

Quarterly Report

2

SECOND 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.

Second Quarter Report 2014

MESSAGE TO OUR INVESTORS

Please find below a discussion of our funds' performance and activities for the second quarter of 2014. The Global-Macro Hedge Funds produced losses of -5.9% for the quarter and -8.9% for the year to date, results that are in line with those reported at the time of our last mid-term report, and their net asset value per share is almost unchanged in nine months. Important portfolio changes have nevertheless occurred over the past few months. The Asset Allocation Funds, on the other hand, continued to improve. They are now up 3.9% for the quarter and 9.3% for the year to date. It is worth pointing out that the macro views expressed in the two funds are identical, and that the only difference lies in tactics. For the Global-Macro Funds, we attempted to aggressively exploit potentially negative outcomes rather than merely step aside from them as we did in the Asset Allocation Funds; given the poor timing we exhibited, the ability to leverage and to sell short proved to be detrimental.

In our last communication, we indicated that we were continuing to deleverage the Global Macro Funds to reduce excessive volatility. We are satisfied that this process has now come to an end. Volatility, in relation to the S&P 500 and in absolute terms, has fallen in recent months to historically comparable levels. Having said that, we retain a great deal of "power" in our positions.

In the mid-term report, we made special note of the fact that we had built up two major positions: a long equity position, principally concentrated in the housing sector, and a long commodities position. The housing position represents a touch over 71 percent of the funds' net asset value. This group has begun to firm up in recent weeks, both in absolute terms and relative to the market. Fundamentals, based on solid gains in employment and more ample credit availability, point to accelerating improvement over coming months. Rounding up our long equity position is a long call option on Blackstone (just under 5 percent), an ideal beneficiary of easy money conditions, as well as an internationally diversified

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package of companies in the solar energy business (just over 6 percent), where costs are beginning to approach the costs of fossil fuels. We eliminated our short exposure to Brazilian equities and to Japanese banks as they no longer seemed as compelling to us as they did earlier in the year. We have retained a modest short position in individual Indian equities, representing no more than 11 percent of net assets, waiting for soon-to-be-announced budgetary measures and policies. In all, long positions exceed short positions by a margin equal to 48.4% percent of net assets. To bring some balance to the portfolio, we took advantage of historically low implied volatility to purchase long-term S&P puts, reasoning that they offer a cheaper form of insurance than outright shorts in emerging markets.

Markets have become extremely dependent on monetary ease. Credit markets are where some of the greatest moves have occurred: the investment-grade index has narrowed to 56 bps from 279 bps while the high-yield market has tightened to a current low of 294 bps from 1895 bps since November 2008. In the eurozone, 10-year Spanish yields have fallen to 2.5 percent from 6 percent and 10-year Greek yields have declined from more than 20 percent to less than 6 percent ever since Draghi announced that the ECB will do whatever it takes to help fund the periphery at reasonable rates. These rate compressions are all the more significant when we consider the percentage change in the rates themselves rather than the absolute basis points change. At the same time, stock market valuations have become quite stretched, though we recognize that they are not good timing indicators. No doubt, valuations are being driven by

the enormous rate compression that has occurred in credit instruments and the consequent lack of opportunities in those markets. From a purely technical point of view, one must conclude that further advances are in store, despite very low volumes and only fair breadth. Positive factors are the market's great resilience to dramatic and largely unexpected political and military news that carries serious economic implications, the paucity of new 52 week lows of individual stocks and sectors, and the subdued mood among institutional investors, reflected less in opinion polls than in actual positioning. In fact, one is led to find analogies between the pace of this relentless, correction-free advance and the tail end of other great bull markets in history. These blowoffs, as they are commonly called by market technicians, are characterized by highly explosive run-ups. Historical examples, drawn from the world of commodities, include the doubling of gold prices and the quadrupling of silver prices in the closing months of 1979 and the tripling of sugar prices in the span of a few months in 1974. Closer in time and in class, who can forget the more than doubling of Nasdaq prices between late 1999 and early 2000?

Unexpected events, of course, can cut short these explosive advances. Therefore, we felt it necessary to purchase "catastrophic" (i.e., 20 percent out-of-the-money) option protection as noted earlier, especially as it became available on very favourable terms. Longer term, the bull market in equities (and other assets) will come to an end when the Fed is finally forced to raise rates. Reasons for such policy changes are already in the wind: unemployment, at 6.1 percent, is lower than had been anticipated and the trend to less labour slack is accelerating. So is the uptrend in the pace of consumer price inflation. While the Fed may be slow to react, the moment is sure to come. In anticipation, we have also sold futures and purchased December 2015 put options in Fed Funds and Eurodollars, respectively, at levels that reflect precisely such a lethargic official response.

Based on the potential impact on net asset value, commodities represent the second most important category in our portfolio. The portion managed by our outside commodity manager and our own gold position represent, in total, just under 100 percent of net assets. The rise in commodities prices is halting and still much too selective, though our own diffusion analysis indicates a promising broadening of the advance. For the quarter, commodities made a positive contribution of 1.8 percent to the funds' net asset value.

Credit default swaps continue to expire gradually; we have yet to decide whether to roll them forward, though very low carrying charges make them an appealing

speculation. We have taken partial profits in Bunds, leaving us with an exposure equal to 65 percent of net assets. During the quarter, they contributed 320 basis points to the funds' net asset value. Positive factors continue to make them an attractive carry, namely their unique credit standing and the fact that Bunds are denominated in a remarkably stable, i.e., inflation-free, currency. Somewhat offsetting these positives is the fact that Bunds have become somewhat expensive when compared with U.S. Treasuries, with the spread widening to multi-year highs. Also, one needs to consider Germany's hidden but ever present liabilities arising from EU commitments, demographic weakness and political vulnerability to a more aggressive Russia. We have re-invigorated our exposure to currencies with a long position in Canadian dollars, a long Aussie/short Kiwi spread, now trading at historic lows, and a short Bulgarian lev/long euro, looking for a break in the fixed link. Admittedly, the well maintained currency board makes a devaluation viz the euro a low probability event. The very low-cost trade is predicated on a weak banking system, pervasive corruption and an exchange rate that appears to overvalue the lev.

The Asset Allocation Funds share many of the same positions and themes. Because of their conservative mandate, these funds avoided our worst trades, in particular, the short exposure to emerging markets like India and the credit default swaps. As compensation for this inability to sell short and safeguard against sovereign defaults, banking failures and a generally heightened sense of risk, the Asset Allocation Funds overweighted the allocation to fixed income (Bunds and Tips). At one point, these came to represent as much as 65 percent of the portfolio (now at 44 percent). This proved to be a winning formula. Exposure to stocks, housing in particular, and commodities, primarily gold, were kept to much more modest proportions, explaining the smaller losses incurred last year by the Asset Allocation Funds.

For a long time, we have been of the belief that it is fundamental to us as managers and unit holders to capitalize on expectations for busts and crashes. The drastic moves so caused provide quick and spectacular gains, gains that can offset losses suffered elsewhere in other endeavours related to the overall economy, and gains that justify our job as hedge fund managers. Our experience with the Asset Allocation Funds over the past few years, however, tells perhaps a different story. It may be sufficient if we manage to avoid disaster rather than capitalize on it. Here are the comparable numbers for the past 1, 2, 3, 4 and 5 years:

We remain committed to a very bullish housing scenario and rising and then upwardly accelerating commodity prices. Rising interest rates are seen for next year, at a quicker pace than now anticipated. Sovereign and banking defaults remain firmly in the horizon, but timing their occurrence is now beyond our own investment horizon. Still, where an opportunity presents itself to capitalize on those events at little cost, we will continue to do so.

Global Macro: -7.3, -30.4, -25.0, -7.7, + .75; Asset Allocation: + 3.9, +10.6, +2.5, +5.7, +7.9. Shocking indeed.

Managing to avoid disaster may be enough not because, as some might think, it is morally wrong to capitalize on disasters (we don't believe it is, as long as we did not cause it and as long as we did not brag about it), but because busts and crashes, by their very nature, are rare events. This makes them hard to time, and timing mistakes, as we have seen, are extremely expensive. The difference in results between the two funds, in the absence of this expected bust, seems like a variant of Aesop's fable, where the plodding turtle gets to the finish line before the hare. Now, of course, skeptics may argue that this is necessarily true given the costs incurred for a crash that did not materialize. True enough. But one should not forget that the expectation of such an event affected the Asset Allocation Funds' performance too, forcing them into a much more conservative stance. We know that, expecting disaster to strike, one could be earning sub-par rates of return for a long time. Still, it may be better than losing big chunks of capital.

So which is the better strategy to follow when disaster looms with forceful immediacy in the mind of the manager: constructing portfolios with the objective of pursuing rare opportunities that offer fantastic payoffs, or constructing highly constrained and conservative portfolios that will most likely avoid the fatal consequences of a crash? Admittedly, those quantitative investors among you will

argue that these choices cannot be properly analyzed without numbers attached to the probabilities of the event and numbers detailing the costs of execution. But I fear that numbers alone will not provide the right answers. The probabilities simply cannot be quantified with any certainty. Still, the lesson may lead us to the following conclusion: it just may be not worth it to go for the whole ball of wax.

While both funds will continue to operate as they have to date, the above discussion is now weighing on our mind. It will surely temper our appetite.

We remain committed to a very bullish housing scenario and rising and then upwardly accelerating commodity prices. Rising interest rates are seen for next year, at a quicker pace than now anticipated. Sovereign and banking defaults remain firmly in the horizon, but timing their occurrence is now beyond our own investment horizon. Still, where an opportunity presents itself to capitalize on those events at little cost, we will continue to do so. Above all, we remain highly confident that results will improve substantially in the second half of the year.

Thanking you for your trust,

A handwritten signature in dark ink, appearing to read 'ALBERT D. FRIEDBERG', with a long, sweeping underline.

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.

Performance¹ as of June 30, 2014

	NAV	Quarterly	Year over Year²	Three Years²	Five Years²
Friedberg Global-Macro Hedge Fund Ltd.	3,246.12	-5.88%	-40.34%	-8.74%	-1.13%
Friedberg Global-Macro Hedge Fund	18.92 ³	-6.43%	-41.49%	-9.69%	-0.72%
CSFB/Tremont Hedge Fund Index		N.A.	8.53%	5.03%	7.69%

¹Net of fees

²Compounded annual rate of return through May 2014

³NAV adjusted to reflect distributions reinvested in the fund

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
2014	17.06%	0.30%	-17.58%	-3.84%	-3.35%	1.27%							-8.92%
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

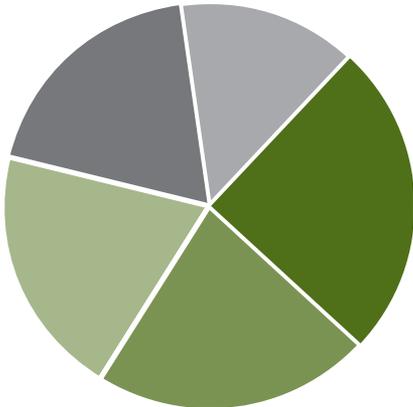
Global-Macro Hedge Fund Ltd. (Cayman)

Breakdown by Total Gross Exposure
AS OF JUNE 30, 2014

- Global Equities* 25%
- Commodities 22%
- Currencies 20%
- U.S. Equities-Market Neutral 19%
- Fixed Income 14%

Total Exposure per dollar of capital: 4.59x

* Contains international long/short equities



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



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 June 30, 2014

U.S. EQUITIES	NAV (notional)	Quarter
Market Neutral Strategy of the Global-Macro Hedge Fund	1,816.35	1.43%

Investment Allocation

	31-Mar-14	30-Apr-14	31-May-14	30-Jun-14
LONGS	50.80%	53.44%	51.65%	50.03%
SHORTS	49.20%	46.56%	48.35%	49.97%
TOTAL GROSS LEVERAGE	2.39x	3.26x	3.46x	3.36x

Largest Sectors (Longs)

Aluminum	8.14%
Biotechnology	4.87%
Systems Software	4.52%

Largest Sectors (Shorts)

Nasdaq stock index	10.30%
Diversified Banks	5.99%
Internet Retail	5.57%

Largest Long Positions

Alcoa Inc.	4.87%
SPDR S&P Biotech ETF	4.56%
Microsoft	4.52%
McDonald's Corp.	4.41%
Computer Science Corp.	4.25%

Largest Short Positions

Nasdaq E-Mini futures	10.30%
Citigroup Inc.	5.99%
Amazon.com Inc.	5.57%
Western Union Co.	5.46%
General Motors Co.	4.68%

Best Quarterly Performance

	Longs	Shorts
Weatherford International PLC	32.49%	Tesla Motors Inc. 5.41%
Alcoa Inc.	15.79%	ConAgra Foods Inc. 4.35%
Phillips 66	9.14%	Target Corp. 4.23%

Worst Quarterly Performance

	Longs	Shorts
International Paper	0.35%	Amazon.com Inc -11.23%
Alnylam Pharmaceuticals Inc.	0.08%	Facebook Inc. -10.77%
Intel Corp.	0.08%	General Motors Co. -7.63%

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.

Performance¹ as of June 30, 2014

	NAV	Quarterly	Year over Year ²	Two Years ²	Three Years ²
Friedberg Asset Allocation Fund Ltd.	1,473.72	3.87%	-0.48%	1.48%	2.09%
Friedberg Asset Allocation Fund	15.56 ³	3.94%	-0.53%	1.53%	1.98%
CSFB/Tremont Hedge Fund Index		N.A.	8.53%	8.90%	5.03%

¹Net of fees

²Compounded annual rate of return through May 2014

³NAV adjusted to reflect distributions reinvested in the fund

Friedberg Asset Allocation Funds

**Capital allocation of the Friedberg Asset Allocation Fund Ltd.
as of June 30, 2014 is as follows:**

INVESTMENT		CURRENT ALLOCATION	TARGET
FIXED INCOME		40.90%	41.00%
<i>U.S. TIPS 2.125% Feb. 15/40</i>	14.30%		
<i>German Bunds 2.5% Jul. 4/44</i>	12.20%		
<i>10-Year German Bunds (via Futures)</i>	14.40%		
EQUITIES		24.50%	25.00%
<i>U.S. Homebuilders</i>	17.50%		
<i>U.S. Energy</i>	2.40%		
<i>U.S. Metal</i>	2.60%		
<i>U.S. Biotech</i>	2.00%		
COMMODITIES		34.40%	34.00%
<i>Gold (via Futures)</i>	20.50%		
<i>Silver (via Futures)</i>	4.20%		
<i>Palladium (via Futures)</i>	4.80%		
<i>Cocoa (via Futures)</i>	4.90%		
CASH / MONEY MARKET		0.20%	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
2014	3.54%	3.30%	-1.58%	0.25%	0.32%	3.29%							9.35%
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%	-2.82%	3.31%	-1.05%	-1.58%	10.53%
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%	16.13%
2009						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%

**FRIEDBERG
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GROUP LTD.**

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