

# Tradex

## QUARTERLY

Second quarter 2019



### President's Report to Tradex Members



The Canadian market increased by 1.7% this quarter, with the S&P/TSX Composite Index ending the first half of the year up 14.4%. In the US, the S&P 500 Index increased by 3.8% for the quarter and it has gained 17.4% in the first half of 2019. The increase in terms of Canadian dollars was weaker for the quarter, as the Canadian currency increased

to 76.41 cents from 74.83 cents for the period, an increase of 2.1%. The Canadian dollar has gained 4.2% in value against the US dollar for the first half of the year. At June 28<sup>th</sup>, the dividend yield of the S&P/TSX was 3.1% and the S&P500 yield was 2.0% plus buyback yield of 3.5%. This indicates relative value in stocks, as the 10-year government bond yields were 1.5% in Canada and 2.0% for US treasuries at quarter-end.

The Bank of Canada maintained its overnight interest rate target at 1.75% at its announcements in April and May indicating "accumulating evidence that the slowdown in late 2018 and early 2019 is being followed by a pickup starting in the second quarter. The oil sector is beginning to recover as production increases and prices remain above recent lows. Meanwhile, housing market indicators point to a more stable national market, albeit with continued weakness in some regions." In the United States, the Federal Open Market Committee (FOMC) held its rate May 1<sup>st</sup> and June 19<sup>th</sup> at 2.25% to 2.50%. The Committee indicated that the labor market remains strong and that economic activity is rising at a moderate rate. However, in the press conference they added "Growth indicators from around the world have disappointed, on net, raising concerns about the strength of the global economy. Apparent progress on trade turned to greater uncertainty, and our contacts in business and agriculture report heightened concerns over trade developments. These concerns may have contributed to the drop in business confidence in some recent surveys and may be starting to show through to incoming data. While the baseline outlook remains favourable, the question is whether these uncertainties will continue to weigh on the outlook and thus call for additional monetary policy accommodation. Many FOMC participants now see that the case for a somewhat more accommodative policy has strengthened." The Bank of England also held its rate at 0.75%. In Europe

and Japan, central banks continue to support their economies with negative deposit rates, with Japan continuing purchases of Japanese government bonds and equities.

### Government of Canada Workplace Charitable Campaign

We are pleased to announce that Tradex has renewed its partnership with members of the public service to provide support to local charities. Under a special program, Tradex continues to donate 5% of Registered Education Savings Plan (RESP) investments transferred to or made through the program to help departments achieve their charitable campaign goals. The RESP investments will generate a commission to offset the cost of donations, while the partnership will increase awareness of Tradex to all current federal public service employees.

### Interim Management Reports of Fund Performance and Financial Statements

For members who did not elect to receive a mailed copy, the 2019 reports will be available by late August on our website. If you wish to receive a printed copy, please call or e-mail us.

### 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.

### Consolidate and Save

Our back page provides a brief outline of the benefits associated with eligible members consolidating their mutual fund investments through Tradex. We also outline the advantages associated in dealing through Tradex and an outline of the services available.

Blair Cooper  
July 17, 2019



## Tradex Equity Fund Limited – Quarterly Review – June 30, 2019

	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	2.4	15.4	4.3	10.0	6.5	9.0	9.3
S&P/TSX Total Return Index (TRI)**	2.6	16.2	3.9	8.4	4.7	7.8	—
Average Canadian Focused Equity Fund**	2.2	12.9	1.6	6.8	3.9	7.1	—

\*April 1960 \*\*Source: Fundata Canda Inc.

During the second quarter, an investment in Tradex Equity Fund Limited increased in value by 2.4%. This compares to an increase of 2.6% in the Fund's benchmark, the S&P/TSX Total Return Index. It increased 4.3% for the past year in contrast to the index 3.9% return.

The S&P/TSX Composite Index joined other global equity markets in rebounding from declines recorded in late 2018. A number of macroeconomic developments continue to be the focus for equity investors, including the outlook for global trade, the path and pace of global economic growth, and their combined impact on corporate earnings. The uncertain economic backdrop has resulted in central banks moving to a more cautious approach on monetary policy, which has supported equity valuations. The global economy is encountering challenges from protectionism, a maturing business cycle and fading US fiscal support, but is being helped by stimulative government initiatives outside the US and lower interest rates everywhere. The most significant risk is protectionism, but other threats stem from slowing growth in China and European politics (i.e. Brexit). This year's powerful stock-market rally took a step back in May after trade tensions between the world's two largest economies intensified.

Throughout the first half of 2019, relative performance of the fund was aided by security selection within the Information Technology and Energy sectors. The Fund's performance during the quarter was driven by a variety of holdings, which included Lightspeed POS, a cloud-based commerce platform and Labrador Iron Ore Royalty. Lightspeed's strong business model and large growth potential resulted in the fund participating in its IPO in March before exiting the position in June due to high valuations. Strong foreign contributors included MarketAxess and Blackstone. Detractors included OceanaGold, First Republic Bank and Fortive.

During the quarter, foreign equities continued to represent 38% of the total portfolio value. The Canadian market underperformed during the quarter while the Canadian dollar strengthened. In the foreign portion, portfolio manager Philips, Hager & North (PH&N) added Essity, a Swedish Consumer Staples company that has a strong portfolio of leading global brands that are most prominent across Europe and emerging markets while Citigroup was eliminated.

As at June 30, 2019 the Fund's 10 largest holdings were as follows:

Royal Bank of Canada	4.3%	Suncor Energy Inc.	2.4%
TD Bank	3.8%	Roche Holding AG Genuschein (SUI)	2.3%
Bank of Nova Scotia	2.7%	Danaher Corp. (US)	2.1%
Canadian National Railway	2.6%	TC Energy	1.8%
Enbridge Inc.	2.5%	UnitedHealth Group Inc. (US)	1.8%

PH&N has indicated looking forward, Canada's economic outlook reflects slowing US growth, trade uncertainty, moderating housing activity and competitiveness concerns. There is also considerable pressure on the Canadian energy sector due to the continuously challenging environment for the production and transportation of crude oil. On a positive note, job creation in Canada has been accelerating at a swift pace. Overall, the portfolio manager expects below average economic growth in Canada over the next year. The near-term challenge for stocks is not valuations, but the fact that earnings growth has stalled as declining margins have offset stronger revenue growth. Analysts expect profits to re-accelerate into the end of the year and PH&N expect equities can deliver single- to low double-digit gains in an environment of moderate growth, low interest rates and low inflation.

## Tradex Bond Fund – Quarterly Review – June 30, 2019

	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	0.6	4.1	1.4	2.7	2.9	4.1	5.7
FTSE TMX Canada Universe Bond	2.5	6.5	7.4	2.7	3.9	4.5	—
Average Canadian Bond Fund**	1.8	7.1	4.5	3.4	3.1	4.5	—

\*September 1989 \*\*Source: Fundata Canda Inc.

An investment in the Tradex Bond Fund increased in value by 0.6% during the second quarter and increased in value by 1.4% over the past year while the benchmark FTSE TMX Canada Universe Bond index gained 7.4%. The weak performance was primarily related to the portfolio's underweight position in longer-dated bonds along with the decline in rate-reset and floating rate preferred share prices as interest rates

fell dramatically across the yield curve throughout the quarter. As expected, the Bank of Canada maintained the target for its overnight policy interest rate at 1.75% at each of its two policy meetings during the period. Similarly, the US Federal Reserve held its overnight target range rate at 2.25% to 2.50%. Government of Canada bond yields generally decreased during the quarter, as seen in the following table:



Term to Maturity	Yield Dec. 31/06	Record Lows	Yield Dec. 31/18	Yield Mar. 29/19	Yield June 28/19
2 years	4.02%	0.28%*	1.86%	1.55%	1.47%
3 years	3.99%	0.30%**	1.86%	1.54%	1.43%
5 years	3.99%	0.48%***	1.88%	1.52%	1.39%
10 years	4.08%	0.95%****	1.96%	1.62%	1.46%
30 years	4.14%	1.55%#	2.18%	1.90%	1.68%

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

\*January 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, 46% of the Fund's portfolio value was in government bonds, 26% in corporate bonds, 15% in preferred shares and 13% in common shares, REITs and Income Trusts. The yield on the Fund's overall portfolio was 3.2% as at June 28<sup>th</sup>, as shown in the following table, while the yield on the FTSE TMX Canada Universe Bond index was 2.1%.

	Government Bonds	Corporate Bonds	Preferred Shares	Common Shares, Trusts, REITs	Weighted average total
Yield*	1.9%	2.9%	5.8%	5.3%	3.2%

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

Portfolio Manager Foyston Gordon & Payne (FGP) sees little reason to reach for the very marginal amount of additional yield that a long bond provides. With the yield spread between 2-year bonds and 30-year bonds narrowing over the past few months to around 20 basis points, investors are not being sufficiently compensated for the additional risk of investing in long-term bonds. At the prevailing interest rate for the benchmark Government of Canada 30-year bond, it would take an upward move of just nine basis points (or 0.09%) to generate a one-year total return of 0%.

The portfolio continues to maintain the overweight position in corporate bonds while continuing to focus on credit quality. The Fund's strategic asset class allocation continues to emphasize higher-yielding preferred and common shares. In FGP's view, these securities continue to offer a compelling long-term risk/return tradeoff relative to our expectation of modest returns for both government and corporate bonds.

## Tradex Global Equity Fund – Quarterly Review – June 30, 2019

	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	0.3	11.6	0.0	13.6	10.1	12.0	6.4
Average Canadian Global Equity Fund**	1.7	12.4	3.9	9.3	7.3	9.3	—

\*May 1999 \*\*Source: Fundata Canda Inc.

During the second quarter of 2019, the value of each unit in the Tradex Global Equity Fund increased by 0.3%. For 2019 as a whole, the Fund has increased by 11.6% lagging the Fund's benchmark by 0.3%.

Following an impressive first quarter performance, global equity markets drifted upwards in the second quarter. The catalyst appeared to be the US Federal Reserve and its indication that, having paused in their rate rises, they now saw cause to begin reducing rates at upcoming meetings. Equally, Europe's ECB signaled their intent to loosen policy via a resumption of quantitative easing measures. Both likely reached that conclusion by observing a continued downward trend in economic data that signaled slowing activity, particularly in the manufacturing sector. Certainly, the US bond market reacted to the data releases as the yield on the 10-year Treasury bond declined below 2% for the first time since late 2016. Equities, however, remained resilient despite the dark clouds of the ongoing US-China trade dispute, sentiment towards which waxed and waned throughout the period. In the UK, the Brexit saga continued as Prime Minister Theresa May stepped down and the resultant Conservative leadership contest spooked markets as the top candidates put the prospect of a no-deal Brexit back on the table.

Core European markets led the way during the period as Germany's DAX Index rose 6.7%, the Swiss Market Index rose 6.4% and France's CAC Index gained 5.3%. The US S&P 500 Index slightly outperformed the global benchmark, posting a 2.2% gain while Australia and Canada outperformed as their indices rose 4.7% and 2.6%, respectively. Japan was among the laggards as the Topix Index fell 1.9%, while Brexit induced sterling weakness hurt UK stocks as the FTSE 100 Index declined 1.2%. Among Emerging Markets, the ongoing trade dispute hurt local Chinese shares as the Shanghai Composite fell 6.6% while a possible trade resolution helped Mexican shares finish a volatile period with a 0.7% gain.

Asset allocation was broadly unchanged over the period with slight reductions in Japan and the UK offset by increased exposure to the Emerging Markets, in particular China A shares. Broadly the Fund remains overweight versus the benchmark to Japan, Europe and the UK and underweight versus the US and Australia. In addition, the Fund has approximately 11% out of benchmark exposure to Emerging Markets.

*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.*

## SWITCH, SIMPLIFY AND SAVE

Tradex offers Members access to a broad range of products and services to meet your financial needs. By centralizing your needs through Tradex you can simplify your financial picture and often achieve significant savings (recent portfolio transfers saved 18% to 46%, with an average savings of 35%).

### Holding All of your Mutual Funds through Tradex

Tradex is a licensed mutual fund dealer in Ontario, Quebec and British Columbia offering these members the opportunity to purchase and hold through Tradex most of the over 5,000 mutual funds available to Canadian investors, including funds offered by Royal Bank, TD Bank, Dynamic, Fidelity, Franklin Templeton, Mackenzie and CI Funds (to name just a few).

The benefits of dealing through Tradex are:

- Tradex saves you money! When you purchase mutual funds through Tradex there are no sales commissions, deferred sales charges, account set-up fees or transaction fees. This includes those mutual funds where you would normally pay a sales commission or deferred sales charge if they were purchased elsewhere.
- If you currently own mutual funds purchased elsewhere (at a bank, broker, discount broker or mutual fund dealer) you can transfer them into an account at Tradex at no cost (we'll pay the transfer fee on your behalf).
- There are no annual RRSP or RRIF fees as we pay the annual administrative fees for eligible self-directed plans. B2B Bank self-directed accounts can hold mutual funds, ETFs and GICs.
- We'll give you great service and expert advice just like the service we provide for the Tradex Funds. Also, you'll receive a quarterly consolidated fund statement along with having full on-line access to view all of your accounts through webconnect.
- Since there are no commissions or deferred sales charges, you have complete flexibility when you want to sell your units or move your money from one investment to another. No other mutual fund dealer provides you with greater freedom.
- Our portfolio reviews and subsequent recommendations are tailored to your specific needs, taking into account your existing holdings, risk tolerance, financial position and individual preferences.
- Our salaried advisers provide straight-forward unbiased advice, ensuring that your investments are properly allocated between registered and taxable accounts to minimize your tax burden.
- Where appropriate we will recommend using specially developed corporate class and other structures to reduce your tax burden.
- We recommend buying and holding mutual funds that have a combination of low management expense ratios and proven long-term performance.
- Frequently you can save twice, first by Tradex offering access to lower cost versions of funds available through other dealers and second by the potential for increased rebates into your Tradex funds holdings as more members consolidate their holdings under our dealer.

For more information please call us at 613-233-3394 or 1-800-567-3863 or e-mail info@tradex.ca.