Quarterly Report

Friedberg Mercantile Group Ltd

4

FOURTH QUARTER
2019

FRIEDBERG
MERCANTILE
GROUP LTD.

Contents

Message to our Investors 1

Friedberg Asset Allocation Funds 7

Friedberg Global-Macro Hedge Funds 11

Closed Funds 16

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 2019

FRIEDBERG MERCANTILE GROUP LTD.

MESSAGE TO OUR INVESTORS

I am pleased to report to you the financial results of our two hedge funds for the quarter and year ended December 31, 2019. The Global-Macro Hedge Fund lost 259 basis points for the quarter and closed the year down 20.17%. The Asset Allocation Fund, by contrast, gained 971 basis points for the quarter and registered a gain of 22.14% for the year.

The tremendous divergence in performance is attributed to the short positions held by the Global-Macro Hedge Fund over the course of the year. Combined, these cost the Fund 27.59%. The bulk of these short positions were covered in the first half of the year when markets rallied sharply following the reversal of central bank policy in the United States, which led to a resurgence of global risk appetite. The largest loss was in Australia, discussed at length in a previous letter, which cost the Fund 900 basis points. Shorts in US equity indices, as well as Chinese property developers and banks, cost the Fund 432 and 430 basis points, respectively. In the final quarter, the Fund lost 619 basis points (840 basis points for the full year) shorting a selection of North American technology companies. Rounding out the loss was 715 basis points lost betting on a large depreciation in the Chinese currency.

Unsurprisingly, the long side of the portfolio fared much better. Our long-held conviction that Greek banks would outperform their European peers played out well over the course of 2019, and our holdings contributed 1,047 basis points for the year. Brazilian equities also did well, adding 217 basis points, as did our long position in gold, which contributed 585 basis points.

The Asset Allocation Fund benefited from the surge in risk assets in the final months of the year as well as its long-only bias, which ensured it participated in the widespread appreciation of risk assets around the world. Greek banks again contributed the largest gain, adding 990 basis points to the Fund. In fact, in 2019, every one of the Fund's investments resulted in a positive return, with the only loss (128 basis points) stemming from a short-term hedge we had coming into the year.

On the equity side, the Fund earned 613 basis points in gold miners, 131 basis points in US homebuilders, 102 basis points in Brazilian equities, 96 basis points in Volkswagen, and 124 basis points in a selection of US technology companies. The Fund also gained 142 basis points from commodities and gold investments and 144 basis points in US Treasurys.



JAIME A. MACRAE

Will inflation accelerate from here?

The financial and economic outlook for the next few years hangs on this question. For the better part of this millennium, and for the whole of the past decade, central banks around the world bought assets in colossal amounts, printing more fiat money than the cumulative amounts printed since the Great War — and since central banks were invented. And contrary to the generalized expectation, they did so without affecting price levels. In effect, they printed money with total impunity.

There were costs, to be sure. With the bailout of weak borrowers, badly needed reforms were shelved, cost-cutting moves were not undertaken, inefficiency was rewarded and resources were misallocated. These problems will come back and cause income growth to slow even further in years to come. On the financial side, easy money enabled global debt to skyrocket; it now surpasses previous 2007 peaks. Easy money financed a very large number of money-losing companies that would never have survived otherwise; there are more "zombies" walking around as a percentage of total public companies than there ever were.

When it comes, the financial crisis will be as painful as the previous one, if not more so. While a day of reckoning is sure to come, central banks choose to ignore the coming danger since true costs are either deferred into the distant future or are more immediate but not visible. In that way, central banks are acting with impunity. And there seems to be no end in sight.

At the first sign of any economic weakness, central banks redouble their money-printing efforts; injections of hundreds of billions of dollars, undertaken with some

debate and trepidation just eight years ago, have become commonplace. Driven by easy money, asset prices continue to rise despite some of the loftiest valuations in history. In fixed income, returns have become infinitesimally small or, worse yet, negative in nominal terms, defying reason, prudence and history.

Contrary to current beliefs, however, central banks are not omnipotent and cannot operate with total impunity. Their Achilles heel is inflation; once inflation accelerates beyond their admittedly soft targets, central bankers can no longer operate with impunity. *Bears, if they want to be successful, must wait for this moment.*

While notable for its recent moderate behaviour, we believe that inflation lurks menacingly over the horizon. There is little doubt that, for now, inflation is well behaved. Core consumer prices are running at 2.1% to 2.4% per annum, about where they were in 2018. Wages, despite "tight" labour conditions, are running only slightly ahead, at 2.9% to 3.0% per annum. (Real incomes are growing, and that almost guarantees no immediate recession.) Inflation expectations have been well anchored in the 2% area, and it will not be easy to dislodge these expectations.

In the early seventies of the last century, it took a massive and surprising purchase of wheat by the Soviet Union to break the upper range of the then inflationary expectations. This was followed less than two years later by OPEC's decision to triple oil prices. Similarly, it will take an unexpected and sharp rise in price of a widely followed commodity to reverse the current inflationary inertia. Because of the unexpected nature of such an event, it cannot be predicted. Or expectations may simply be eroded by a slow and persistent rise of prices. Either way, the *conditions* for such to happen are already present. Where?

Over the past six months broad money growth moved above 8% per annum and 7.2% year over year, its highest in some years. So has money properly adjusted by its "moneyness," whether Divisia or MZM. For monetarists like us, these rates of growth spell trouble for inflation, especially in light of current conditions, including low rates of unemployment, rising import prices, and a very large fiscal deficit. At the same time, commodity prices seem to have finally woken up from their long torpor and, despite the sluggish pace of the global economy, have now lifted above nine-month highs. It's not much yet, but breadth has been impressive: the majority of raw commodity prices we follow are higher than one year ago. This asset class is not only highly sensitive to inflationary pressures but tends to presage cost pressures.

As discussed earlier, financial and economic vulnerabilities have risen exponentially over the past 10 years of easy money. It won't take much to trigger another financial crisis and economic depression — just some acceleration in the rise of consumer prices. And what if that moment came and central banks found themselves constrained from coming to the rescue? The excerpt below, reprinted from a January 14, 2020, Reuters article, provides a sample of what is to come:

> *"A spike in India's retail inflation in December has raised the chances the central bank will put rate cuts on hold for some time despite economic growth languishing at more than six-year lows.*
>
> *" 'With CPI inflation likely to persist above the RBI's upper band of the target range of 2-6%, we cannot completely rule out the possibility of a shift in the policy stance to neutral,' said Upasna Bhardwaj, economist with Kotak Mahindra Bank.*
>
> *"India's annual retail inflation rose to 7.35% in December – its highest in more than five years, data showed on Monday, and well above the 6.2% predicted in a Reuters poll."*

India's inflation rate has taken the central bank by surprise, an inherent feature of the way inflation accelerates — unexpectedly.

For central banks around the world, the end of their acting with impunity is coming. Accelerating inflation, when (and if) it comes, will have a cataclysmic effect on financial markets.

Our investment performance this year, with the Global-Macro Hedge Fund down 20% and the Asset Allocation Fund up 22%, may give the strong impression that the manager has been stricken with madness. That is not the case, I assure you; there was logic to the madness. For the Global-Macro Hedge Fund, a leveraged vehicle that can go short, I concentrated on the excesses built up over the past decade, where I thought there was a great deal of money to be made. As discussed above, years of an extremely accommodative monetary policy in the US and abroad left balance sheets weakened to the point of collapse. As we saw in 2008-9, these collapses tend to be swift and dramatic. To my thinking, there were opportunities to score very substantial gains. Only by redoubling their inflationary efforts could central banks keep their financial systems from falling apart and dragging their economies down with them. I made the unfortunate assumption that this irresponsible doubling

down would not occur if only because economic conditions did not warrant it. After all, the situation in 2018-19 was far different from the situation in 2011 that gave rise to the first round of quantitative expansion. It was an incorrect assumption, and it was expensive.

Let me explain below, in broad strokes, some of the most egregious losses. The full breakdown can be found in the exhibits.

There are two important considerations to take into account before moving into details. First, as you probably know, the Fund takes large and concentrated positions so that successes, when they come, can move the needle. By the same token, losses can be relatively large even when adverse moves are not necessarily large and despite timely risk-preventive steps. Second, as you can guess, all the losses came from the short side, or better stated, they all came from betting on failure. That the losses came from short bets should not come as a major surprise as all asset markets have been on a tear through the entire year.

Justifiable by our way of seeing things were the short positions we took in Australian banks (loss of 9%), Chinese real estate stocks (loss of 4.3%) and Indian banks (loss of 0.6%), all based on bearish macro views. The rationale for each position was well explained. Suffice it to say that were it not for active but highly irresponsible central bank easing, these stocks would have collapsed. We ignored, to our great detriment, the principle enunciated earlier: banks can act with absolute freedom as long as inflation remains moderate. We believe that our judgement will eventually prove to be right, but the lesson is clear. Sovereign and corporate failures will occur only when central banks lose their capacity to act with impunity.

The rationale for taking a short position on the yuan (via put options) was spelled out in detail in previous quarterlies and conference calls. There were and still are good reasons for China to adjust its currency downward. Monetary policy is incompatible with a strong or even stable exchange rate. Domestic costs have risen significantly; China has lost a great deal of competitiveness. While at the time I felt that the move was fully justified, in retrospect I admit that the size of the bet was perhaps too large though the risk was mitigated by the use of options. At its maximum point, the bet equaled more than five times our net equity. Gains from a devaluation to 8 from just below 7, a mere 15% (justifiable in view of rising costs and the impact of tariffs), would have represented a windfall of approximately 40%. I should further

note that, in my view, the implied volatility for the yuan put represented exceedingly good value. In contrast to the euro, for example, the yuan resembled a fixed rate currency. Hence, it was liable to sudden, discrete and potentially sharp moves. And yet, its implied volatility was lower than that of the euro.

Easy money has allowed many money-losing corporations to survive. One such corporation is Tesla, a company that has not enjoyed a yearly profit since inception. Seeing where it trades today, shorting Tesla when we did appears to have been a major mistake; but only in retrospect. As recently as three months ago, there were quite a number of respectable analysts and managers who doubted the viability of its business. Tesla was unable to turn a yearly profit in spite of having taken a commanding lead in the EV market and in spite of having collected hundreds of millions of dollars in government subsidies (another government intervention). Moreover, the short position was taken at a time when the cost of borrowing was moderate enough to lead us to believe that the bearish stance was no longer all that popular. The "tape" saved the day. At 340, we screamed "uncle." I guess we can consider ourselves fortunate to have lost "only" 5.2%. Still, we cannot help thinking that, for many reasons, Tesla is no more than a passing fad and it will ultimately disappoint a great many bulls.

We are cautiously positioning ourselves for the dawn of a new era, an era when central banks will no longer be able to act with impunity. Though we are still long Brazil and Greece, we have now added strong long positions in gold and the Bloomberg Commodity Index.

With wishes for a profitable year and thanking you for your trust,



ALBERT D. FRIEDBERG

Friedberg Asset Allocation Funds

FRIEDBERG MERCANTILE GROUP LTD.

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, 2019

	NAV	Quarterly	One Year	Three Years	Five Years	Ten Years
Friedberg Asset Allocation Fund Ltd.	1,800.73	9.85%	22.19%	7.17%	4.95%	5.04%
Friedberg Asset Allocation Fund	19.34[2]	9.71%	22.14%	7.67%	5.34%	5.24%
CSFB/Tremont Hedge Fund Index[3]		N.A.	6.31%	4.05%	2.32%	4.17%

[1] Net of fees
[2] NAV adjusted to reflect distributions reinvested in the fund
[3] Compounded annual rate of return through November 2019

2019 Attributions

Based on the Friedberg Asset Allocation Fund

	Q4	YTD
FIXED INCOME	0.00%	1.44%
EQUITIES	9.29%	20.56%
COMMODITIES	0.42%	0.14%
TOTAL	**9.71%**	**22.14%**

Capital allocation of the Friedberg Asset Allocation Fund Ltd. as of December 31, 2019 is as follows:

INVESTMENT		CURRENT ALLOCATION	TARGET
EQUITIES		81.95%	80.00%
Brazilian Equities	*27.68%*		
U.S. and Australian Gold Miners	*24.85%*		
Greek Banks	*28.00%*		
U.S. Equities	*1.42%*		
COMMODITIES		19.30%	20.00%
February Gold Futures	19.30%		
CASH / MONEY MARKET		-1.25%	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
2019	2.63%	2.38%	-0.18%	1.19%	4.04%	3.11%	1.03%	-2.03%	-1.29%	5.06%	-1.62%	6.28%	22.19%
2018	3.62%	-6.33%	0.31%	-0.68	-6.06%	-2.29%	0.24%	-3.36%	-1.34%	-3.33%	0.07%	2.75%	-15.69%
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
Mercantile
Group Ltd.

Friedberg Global-Macro Hedge Funds

FRIEDBERG MERCANTILE GROUP LTD.

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, 2019

	NAV	Quarterly	One Year	Three Years	Five Years	Ten Years
Friedberg Global-Macro Hedge Fund Ltd.	2,269.52	-2.65%	-21.26%	-8.64%	-5.90%	-5.01%
Friedberg Global-Macro Hedge Fund	13.77[2]	-2.59%	-20.17%	-7.17%	-5.01%	-4.95%
CSFB/Tremont Hedge Fund Index[3]		N.A.	6.31%	4.05%	2.32%	4.17%

[1]Net of fees
[2]NAV adjusted to reflect distributions reinvested in the fund
[3] Compounded annual rate of return through November 2019

2019 Attributions

Based on the Friedberg Global-Macro Hedge Fund

	Q4	YTD
CURRENCY	(4.99%)	(6.22%)
China	(4.99%)	(7.15%)
Australia	0.00%	0.93%
COMMODITIES	1.32%	0.87%
Gold	1.66%	5.85%
Crude	0.00%	(4.64%)
BCOM Index	(0.34%)	(0.34%)
FIXED INCOME	0.28%	0.28%
T-Bonds	0.28%	0.28%
EQUITIES	0.80%	(15.58%)
LONG		
Greece	3.25%	10.47%
Brazil	4.63%	2.17%
Germany	(0.61%)	(0.48%)
U.S.		
Home Builders	(0.56%)	(0.88%)
CRISPR	0.13%	0.13%
Alphabet	0.59%	0.59%
SHORT		
India	(0.44%)	(0.63%)
U.S.		
Swap Basket	(4.77%)	(7.09%)
S&P / Nasdaq	0.00%	(4.32%)
Shopify	(1.42%)	(1.31%)
China	0.00%	(4.30%)
Australia	0.00%	(9.93%)
MONEY MARKET	0.01%	0.49%
TOTAL	**(2.58)%**	**(20.16%)**

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
2019	-10.24%	-7.93%	1.86%	-1.68%	4.57%	-6.40%	-4.54%	6.83%	-2.08%	-3.45%	-3.89%	4.91%	-21.26%
2018	4.82%	-18.57%	4.07%	-3.39%	-13.97%	-5.66%	0.28%	-7.53%	0.32%	7.40%	-4.06%	6.31%	-29.03%
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, 2019

U.S. and Global Equities*	30.52%
Fix Income	10.38%
Currency Program	12.29%
Commodities	46.80%

Total Exposure per dollar of capital: 2.83x

* Contains long/short positions



Breakdown as a Percentage of Total Assets

AS OF SEPTEMBER 30, 2019

U.S. and Global Equities*	24.81%
Currency Program	67.22%
Commodities	7.97%

Total Exposure per dollar of capital: 3.28x

* Contains long/short positions



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%


Friedberg
Mercantile
Group Ltd.



FRIEDBERG MERCANTILE GROUP LTD.

Brookfield Place, 181 Bay Street, Suite 250
Toronto, Ontario M5J 2T3
Tel: (416) 364-2700
Fax: (416) 364-0572
E-mail: funds@friedberg.ca

www.friedberg.ca