

# Quarterly Report

*Friedberg  
Mercantile  
Group Ltd*

# 4

FOURTH QUARTER  
**2013**

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.

# Fourth Quarter Report 2013

## MESSAGE TO OUR INVESTORS

Following is a report on the financial activities of our hedge funds for the quarter ended December 31, 2013.

It is with great relief that I can report to you that the Global-Macro Hedge Fund's disappointing *tendenz* was finally broken in the last quarter of this past year. While the gain measured over the quarter was a modest 1.7%, it masked a much more dramatic and significant 15.3% recovery from the low reached on October 15, 2013. With three months of solid gains behind us, I am confident that events have finally begun to catch up with our iconoclastic and unconventional views and that we can expect more profitable days ahead. Having said that, I must note that the full year's 34.4% drawdown represents far and away the fund's worst performance since inception. On the positive side, however, compounded annual rates of gain since inception (December 1, 2001) are now at a more sustainable and realistic 11.1% from the previous year's 16.5%.

The Asset Allocation Fund lost 1.1% for the quarter, bringing full-year returns down to a negative 8.9%. This is the first full-year loss since inception, leaving us with an annualized 6.9% rate of return since the fund was begun in June 2009. The fund's positions reflect themes similar to those of the Global-Macro Hedge Fund: a strong position in fixed income, namely TIPS and Bunds; a light long position in equities, represented mainly by homebuilders and Bank of Ireland; and a light long position in commodities, almost wholly gold and palladium. In line with the discussion below, we fully expect the fund to recover in coming months.

While it may not be necessary to dwell on every move and rationale of last year's activities since they have been sufficiently covered in quarterly letters and a series of Q&A sessions, a broad look at attributions can be useful. For the year as a whole, bearish bets on international equity markets, principally emerging markets, cost us

*“Emerging markets are accelerating their underperformance in relation to developed markets; in some cases, they are even showing pronounced weakness. Homebuilder stocks have stabilized and in some cases outperformed in recent months against the overall market.”*

2,230 basis points; long positions in fixed-income instruments, almost wholly U.S. Treasuries and Bunds, cost us 1,210 basis points; commodities, almost wholly long gold positions, cost us 1,530 basis points; and long positions in credit default swaps of almost wholly European sovereign and banks cost us 300 basis points. The rationales for these positions have been argued passionately for the past one and two years. They have, as the reader may recollect, centred on debt, the fact that it has continued to increase well beyond incomes, whether in Europe, mainland Asia, Japan or even the U.S. Not only have low interest rates helped to carry the growing weight of debt but they have managed to

intoxicate the investment community. Still, the accumulation of debt, even at low carrying costs, has reached suffocating levels. Adding more debt than what income can service can be compared, as the saying goes, to adding sand to a pile one grain at a time: you can't tell when the sandpile will collapse, but you know it will. In complex economies, especially those in which politicians and their deputies arrogate god-like powers, one should not pretend to exercise the faculty of timing with any sort of certainty. And yet, repeat as we do this wise admonition, timing is attempted, hoping that it is off by as little as possible. In some areas, our timing has been off for more than two years, as it is in expecting a default in the European periphery. Nor do we know how much longer we will need to wait. In others, it has been off at least one year, as it is in expecting gold to take up a greater weight in international reserves or in expecting homebuilding in the U.S. to truly take off, driven by lower-than-replacement building over the past four years and cheap money. And how long, we ask ourselves, must we wait for the inevitable collapse in oil prices, caught in the gigantic vise of exploding supplies, driven by spreading technological advances and shifting (to gas, for example) consumption? When will persistent and worsening stagflation accompanied by growing corruption catch the attention of mindless money managers and wean them off their love affairs with emerging countries? When, indeed?

It is then highly gratifying to find that events are beginning, if ever so tentatively, to catch up to their almost “predetermined” outcomes. Gold is catching a bid and so are Treasuries, despite all the ballyhoo about tapering. Weaker credits around the globe are at least partly responsible. Emerging markets are accelerating their underperformance in relation to developed markets; in some cases, they are even showing pronounced weakness. Homebuilder stocks have stabilized and in some cases outperformed in recent months against the overall market. Oil prices, in particular the deferred WTI positions, have tilted downward and seem to be leading the way to much lower prices sometime this year (short of a Middle East Gulf war). Still in dreamland, Portuguese, Spanish and Italian credits, along with their intertwined commercial banks, are defying the skeptics and have narrowed their spreads to multi-year lows. Since spreads cannot compress beyond Germany’s, however, our risk remains limited to 200-300 basis points of the portfolio per annum. Venezuela CDS should be very close to payoff as the country is running out of reserves (and toilet paper); oil’s coming plunge will administer the coup de grâce. Also highly gratifying has been the fact that we managed to shrink our book by 40% without losing much of our firepower. As a result, daily volatility has been reduced considerably while we have come to enjoy an ample supply of liquidity. A theoretical reconstruction of the opportunity cost incurred by this deleveraging indicates that it did not exceed 275 basis points, a trade-off we deemed acceptable under the circumstances.

*“Also highly gratifying has been the fact that we managed to shrink our book by 40% without losing much of our firepower. As a result, daily volatility has been reduced considerably while we have come to enjoy an ample supply of liquidity.”*

January has begun on an encouraging note, following through on recent gains. We look forward to reporting substantially improved results in the months ahead.

Thanking you for your continued trust,



**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 December 31, 2013

	NAV	Quarterly	Year over Year <sup>2</sup>	Three Years <sup>2</sup>	Five Years <sup>2</sup>
Friedberg Global-Macro Hedge Fund Ltd.	3,563.98	1.67%	-39.04%	-8.08%	4.21%
Friedberg Global-Macro Hedge Fund	20.91 <sup>3</sup>	1.90%	-39.59%	-9.08%	5.19%
CSFB/Tremont Hedge Fund Index		N.A.	10.04%	5.40%	8.40%

<sup>1</sup>Net of fees

<sup>2</sup>Compounded annual rate of return through November 2013

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

### Monthly Performance (%) Net of Fees

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
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%

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

# Friedberg Global-Macro Hedge Funds

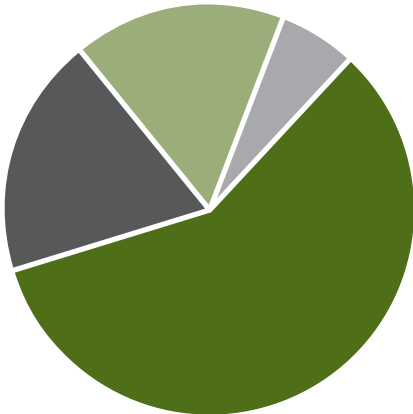
## Global-Macro Hedge Fund Ltd. (Cayman)

Breakdown by Total Gross Exposure  
AS OF SEPTEMBER 30, 2013

- Global Opportunities\* 59%
- Fixed Income 18%
- U.S. Equities-Market Neutral 17%
- Currencies 6%

Total Exposure per dollar of capital: 5.36x

\* Contains international long/short equities,  
CDS exposure and commodities



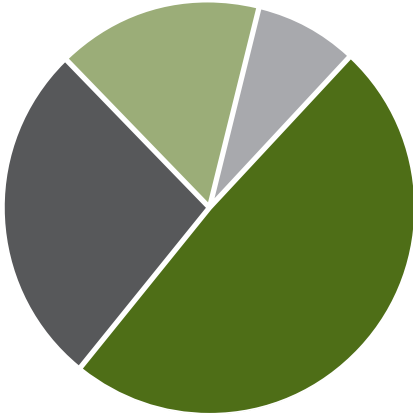
## Global-Macro Hedge Fund Ltd. (Cayman)

Breakdown by Total Gross Exposure  
AS OF DECEMBER 31, 2013

- Global Opportunities\* 49%
- Fixed Income 27%
- U.S. Equities-Market Neutral 16%
- Currencies 8%

Total Exposure per dollar of capital: 4.39x

\* Contains international long/short equities,  
CDS exposure and commodities



# 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 December 31, 2013

	NAV (notional)	Quarter
<b>U.S. EQUITIES</b>		
Market Neutral Strategy of the Global-Macro Hedge Fund	1,929.83	1.02%

### Investment Allocation

	30-Sep-13	31-Oct-13	30-Nov-13	31-Dec-13
LONGS	48.66%	50.57%	48.08%	48.76%
SHORTS	51.34%	49.43%	51.92%	51.24%
TOTAL GROSS LEVERAGE	3.11x	2.12x	2.28x	2.42x

### Largest Sectors (Longs)

Oil & Gas Refining & Marketing	18.98%
Cable & Satellite	6.30%
Paper Products	5.10%

### Largest Sectors (Shorts)

IT Consulting and Other Services	8.86%
Industrials Large Caps	8.81%
Paper Products	7.37%

### Largest Long Positions

Phillips 66	6.61%
Valero Energy	6.50%
Sirius XM Holdings	6.30%
Tesoro Corp.	5.87%
International Paper Co.	5.10%

### Largest Short Positions

International Business Machines Corp.	28.34%
S&P Futures	5.79%
Domtar Corp.	5.36%
YUM! Brands Inc.	5.16%
EBAY Inc.	3.42%

### Best Quarterly Performance

	Longs	Shorts
Valero Energy	30.63%	AvalonBay Communities Inc. 2.51%
Google Inc.	27.95%	CenturyLink Inc. -1.17%
Phillips 66	22.43%	International Business Machines Corp. -1.29%

### Worst Quarterly Performance

	Longs	Shorts
NCR Corp.	-14.01%	Tesla Motors -19.88%
Regeneron Pharmaceuticals Inc.	-11.12%	Domtar Corp. -18.79%
Celgene Corp.	-5.16%	EBAY Inc. -9.89%



# 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 December 31, 2013

	NAV	Quarterly	Year over Year <sup>2</sup>	Two Years <sup>2</sup>	Three Years <sup>2</sup>
Friedberg Asset Allocation Fund Ltd.	1,347.75	-1.05%	-7.97%	-2.05%	2.80%
Friedberg Asset Allocation Fund	14.22 <sup>3</sup>	-1.18%	-7.73%	-1.80%	2.73%
CSFB/Tremont Hedge Fund Index		N.A.	10.04%	7.92%	5.40%

<sup>1</sup>Net of fees

<sup>2</sup>Compounded annual rate of return through November 2013

<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 December 31, 2013 is as follows:**

<b>INVESTMENT</b>		<b>CURRENT ALLOCATION</b>	<b>TARGET</b>
FIXED INCOME		57.90%	58.00%
<i>U.S. TIPS 2.125% Feb. 15/40</i>	24.80%		
<i>German Bunds 2.5% Jul. 4/44</i>	17.40%		
<i>10-Year German Bunds (via Futures)</i>	15.70%		
EQUITIES		19.30%	18.00%
<i>U.S. Homebuilders</i>	14.20%		
<i>Bank of Ireland</i>	5.20%		
COMMODITIES		22.90%	24.00%
<i>Gold (via Futures)</i>	10.90%		
<i>Silver (via Futures)</i>	3.70%		
<i>Palladium (via Futures)</i>	3.90%		
<i>Cocoa (via Futures)</i>	4.40%		
CASH / MONEY MARKET		-0.10%	0.00%
		<hr/>	
		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>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
Friedberg Global Opportunities Fund Ltd.	13-May-97	1000.00	28-Feb-05	501.89	\$5,700,000	-8.46%
Friedberg International Securities Fund	31-Mar-98	10.00	30-Nov-05	11.49	\$4,500,000	1.83%
Friedberg Diversified Fund	13-Sep-96	10.00	31-Oct-06	48.43	\$4,642,228	16.90%
Friedberg Equity Hedge Fund L.P.	15-Feb-98	10.00	31-Oct-06	22.12	\$6,784,836	9.50%
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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