FRIEDBERG MERCANTILE GROUP LTD.

Quarterly Report

Q2
2023

FRIEDBERG MERCANTILE GROUP LTD.

2023 **Second Quarter Report**

FRIEDBERG MERCANTILE GROUP LTD.

Herewith please find a report and discussion of the results of our two funds for the second quarter ended June 30, 2023.

The Global-Macro Hedge Fund fell 14.61% in the second quarter and is now down 21.68% year-to-date. The Friedberg Asset Allocation Fund fell a more modest 2.54%, dragging performance into the negative for the year, down 1.04%. The muted losses can be ascribed to the long-only nature of the FAA. Note, however, that a long bias should not be conflated with a bullish stance. The portfolio is positioned for an approaching bear market and economic contraction, just like the Global-Macro Fund.

Short positions once again frustrated performance across the board, as economic data continued to point to an economy in a smooth glide (though losing velocity and altitude – more on this below). Perhaps our worst misstep, we lacked any long exposures that would have offset the losses on shorts. We jettisoned our long positions in Japan and US homebuilders too early, not anticipating what hindsight has revealed to be impressive rallies that outperformed most parts of the market by a wide margin. Attempts to fade Indian and Australian banks, on the other hand, cost the fund 124 and 304 basis points (bps) respectively. Those, along with a short exposure to the Russell 2000 index (which cost the fund 240 bps), were closed.

Our equity market focus has narrowed to US regional banks, where the bearish case is plain to see. Failing banks laid bare a mosaic of challenges faced by small and midsize lenders, ranging from jumpy depositors now able to precipitate a bank run within a day, increasingly costly competition to keep deposits (no longer a source of cheap and reliable funding), and long-term assets 'held to maturity' masking deep marked-to-market losses. The inversion of the yield curve, especially on the short end, has flipped the basic revenue model of lending short-term deposits for the long term on its head. These conditions are straining balance sheets at the same time as they cripple income statements – a recipe for disaster that has not yet fully played out and for which there is no easy cure – short of creating a positive yield curve, which would once again flood the economy with inflationary money growth. The US regional banks perfectly encapsulate the heart of the problem the Fed is facing – one it created by first flooding the market with money, spurring inflation and weakening risk management, and that it now perpetuates by pulling back too much, bringing about a deep economic contraction.

Gold was also a light drag on performance. Our long-term investment case is built upon international demand for gold reserves, a benign speculative interest (or lack thereof), a global hangover of fiat money-printing, and geopolitical tensions – leading to, above all, the weaponization of the dollar as a reserve currency. Together, these factors give context to a gold chart about to break though multi-year resistance to new all-time highs where gold will be meaningfully repriced against fiat of all stripes, including the dollar. The market, however, is caught between those long-term forces and the near-term friction of rising terminal rate expectations, a strong dollar, and relative calm in risk markets – all of which led to a loss of 346 bps for the quarter.

Commodities continue to trend lower, hinting at the economic slowdown playing out globally. China is facing the most challenging economic conditions in a generation, as it tries to emerge from lockdown. Europe sputters along, battered by persistent inflation, while the ECB seems unable to raise rates high enough to gain the upper hand. US corporate profits have been declining for nearly a year. We view continued price weakness in commodities as strong confirmation of our core outlook – a significant economic contraction brought about by an abrupt withdrawal of money supply – with sufficient lag to ensure the central banks over-correct in their zeal to defeat inflation. Commodities, which rose early during the inflationary period, are now leading the deflation. With that in mind, we also own long-duration US government Treasurys, which should do well when the ongoing recession becomes more widely evident.

The Friedberg Asset Allocation Fund has two new exposures, distinct to that strategy owing to liquidity limitations. The first is a small exposure to Argentinian banks. After suffering through a never-ending hyperinflation, Argentinians seem poised for an ideological revolution that will swing the nation towards more market-friendly policies. Surviving, if not thriving, under the most adverse business conditions, these banks offer tremendous upside if a new government is able to deliver any successful reforms or liberalization. We have also increased our exposure to cyclical resource companies, concentrating on uranium producers. The fuel has traded below the cost of production for years, as government stockpiles were sold off to the nuclear power industry. Cameco, one of our holdings, went so far as to shutter a major producing mine in response. Now, demand from a growing global fleet of nuclear power plants threatens to overwhelm production.

Our funds are concentrated and relatively underinvested as we enter the second half of the year. The Global-Macro Fund is focused on four themes: long gold (60%), short commodities (-72%), long bonds (53%), and short regional banks (-27%). Running at a historically low leverage ratio, we await market confirmation of our outlook in a slightly defensive posture. The Asset Allocation Fund is invested in gold and gold miners (35%), Argentinian banks (10%), resource companies and uranium producers (25%), and US Treasurys (10%), with a large cash position (20%) for allocation, in anticipation of a market swoon.

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

FRIEDBERG MERCANTILE GROUP LTD.

Our great blunder this past half year, and in particular this past quarter, was to anticipate that the slowing US economy would implode much more rapidly than generally expected. Even as money was contracting at a once-in-a-generation pace and duration (M2 by 4% YOY, Divisia M2 by 5.8% YOY) — a good reason to believe that activity and inflation would collapse in the first quarter of this year — the huge reservoir of pent-up demand found a way to sustain the expansion. Rising velocity funded the stretched buying binge, which is as best we can describe this occurrence in monetary terms. Note that a monetary model cannot predict such short-term deviations, often the product of unusual occurrences (post war spending as occurred after WWII or war-related precautionary spending as occurred in the early fifties at the outbreak of the Korean War). Velocity is variable and unpredictable, often driven by mass psychology. In the absence of further behavioural stimuli — which would only delay the inevitable — we expect velocity to plateau and declining money balances to lead us into a deepening deflationary recession. I say "deepening" because in some respects the recession is already here. It is best demonstrated by the fact that the engine of economic activity, corporate profits, has been declining for three successive quarters.

What makes the picture even grimmer is that this super tight condition is likely to extend for longer than needed even if the Fed pauses now and subsequently pivots to lower rates. Having ignored the role of money in causing the Great Inflation of 2021-22, the Fed is now doubling down on that ignorance, targeting the symptoms of past inflation (mostly labour conditions and wage costs) and using interest rates to bring them under control instead of focusing its attention on the true causes of inflation and deflation, namely the excessive expansion and contraction of money.

It is not that rates have risen much above neutral — they have not — but rather that money has contracted far more than it should. Unfortunately, the excess bank reserves created by years of QE has left the Fed with precious few alternatives. Trying to eliminate these burdensome reserves via QT is too long a process. At US$95 billion/month, it would take at least three years to mop up the excess. In the meantime, existing reserves can support another outsized expansion of money. Simply stated, the Fed cannot lower rates dramatically without igniting another explosion of money and risking another wave of inflation that would make 2021-22 seem mild by comparison. Instead, it has opted to "sterilize" bank reserves, so to speak, by paying attractive interest rates to the banks. As explained in previous letters, this alternative, given the steeply inverted yield curve, offers banks far better risk-adjusted returns than those available on term securities or commercial, industrial, and consumer loans. Ergo, money has stopped growing for more than 15 months now. As the recession deepens, bank credit is likely to shrink further, removing the last mechanism driving the creation of private money (it's worth noting that banks have been liquidating Treasurys for quite some time). We are staring at the possibility that the contraction of money supply will accelerate in coming months.

What can the Fed do? It can begin to reduce rates slowly in coming months and hope to: (1) steepen the yield curve and reduce the banks' incentive to leave money on deposit, which, as we said, is the reason the monetary base deposit multiplier has shrunk; (2) signal to banks that it might be profitable to buy term securities as rates move lower, which would lead to the creation of new deposits. But this could be a lengthy process. We cannot see how it could produce results, i.e., lead to the creation of money, in less than six to nine months. Militating against a rapid implementation of this easing in rates is the Fed's lack of awareness of the real problem. Money growth, or the lack of it, does not seem to concern the monetary authorities. Moreover, the Fed has taken a "hawkish" position with respect to rates. The public pronouncements of their governors have tended towards maintaining high rates for longer. Before any easing, the Fed would like to see the unemployment rate go to 5% and the ratio of job-seekers to vacancies collapse to 1x from 1.6x. It also would like to see core CPI numbers fall to less than 2% YOY. Because these statistics lag real time, the Fed is almost certain to be late in implementing a gradual fall in rates. In our opinion, this delay would represent a colossal error in the magnitude of what occurred in 1930-31.

For the next six months we expect — with a high degree of confidence — commodity prices to continue falling (with a short-term exception for oil, which is now responding to significant cuts in output), stock prices to test and surpass previous lows in line with sharply falling earnings, long-term Treasury bonds to rise to yield 2.5% to 3%, and gold to move well beyond its three-year top of around US$2,050/oz. We would like to point out that our views at this stage stand in sharp contrast with the Street's views. Such dramatically contrarian views have produced spectacular results in the past (e.g., 2007-9) since they catch markets unprepared and "defenseless." We have positioned ourselves to take advantage of this opportunity and will continue to do so as markets begin to trend in our favour.

Thanking you for your continued trust,

ALBERT D. FRIEDBERG

FRIEDBERG MERCANTILE GROUP LTD.

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.

PERFORMANCE[1] AS OF JUNE 30, 2023

	NAV	Quarterly	One Year	Three Years	Five Years	Ten Years
Friedberg Asset Allocation Fund Ltd.	1,335.77	-2.32%	2.01%	-1.95%	-2.95%	0.03%
Friedberg Asset Allocation Fund	14.23[2]	-2.57%	2.82%	-1.81%	-3.03%	0.12%
CSFB/Tremont Hedge Fund Index[3]		N.A.	-0.52%	6.87%	4.14%	3.72%

[1] Net of fees [2] NAV adjusted to reflect distributions reinvested in the fund [3] Compounded annual rate of return through May 2023

Capital Allocation of the Friedberg Asset Allocation Fund Ltd.

INVESTMENT		CURRENT ALLOCATION
EQUITIES		37.31%
International Gold Miners	11.10%	
Argentinian Financials	9.71%	
Global Natural Resources	8.62%	
Uranium Producers	4.92%	
Cannabis Producers and Distributors	2.96%	
COMMODITIES		42.65%
Gold	30.06%	
Ultrabond Futures	10.09%	
Natural Gas Futures	2.50%	
CASH / MONEY MARKET		20.04%
		100.00%

Quarterly Performance

Based on the Friedberg Asset Allocation Fund

	Q2	YTD
EQUITIES	**0.33%**	**2.92%**
Argentinian Financials	0.96%	0.96%
U.S. Homebuilders	0.00%	4.33%
Cannabis Producers and Distributors	0.00%	-0.33%
Japanese Banks Topix Index Futures	0.00%	0.28%
Japanese Yen	0.00%	-0.73%
International Gold Miners	-0.03%	-1.01%
Uranium Producers	-0.11%	-0.11%
Global Natural Resources	-0.49%	-0.47%
COMMODITIES	**-2.82%**	**-3.70%**
Ultrabond Futures	-0.03%	-0.03%
Natural Gas Futures	-0.22%	-0.68%
Bitcoin Futures	-1.02%	-1.02%
Gold	-1.55%	-1.97%

FRIEDBERG MERCANTILE GROUP LTD.

Monthly Performance

Based on the Friedberg Asset Allocation Fund Ltd.

(%) Net of Fees

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2023	7.94	-6.09	-0.45	0.71	-3.10	0.09							**-1.43**
2022	-9.29	2.32	-1.25	-3.57	-0.51	-10.58	4.85	-4.10	-6.97	2.50	8.61	-0.62	**-18.62**
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 Funds

FRIEDBERG MERCANTILE GROUP LTD.

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, 2023

	NAV	Quarterly	One Year	Three Years	Five Years	Ten Years
Friedberg Global-Macro Hedge Fund Ltd.	2,638.09	-14.31%	-14.06%	19.50%	-1.38%	-5.54%
Friedberg Global-Macro Hedge Fund	15.68[2]	-14.34%	-14.17%	19.58%	-1.30%	-5.56%
CSFB/Tremont Hedge Fund Index[3]		N.A.	-0.52%	6.87%	4.14%	3.72%

[1] Net of fees [2] NAV adjusted to reflect distributions reinvested in the fund [3] Compounded annual rate of return through May 2023

Sector Performance

Based on the Friedberg Global-Macro Hedge Fund

	Q2	YTD
COMMODITIES	**-6.13%**	**-5.78%**
LONG		
Sugar	0.00%	-0.11%
Crude Oil	-0.39%	-0.33%
Bitcoin	-1.76%	-1.76%
Gold	-3.46%	-4.76%
SHORT		
Crude Oil	0.00%	-0.60%
Commodity Indices	-0.52%	1.78%
FIXED INCOME	**1.30%**	**2.57%**
LONG		
U.S. Treasurys	0.80%	0.96%
Ultrabond Futures	0.23%	0.23%
SHORT		
SOFR Options	0.27%	1.38%

	Q2	YTD
EQUITIES	**-9.88%**	**-18.85%**
LONG		
U.S. Homebuilders	0.00%	4.57%
Newmont Corp.	0.00%	-0.99%
Cannabis Producers & Distributers	-0.03%	-0.44%
JAPAN		
Japanese Banks Topix Index Futures	0.00%	1.48%
Japanese Industrials	0.00%	0.15%
Japanese Yen	0.00%	-3.24%
Japan Total	*0.00%*	*-1.61%*
SHORT		
Amazon.com Inc.	0.00%	-1.34%
Nvidia Corp.	0.00%	-3.30%
Salesforce Inc.	0.00%	-2.08%
Apple Inc.	0.00%	-0.90%
ProShares UltraShort Bloomberg Natural Gas ETF	-0.02%	-0.02%
Alphabet Inc.	-0.27%	-0.27%
U.S. Real Estate Investment Trusts	-0.43%	0.19%
Tesla Inc.	-0.76%	-5.37%
SPDR S&P Regional Banking ETF	-1.68%	-1.68%
U.S. Equity Index Futures	-2.40%	-3.11%
INDIA		
Indian Banks	-1.13%	-1.21%
Indian Rupee	-0.12%	-0.08%
India Total	*-1.25%*	*-1.28%*
AUSTRALIA		
Australian Banks	-2.21%	-0.39%
Australian Dollar Forwards	-0.83%	-0.83%
Australia Total	*-3.04%*	*-1.22%*

FRIEDBERG MERCANTILE GROUP LTD.

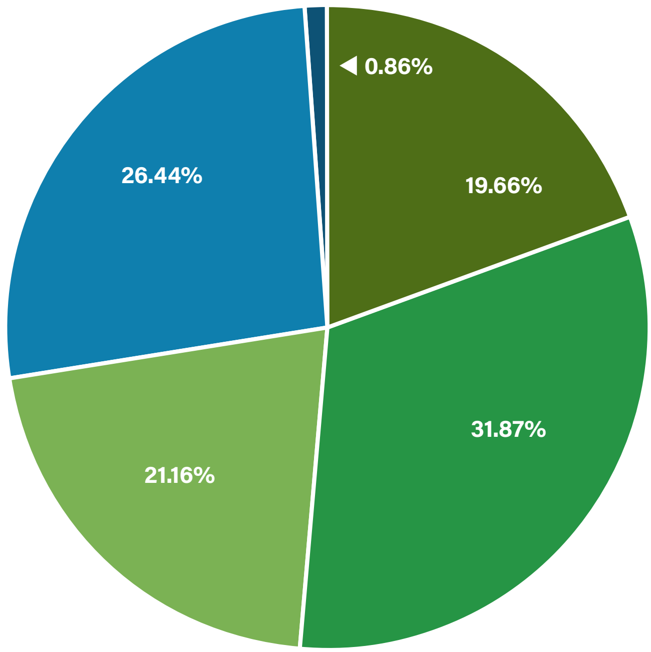
AS OF JUNE 30, 2023

Percentages of Total Assets

Percentages of Total Net Assets

- **Commodities** **31.87%**
  BCOM (exP-M, Base Metals) (Short), Brent Crude Call Options (Long)
  As a % of Net Assets: 72.60%
- **Equities (Long)** **0.86%,**
  Cannabis Producers and Pharmaceuticals
  As a % of Net Assets: 1.96%
- **Equities (Short)** **19.66%**
  US Regional Banks, Australian Banks, SPY Put Options, Nat Gas Proshares Put Options
  As a % of Net Assets: 44.80%
- **Fixed Income (Short)** **21.16%**
  As a % of Net Assets: 48.21%
- **Gold (Long)** **26.44%**
  As a % of Net Assets: 60.24%

Total Assets to Net Assets: 227.81%



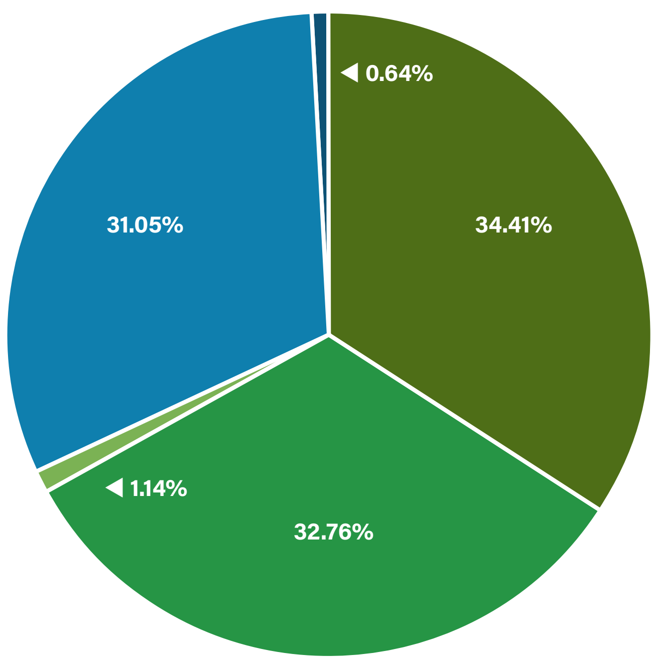
AS OF MARCH 31, 2023

Percentages of Total Assets

Percentages of Total Net Assets

- **Commodities** **32.76%**
  BCOM (exP-M, Base Metals) (Short), Brent Crude Call Options (Long)
  As a % of Net Assets: 90.78%
- **Equities (Long)** **0.64%,**
  Cannabis Producers and Pharmaceuticals
  As a % of Net Assets: 1.77%
- **Equities (Short)** **34.41%**
  Tesla, US Reits, Australian Banks, Indian Banks
  As a % of Net Assets: 95.33%
- **Fixed Income (Short)** **1.14%**
  As a % of Net Assets: 3.16%
- **Gold (Long)** **31.05%**
  As a % of Net Assets: 86.03%

Total Assets to Net Assets: 277.06%



Friedberg Global-Macro Hedge Funds

FRIEDBERG MERCANTILE GROUP LTD.

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
2023	-0.97	-6.57	-1.17	0.52	2.26	-16.63							**-21.64**
2022	3.22	28.55	1.02	3.35	-0.04	-15.33	0.49	-11.22	-11.60	13.49	9.81	11.60	**28.59**
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.

Closed Funds

FRIEDBERG MERCANTILE GROUP LTD.

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%