has corrected sufficiently, it can begin to recover and offset a shrinking one. The key seems to be the availability of money and credit.

An inverted yield curve has historically been one of the best indicators of credit availability. And while the yield curve in most developed countries has inverted at the short end, long rates remain well above central bank rates. The inversion at the short end is only due to traders' expectations of where central bank rates will be in one, two, and three years. They are, in some sense,

artificially created rates. Only long rates, 10 years and longer, can hope to stay outside of the influence of central bank action. No inversion is seen here. In the US for example, 10-year Treasuries exceed the Fed Funds rate by over 75 basis points, the German yields are 85 basis points above the ECB, the UK Gilts exceed short rates by 150, and so on. These long rates are market-determined, and for now they are telling us that credit remains available. So while this is no guarantee that a US or a global recession won't occur under these conditions, stagnation is the more likely outcome given a rolling adjustment.

There is more. Earlier we mentioned that, aside from credit, the availability of money is most important. That's because money influences the course of prices. While the growth of money has slowed down dramatically in the US since early this year, it has not clawed back the huge increases seen in 2020 and 2021. Inflationary conditions remain latent as long as those excess money balances are not absorbed into higher prices. There is sufficient fuel left in the tank to push prices well above the Fed's 2% target for the next couple of years, even if money growth remains soft. If, however, money begins to grow again at more than, say, 6% per annum in 2024 and 2025, we will push the inflationary consequences forward for yet a longer period of time.

The combination of sufficient credit availability and money growth should produce stagflation and should further weaken corporate balance sheets (more credit + stagnation = higher levels of debt to equity, somewhat mitigated by higher inflation). Central banks must continue to raise rates until they catch up to long-term rates and stay there for some period of time.

A further complication relates to China. How long are they willing to restrain growth in an attempt to bring COVID under full control? China's dramatic slowdown has had a significant negative impact on global commodity prices. An end to lockdown, which is nearly inevitable, should provide renewed support for commodities and help restart a new wave of price increases around the world.

We digress for just one moment to make an important distinction. Inflation is not simply a rise in prices; it's a condition. A country can impose price controls and bring inflation under "control," but all it has really done is broken the thermometer. Inflationary conditions remain and are present when central banks "print" too much money. The global slowdown, led by China, has only slowed the rise in prices — temporarily. It has not ended inflationary conditions. Prices will resume their rise once caps and controls are removed. Inflationary conditions will change only when money growth is brought back under control.

As the reader senses, the outlook is a bit cloudier than it has been for the past 30 months. Credit remains available, but will the global economy avoid a recession? We think so, but with less than usual conviction. Money supply growth has flattened for the past 9 to 10 months. Will it go negative soon, claw back the excesses of 2020-21, and allow inflation to return to the norm of the last 20 to 30 years? We suspect not, but it's only a suspicion grounded in some technicalities and in a belief that the central bank will blink first. Will China re-open and begin to provide support for trade and commodity prices? We think yes, but only because domestic resistance to the lockdowns has been increasing. We are not certain the repressive Chinese authorities care enough to take this popular resistance into account.

In all, a more iffy picture. To adopt an overused and cowardly cliché, we say that we are data-dependent, watching for the above. This dictates a somewhat more cautious attitude coming into the final quarter of the year (manifested in a generally lower leverage ratio), a light negative stance on equities (net short but primarily betting on sectors and dispersion), a reduced long position in inflation derivatives, and no position in commodities.

We are gratified that the Global-Macro Hedge Fund is well ahead of the S&P 500 for the year (see Jaime's comments) and hope to remain so for the balance of the year. We are not as gratified with the underperformance of the Asset Allocation Fund but continue to believe that it, too, will eventually outperform the S&P 500.

We look forward to data that will support a more aggressive posture. It could come soon.

Thanking you for your continued trust,



ALBERT D. FRIEDBERG

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.

PERFORMANCE¹ AS OF SEPTEMBER 30, 2022

	NAV	Quarterly	One Year	Three Years	Five Years	Ten Years
Friedberg Asset Allocation Fund Ltd.	1,224.93	-6.46%	-16.93%	-9.26%	-6.87%	-1.59%
Friedberg Asset Allocation Fund	13.07 ²	-5.56%	-16.49%	-9.48%	-6.80%	-1.48%
CSFB/Tremont Hedge Fund Index ³		N.A.	5.82%	4.64%	4.52%	4.46%

Net of fees ¹ NAV adjusted to reflect distributions reinvested in the fund ² Compounded annual rate of return through August 2022

Capital Allocation of the Friedberg Asset Allocation Fund Ltd.

Investment	Current Allocation
EQUITIES	77.73%
U.S. Homebuilders	39.38%
Volatility Equity ETF	16.95%
Global Natural Resources	10.95%
International Gold Miners	7.36%
Cannabis Producers & Distributors	3.09%
COMMODITIES	14.76%
Japanese Banks Futures Index	9.66%
Natural Gas	5.10%
CASH / MONEY MARKET	7.51%
	100.00%

Sector Performance

Based on the Friedberg Asset Allocation Fund

	Q3	YTD
EQUITIES	-2.32%	-24.08%
U.S. Homebuilders	-0.67%	-16.13%
International Gold Miners	-1.54%	-4.96%
Cannabis Producers & Distributors	-0.28%	-3.16%
Global Natural Resources	-0.88%	-0.88%
Volatility Index ETF	1.05%	1.05%
COMMODITIES	-2.88%	-2.65%
Commodity Indices	-1.50%	-1.50%
Gold	0.02%	-0.66%
Crude Oil	-1.84%	-1.65%
Natural Gas	0.45%	1.16%

Monthly Performance (%) Net of Fees Based on the Friedberg Asset Allocation Fund Ltd.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2022	-9.29	2.32	-1.25	-3.57	-0.51	-10.58	4.85	-4.10	-6.97				-26.45
2021	-1.57	-2.81	5.00	6.74	4.83	-6.42	2.51	-3.29	-4.95	6.09	0.42	6.02	11.94
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 Fund Ltd. Friedberg Global-Macro Hedge Fund

A multi-strategy fund. Allocations are reviewed periodically.

PERFORMANCE¹ AS OF SEPTEMBER 30, 2022

	NAV	Quarterly	One Year	Three Years	Five Years	Ten Years
Friedberg Global-Macro Hedge Fund Ltd.	2,420.76	-21.14%	3.59%	1.26%	-9.83%	-8.43%
Friedberg Global-Macro Hedge Fund	14.48 ²	-20.74%	3.87%	0.82%	-9.75%	-8.31%
CSFB/Tremont Hedge Fund Index ³		N.A.	5.82%	4.64%	4.52%	4.46%

Net of fees ¹NAV adjusted to reflect distributions reinvested in the fund ²Compounded annual rate of return through August 2022

Sector Performance

Based on the Friedberg Global-Macro Hedge Fund

	Q3	YTD
CURRENCY	0.00%	-0.90%
EUR Call / USD Put	0.00%	-0.90%
COMMODITIES	-8.53%	-5.44%
LONG		
Gold	-1.10%	-3.24%
Crude Oil	-4.32%	0.55%
Commodity Indices	-3.11%	-3.11%
Palladium	0.00%	0.36%
FIXED INCOME	-0.22%	-1.18%
SHORT		
10 Year Notes	0.00%	0.46%
Italy BTP Bonds	-0.22%	-1.65%
EQUITIES	-12.27%	-22.31%
LONG		
Japan Bank Swap	0.00%	-0.65%
Nikkei Futures	0.00%	-0.18%
Japan Topix Banks Index	-1.26%	-1.20%
Equity Futures Indices	-3.90%	-3.90%
US Homebuilders (Equities)	-2.57%	-16.00%
US Homebuilders (Options)	-0.15%	-1.00%
Tesla Inc.	0.00%	-1.36%
Large Cap Stocks	0.00%	-1.89%
SPACs	0.00%	-0.17%
Cannabis Producers & Distributors	-0.26%	-2.95%
SHORT		
Meta Platforms Inc.	2.14%	1.96%
US Equity Index Futures	-2.40%	1.94%
Amazon.com Inc.	-1.31%	-0.58%
Nvidia Corp.	-0.87%	-0.65%
Tesla Inc.	-3.50%	-5.13%
Salesforce Inc.	1.06%	1.06%
Diversified Technology Stocks	0.00%	7.66%
Alphabet Inc.	0.48%	0.48%
Apple Inc.	0.22%	0.22%
Microsoft Corp.	0.06%	0.06%
EQUITY VOLATILITY	1.28%	1.28%
VIX Futures	1.28%	1.28%
INFLATION	-4.61%	27.00%
CPI Derivatives	-4.61%	27.00%
INTEREST RATE	2.51%	1.87%
SOFR Options	2.51%	1.87%

Monthly Performance (%) Net of Fees

Based on the Friedberg Global-Macro Hedge Fund Ltd.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2022	3.22	28.55	1.02	3.35	-0.04%	-15.33	0.49	-11.22	-11.60				-7.54
2021	0.56	7.91	4.43	7.41	9.42	-8.65	3.45	-9.85	1.95	-0.33	0.29	12.09	29.60
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

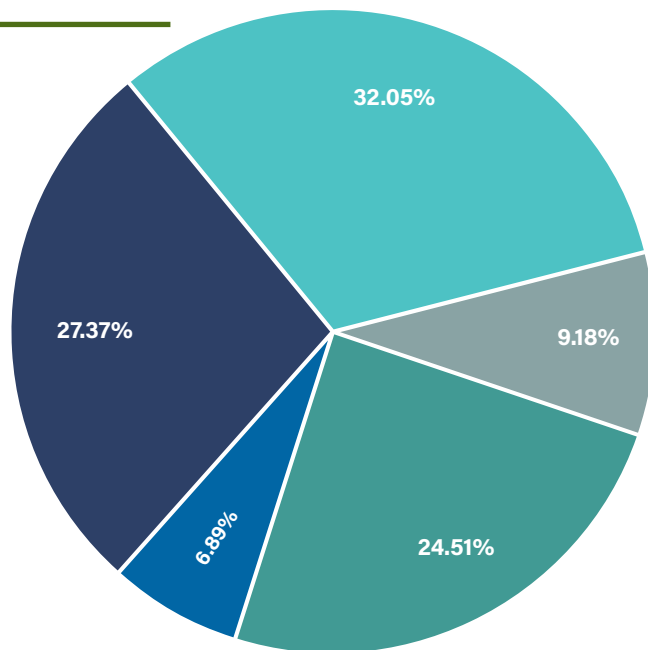
Past performance is not indicative of future results.

AS OF SEPTEMBER 30, 2022

Percentages of Total Assets

Percentages of Total Net Assets

- ▶ **Short Equities: US Tech Companies 32.05%**
Total Net Exposure: 78.01%
- ▶ **Long Equities: US Homebuilders, Japan Topix Banks, Miscellaneous 27.37%**
Total Net Exposure: 66.62%
- ▶ **CPI Derivatives (Long) 24.51%**
Total Net Exposure: 59.67%
- ▶ **Fixed Income (Short) 9.18%**
Total Net Exposure: 22.33%
- ▶ **Equity Volatility (Long) 6.89%**
Total Net Exposure: 16.77%



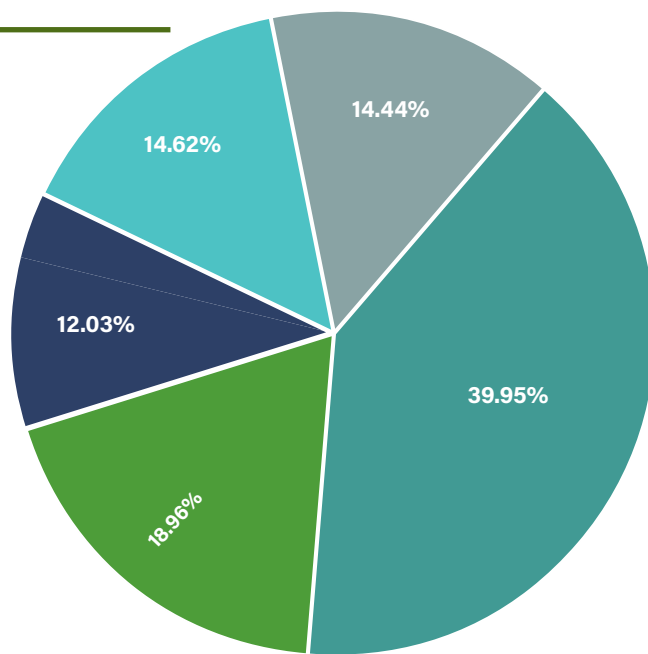
Total Assets to Net Assets: 243.40%

AS OF JUNE 30, 2022

Percentages of Total Assets

Percentages of Total Net Assets

- ▶ **CPI Derivatives (Long) 39.95%**
Total Net Exposure: 119.47%
- ▶ **Fixed Income (Short) 14.44%**
Total Net Exposure: 43.18%
- ▶ **Short Equities: US Tech Companies 14.62%**
Total Net Exposure: 43.71%
- ▶ **Long Equities: US Homebuilders, Japan Topix Banks, Miscellaneous 12.03%**
Total Net Exposure: 35.98%
- ▶ **Commodities (Long) 18.96%**
Total Net Exposure: 56.68%



Total Assets to Net Assets: 299.00%

Closed Funds

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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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