

Quarterly Report

3

THIRD QUARTER
2018

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.

Third Quarter Report 2018

MESSAGE TO OUR INVESTORS

I am pleased to report to you the financial results of our two hedge funds for the third quarter ended September 30, 2018. The Global-Macro Hedge Fund lost 6.6%, bringing year-to-date losses to 35.4%; the Asset Allocation Fund lost 4.3% during this period, bringing year-to-date losses to 14.6%.

Year-on-year results show the Global-Macro Hedge Fund down 12.3% and the Asset Allocation Fund down 9.2%. Commenting first on the Global-Macro Hedge Fund, I should say that this sorry year-to-date performance is entirely attributable to three large, concentrated bets gone wrong: US homebuilders (20.1%), Brazilian equities (9.0%) and Greek banks (9.3%). All the losses in the first two positions were incurred during the first two quarters of the year and have been discussed at length in previous communications. As well, 98.0% of the homebuilders' position and 25.0% of the Brazilian equities position were liquidated prior to the third quarter. The remaining positions had contributed a gain of 1% to the Fund's NAV by the end of third quarter. In contrast, the long position in Greek banks began to deteriorate dramatically only in the third quarter, accounting for just slightly more than all of the Fund's third-quarter net losses. Despite steady improvements on the economic front, these banks were affected by the slower-than-expected recovery on non-performing loans and the budding Italian bond market and banking crisis. Valuations, which were cheap to begin with, became even cheaper, in fact, compellingly cheap. For risk-control reasons, we reduced the position by approximately one third. Nevertheless, we continue to maintain an interest that remains large enough to generate a 20% gain in NAV should our expectations be realized, namely, parity with the average European bank price-to-book ratio.

At this writing, the Global-Macro Hedge Fund's quarterly losses are being

“AT THIS WRITING, THE GLOBAL-MACRO HEDGE FUND’S QUARTERLY LOSSES ARE BEING ERASED. THE POOR PERFORMANCE OF OUR VALUE-LADEN LONG EXPOSURE, AS WELL AS WEAKENING EQUITY AND DEBT PRICES AROUND THE GLOBE AND ASIA IN PARTICULAR, ALERTED US TO THE POSSIBILITY THAT, INDEED, WE HAD STEALTHILY ENTERED A GLOBAL BEAR MARKET. THE PATH OF LEAST RESISTANCE, AS THE OLD REFRAIN WOULD HAVE IT, WAS POSITIVELY POINTING DOWNWARDS. OTHER INDICATORS TENDED TO CONFIRM OUR SUSPICIONS, THE MOST IMPORTANT OF WHICH WERE THE SURPRISING PAUCITY OF 52-WEEK NEW HIGHS AND THE EQUALLY SURPRISING EXPANSION OF NEW 52-WEEK LOWS.”

erased. The poor performance of our value-laden long exposure, as well as weakening equity and debt prices around the globe and Asia in particular, alerted us to the possibility that, indeed, we had stealthily entered a global bear market. The path of least resistance, as the old refrain would have it, was positively pointing downwards. Other indicators tended to confirm our suspicions, the most important of which were the surprising paucity of 52-week new highs and the equally surprising expansion of new 52-week lows. To the positions carried over from previous quarters — namely, short Australian banks, Chinese mainland real estate developers and banks, and Chinese yuan — we added new bear bets. The most obvious candidate, if only because they had once again become compellingly cheap, was Nasdaq put options. (Unrepentant sellers of options had driven implied volatilities close to new historic lows; the February

2018 lesson was too ephemeral and not bloody enough to drive the point home: sellers of options, who enjoy limited gains at best, can suffer unlimited losses and often go bankrupt.) For 2% to 3% of NAV, we were able to acquire a fair-sized bear bet on the overextended tech sector. Additionally, we reinstated a long position in gold, also via fairly cheaply priced call options, on the assumption that the “fear factor” beginning to take hold – be it soaring Italian bond yields and their threat to the EU, the deepening rift in trade between the US and China and its potential impact on global economic growth, rising interest rates as central banks around the world remove liquidity in the face of rising wage costs, or growing cyber security attacks on businesses and governments by rogue operators, to name just the more obvious concerns – would lead to a much deserved rerating. The initially modest position has the potential to expand quite rapidly given the dynamic characteristics of options.

Just subsequent to the beginning of the last quarter, we took a significant short position in one of India's largest financial institutions, HDFC Bank. The Indian stock market, and more particularly Indian banks, had become the darlings of emerging market specialist funds. But growing losses that were being kept hidden from the view of raters and regulators, enormous difficulties in executing failing debtors, and very opaque management were telling us that their assessment, which led HDFC Bank to trade at an unheard of four times book, was much too sanguine. The recent default and intervention of the country's largest non-bank financier has sent shudders through the market and leads us to think that a banking crisis is in the making.

Last, we initiated a significant long position in crude oil, evenly split between WTI and Brent, impressed by its ability to make new recovery highs in the face of a weak commodity market. Our own research has revealed an unusually large amount of hedge selling against surprisingly low (and shrinking) inventories, creating the conditions for a classic short squeeze. This condition is aggravated by the non-trivial risk that Iran, seeing most of its oil exports cut off by a reasonably effective US sanction plan, might actually attack its neighbours' facilities or shut off access to the Persian Gulf. One need only recall that Japan went to war over similar concerns.

“THE STORY FOR THE ASSET ALLOCATION FUND IS SIMILAR. MORE THAN THE ENTIRE NET LOSS SUFFERED IN THE THIRD QUARTER CAN BE ATTRIBUTED TO OUR HOLDINGS IN GREEK BANKS. WE PRUNED THE POSITION BUT HAVE RETAINED A SUFFICIENTLY LARGE EXPOSURE TO MAKE A SUBSTANTIAL CONTRIBUTION TO NAV IF AND WHEN IT MEETS OUR EXPECTATIONS. UNABLE TO GO SHORT FOR THIS FUND OR BUY PUTS FOR ANY PURPOSE OTHER THAN DIRECTLY HEDGING LONG POSITIONS, I DECIDED TO BUILD A SUBSTANTIAL LONG POSITION IN 10-YEAR AND 30-YEAR US TREASURY BONDS. THESE, WHICH NOW REPRESENT ALMOST 50% OF ASSETS, AND GOLD (OWNED VIA MINERS AND BULLION) STAND TO GAIN MEANINGFULLY FROM THE SAFE-HAVEN DEMAND WE SEE COMING IN THE WEEKS AHEAD.”

The story for the Asset Allocation Fund is similar. More than the entire net loss suffered in the third quarter can be attributed to our holdings in Greek banks. We pruned the position but have retained a sufficiently large exposure to make a substantial contribution to NAV if and when it meets our expectations. Unable to go short for this Fund or buy puts for any purpose other than directly hedging long positions, we decided to build a substantial long position in 10-year and 30-year US Treasury bonds. These, which now represent almost 50% of assets, and gold (owned via miners and bullion) stand to gain meaningfully from the safe-haven demand we see coming in the weeks ahead.

As we have been discussing now for many months, financial conditions are ripe for a very severe correction; market liquidity is poor, money and credit are barely growing, and debt has exploded. Then there is the psychological factor: excessive optimism, reflected in extremely tight credit spreads and astronomic valuations of money-losing entities. These factors, in aggregate, have left markets highly vulnerable to unpleasant news. To navigate the next few weeks successfully will require steady nerves, imperviousness to conventional thinking, extreme attention, and more than just a little bit of luck.

Thanking you for your 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.

Performance¹ as of September 30, 2018

	NAV	Quarterly	One Year	Two Years	Three Years	Five Years
Friedberg Asset Allocation Fund Ltd.	1,482.73	-4.43%	-9.71%	-3.60%	-2.61%	1.71%
Friedberg Asset Allocation Fund	15.88 ²	-4.34%	-9.15%	-3.21%	-2.00%	1.99%
CSFB/Tremont Hedge Fund Index ³		N.A.%	3.22%	4.70%	2.57%	3.52%

¹ Net of fees

² NAV adjusted to reflect distributions reinvested in the fund

³ Compounded annual rate of return through August 2018

Friedberg Asset Allocation Funds

Capital allocation of the Friedberg Asset Allocation Fund Ltd.
as of September 30, 2018 is as follows:

INVESTMENT		CURRENT ALLOCATION	TARGET
FIXED INCOME		48.57%	50.00%
<i>U.S. Ten-Year Treasury Futures</i>	35.88%		
<i>Ultrabond Futures</i>	12.68%		
EQUITIES		29.30%	40.00%
<i>Cybersecurity ETF</i>	10.65%		
<i>Brazilian Banks</i>	7.32%		
<i>U.S. and Australian Gold Miners</i>	6.53%		
<i>Greek Banks</i>	4.80%		
FUTURES		17.09%	10.00%
<i>E-Mini S&P</i>	6.52%		
<i>Crude Oil</i>	5.38%		
<i>Brent Crude</i>	5.18%		
CASH / MONEY MARKET		5.04%	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
2018	3.62%	-6.33%	0.31%	-0.68	-6.06%	-2.29%	0.24%	-3.36%	-1.34%				-15.18%
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.

Performance¹ as of September 30, 2018

	NAV	Quarterly	One Year	Three Years	Five Years	Ten Years
Friedberg Global-Macro Hedge Fund Ltd.	2,631.01	-6.98%	-13.57%	-8.39%	-5.58%	-0.83%
Friedberg Global-Macro Hedge Fund	15.64 ²	-6.57%	-12.23%	-7.73%	-5.29%	0.54%
CSFB/Tremont Hedge Fund Index ³		N.A.%	3.22%	2.57%	3.52%	3.56%

¹Net of fees

²NAV adjusted to reflect distributions reinvested in the fund

³Compounded annual rate of return through August 2018

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
2018	4.82%	-18.57%	4.07%	-3.39%	-13.97%	-5.66%	0.28%	-7.53%	0.32%				-35.21%
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 ***

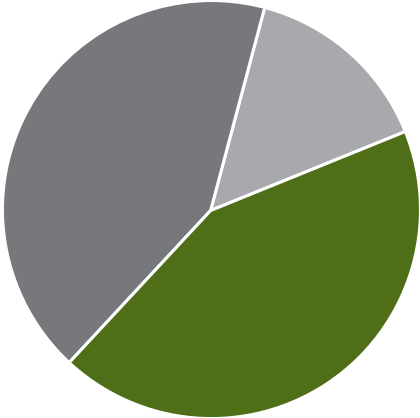
Global-Macro Hedge Fund Ltd. (Cayman)

Breakdown as a Percentage of Total Assets
AS OF SEPTEMBER 30, 2018

● U.S. and Global Equities*	43.22%
● Fixed Income	0%
● Currency Program	42.21%
● Commodities	14.57%

Total Exposure per dollar of capital: 2.88x

* Contains long/short equities

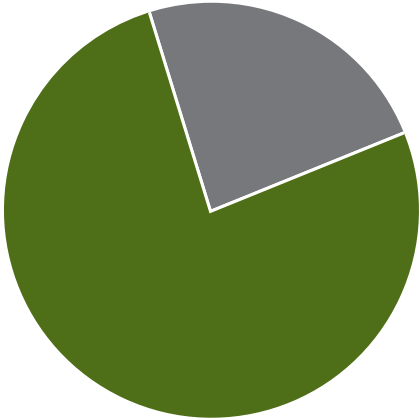


Breakdown as a Percentage of Total Assets
AS OF JUNE 30, 2018

● U.S. and Global Equities*	76.39%
● Fixed Income	0%
● Currency Program	23.61%
● Commodities	0%

Total Exposure per dollar of capital: 2.45x

* 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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