



Tradex

Q U A R T E R L Y

Fourth quarter 2018

Yield on
Tradex Investment
Savings Account
1.50%

President's Report to Tradex Members



Most equity markets experienced corrections in the month of October with declines above 10% and, after some recovery in November, again turned negative as the US had its worst December since the great depression. Several markets experienced bear market declines of over 20% from their recent peaks during the quarter including

emerging markets equities and oil prices. Members are reminded our Tradex Advisors are available to discuss the return of increased volatility with respect to your individual investments. The Canadian market moved lower for the second consecutive quarter, with the S&P/TSX Composite Index decreasing by 10.9% during the past 3 months. As a result, the Canadian market finished the year 2018 down 11.6%. Similarly, in the US the S&P 500 Index was down 14.0% during the quarter ending the year down 6.2%. The decrease in terms of Canadian dollars was lower for the quarter as the Canadian currency decreased from 77.25 cents to 73.30 cents, a decrease of 5.1% for the period while it declined 8% year-to-date. As of December 31, the dividend yield of the S&P/TSX was 3.5% and S&P500 2.2% plus buyback yield of 2.9%, which indicates increased relative value in stocks as the 10-year government bond yields were 2.0% in Canada and 2.7% for US Treasuries.

The Bank of Canada increased its overnight interest rate target to 1.75% at its October meeting then held in December. Similarly, the US Federal Reserve held its rate in October then increased its policy interest rate at its December 19 meeting to 2.25%-2.5%. "The Committee judges that some further gradual increases ... will be consistent with sustained expansion of economic activity and strong labor market conditions."

Record Annual Rebates

Tradex operates on an "at-cost" or "break-even" basis solely for the benefit of its Members and is thus unique among Canadian mutual fund organizations. In 2018, we were able to return a record total of \$549,180 in operating revenue to the three Tradex Funds. The return of this money to the Tradex Funds helps lower their management expenses (and management expense ratio) and is therefore a direct benefit to all Tradex investors.

Annual Reminder for Mutual Fund Reports

If you wish to receive the various regulatory documents for the Tradex Funds, please provide standing instructions by signing and returning the attached form, if you have not done so previously.

Tradex 59th Annual General Meeting on Wednesday, April 24 at the RA Centre

This year, the Tradex Annual General Meeting will again be held at 7:00 p.m. in Clark Hall, 2451 Riverside Drive, Ottawa (at the west end of the RA building). As in the past, all three investment counsellors will be present to provide outlooks and answer any questions.

Annual Calendar Year Contribution Opportunities

The Tax-Free Savings Account (TFSA) additional contribution of up to \$6,000 for 2019 is available and the deadline for Registered Retirement Savings Plan contributions to be deducted against your 2018 income tax is March 1, 2019. For further details or to complete your contributions please contact us.

Benchmark Reporting

We have been contacted by MSCI Inc. requiring annual payments to them in order to report the MSCI World Index information we obtain from Globefund as a benchmark for the Tradex funds in this quarterly newsletter. As such payment would reduce our annual rebates and increase the costs for all members, we will not be including this benchmark going forward. Members interested in the information can obtain it at no cost directly from Globefund or other data providers such as Fundata.ca or Morningstar.ca.

Additional Regulatory Requirements

Our second quarter newsletter provided the new self-declaration requirements related to tax status and politically exposed persons. We ask that each member that has not yet done so to sign and return the form. Additional copies of the declaration form are available on our website or by contacting us.

Blair Cooper
January 15, 2019



Tradex Equity Fund Limited – Quarterly Review – December 31, 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	-10.0	-9.7	-6.3	5.8	5.7	9.1	9.1
S&P/TSX Total Return Index (TRI)**	-10.1	-10.6	-8.9	6.4	4.1	7.9	—
Average Canadian Focused Equity Fund**	-10.9	-10.0	-8.8	3.2	3.2	7.0	—

*April 1960 **Source: Fundata Canda Inc.

During the fourth quarter an investment in Tradex Equity Fund Limited decreased in value by 10.0%, only modestly outperforming the Fund's benchmark, the S&P/TSX Total Return Index, which decreased by 10.1%. It lost 6.3% for the past year, outperforming the Canadian index by 2.6% after all expenses.

The Canadian Equity market again lagged global markets in 2018, led by declines of over 15% for the energy, healthcare and consumer discretionary sectors. Foreign returns were further supported by the depreciation in the Canadian dollar. Volatility escalated in December as the global growth outlook weakened while trade tensions between the US and China remained unresolved and the Brexit crisis deepened. Oil prices sank, poor Chinese economic data and the budget standoff between US President Trump and Congress all weighed on stocks as the Fed raised interest rates in December and forecast further hikes, raising fears the central bank might be moving too far too fast in the face of so much uncertainty. Concerns about Canadian competitiveness, trade uncertainty, falling energy prices and property-related debt weighed on domestic stocks.

The Fund's performance during the quarter was driven by a variety of holdings, which included OceanaGold, Loblaw, Roche and MarketAxess. Detractors from performance over the quarter included Cardinal Energy, Painted Pony Energy, EOG Resources and Silicon Valley Financial Group.

During the quarter, foreign equities fell from 37% to represent 36% of the total portfolio value. The US market lagged during

the quarter (US S&P 500 Total Return Index down 13.7%), but was offset partially by the decline of the Canadian dollar from 77.25 cents to 73.30 cents. Throughout the quarter, 25-40% of the Fund's US dollar exposure continued to be hedged into Canadian dollars, reducing the currency-related gains that the Fund would otherwise have experienced.

Phillips, Hager & North (PH&N) was again active during the quarter; they added American Water Works while they eliminated Rio Tinto and Mohawk Industries from the portfolio.

As at December 31, 2018 the Fund's 10 largest holdings were as follows:

Royal Bank of Canada	4.5%	Danaher	2.4%
TD Bank	4.1%	Suncor Energy	2.3%
Bank of Nova Scotia	3.1%	United Healthgroup	2.2%
Enbridge	2.4%	Roche Holding AG Genusschein	2.2%
Canadian National Railway	2.4%	Unilever	2.0%

PH&N remains focused on companies with strong competitive dynamics. They identify companies that exhibit the strongest long-term fundamentals, and then construct the portfolio using their thorough risk management approach. The recent decline in stocks pulled stock indices into a valuation zone that typically bodes well for stock market performance. Their scenarios indicate attractive and above average returns if earnings materialize as analysts expect. A recession would likely push stocks into a bear market, though PH&N believes there is a low chance of a recession over the next year.

Tradex Bond Fund – Quarterly Review – December 31, 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	-2.6	-2.6	-3.1	3.0	3.1	3.8	5.7
FTSE TMX Canada Universe Bond	1.8	0.8	1.4	1.9	3.5	4.2	—
Average Canadian Bond Fund**	0.7	-0.2	-0.3	1.1	2.2	3.3	—

*December 1989 **Source: Fundata Canda Inc.

An investment in the Tradex Bond Fund decreased in value by 2.6% during the fourth quarter while it has decreased by 3.1% over the past year, lagging its benchmark significantly. The main reason for the underperformance was the substantial decline in preferred share prices, which were impacted by the increase in potential corporate credit risk as world economies slowed. Higher yielding Canadian equities in the Fund also contributed negatively to performance.

The fourth quarter of 2018 saw the return of volatility in financial markets around the world. The combined weight of central bank interest rate increases, quantitative tightening, global trade tensions, a wave of geopolitical concerns (Brexit and Italy), and a collapse in oil prices all worked to alter the outlook for the global economy heading into 2019. This new outlook emerged despite the relative economic strength in the US and, to a lesser extent, in Canada. Both the US Federal Reserve (Fed) and the Bank of Canada (BoC) increased



administered rates by 25 basis points in the quarter. However, seemingly in reaction to the downturn in financial markets, the Fed and the BoC each downgraded their outlooks for the coming year and lowered expectations regarding the continuation of their respective tightening cycles. Government of Canada bond yields declined during the quarter as seen in the following table:

Term to Maturity	Yield Dec. 31/06	Record Lows	Yield Dec. 29/17	Yield Sep. 28/18	Yield Dec. 31/18
2 years	4.02%	0.28%*	1.68%	2.21%	1.86%
3 years	3.99%	0.30%**	1.73%	2.24%	1.86%
5 years	3.99%	0.48%***	1.86%	2.33%	1.88%
10 years	4.08%	0.95%****	2.04%	2.42%	1.96%
30 years	4.14%	1.55%#	2.26%	2.41%	2.18%

Source: Bank of Canada. **Record (50 years or more) low rates**

*January 15, **Jan. 19, ***Feb. 11, ****Sept. 29, #July 8, 2018

The Fund continued to be balanced and diversified across income-generating asset classes. At quarter-end, 46% of the Fund's portfolio value was in government bonds, 25% in corporate bonds, 15% in preferred shares, and 12% in common shares, REITs and Income Trusts. The yield on the

Fund's overall portfolio was 3.5% as at December 31st, as shown in the following table, while the yield on the FTSE TMX Canada Universe index was 2.7%.

	Government Bonds	Corporate Bonds	Preferred Shares	Common Shares, Trusts, REITs	Weighted average total
Yield*	2.5%	3.4%	5.4%	5.8 %	3.5%

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

The Fund's strategic asset class allocation continues to emphasize higher yielding common and preferred shares. In our view, these securities continue to offer a compelling long-term risk/return tradeoff relative to FGPs expectation of modest returns for bonds. After declines in common equities and preferred shares, many more value opportunities have presented themselves. Portfolio duration remains below the benchmark's duration as with long-term federal government bond yields very near the level of domestic core inflation, there remains little reason to be reaching for the marginal amount of additional yield that a long bond provides. Expectations for a continuation of the rate hike cycles in both Canada and the US have almost been fully priced out of the market. As the mostly geopolitical issues the Canadian economy faces are resolved, we would expect interest rates to head higher once again.

Tradex Global Equity Fund – Quarterly Review – December 31, 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	-10.9	-10.4	-7.2	6.1	9.4	11.8	6.0
Average Canadian Global Equity Fund**	-9.8	-7.6	-5.4	3.9	5.8	8.5	—

*May 1999 **Source: Fundata Canda Inc.

During the fourth quarter of 2018, the value of each unit in the Tradex Global Equity Fund decreased by 10.9% while it has decreased by 7.2% over the past year, lagging its benchmark.

Global equity markets experienced a sharp sell-off in the last three months of the year as investors fretted about the pace of Federal Reserve interest rate hikes, a slowdown in growth and the possibility that the global economy may soon enter a recession. Fear was the order of the day and this was evident in the US treasury market where 10-year yields, which had reached over 3.2% towards the end of the 3rd quarter, plummeted back down to 2.7% as investors rushed for safety. The political environment did nothing to help calm nerves as the prospect of a US government shutdown loomed. US mid-term elections favoured the Democrats, giving them control of the House and potentially setting the stage for two years of policy gridlock ahead of the next Presidential election in 2020. US-China trade tensions continued to simmer with Europe bearing the brunt of the potential downturn by virtue of being more exposed to the trade cycle. Oil prices also fell sharply on a perfect storm of supply concerns coupled with fears of weakening global demand as economies slowed.

Despite falling almost 9% during the quarter, the US S&P 500 Index was only slightly below the overall global benchmark.

Greater losses were suffered in highly cyclical and open economies such as Germany and Sweden, where the DAX Index and OMX Index fell 10.5% and 11.2% (\$CDN) respectively and Japan where the Topix Index fell 10.8%. Canada was also among the laggards as the S&P/TSX Composite fell 10.1%. Relative strength was seen in the UK where the FTSE 100 Index fell 7.0%, Switzerland where the SMI Index gave up 3.1% and Australia which declined 5.7%. Emerging markets outperformed with notable strength in Brazil following elections and India, whose economy benefits from the weakness in energy prices.

The portfolio's underperformance over the quarter was the result of a combination of factors, the most prominent being an energy sector bias that suffered alongside oil price weakness, as well as the effects of discount widening among US-listed closed-end fund holdings, primarily due to seasonal tax related selling. Portfolio activity centered on taking advantage of wide discounts among US-listed funds and we added exposure to a number of positions. Country allocation was broadly unchanged. While this crowns a disappointing year overall in terms of performance, we believe the portfolio has significant exposure to many cheap securities and is positioned well to rebound strongly in 2019.

Commissions, trailing commissions, management fees and expenses may all be associated with mutual fund investments. Please read the prospectus before investing. The rates of return include reinvestment of all distributions and do not take into account any sales, redemption, distribution or optional charges or income taxes payable by an investor that could have reduced returns. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.



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

Annual Reminder Regarding Mutual Fund Reports

We prepare Management Reports of Fund Performance (MRFPs) and Financial Statements for your mutual fund investments twice a year, for the periods ending June 30 and December 31.

The Tradex website provides comprehensive information on your investments. Visit www.tradex.ca and, under **Legal & Regulatory Documents**, you can view or download the MRFPs and Financial Statements, as well as other important information such as the Fund Facts, Simplified Prospectus and Quarterly Portfolio Disclosures. These materials are also available on the SEDAR website at www.sedar.com.

You are entitled to receive print copies of the MRFPs and Financial Statements at no cost. **If you have previously instructed us as to which materials you would like to receive, your instructions will remain on file as long as you hold units of a fund or until we receive new instructions from you.** For more information, to change your standing instructions, or to request a printed copy of these materials, you can call **1-800-567-3863** or ask your advisor.

Annual Notice Regarding Fund Facts for Members with PACs

When you enroll in a pre-authorized chequing plan (PAC) to purchase Tradex Funds, you will receive a copy of the Fund Facts document with your initial purchase for each fund you buy. Unless specifically requested by you at the time of initial purchase, you will not be sent subsequent copies of the Fund Facts. You may request a copy of the most recent Fund Facts at any time and at no cost by: (i) calling us at 1-800-567-3863; (ii) by sending us a request by mail; (iii) by sending us an e-mail at info@tradex.ca or (iv) by asking your financial advisor. You can also download copies of the Fund Facts at no cost from our website www.tradex.ca or www.sedar.com.

Under securities law, you have certain statutory rights when purchasing units of a mutual fund. These rights are described in the fund's Fund Facts and include the right to cancel the first purchase of a fund made through a PAC, provided you exercise that right within a prescribed period of time. This right does not, however, extend to subsequent purchases of the fund made through a PAC. You will, however, continue to have the right to terminate your PAC at any time before a scheduled contribution date. In the event that any misrepresentation is contained in a Fund Facts, or any document incorporated by reference in any renewal simplified prospectus, you will have the right to bring an action for damages or rescission, whether or not you have requested the Fund Facts.

Thank you for investing with Tradex Management Inc.

Redemption Procedures

We are required to inform you of the proper procedures required for us to execute a redemption of Tradex Funds. You can sell some or all of your units/shares at any time. If your order is received by our office by 4 p.m. (Eastern Time), you will receive that day's net asset value per unit calculated on the next business day. We will transfer or mail the redemption proceeds to you or your dealer within two business days of receiving a complete redemption request. Please refer to the Simplified Prospectus under Purchases, Switches, and Redemptions for detailed information.

To receive a paper copy of the Tradex Funds MRFP and the Financial Statements, please complete below and return by mail or fax:

FIRST NAME (FULL)

LAST NAME

TELEPHONE NUMBER