Quarterly Report

4

FOURTH QUARTER
2017

FRIEDBERG MERCANTILE GROUP LTD.

Contents

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 2017

FRIEDBERG MERCANTILE GROUP LTD.

MESSAGE TO OUR INVESTORS

It gives me great pleasure to present to you the year-end and fourth-quarter 2017 financial results for the Friedberg Funds. The Global-Macro Hedge Fund gained 35.8% for the quarter, ending the year up 40.5% (33.4% and 36.5% respectively for the Global-Macro Hedge Fund Ltd.). The Asset Allocation Fund, in turn, gained 6.3% for the quarter and ended the year up 20.0% (6.4% and 19.5% respectively for the Asset Allocation Fund Ltd.).

We are undoubtedly gratified by the results. Perhaps more important than the results, however, is the fact that we were literally there when the bells rang. And this, after a very long and cold winter… No small measure of this success should be attributed to the change in tactics adopted over the past few years. By imposing a strict criterion of materiality, we forced ourselves to focus on a handful of very compelling plays. By putting a cap on leverage, we restrained our sometimes undisciplined appetites and ambitions, minimizing slippage, among other things. By eliminating the possibility of hedging, we forced ourselves to put on large positions in a more intelligent and less risky manner. Here is where, counterintuitively one might say, the extensive use of options helped us, though on first sight their use looked expensive. There were other benefits, psychological not least among them (and who could deny that a manager's state of animus is as important as his reasoning?), having to accept the missed opportunities with equanimity.

Tactics, though, could only provide a constructive frame and help us implement winning positions. In the end, trading ideas and themes must prove correct, and this, too, was a source of satisfaction. For some time we made the case that

"A FEW CHANGES WERE ALSO MADE DURING THE PAST QUARTER. MOST NOTABLY, WE DOUBLED OUR GREEK BANK POSITION, SHIFTED SOME BRAZILIAN BONDS INTO A LONG POSITION IN ITAÚ, AN EXTREMELY WELL RUN BRAZILIAN BANK, AND ACQUIRED A FAIR-SIZED LONG POSITION IN GOLD AT AN ATTRACTIVE PRICE (VERY CLOSE TO THE RECENT LOWS).

THE ASSET ALLOCATION FUNDS PARTICIPATED TO A SIMILAR EXTENT IN THE SUCCESS OF THE HOMEBUILDERS' POSITION. GAINS IN THE EQUITY SECTION REPRESENTED ALMOST 90% OF THE TOTAL GAINS FOR THE YEAR. GAINS ON THE BRAZILIAN LOCAL-CURRENCY BONDS MADE UP THE BALANCE."

housing was a quiescent sector, still carrying the stigma of the Great Boom and Bust of 2004-2008, but that it was ready to explode on the upside. This idea ran contrary to conventional wisdom. Bears adduced all kinds of reasons for rationalizing weak sales and for avoiding this sector: millennials were no longer interested in acquiring homes as they were marrying much later; prices were rising and moving out of reach from the majority of the population; and on and on. We rejected all these views and pointed out that the weakness of sales was attributable to a lack of supply and not to a weakness in demand. Rising prices were proof that, ex ante, demand, as weak as it appeared, was exceeding supply. The bullish setup was unmistakable: more and more houses had to be built to satisfy this latent demand. Rising prices guaranteed good profits and were helping to overcome rising labour and land costs. In truth, the boom had begun. Builders could not cope with demand, and profits soared. Despite long-held skepticism, stock prices followed, contributing to the lion's share of our gains for the quarter/year.

Other positions helped, too. Our long exposure to Brazil local-currency bonds (and, lately, to its banking sector) contributed a healthy 700 basis points for the year; commodities, principally crude oil and gold, another 400 basis points; the rest, minor losses. There is little need for me to offer a rationale behind these trades as they were all well explained in recent letters.

A few changes were also made during the past quarter. Most notably, we doubled our Greek bank position, shifted some Brazilian bonds into a long position in Itaú, an extremely well run Brazilian bank, and acquired a fair-sized long position in gold at an attractive price (very close to the recent lows).

The Asset Allocation Funds participated to a similar extent in the success of the homebuilders' position. Gains in the equity section represented almost 90% of the total gains for the year. Gains on the Brazilian local-currency bonds made up the balance. There were very few changes made in the portfolio during the last quarter of the year, the principal one being a shift of part of the Brazilian bonds into Brazilian banks. Please see inside exhibit.

Let me now make some more general comments.

Markets are fixated on the Fed and on the number of times it is likely to raise the Fed Funds rate during the coming year. The European Central Bank has tapered its purchase program and the end of quantitative easing is in sight. So it is with the Bank of Japan. Overall, markets expect central banks to move to a tightening posture before the end of 2018, that is, to end the huge infusions of base money provided during past years.

Will this signal an end to the bull market in assets that began in 2009? If central banks were to end intervention permanently and irrevocably, one would have to believe that the answer is “yes.” But central bankers are political animals. Sharp market declines or the next sovereign credit crisis (resulting from rising rates) are sure to soften their resolve. Markets sense this weakness and continue to press on. There is no reason, as we explained in earlier letters, that the equity risk premium should not fall towards 2% to 3%, implying P/E ratios in the 30s and 40s, so long as real rates in the 10-year tenure remain well below 1%.

So, have we turned into blue-eyed bulls? No, we have not. Sure as night follows day, inflation, currently missing in action, will eventually prevent central banks from softening on their resolve to tighten. What will cause inflation to accelerate? A pickup in the rate of growth of money. This acceleration has so far been kept at bay by the interest paid to banks on excess reserves. As the economy moves into a boom phase (where unemployment falls towards 3%), bank credit will expand and money supply will accelerate. Only large and very aggressive increases in interest rates paid on reserves will prevent banks from extending credit at profitable rates. This does not appear to be in the cards at this early stage.

"WAGE INCREASES ARE LIKELY TO BE REACTIVE TO RISING PRICES. THEREFORE, WAGES WILL BE SLOW IN RESPONDING TO INFLATION (AS THEY ARE NOW). PRODUCTIVITY INCREASES ARE ALSO LIKELY TO REVERT TO THE MEAN, EASING PRESSURE ON THE DIMINISHING FREE LABOUR POOL. SO NEITHER UNEMPLOYMENT RATES NOR ACTUAL WAGE INCREASES WILL GIVE US AN ACCURATE INDICATION OF INFLATIONARY PRESSURES. COMMODITY PRICES, HOWEVER, WILL. AND THEY HAVE BEGUN TO STIR. THE BLOOMBERG COMMODITY INDEX (BCOM) IS IN THE PROCESS OF BREAKING OUT OF A FLAT 30-MONTH BASE."

Can we monitor this process and get an early warning? I believe we can. Wage increases are likely to be reactive to rising prices. Therefore, wages will be slow in responding to inflation (as they are now). Productivity increases are also likely to revert to the mean, easing pressure on the diminishing free labour pool. So neither unemployment rates nor actual wage increases will give us an accurate indication of inflationary pressures. Commodity prices, however, will. And they have begun to stir. The Bloomberg Commodity Index (BCOM) is in the process of breaking out of a flat 30-month base. The base follows a bottom established in January 2016, the culmination of a long and very dramatic 70% decline begun in July 2008. At their lows, commodity prices traded below the lows registered in March 1999 and at the lowest levels since at least 1990. In my view, only a strong uptrend in commodity prices will prevent central banks from relapsing into an easing posture. We will be keeping a wary eye on this inflation vane because inflation is the key to the future behaviour of markets.

In the past, we have referred a number of times to vanishing market liquidity. The situation has not improved. When, not if, a bear market gets under way, sellers will encounter few bids and large price gaps between trades, a condition that will exacerbate the decline. Risks are rising. In this environment, options continue to provide relative safety, albeit at a significant cost.

At this moment, the biggest risk facing the market is not economic but military. The North Korean standoff is extremely unnerving. Markets have not taken into account the risk of a stray nuclear missile flying high over the US and setting off an EMP, let alone a full nuclear attack. It is the difference between risk and uncertainty. Risk can be hedged; uncertainty can't. And the uncertainty here is the impact such a conflict, if militarized, could have on financial markets. For example, banks and exchanges might be unable to open, an event that can't be hedged; records and archives might be irretrievably lost, again an event impossible to hedge. Financial hedges would come to naught, making it futile for us to strategize about it today; personal safety would take first priority. A small amount of cash and physical gold and silver might serve as a reasonable "hedge."

We look forward to another exciting quarter.

Thanking you for your continuing trust,

ALBERT D. FRIEDBERG

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[1] as of December 31, 2017

	NAV	Quarterly	One Year	Two Years	Three Years	Five Years
Friedberg Asset Allocation Fund Ltd.	1,748.04	6.44%	19.48%	13.17%	7.32%	3.38%
Friedberg Asset Allocation Fund	18.59[2]	6.34%	20.02%	13.63%	7.65%	3.55%
CSFB/Tremont Hedge Fund Index[3]		N.A.%	7.17%	2.05%	2.19%	4.35%

[1] Net of fees
[2] NAV adjusted to reflect distributions reinvested in the fund
[3] Compounded annual rate of return through November 2017

Friedberg Asset Allocation Funds

Capital allocation of the Friedberg Asset Allocation Fund Ltd. as of December 31, 2017 is as follows:

INVESTMENT		CURRENT ALLOCATION	TARGET
FIXED INCOME		21.97%	25.00%
Brazilian NTNF 10% Jan. 1/25	*13.41%*		
Brazilian NTNF 10% Jan. 1/27	*8.56%*		
EQUITIES		72.46%	70.00%
U.S. Homebuilders	*42.40%*		
U.S. and Australian Gold Miners	*13.82%*		
Brazilian Banks	*9.57%*		
Greek Banks	*6.67%*		
FUTURES		4.97%	5.00%
Crude Oil	4.97%		
CASH / MONEY MARKET		0.60%	0.00%
		100.00%	100.00%

Friedberg Asset Allocation Fund Ltd.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
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 Global-Macro Hedge Fund Ltd.
Friedberg Global-Macro Hedge Fund

A multi-strategy fund. Allocations are reviewed periodically.

Performance[1] as of December 31, 2017

	NAV	Quarterly	One Year	Three Years	Five Years	Ten Years
Friedberg Global-Macro Hedge Fund Ltd.	4,061.12	33.40%	36.47%	9.71%	-5.66%	5.42%
Friedberg Global-Macro Hedge Fund	24.19[2]	35.77%	40.56%	10.76%	-5.68%	6.53%
CSFB/Tremont Hedge Fund Index[3]		N.A.%	7.17%	2.19%	4.35%	3.19%

[1]Net of fees
[2]NAV adjusted to reflect distributions reinvested in the fund
[3] Compounded annual rate of return through November 2017

Friedberg Global-Macro Hedge Funds

Friedberg Global-Macro Hedge Fund Ltd.

Monthly Performance (%) Net of Fees

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

Global-Macro Hedge Fund Ltd. (Cayman)

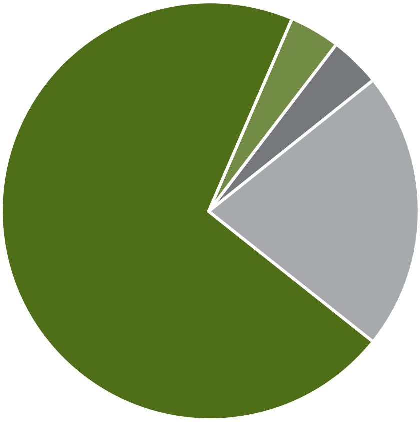
Breakdown as a Percentage of Total Assets

AS OF DECEMBER 31, 2017

U.S. and Global Equities*	70.86%
Fixed Income	3.91%
Currency Program	3.90%
Commodities	21.33%

Total Exposure per dollar of capital: 2.94x

* Contains long/short equities



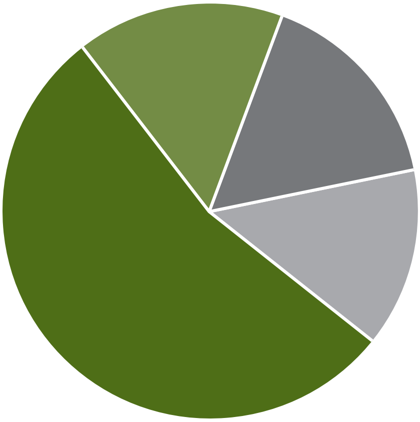
Breakdown as a Percentage of Total Assets

AS OF SEPTEMBER 30, 2017

U.S. and Global Equities*	53.91%
Fixed Income	16.16%
Currency Program	16.15%
Commodities	13.77%

Total Exposure per dollar of capital: 2.80x

* Contains long/short equities



Closed Funds

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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