

# Quarterly Report

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FIRST QUARTER  
**2014**

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.

# First Quarter Report 2014

## MESSAGE TO OUR INVESTORS

Following you will find a discussion of our funds' activities for the quarter ended March 31, 2014. As is customary, all results are reported with reference to the larger, Cayman-based, funds.

Our two funds followed divergent patterns. The Global-Macro Hedge Fund Ltd. saw a 3.1 percent reduction in its net asset value from year-end 2013. The Asset Allocation Fund Ltd., essentially betting on similar themes and outcomes, managed to gain 5.2 percent for the same period. The disparity can basically be attributed to one single factor: losses on short equity positions that affected the Global-Macro Fund but were absent from the Asset Allocation Fund owing to its more restricted mandate. More on this below.

Borrowing from the popular way of characterizing mixed performances, glasses being half full or half empty, I have taken the view, despite the negative performance achieved this quarter, that the Global-Macro Fund's recent performance should be characterized as being half full. Here is why. Without abandoning our overall views about global activity, credit deterioration and increased systemic vulnerability, and having persisted in maintaining positions that on the whole reflect this attitude, the fund has managed to gain 11.6 percent over the past six months (more precisely, from our low point on October 15 to the end of this past quarter), outperforming the S&P 500 by 134 basis points. It is true that January produced a quick and spectacular gain, and it is true that these gains were just as promptly given up during February and March. Still, the way I see it, the short moment of lucidity and reason displayed by market participants in the first month of the year and the effect that it has had on our positions point to a hidden potential and a promise of better days ahead when, hopefully, reason begins to rule.

Strong rallies in emerging markets, in particular India, not offset, yet again, by our long U.S. housing positions, were almost entirely responsible for the

quarter's overall loss. To be precise, the former cost us 720 basis points and the latter contributed negative 80 basis points. Emerging markets once again saw an important inflow of capital from foreign funds convinced that valuations had reached a bottom and that economic prospects were improving. In the specific case of India, foreign funds have been grasping at straws to project a bullish scenario. They have taken a slight improvement in the nation's current account deficit (mostly caused by artificial restrictions on the import of gold bullion), a slight downtick in wholesale inflation (caused by very special factors, while core inflation has remained stubbornly stuck at 8 percent per annum) with the hope that a new administration (if in fact the opposition party can obtain a governing majority in the current election) can return the country to the growth heydays of the '90s, as a pretext to unleash a wave of buying. In just a few short weeks, foreign funds invested more than 11 billion US\$ in Indian debt and equities. Little thought is being given to the difficulties inherent in "fixing" such a huge, highly bureaucratic country, rife with corruption and special interests, in the context of weak global trade and prospects for diminishing global liquidity.

So-called emerging market specialists have no inkling of the dynamics of fair-weather capitalist systems, their only experience confined to past periods when the global environment was highly favourable to peripheral players, easy money drove investment capital to ignore risks in its search for higher returns, local consumer and government debt levels had not yet taken off, local governments had not yet become stuck in intractable fiscal deficits, and economic nationalism and cronyism had not yet had an opportunity to take deep roots. The slow reversal of these erstwhile beneficial factors has not been taken into account, with the result that poor economic performance in countries such as Brazil and Russia has come to them as shocking surprises. This will soon be the story of India, and we believe that before too long the Indian market will begin to reflect the country's grim prospects.

The negative carry of the credit default swaps continued to take a small toll on the portfolio (60 basis points). From time to time, and opportunistically, we replace maturing positions, taking into account spreads and other possible alternatives (e.g., choosing bank sub debt over sovereign debt, etc.).

The fall in economic activity in Europe's most indebted countries has been

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arrested primarily via dramatic import compression, a highly unsatisfactory and limited sort of equilibrium. Nevertheless, the debt ratios of these countries continue to deteriorate as does their capacity to service debt. Fiscal deficits have not been cured and growth continues to fall considerably short of the cost of debt. Over the past four years of austerity, the debt burden of these countries has risen anywhere between 25 and 50 percent. We continue to believe that, sooner or later, Europe's indebted nations, by popular demand, will throw off their debt yoke in search of growth, though little will come of that unless more radical reforms are implemented. Regardless, the default bet is inexpensive, both on an absolute and relative basis. There is no assurance, however, that our positions will not run out before a default event occurs.

Our market neutral equity program suffered another poor quarter, contributing negative 200 basis points to the fund's quarterly performance. Historically, results have been unrelated and uncorrelated to the overall market's performance, and instead, correlate well with trends in market dispersion. For this reason, the results this quarter, a period that saw greater dispersion than usual, were a bit surprising.

It should be noted, however, that while dispersion has increased of late, the range of fluctuations effectively narrowed during the quarter. In the exhibit, we show that gains and losses were mostly contained in a +10%/-10% range, an unusual occurrence. This may have had a negative impact on the program.

Gold is performing extremely well; the market continues to move, if ever so slightly, into backwardation. This very rare phenomenon supports the view that spot bullion is moving in large quantities into strong hands, some of it at least, in the Far East. We have revised our price expectations upwards and now believe that there is a fair chance that gold will see new all-time highs during 2014.

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Our long position in housing stocks, representing between 60 and 70 percent of the fund, faltered midway through the quarter, possibly affected by the extremely negative impact that the frigid weather across large areas of the U.S. had on sales. Sales have begun to recover, however, and prices and margins remain very favourable. We continue to believe that this sector will outperform in coming months and perhaps shed along the way its age-old image of being just an early-cycle play. Years of low or no new construction have created enormous pent-up demand for single-family housing. Mortgage rates, even after their recent rise, remain well below yearly gains in housing inflation.

Commodities, among them gold, and fixed income contributed positively to both the Global-Macro Hedge Fund and the Asset Allocation Fund. In recent days we have upped our exposure to commodities as more of them begin to firm up and show signs that their long period of consolidation is behind. Gold is performing extremely well; the market continues to move, if ever so slightly, into backwardation. This very rare phenomenon supports the view that spot bullion is moving in large quantities into strong hands, some of it at least, in the Far East. We have revised our price expectations upwards and now believe that there is a fair chance that gold will see new all-time highs during 2014. Even if no new highs are reached, gains of 20 percent from current levels are almost a given in light of the powerful technical base being put into place and the near absence of speculative froth that normally accompanies recoveries.

Other excellent performing commodities owned by the funds are palladium, cocoa, coffee, livestock, some grains, and energy futures. In light of our more bullish view of commodities in general, we have begun to dismantle our far-dated short positions in crude oil. In the more near term, global monetary and fiscal stimulus, especially of the magnitude experienced in recent years, is more likely to have its usual effect on prices, forcing them higher, even if with some lags.

Best asset performance belongs to the fixed-income allocation. As expected, the ECB's relatively tight monetary policy has favoured fixed-income instruments (as well as its currency). German Bunds have handily outperformed U.S. Treasuries, widening the spread to multi-year highs. A strongly positive carry has enhanced results. TIPS (owned currently only by the Asset Allocation Fund) continue to build an important base at current levels. We are witnessing firm break-even action and, consequently, a slight fall in real rates. This trend should gather momentum in coming months; much higher prices are in the offing.

Sharing similar macro concerns but avoiding any involvement with the short side of emerging markets' equities as a result of its more restricted mandate and exposure to the market-neutral equities program, the Asset Allocation Fund produced an interesting positive quarter. There is still much to do, but the fund remains positioned to capture some of the best upcoming trends. At the same time, a return to a more rational market should greatly benefit the Global-Macro Hedge Fund, our principal fund.

With that proviso, it is difficult to see much more upside to emerging markets in the present global context. It is similarly difficult to envision another subpar performance in housing stocks in the face of strongly growing earnings. Or weak commodity prices in the face of the huge stimulus that governments around the world continue to provide. Or another subpar performance of our historically successful market neutral equities program. Sooner or later, value will out.

Thanking you for your continued trust and confidence,



**ALBERT D. FRIEDBERG**

# 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 March 31, 2014

	<b>NAV</b>	<b>Quarterly</b>	<b>Year over Year<sup>2</sup></b>	<b>Three Years<sup>2</sup></b>	<b>Five Years<sup>2</sup></b>
Friedberg Global-Macro Hedge Fund Ltd.	3,449.04	-3.23%	-25.70%	0.82%	6.41%
Friedberg Global-Macro Hedge Fund	20.22 <sup>3</sup>	-3.30%	-26.32%	-0.09%	8.32%
CSFB/Tremont Hedge Fund Index		N.A.	8.78%	4.59%	8.92%

<sup>1</sup>Net of fees

<sup>2</sup>Compounded annual rate of return through February 2014

<sup>3</sup>NAV adjusted to reflect distributions reinvested in the fund



# Friedberg Global-Macro Hedge Funds

## Monthly Performance (%) Net of Fees

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	17.06%	0.30%	-17.58%										-3.23%
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%	18.62%	-21.62%	11.47%	4.60%	40.84%
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%	14.90%	-7.85%	9.47%	1.97%	5.02%	-2.21%	9.56%	-3.34%	12.02%
2008	7.37%	9.57%	-1.04%	-6.48%	4.51%	8.58%	-0.24%	-6.85%	4.18%	-5.96%	5.85%	19.06%	41.77%
2007	-1.01%	1.07%	-3.44%	-1.28%	-0.80%	1.57%	10.06%	2.80%	-1.33%	5.89%	7.91%	2.82%	26.04%
2006	1.94%	1.06%	-1.81%	2.07%	-0.75%	1.27%	2.04%	-0.09%	-0.56%	3.10%	2.43%	0.54%	11.70%
2005	1.05%	0.84%	-1.13%	1.31%	1.06%	2.47%	0.08%	0.95%	2.75%	-1.38%	2.56%	2.14%	13.35%
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%	13.07%
2003	3.10%	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%	3.30%	7.57%	21.18%
2001												-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 Gross Exposure  
AS OF MARCH 31, 2014

● Global Equities*	34%
● Commodities	23%
● Fixed Income	22%
● U.S. Equities-Market Neutral	13%
● Currencies	8%
Total Exposure per dollar of capital: 4.86x	

\* Contains international long/short equities



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

Breakdown by Total Gross Exposure  
AS OF DECEMBER 31, 2013

● Global Equities*	32%
● Fixed Income	28%
● Commodities	16%
● U.S. Equities-Market Neutral	16%
● Currencies	8%
Total Exposure per dollar of capital: 4.39x	

\* Contains international long/short equities



# Friedberg Global-Macro Hedge Funds

## U.S. EQUITIES - Market Neutral Strategy

An equity strategy that seeks absolute returns through the judicious selection of long and short positions while maintaining a market neutral posture.

### Performance as of March 31, 2014

U.S. EQUITIES	NAV (notional)	Quarter
Market Neutral Strategy of the Global-Macro Hedge Fund	1,783.01	-7.62%

### Investment Allocation

	31-Dec-13	31-Jan-14	28-Feb-14	31-Mar-14
LONGS	48.76%	48.96%	50.33%	50.80%
SHORTS	51.24%	51.04%	49.67%	49.20%
TOTAL GROSS LEVERAGE	2.42x	2.31x	2.75x	2.39x

### Largest Sectors (Longs)

Oil & Gas Refining & Marketing	12.16%
Aluminum	5.13%
Data Processing & Outsourced Services	4.98%

### Largest Sectors (Shorts)

Diversified Banks	11.22%
Restaurants	7.88%
Integrated Telecommunication Services	5.51%

### Largest Long Positions

Phillips 66	7.22%
Alcoa Inc.	5.13%
Computer Science Corp.	4.98%
Valero Energy	4.94%
Genuine Parts Co.	4.92%

### Largest Short Positions

YUM! Brands Inc.	7.88%
Citigroup Inc.	6.48%
CenturyLink Inc.	5.51%
Kohl's Corp.	4.96%
Credicorp Ltd.	4.74%

### Best Quarterly Performance

	Longs		Shorts
Alcoa Inc.	22.28%	Tesla Motors	10.99%
Helmerich & Payne Inc.	15.68%	LinkedIn Corp.	9.61%
General Dynamics Corp.	13.99%	Citigroup Inc.	1.87%

### Worst Quarterly Performance

	Longs		Shorts
Gilead Sciences Inc.	-13.86%	Kansas City Southern	-10.18%
Tesoro Corp.	-12.93%	AvalonBay Communities Inc.	-9.53%
Alnylam Pharmaceuticals Inc.	-12.84%	Mattel Inc.	-9.46%

# 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 March 31, 2014

	NAV	Quarterly	Year over Year <sup>2</sup>	Two Years <sup>2</sup>	Three Years <sup>2</sup>
Friedberg Asset Allocation Fund Ltd.	1,418.82	5.27%	-2.30%	-1.46%	4.10%
Friedberg Asset Allocation Fund	14.97 <sup>3</sup>	5.27%	-2.31%	-1.73%	3.90%
CSFB/Tremont Hedge Fund Index		N.A.	8.78%	7.35%	4.59%

<sup>1</sup>Net of fees

<sup>2</sup>Compounded annual rate of return through February 2014

<sup>3</sup>NAV adjusted to reflect distributions reinvested in the fund

# Friedberg Asset Allocation Funds

**Capital allocation of the Friedberg Asset Allocation Fund Ltd.  
as of March 31, 2014 is as follows:**

<b>INVESTMENT</b>		<b>CURRENT ALLOCATION</b>	<b>TARGET</b>
FIXED INCOME		48.30%	48.00%
<i>U.S. TIPS 2.125% Feb. 15/40</i>	14.10%		
<i>German Bunds 2.5% Jul. 4/44</i>	17.60%		
<i>10-Year German Bunds (via Futures)</i>	16.60%		
EQUITIES		18.60%	18.00%
<i>U.S. Homebuilders</i>	18.60%		
COMMODITIES		32.70%	34.00%
<i>Gold (via Futures)</i>	20.70%		
<i>Silver (via Futures)</i>	3.50%		
<i>Palladium (via Futures)</i>	3.90%		
<i>Cocoa (via Futures)</i>	4.50%		
CASH / MONEY MARKET		0.40%	0.00%
		100.00%	100.00%

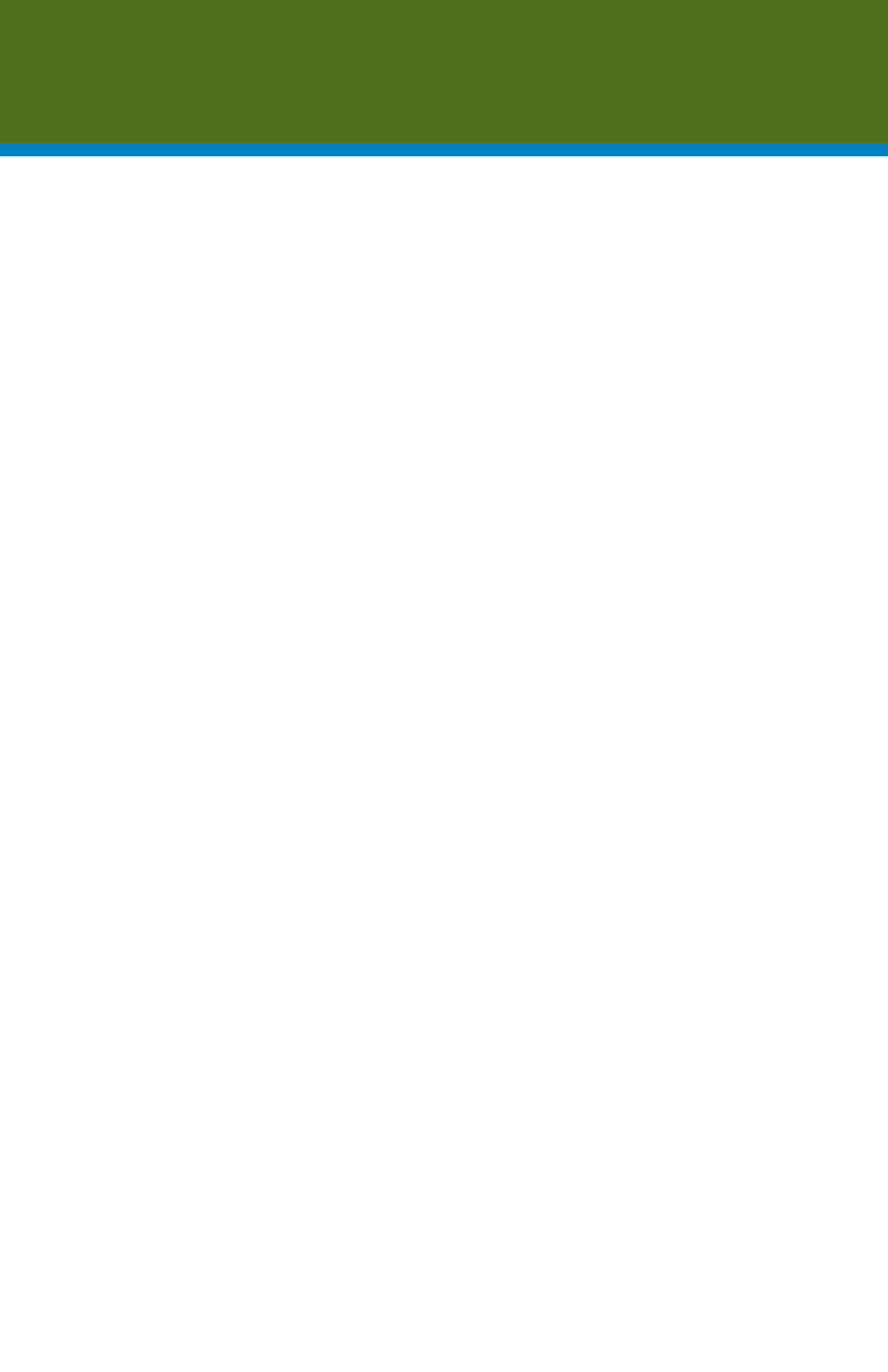
## Friedberg Asset Allocation Fund Ltd.

<b>Year</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Year</b>
<b>2014</b>	3.54%	3.30%	-1.58%										5.27%
<b>2013</b>	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%
<b>2012</b>	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%
<b>2011</b>	-4.11%	4.18%	1.11%	5.56%	-1.67%	-1.98%	4.65%	5.15%	-2.82%	3.31%	-1.05%	-1.58%	10.53%
<b>2010</b>	-0.27%	0.99%	0.56%	3.47%	1.10%	0.99%	-2.23%	3.36%	3.91%	2.57%	-0.06%	0.83%	16.13%
<b>2009</b>						0.38%	2.62%	0.09%	2.91%	0.53%	7.15%	-3.63%	10.14%

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

# Closed Funds

Fund	Inception Date	Inception NAV	Liquidation Date	Liquidation NAV	Size of Fund at Liquidation	Annual % Rate of Return
<b>Friedberg Global Opportunities Fund Ltd.</b>	13-May-97	1000.00	28-Feb-05	501.89	\$5,700,000	-8.46%
<b>Friedberg International Securities Fund</b>	31-Mar-98	10.00	30-Nov-05	11.49	\$4,500,000	1.83%
<b>Friedberg Diversified Fund</b>	13-Sep-96	10.00	31-Oct-06	48.43	\$4,642,228	16.90%
<b>Friedberg Equity Hedge Fund L.P.</b>	15-Feb-98	10.00	31-Oct-06	22.12	\$6,784,836	9.50%
<b>Friedberg Futures Fund</b>	8-May-98	10.00	31-Oct-06	19.59	\$1,126,409	8.10%
<b>Friedberg Global-Macro Hedge Fund L.P.</b>	31-May-02	10.00	31-Oct-06	19.00	\$30,691,202	15.64%
<b>Friedberg Equity Hedge Fund Ltd.</b>	16-Oct-96	1000.00	30-Apr-07	2951.78	\$31,540,284	10.81%
<b>Friedberg Currency Fund II Ltd.</b>	6-Mar-97	1000.00	30-Jun-08	1019.23	\$35,599,879	0.17%
<b>Friedberg Total Return Fixed Income Fund Ltd.</b>	2-Oct-96	1000.00	31-Jul-09	2155.93	\$94,686,020	6.17%
<b>First Mercantile Currency Fund</b>	7-Sep-85	10.00	30-Dec-09	8.29	\$848,443	N.A.
<b>Friedberg Foreign Bond Fund</b>	19-Aug-96	10.00	30-Jul-10	9.84	\$13,336,465	6.91%
<b>Friedberg Total Return Fixed Income Fund L.P.</b>	19-Feb-97	100.00	28-Dec-11	325.47	\$11,776,462	8.27%
<b>Friedberg Forex L.P.</b>	13-Jun-91	10.00	28-Dec-11	11.78	\$2,558,382	2.66%
<b>Friedberg Currency Fund</b>	3-Jan-95	10.00	30-June-13	8.41	\$1,932,936	-0.93%



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