

Tradex

QUARTERLY

Third quarter 2019

Yield on
Tradex Investment
Savings Account
1.20%

President's Report to Tradex Members



For a third straight quarter the Canadian equity market moved higher, with the S&P/TSX Composite Index increasing by 1.7% during the past 3 months. As a result, the Canadian market finished the first nine months of 2019 up 16.3% having reached new record highs in September. Similarly, in the US the S&P 500 Index was up 1.2% during

the quarter and is now up 18.7% year-to-date. The increase in terms of Canadian dollars was stronger for the quarter as the Canadian currency decreased from 76.41 cents to 75.51 cents, a decrease of 1.2%. As of September 30, the dividend yield of the S&P/TSX was 3.1% and the S&P500 yield was 2.0% plus buyback yield of 3.3%. This indicates relative value in stocks, albeit more so for Canada, as the 10-year government bond yields were 1.37% in Canada and 1.68% for US Treasuries.

The Bank of Canada held its rate (1.75%) at the July 10th and Sept. 4th announcements indicating "In sum, Canada's economy is operating close to potential and inflation is on target. However, escalating trade conflicts and related uncertainty are taking a toll on the global and Canadian economies." The FOMC cut its Federal Funds target range by 0.25% on July 31st and Sept. 18th to 1.75-2.00%, stating "In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target." Against this backdrop, the Government of Canada 30-year bond yield fell to a new record low of 1.30% on August 15th. Its recent peak was 2.58% on October 5th, 2018.

The Tradex Investor Survey

We thank all members who took the time to complete the questionnaire and we will be using the survey results to improve the services that we provide. A summary of the responses appears in the "Member News" section of our website at www.tradex.ca.

We welcome aboard a Director Finance and Compliance

We are pleased to announce Natalya Calabina, CPA has joined Tradex as the inaugural Director Finance & Compliance. Natalya has a diverse background managing

corporate functions and professional services for Canadian and International companies and firms. She brings over 25 years of operational management and finance expertise to Tradex.

Electronic Annual Dealer Statements option

All Members, including those having only Tradex Funds accounts, will be receiving the full year dealer statements complete with the annual Performance and Charges & Compensation reports in the new year. If you would prefer an electronic copy or simply to reduce paper, please visit our website to sign up for WebConnect with daily account access and to commence receiving electronic dealer statements.

Information Updates

We wish to thank those members who have completed and returned the "Information Update" forms we have been mailing. As changes to regulatory requirements continue to evolve, Tradex and other financial institutions must periodically collect updates to their clients' information. This is particularly true for long-standing clients where there have been recent regulatory changes after their accounts were opened many years ago. Some of the data has been previously provided but in many instances a portion at least is a new request especially for our members having accounts for over 20 years. We appreciate all members signing and returning the updates to ensure we can continue to serve you better, and apologize for any inconvenience. If you have any questions or would like assistance in completing the forms, please do not hesitate to contact us.

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
October 16, 2019

Tradex Equity Fund Limited – Quarterly Review – September 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	0.8	3.2	4.7	8.3	6.7	8.2	9.3
S&P/TSX Total Return Index (TRI)**	2.5	5.1	7.1	7.4	5.3	7.0	—
Average Canadian Focused Equity Fund**	1.1	3.3	1.7	5.3	4.2	6.2	—

*April 1960 **Source: Globe Information Services

During the third quarter an investment in Tradex Equity Fund Limited increased in value by 0.8% while in contrast the Fund's benchmark, the S&P/TSX Total Return Index, increased by 2.5%. It gained 16.4% so far this year lagging the benchmark by 2.7%.

Global equity markets posted gains for the quarter as market participants ultimately found reasons for optimism in moderate inflation, generally positive corporate earnings reports and supportive business conditions. The Canadian market was one of the best-performing equity markets globally. Global economic growth slowed in the past quarter, due primarily to manufacturing weakness. Services have experienced only a minor deceleration and consumption has held up reasonably well. Other factors hindering economic growth have been the elevated uncertainty from trade protectionism and Brexit, fading fiscal stimulus and the slowing Chinese economy. The S&P/TSX Composite Index reached an all-time high again in September but has since retreated on continuing trade tensions.

During the quarter, the Fund's relative performance was aided in part by security selection within the Communication Services sector and an underweight of the Health Care sector. In terms of individual holdings, our off-benchmark position in Entertainment One was the largest driver of relative outperformance aided by foreign holdings Estee Lauder and Taiwan Semiconductor. Detractors from performance over the quarter included: Tourmaline Oil, EOG Resources, Fortive and UnitedHealth Group.

During the quarter, foreign equities continued to represent about 37% of the total portfolio value. While the Canadian market led during the quarter, the decline in the Canadian dollar from 76.41 cents to 75.51 cents added to US returns. 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.

PH&N's portfolio turnover is typically low given their long-term ownership mindset and commitment, especially within global holdings, to owning only those companies that demonstrate leading competitive dynamics. During the quarter they added Danish renewable energy company, Orsted and Workday, a provider of cloud-based software that supports companies' back-office processes.

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

Royal Bank of Canada	4.3%	Suncor Energy Inc.	2.1%
TD Bank	3.9%	Brookfield Asset Management	1.9%
Bank of Nova Scotia	2.8%	Roche Holding AG Genuschein (SUI)	1.9%
Enbridge Inc.	2.3%	Danaher Corp. (US)	1.8%
Canadian National Railway	2.2%	TC Energy	1.8%

PH&N indicates that if earnings are in line with estimates, the market could deliver attractive gains in an environment where recession is avoided, and interest rates and inflation stay low. In a recessionary scenario, markets would suffer accordingly. The macroeconomic outlook is murky, the business cycle is aging, and US equity valuations are not as attractive as they have been. PH&N has increased its odds of recession to 40% within the next year. Looking forward, they expect below-average economic growth in Canada over the next year, as well as reduced S&P/TSX earnings. There are, however, a few scenarios that could lead to a different outcome. For instance, improvements in global economic growth or a resolution to the US-China trade conflict would certainly boost the outlook. But there is still the risk of further downside if trade tensions were to intensify, consumer confidence weaken, and/or global economic data deteriorate.

Tradex Bond Fund – Quarterly Review – September 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	0.7	1.4	2.0	2.3	3.0	3.9	5.7
FTSE TMX Canada Universe Bond	1.2	3.7	9.7	2.7	3.9	4.4	—
Average Canadian Bond Fund**	0.9	3.2	7.8	1.8	2.6	3.3	—

*September 1989 **Source: Globe Information Services

An investment in the Tradex Bond Fund increased in value by 0.7% during the third quarter while it has increased by 4.8% in 2019, underperforming its benchmark significantly as market interest rates decreased significantly. Despite the highest long bond yield volatility in a generation, there was remarkably little change in the yield level of the FTSE Canada Universe Bond Index quarter over quarter. On June 30th the index yielded 2.13%; on September 30th the index yielded 2.12%. In

contrast, the 30-year Government of Canada bond yield fell by 50 basis points from mid-July to mid-August, resulting in a price gain of about 11%. The yield then increased by over 40 basis points to mid-September, resulting in a price decline of 8.5%. Both the two-year to 10-year and two-year to 30-year yield curves inverted this quarter, the former in late July and the latter in mid-September. This continues a ten-year-long flattening trend of the yield curve seen not only in Canada



but around the world. Government of Canada bond yields diverged during the quarter with longer term decreasing while short term rose as seen in the following table:

Term to Maturity	Yield Dec. 31/06	Yield Dec. 31/18	Yield June 28/19	Record Lows	Yield Sep. 30/19
2 years	4.02%	1.86%	1.47%	0.28%*	1.58%
3 years	3.99%	1.86%	1.43%	0.30%**	1.51%
5 years	3.99%	1.88%	1.39%	0.48%***	1.40%
10 years	4.08%	1.96%	1.46%	0.95%****	1.37%
30 years	4.14%	2.18%	1.68%	1.30%#	1.53%

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

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, 14% in preferred shares, and 12% in common shares, REITs and Income Trusts. The below-benchmark duration position of the portfolio was the primary detractor from performance. This duration position was maintained from last quarter and is consistent with Foyston Gordon Payne's (FGP's) view that long duration bonds – with a yield well below the rate of inflation – remain a risky investment. Our overweight position

in corporate bonds contributed positively to performance. Top-performing corporate bonds in the portfolio include issues from Teranet Holdings LP, TransCanada Trust and Enbridge Inc.. The yield on the Fund's overall portfolio was 3.1% as at September 30, as shown in the following table, while the yield on the FTSE TMX Canada Universe 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%	3.1%

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

The portfolio remains below the benchmark's duration. FGP favour preferred shares as valuations are attractive and they offer a significant yield advantage over other fixed income options available in the market today. Common shares were a detractor from relative portfolio performance. Although Canadian equities lagged their benchmark for the quarter, the month of September was characterized by strong positive gains. Many have said this was a sentiment reversal in value stocks; FGP call it mean reversion. They see meaningful upside in the companies owned and are confident that the key detractors from performance today will be the key drivers of long-term portfolio outperformance, as improvements in either fundamentals and/or sentiment lead to mean reversion.

Tradex Global Equity Fund – Quarterly Review – September 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	-0.7	-0.4	-1.3	9.6	9.6	10.8	6.3
Average Canadian Global Equity Fund**	0.5	2.2	1.9	7.6	7.3	8.3	—

*May 1999 **Source: Globe Information Services

During the third quarter of 2019, the value of each unit in the Tradex Global Equity Fund decreased by 0.7%. For 2019 as a whole, the Fund has increased by 10.9%, lagging the Fund's benchmark by 3.4%.

The summer period continued many of the same trends that have been evident in the first half of the year. Economic data continued to disappoint, particularly regarding the manufacturing sector, as evidence of economic slowdown grew. Global monetary policy became easier as interest rates were cut in a number of countries led by the US Federal Reserve. This was reflected in government bond yields which became increasingly negative in Europe and Japan while US Treasuries touched levels not seen since mid-2016. Trade tensions and geopolitical events also weighed on markets, not least after the drone attack on Saudi Arabian oil facilities in September which caused a spike in oil prices as markets demanded an increased risk premium. The quarter ended with the threat of an impeachment inquiry hanging over President Trump and while it remains to be seen how this will evolve it will likely take necessary bandwidth away from dealing with a deteriorating economic outlook. Meanwhile, in the UK, Britain's own drama will unfold as the October 31st deadline for Brexit will arrive and result in either a deal, no-deal or another extension to prolong the political stalemate further.

The Japanese market posted the best performance among major stock markets during the quarter as the Topix Index rose 5.7% aided by a resilient performance from the Yen based on its defensive, safe-haven status as the global economy slowed. The US market also performed well as the S&P 500 Index gained 2.8%, benefitting from its relatively closed economy and thus reduced impact from a slowdown in global trade as well as a stronger dollar. The same cannot be said for more cyclically oriented markets. Germany's DAX Index fell 2.7% and Sweden's OMX Index lost 2.8% while South Korea's KOSPI Index declined 5.4% and Singapore's Strait Times Index fell 5.7%. Hong Kong's market was also weak, impacted by both global economic weakness as well as local political protests that hurt sentiment. Canada fared well rising 2.5% while Australian shares were flat and UK shares were slightly lower by 1.1%.

During the period, exposure to Asia ex-Japan was reduced as the Fund's holding in Martin Currie Asia Unconstrained Trust was liquidated. Europe ex-UK exposure was increased through purchases of New Germany Fund, European Investment Trust and TR European Growth while UK exposure was reduced through the sale of Dunedin Income Growth Trust. US exposure was increased with purchases of Royce Value Trust, John Hancock Financial Opportunities Trust and Clearbridge Midstream Energy Opportunities Fund, partially offset through sales of Pershing Square Holdings following strong performance.

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.

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 (2020 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 \$63,500 in 2019 or \$69,500 in 2020.

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.