

FRIEDBERG MERCANTILE GROUP LTD.

Quarterly Report

Q4
2023

*Friedberg
Mercantile
Group Ltd.*



2023 **Fourth Quarter Report**

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Herewith please find a report and discussion of the results of our two funds for the fourth quarter and full year ended December 31, 2023.

The Global-Macro Hedge Fund gained 9.97% in the final quarter, lowering the full year decline to 30.28%. The Friedberg Asset Allocation Fund also posted a positive return, rising 6.21% over the quarter to finish the year up 3.42%.

The results this year, both in success and in failure, can be traced directly to the foundational expectation that the historically severe contraction in money supply would inevitably lead to deflation and eventually to lower yields — and if policy makers failed to respond quickly or forcefully, we could face a significant recession as well. The recent improvement in performance reflects the pivot in yields, which peaked in late October and quickly fell by more than 100 basis points (bps) as inflation abated and Fed cuts were aggressively priced into the market as early as March.

Our year-long-held expectation is coming closer into view, though the severity of the coming liquidity crunch continues to be underappreciated by the marketplace. To put this another way, we note that while our fixed-income positions (consisting primarily of long-duration US treasury futures) contributed 1,050 bps in the past few months, we expect that they have a long way to go once the rate-cutting cycle ramps up and deflationary concerns hit broad market participants still largely unconcerned about the receding tide of money. Nevertheless, the recent turn failed to rescue full-year performance, which suffered both for being early and for allowing the strong bearish view to displace us from great positions that proved to be among the stellar performers of the year.

The bond position was our only net success for the year, contributing 788 bps to the Global-Macro Hedge Fund. In contrast, commodities cost us 723 bps and equity trading a whopping 3,105 bps. Having spent much of the year nursing unrealized losses as yields rallied beyond our expectations, the late-year turnaround in bonds was vindicating. In a familiar predicament, relying on foresight derived from slow-moving but powerfully predictive economic models meant we had to patiently suffer losses while we waited for economic and market conditions to catch up to our outlook.

The other noteworthy performer in the recent quarter was gold, which contributed 620 bps to net assets. Benefiting from falling yields, a weaker US dollar, geopolitical risk, and steadfast central bank accumulation, gold tested all-time highs and remains in a powerful uptrend.

Despite the strong close, the fund lost 723 bps for the year trading gold. Interim volatility saw gold oscillate between \$1,900 and \$2,100, leading to some whipsaw trading that impaired results. The challenge of a large exposure is managing the drawdown volatility. In recent months, we addressed this challenge by expressing our long exposure via very long-dated (and now deep-in-the-money) call options, which negate the potential need to cut losses if gold continues to chop around. This shift also allowed us to increase the convexity of our position by way of some shorter-dated calls. Our notional exposure to gold exceeds 190%, and our delta adjusted exposure is 115%, though the option expression means we have limited capital at risk. With several strong tailwinds aligning behind the price of gold, we expect this concentrated position to drive significant returns in 2024.

Now for the bad news. Faced with a strong dissonance between our core strategic positioning and short-term market conditions, we found it tremendously difficult to successfully navigate equity markets — and no wonder. While the S&P 500 returned 26.28% in 2023, we were preparing for a severe economic downturn.

The challenge expressed itself in different forms. Early in the year, attempting to sidestep systematic market risk, we jettisoned our long-held position in US homebuilders, which went on to rally over 65%. We made 457 bps. We likewise exited a large position in Japanese banks, fearing the challenges in the US banking system would

prove to be a drag on global peers. Since the post-SVB doldrums, the Topix banks index has rallied nearly 40%. We lost 161 bps. Beyond missed opportunities, our excessive bearishness caused us to overstay our well-timed short position in US regional banks, ultimately resulting in losses of 517 bps. Perhaps most frustrating of all, our contrarian view of the market led to losses on both the long and short side of high-profile technology companies. All told, these trades cost 1763 bps and account for the bulk of the year's losses. Finally, we incurred a cost of 696 bps buying index put options throughout the year. Relying heavily on long-term monetary forces to construct a concentrated and high-conviction portfolio left us on the wrong side of the relentless rally and vulnerable to the spring and autumn bear traps.

To address some of these challenges, we note that over the past quarter I have assigned a modest portion of the portfolio to Jaime Macrae, the long-time co-author of these quarterly updates. He is endeavouring, with some initial success, to approach the same major themes with a modified style, using less leverage, scaling in and out of positions with greater flexibility, and at times deferring to proximate market forces even if they contradict our longer-term expectations. While it remains to be seen whether this more tempered approach will result in improved long-term risk-adjusted returns, the diversification of tactics has already provided a salutary influence on the primary manager's contemplations.

The coming year looks bright for our funds, though admittedly less so for economic prospects. Gold and bonds represent our largest exposures, at 83% and 110% respectively. In addition, we have short exposures in industrial metals (29%) and the S&P 500 (via put options), and a highly convex exposure to a first-quarter Fed pivot, expressed in SOFR call spreads. We continue to cap our leverage at a reduced 2.4x level, seeking to contain volatility until such time as our portfolio gains more positive momentum.

In the Asset Allocation Fund, we are pursuing several compelling themes, each with distinct characteristics, which should insulate the long-only portfolio from the risk of a general equity market decline. Complementing our core positions in gold (26.9%), gold miners (23.7%), and bonds (22%), we are invested in several energy-related themes, each influenced by different aspects of the energy transition.

We have a 9.5% exposure to uranium miners, which are poised to continue their relentless rally alongside rising global demand for nuclear power, seen as a key technology to help reduce greenhouse-gas emissions.

Despite the huge investment in nuclear and renewable energy, much of the world (and especially India and China) still relies on coal for the bulk of their power. Unloved by the investment community, in part owing to ESG considerations and otherwise in anticipation of peak coal demand, these companies are cheap and highly profitable. The energy price spike in the aftermath of the outbreak of war in Ukraine resulted in a short-lived but extreme increase in revenue as coal prices skyrocketed. The cash infusion acted as an industry-wide bailout allowing many producers to pay down debts and resulted in ballooning net profits even after prices normalized around a new, higher price floor. These are high-cash-producing businesses and pay handsome dividends.

Last, the long-term prospect for declining oil demand has suppressed orders for oil-and-product tanker ships (which typically operate for 20 years). The orderbook, visible years into the future, is insufficient to sustain current demand. The inevitable result will be long-lasting tightness in tanker supply (and therefore higher tanker rates and huge cash profits for operators). We have a 5.6% position in a handful of publicly traded oil tanker companies.



ALBERT D. FRIEDBERG



JAIME A. MACRAE

Dear Esteemed Shareholders,

In the tranquil expanse of the past few months, a subtle calm has stirred a primal fervour among equity enthusiasts. Their ardour has converged upon a select few stocks, commanding vast market values that now encapsulate nearly one third of total market capitalization. Remarkably, within the Nasdaq composite of 3,400 entities, the median return experienced a downturn of 35.2% in 2022 and 2.8% in 2023.

Yet beneath this seemingly placid surface, imperceptible shifts are transpiring. While the resurgence of monetary growth is a welcome development, it remains below the levels witnessed a year ago. A potential second year of monetary contraction looms on the horizon, a historical anomaly. Simultaneously, credit continues to expand, albeit at a decelerating pace, straining consumer and corporate balance sheets. This juxtaposition, akin to a slow-moving toxin, renders revenues inadequate to service burgeoning real debt.

Metaphors evolve with each passing quarter, from the abrupt depletion of fuel to the current subterranean tectonic changes — a metaphorical journey into tunnels, perhaps. Regardless of the imagery, the underlying message resonates: insufficient money is being generated to sustain progress at prevailing price levels, foretelling an impending deflationary phase. Should prices prove inflexible, unemployment could ensue and profit margins endure significant downward pressure.

The inconspicuous nature of this economic crunch fortifies investors' illusion of a flawless landing — a sentiment unwittingly embraced by an unsuspecting Federal Reserve. The promise of interest rates reverting to pre-pandemic levels fuels optimism that the celebration will persist.

Yet signs emerge that all is not as idyllic as it seems. Despite record-high index levels, only a handful of stocks have achieved 52-week highs, revealing investor skepticism regarding earnings prospects for the majority. This bottom-up evaluation portends challenges. In addition, the concentration of certain stocks in private portfolios poses a threat to retirement pools and lifestyles, reminiscent of past market bubbles.

The growing pervasiveness of artificial intelligence, while promising in the long term, raises concerns about the disruptive consequences for economic agents caught in the transitional crossfire. The impact on today's winners, particularly the few giants that dominate global worth, remains unpredictable. Furthermore, the precarious military-political balance heightens uncertainties, with the United States appearing as a diminished shadow, reluctant to confront powers challenging the post-war liberal world order.

In consideration of these complexities, the optimal portfolio leans towards US treasuries, which offer real, secure returns, and gold — a beacon in a fragmented world awash with US dollars. This strategic positioning defines our approach as we enter the new year, a stance we intend to maintain for the foreseeable future.

With profound gratitude for your 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 DECEMBER 31, 2023

	NAV	Quarterly	One Year	Three Years	Five Years	Ten Years
Friedberg Asset Allocation Fund Ltd.	1398.37	5.86%	3.19%	-2.04%	-1.04%	0.24%
Friedberg Asset Allocation Fund	14.87 ²	6.21%	3.29%	-1.96%	-1.24%	0.32%
CSFB/Tremont Hedge Fund Index ³		N.A.	5.85%	5.01%	6.12%	3.86%

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

Capital Allocation of the Friedberg Asset Allocation Fund Ltd.

INVESTMENT	CURRENT ALLOCATION
EQUITIES	66.61%
International Gold Miners	44.41%
Coal Producers	4.60%
Uranium Producers	9.01%
Oil Tankers	5.35%
Cannabis Producers and Distributors	3.24%
COMMODITIES	27.10%
Ultrabond Futures	22.17%
Gold Futures	4.93%
CASH / MONEY MARKET	6.29%
	100.00%

Quarterly Performance

Based on the Friedberg Asset Allocation Fund

	Q4	YTD
EQUITIES	3.12%	5.98%
International Gold Miners	3.26%	1.15%
Uranium Producers	1.23%	3.44%
Seagen Inc.	0.44%	0.62%
Tankers	0.30%	0.30%
U.S. Homebuilders	0.00%	4.33%
Japanese Banks Topix Index Futures	0.00%	0.28%
Japanese Yen	0.00%	-0.73%
Cannabis Producers and Distributors	-0.25%	-0.06%
Nvidia Corp.	-0.32%	-0.94%
Coal Producers	-0.37%	-0.11%
Global Natural Resources	-0.43%	-0.61%
Argentinian Financials	-0.73%	-1.82%
COMMODITIES	3.34%	-1.97%
Gold Futures	2.79%	-0.63%
Ultrabond Futures	1.45%	1.22%
Bitcoin Futures	0.00%	-1.02%
Natural Gas Futures	-0.08%	-0.73%
Sugar Futures	-0.82%	-0.82%

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	2.29	0.49	-3.79	-1.65	5.20	2.32	3.19
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 Fund Ltd. Friedberg Global-Macro Hedge Fund

A multi-strategy fund. Allocations are reviewed periodically.

PERFORMANCE¹ AS OF DECEMBER 31, 2023

	NAV	Quarterly	One Year	Three Years	Five Years	Ten Years
Friedberg Global-Macro Hedge Fund Ltd.	2351.65	10.33%	-30.15%	5.2%	-3.99%	-4.01%
Friedberg Global-Macro Hedge Fund	13.95 ²	10.10%	-30.26%	4.88%	-4.16%	-3.78%
CSFB/Tremont Hedge Fund Index ³		N.A.	5.85%	5.01%	6.12%	3.86%

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

Sector Performance Based on the Friedberg Global-Macro Hedge Fund

	Q4	YTD
COMMODITIES	6.20%	-9%
LONG		
Gold	6.31%	-3.72%
Long Energies basket (hedge vs. BCOM Index)	0.00%	0.90%
Sugar	0.00%	-0.11%
Crude Oil	-0.65%	-0.88%
SHORT		
Bloomberg Commodities Industrial Metals Index	0.54%	-1.93%
Crude Oil	0.00%	-0.60%
Bloomberg Commodities Futures Index	0.00%	-0.90%
Bitcoin Futures	0.00%	-1.76%
FIXED INCOME	10.50%	7.88%
LONG		
Ultrabond Futures	9.32%	3.68%
U.S. Treasuries	1.28%	3.26%
SOFR Options	-0.10%	-0.10%
SHORT		
SOFR Options	0.00%	1.04%

	Q4	YTD
EQUITIES	-5.76%	-32.38%
LONG		
Microsoft Corp. (Options)	0.68%	0.18%
U.S. Homebuilders	0.00%	4.57%
Newmont Corp.	0.00%	-0.99%
Amazon.com Inc.	0.00%	-2.11%
Nvidia Corp.	0.00%	-1.47%
Oil Tankers	-0.02%	-0.02%
Cannabis Producers and Distributors	-0.27%	0.19%
Coal Producers	-1.81%	-0.46%
JAPAN		
Japanese Banks Topix Index Futures	0.00%	1.48%
Japanese Industrials	0.00%	0.15%
Japanese Yen	0.00%	-3.24%
<i>Japan Total</i>	<i>0.00%</i>	<i>-1.61%</i>
SHORT		
HDFC Bank Ltd.	0.00%	0.06%
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%
Alphabet Inc.	0.00%	-0.28%
ProShares UltraShort Bloomberg Natural Gas ETF	0.00%	-0.13%
Tesla Inc.	0.00%	-5.37%
SPDR S&P Regional Banking ETF	0.00%	-4.95%
Microsoft Corp. (Shares)	-0.97%	-1.17%
U.S. Real Estate Investment Trusts	-1.12%	-1.29%
U.S. Equity Index Options	-2.24%	-7.29%
INDIA		
Indian Banks	0.00%	-1.21%
Indian Rupee	0.00%	-0.08%
<i>India Total</i>	<i>0.00%</i>	<i>-1.28%</i>
AUSTRALIA		
Australian Banks	0.00%	-0.54%
Australian Dollar Forwards	0.00%	-0.82%
<i>Australia Total</i>	<i>0.00%</i>	<i>-1.36%</i>

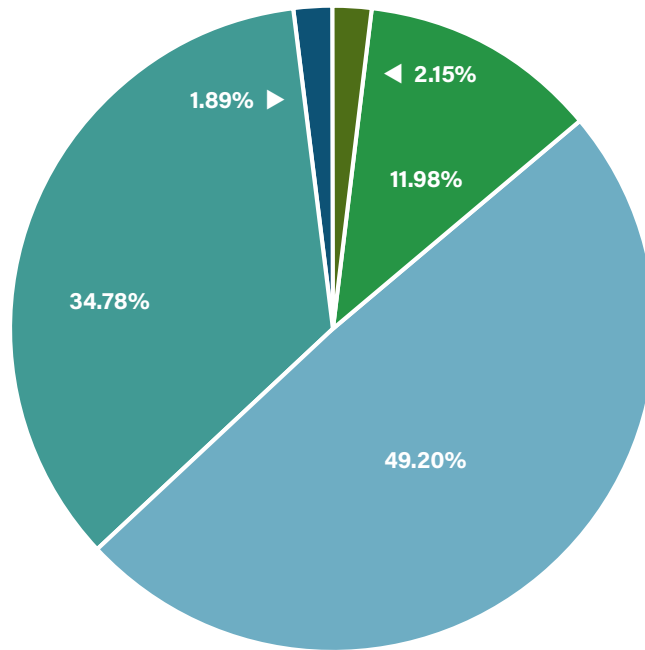
AS OF DECEMBER 31, 2023

Percentages of Total Assets

Percentages of Total Net Assets

- ▶ **Commodities** **11.98%**
BCOM Industrials (Short),
As a % of Net Assets: 28.76%
- ▶ **Equities (Long)** **1.89%**,
Equities: Tankers and Coal Swaps,
Miscellaneous
As a % of Net Assets: 4.53%
- ▶ **Equities (Short)** **2.15%**
Equities: US Tech and REIT Companies,
SPY and Russell put options
As a % of Net Assets: 5.17%
- ▶ **Fixed Income (Long)** **49.20%**
Ultra Bonds
As a % of Net Assets: 118.10%
- ▶ **Commodities (Long)** **34.78%**
As a % of Net Assets: 83.47%

Total Assets to Net Assets: 240.03%



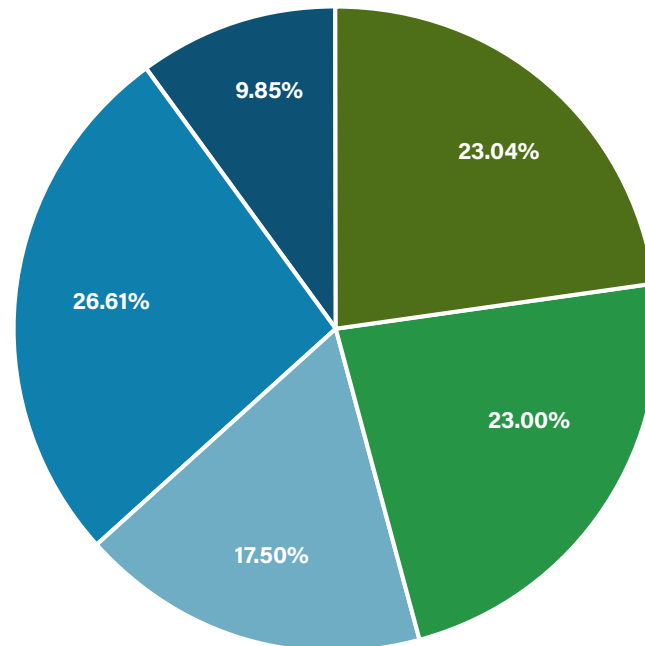
AS OF SEPTEMBER 30, 2023

Percentages of Total Assets

Percentages of Total Net Assets

- ▶ **Commodities** **23.00%**
BCOM Industrials (Short),
As a % of Net Assets: 53.97%
- ▶ **Equities (Long)** **9.85%**,
Coal miners, Cannabis Producers
and Pharmaceuticals
As a % of Net Assets: 23.11%
- ▶ **Equities (Short)** **23.04%**
Equities: US Tech and REIT Companies,
SPY and Russell put options
As a % of Net Assets: 54.07%
- ▶ **Fixed Income (Long)** **17.50%**
Ultra Bonds
As a % of Net Assets: 41.07%
- ▶ **Gold (Long)** **26.61%**
As a % of Net Assets: 62.45%

Total Assets to Net Assets: 234.68%



Monthly Performance

Based on the Friedberg Global-Macro Hedge Fund Ltd.

(%) Net of Fees

	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	-10.95	0.52	-9.74	2.62	1.83	5.58	-30.15
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

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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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