Tradex QUARTERLY

Third quarter 2018

Yield on Tradex Investment Savings Account 1.40%

President's Report to Tradex Members

After a strong second quarter the Canadian equity market moved lower, with the S&P/TSX Composite Index decreasing by 1.3% during the past 3 months. As a result, the Canadian market finished the first nine months of 2018 down 0.8%. Conversely, in the US the S&P 500 Index was up 7.2% during the quarter and is now up 9% year-to-date. The increase in terms of Canadian dollars was weaker for the quarter as the Canadian currency increased from 75.94 cents to 77.25 cents, an increase of 1.7%. As of September 30th, the dividend yield of the S&P/TSX was 3.0% and the S&P500 yield was 1.9% plus buyback yield of 2.8%. This indicates relative value in stocks, albeit more so for Canada, as the 10-year government bond yields were 2.42% in Canada and 3.06% for US Treasuries.

The Bank of Canada increased its rate at the July 11th announcement then held at its September 5th indicating that "higher interest rates will be warranted to achieve the inflation target. While uncertainty about trade policies continues to weigh on businesses, the rotation of demand towards business investment and exports is proceeding. Despite choppiness in the data, both business investment and exports have been growing solidly for several quarters." Similarly, the US Federal Reserve held its policy interest rate in August then increased the federal funds rate to 2% to 2.25% on September 26th; stating: "the labor market has continued to strengthen and that economic activity has been rising at a strong rate. The Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective over the medium term."

Government of Canada Workplace Charitable Campaign

Tradex continues its partnership with the public service charitable campaign. Under a special program, Tradex will donate 5% of Registered Education Savings Plan (RESP) investments made through the program. The tax receipt is issued in the name of the contributor as the RESP investments will generate a commission offsetting the cost of donations.

A thank-you for referring New Clients

Members referring a new client to Tradex and new members will each receive a $28 deposit to their Tradex account reflecting the average rebates per $10,000 over the past 3 years. We encourage you to promote Tradex to friends, colleagues and family members with a form to simplify the process available from our website or by contacting our office.

Additional Regulatory Requirements

Our back page of the second quarter newsletter provided a brief outline of the new self-declaration requirements related to tax status and politically exposed persons. We thank the members who have already completed and returned the form and ask that each member sign and return the form that was enclosed last quarter if none of these new reporting requirements apply to you, or contact us if they do apply. Additional copies of the declaration form are available on our website or by contacting us. As per a recent Big 5 Bank mailing "if you fail to respond the bank is required to report your personal and account information to Canada Revenue Agency."

Two Great Ways to Reduce Taxes

We urge all investors to take advantage of the Tax-Free Savings Account (TFSA) program and we also encourage parents and grandparents to consider investing in a Registered Education Savings Plan (RESP). Contributions for each child under 16 as beneficiary before December 31st annually will receive up to $1,000 in government grant based upon 20% of the amount contributed. Details on both programs are outlined on our back page and appear on our web site at www.tradex.ca.

Blair Cooper

Blair Cooper
October 16, 2018

Tradex Equity Fund Limited – Quarterly Review – September 30, 2018

	Total return (%)			Average annual compound return (%)			
	Latest 3 months	Latest 6 months	1 year	3 years	5 years	10 years	Since inception*
Tradex Equity Fund Limited	0.4	6.5	9.6	10.8	9.8	7.2	9.3
S&P/TSX Total Return Index (TRI)**	-0.6	6.2	5.9	9.7	7.8	6.3	—
75% S&P/TSX TRI and 25% MSCI World Total Return Index ($Cdn)**	0.4	6.5	8.3	10.5	9.6	7.6	—
Average Canadian Focused Equity Fund**	1.0	5.2	5.9	7.6	6.8	5.9	—

*April 1960 **Source: Globe Information Services

During the third quarter an investment in Tradex Equity Fund Limited increased in value by 0.4% while in contrast the Fund's benchmark, the S&P/TSX Total Return Index decreased by 0.6%. It gained 9.6% for the past year outperforming the Canadian index by 370 basis points after all expenses.

Global equities were mixed over the quarter, with the S&P 500 Index rising to an all-time high while many other markets posted negative returns. Bolstered by large-scale tax cuts and increased government spending, the US economy has accelerated to its fastest growth rate in four years. Global growth is still running at an above-average pace, but many major economies' pace slows. The Eurozone economy is expanding at a slower pace and Chinese growth is decelerating. The Canadian economy continues to show signs of strength, with the unemployment rate at its lowest level in four decades. The S&P/TSX Composite Index hit an all-time high in mid-July but has since retreated on uncertainty about the impact of the Trump administration's focus on global trade, in general, and NAFTA, in particular. The Canadian market has underperformed, year-to-date declining 0.8% lead by the Materials sector which declined 10.1%. In contrast the Healthcare sector has risen 29.9% and Technology 26%.

The Fund's performance during the quarter was driven by a variety of holdings which included: Painted Pony Energy, Canadian Pacific Railway, Canadian National Railway, Blackstone Group, Amazon, Deutsche Post DHL Group, TJX, and Taiwan Semiconductor. Detractors from performance over the quarter included: Jaguar Mining, Anheuser-Busch InBev, Mohawk Industries, Paddy Power Betfair, Naspers and HDFC Bank.

During the quarter, foreign equities continued to represent about 37% of the total portfolio value. The US market led during the quarter (US S&P 500 Index up 7.2%), offset by the rise of the Canadian dollar from 75.94 cents to 77.25 cents. Throughout the quarter, 25-40% of the Fund's US dollar exposure continued to be hedged into Canadian dollars, reducing the currency-related losses that the Fund would otherwise have experienced.

PH&N's portfolio turnover is typically low given their long-term ownership mindset and commitment to owning only those companies that demonstrate leading competitive dynamics.

As at September 30, 2018 the Fund's 10 largest holdings were as follows:

Royal Bank of Canada	4.5%	United Health Group	2.1%
TD Bank	4.2%	Bank of Montreal	2.0%
Bank of Nova Scotia	3.1%	TJX	1.9%
Canadian National Railway	2.8%	EOG Resources	1.8%
Suncor Energy	2.6%	Roche Holdings AG Genusschein	1.8%

PH&N believe the US economy remains at a fairly late stage in the business cycle, but that a recession is unlikely within their one-year forecast horizon. With many equity markets at or near all-time highs, investors are rightly concerned about the sustainability of the bull market in equities. PH&N's analysis of a variety of scenarios suggests that stocks can deliver decent upside with reasonable assumptions, as long as earnings continue to come through as analysts expect. Given the late stage in the business cycle and the fact that US valuations are above equilibrium, earnings growth is now critical to sustaining the bull market in stocks.

Tradex Bond Fund – Quarterly Review – September 30, 2018

	Total return (%)			Average annual compound return (%)			
	Latest 3 months	Latest 6 months	1 year	3 years	5 years	10 years	Since inception*
Tradex Bond Fund	0.1	0.2	2.1	4.1	4.0	4.5	5.9
FTSE TMX Canada Universe Bond	-1.0	-0.5	1.7	1.6	3.3	4.4	—
Average Canadian Bond Fund**	-0.8	-0.8	0.4	0.9	1.9	3.2	—

*September 1989 **Source: Globe Information Services

An investment in the Tradex Bond Fund increased in value by 0.1% during the third quarter while it has increased by 2.1% over the past year, outperforming its benchmark as market interest rates increased. Following interest rates in the US, yields in the domestic bond market rose noticeably across the curve throughout the quarter. Short-end yields rose at a slightly faster pace than long-end yields, thus flattening the full yield curve to a level not seen since 2007. The yield curve remains positively sloped, but only marginally. The flattening trend matched the pace south of the border, with both the US Federal Reserve (the Fed) and the Bank of Canada (BoC) continuing to tighten monetary policy. The announcement of revamped trade deal between Canada, the United States and Mexico does remove the last barrier to the normalization of monetary policy by the BoC. Reduced concern over tariffs and trade barriers will allow the BoC to focus on inflationary pressures building within an expanding economy – core inflation in August was the highest since 2012. The BoC is now expected to raise rates again in October and in January. Government of Canada bond yields increased during the quarter as seen in the following table:

Term to Maturity	Yield Dec. 31/06	Record Lows	Yield Dec. 29/17	Yield June 29/18	Yield Sep. 18/18
2 years	4.02%	0.28%*	1.68%	1.91%	2.21%
3 years	3.99%	0.30%**	1.73%	1.98%	2.24%
5 years	3.99%	0.48%***	1.86%	2.06%	2.33%
10 years	4.08%	0.95%****	2.04%	2.17%	2.42%
30 years	4.14%	1.55%#	2.26%	2.20%	2.41%

Source: Bank of Canada. ***Record (50 years or more) low rates***
**Jan. 15/16, **Jan. 19/16, ***Feb. 11/16, ****Sept. 29/16, #July 8/16*

The Fund continued to be balanced and diversified across income-generating asset classes. At quarter-end, 45% of the Fund's portfolio value was in government bonds, 24% in corporate bonds, 16% in preferred shares, and 13% in common shares, REITs and Income Trusts. The portfolio's overweight position in corporate bonds contributed to performance as did the shorter-than-benchmark duration position. The yield on the Fund's overall portfolio was 3.4% as at September 30, as shown in the following table while the yield on the FTSE TMX Canada Universe index was 2.9%.

	Government Bonds	*Corporate Bonds*	*Preferred Shares*	*Common Shares, Trusts, REITs*	*Weighted average total*
*Yield**	*2.7%*	*3.3%*	*4.7%*	*5.2 %*	*3.4%*

*The gross estimated annual yield for 1 year is calculated before fees & taxes

The impact of the modest curve flattening was minimal and offset by the exposure to floating-rate securities in the portfolio. Corporate bonds in aggregate outperformed both federal and provincial bonds and the corporate securities in the portfolio easily beat the corporate benchmark return. The portfolio remains below the benchmark's duration. With long-term federal government bond yields still below the level of headline inflation, there is little reason to be reaching for the marginal additional yield that long duration brings. With the yield spread between two-year bonds and 30-year bonds at only about 20 basis points, investors are not being sufficiently compensated for the additional risk of long term bonds. The Fund's strategic asset class allocation continues to emphasize higher yielding preferred and common shares. These securities continue to offer a compelling longer-term return and risk relationship relative to FGP's modest return expectations for bonds.

Tradex Global Equity Fund – Quarterly Review – September 30, 2018

	Total return (%)			Average annual compound return (%)			
	Latest 3 months	Latest 6 months	1 year	3 years	5 years	10 years	Since inception*
Tradex Global Equity Fund	0.6	4.0	11.7	13.4	14.0	11.6	6.7
MSCI World Total Return Index ($Cdn)**	3.3	7.4	15.6	12.8	15.0	11.3	—
Average Canadian Global Equity Fund**	2.2	4.0	8.8	9.0	9.5	7.7	—

*May 1999 **Source: Globe Information Services

During the third quarter, the value of each unit of Tradex Global Equity Fund increased by 0.6%. This compares to an increase of 3.3% in the Fund's benchmark, the MSCI World Total Return (Net) Index. For 2018 as a whole, the Fund has increased by 4.3% compared to a rise of 8.5% for the Fund's benchmark.

Trade tensions continued to dominate the market narrative for the majority of the period with the US and China each increasing tariffs on each other's products. There were more positive developments with regard to NAFTA where an agreement seemed within reach with limited impact overall – a much improved outcome versus the market's worst fears and inevitably allowing the Trump administration to claim a trade "win" ahead of the midterm elections. The US economy remained strong and as expected the Federal Reserve continued to tighten monetary policy, raising the Fed funds rate to 2.25% in September. In the UK, Brexit negotiations with the EU remained tense with little immediate evidence of a workable compromise being reached and, with the deadline for an agreement looming, volatility has escalated particularly in the value of the British pound. Italy remains a flashpoint for the Eurozone as the populist government grapples with its budget whilst several emerging markets, notably Turkey and Argentina, verged on crisis as their equities, bonds and currencies fell sharply.

The US equity market continued to outperform most other global markets buoyed by strong earnings growth, juiced by last year's tax reform and the ensuing increased dividends and share buybacks. The S&P 500 Index rose 6.0% in Canadian dollar terms during the quarter. The Mexican market rebounded strongly as NAFTA risks waned, gaining 8.6%, while Canada fared less well posting a 0.6% loss. Non-euro European markets also outperformed with Sweden, Switzerland and Norway each gaining 5.9%, 5.7% and 5.6% respectively. Japanese shares rose sharply in the local market but currency weakness meant that the market gain was limited to 1.6% in Canadian dollar terms. The UK and Eurozone were among the weakest markets with London's FTSE 100 Index falling 3.4%, Germany's Dax Index declining 2.6% while Italy and Spain posted losses of 5.7% and 3.9% respectively. Emerging markets were also weak with the broad based MSCI Emerging Markets Index falling 2.6% during the period, led primarily by China and other Asian markets.

Portfolio activity during the period centered on increasing exposure to UK and European markets as market weakness and widening closed-end fund discounts presented opportunities. In particular adding to positions in European Assets Trust, Edinburgh Investment Trust and Baillie Gifford UK Growth Fund. Emerging markets exposure was also increased by adding to the position in Templeton Emerging Markets Investment Trust. These purchases were funded by sales of US oriented funds including JPMorgan American Investment Trust and Jupiter US Smaller Companies Trust.

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Tradex Management Inc.
85 Albert Street, Suite 1600
Ottawa, Ontario K1P 6A4
Tel: 613-233-3394 • 800-567-3863 • Fax: 613-233-8191 • 877-492-3863
e-mail: info@tradex.ca • Web site: www.tradex.ca

TWO GREAT WAYS TO INCREASE YOUR SAVINGS AND REDUCE TAXES

Tax-Free Savings Accounts (TFSAs)

Tax-Free Savings Accounts (TFSAs), which were introduced in 2009, allow you to set money aside each year and watch those savings grow **tax-free** throughout your lifetime. Here's a short summary of how TFSAs work:

Canadians aged 18 and over can now put aside up to $6,000 (2019 indexing to be confirmed) every year in a TFSA. In addition, any unused TFSA contribution room can be carried forward to future years. For example, if you have not contributed to a TFSA since the program was created and you have the funds available, you may contribute up to a limit of $57,500 in 2018 or $63,500 in 2019.

Unlike an RRSP, contributions to a TFSA will not be deductible from your current income for income tax purposes. However, investment income, including capital gains, earned in a TFSA will not be taxed even when withdrawn.

A further benefit is that the amount withdrawn can be put back in the TFSA in the following or future years without reducing your contribution room. For example, if you contribute $5,000 per year for 3 years and the amount grows to $18,000 due to investment income and capital gains, you may withdraw the $18,000 and in the following year(s) contribute back $18,000 without affecting your regular $6,000 a year limit.

For estate planning purposes, there can be additional tax benefits for a spouse or common-law partner.

With a Tradex TFSA you can tailor the plan to meet your investment objectives, including investing in any combination of the Tradex Investment Savings Account, the Tradex Bond Fund and the two Tradex equity funds. In addition, there are no fees or administrative charges when you set up a Tradex TFSA or when you withdraw money from it. This gives you complete flexibility in managing your TFSA.

Registered Education Savings Plans (RESPs)

The 20% Government of Canada cash grant makes this the best way by far to save for your child's or grandchild's education. In a nutshell, here's how it works:

The Government of Canada will provide a cash grant of up to $500 per year (20% of the first $2,500 contributed annually) for each child up to age 18, subject to a lifetime grant limit of $7,200 per child. Thus, if you contribute $2,500 a year to an RESP, after the Federal grant, the amount actually invested will be $3,000. Additional Provincial grants are available in Quebec and BC.

In addition, the grant room is cumulative and allows you to catch up on "unused'' grant eligible contribution room over time (the maximum grant allowed in any one year is $1,000). Thus, if a child was born a few years ago and does not yet have an RESP, you can still receive the maximum grant amount.

The lifetime RESP contribution limit is $50,000 per child and there is no annual contribution limit.

When you establish an RESP through Tradex you have an extremely wide choice of investment options plus the ability to diversify your holdings in a number of different investments. Furthermore, at Tradex there are usually no sales commissions or other administrative charges. In support of the GCWCC and United Way, contributions to deferred sales charge RESP investments will generate a 5% charitable donation.

RESP contributions are not tax-deductible by the contributor, but the income and capital gains earned on the entire investment grow tax-deferred. And, when those earnings are eventually withdrawn to pay for educational expenses (including tuition, books, housing, etc.), the money is favourably taxed at the student's typically low rate.

For more information on setting up a TFSA or RESP at Tradex please phone or e-mail us. We'll provide you with full details on these programs and mail you a complete investor's information kit.