



Tradex

QUARTERLY

Fourth quarter 2019

Yield on
Tradex Investment
Savings Account
1.15%

President's Report to Tradex Members



The Canadian equity market moved higher for the fourth consecutive quarter, with the S&P/TSX Composite Index increasing by 2.4% during the past 3 months. As a result, the Canadian market finished the year 2019 up 19.1%. Meanwhile, in the US the S&P 500 Index was up 8.5% during the quarter, ending the year up 28.9%. The increase in terms of

Canadian dollars was lower for the quarter as the Canadian currency increased from 75.51 cents to 76.99 cents, an increase of 2.0% for the period resulting in a year to date increase of 5.0%. As of December 31, the dividend yield of the S&P/TSX was 3.0% and S&P500 1.9% plus buyback yield of 3.1%, which indicates some remaining relative value in stocks as the 10-year government bond yields were 1.7% in Canada and 1.9% for US Treasuries.

The Bank of Canada held its rate (1.75%) at the October 30th and December 4th meetings indicating "the global economy is stabilizing, with growth still expected to edge higher over the next couple of years. Financial markets have been supported by central bank actions and waning recession concerns." The US FOMC cut its rate by 0.25% September 18th, commenced treasury purchases and open market operations in October, then cut again October 30th by 0.25% to 1.5-1.75% but held its rate December 11th stating "the labor market remains strong and that economic activity has been rising at a moderate rate. Although household spending has been rising at a strong pace, business fixed investment and exports remain weak."

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 2019, we were able to return a total of \$440,700 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 60th Annual General Meeting on Wednesday April 22 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 2020 is available and the deadline for Registered Retirement Savings Plan (RRSP) contributions to be deducted against your 2019 income tax is March 2, 2020. For further details or to complete your contributions please contact us.

Additional Regulatory Requirements

In October 2019, the Canadian Securities Administrators (CSA) introduced the final version of the client-focused reforms, with some amendments. The rules were expanded to ensure the clients' interests come first when determining suitable investments for their portfolios. The rules also do more to help clarify what investors should expect from their advisors. The reforms introduce "new obligations on registrants" and "codify best practices," including increasing the amount of information compiled for the know-your-client (KYC) documents. While Tradex's not-for-profit operating model, salaried advisors without sales targets and beneficial ownership by the investors in the Tradex Fund family have always meant that clients' interests come first, the new requirements for Investment Managers and Dealers include collection and documenting of additional information from all investors on a regular basis. We appreciate the assistance of all members in returning the required information. Please do not hesitate to contact our office and we will assist in the completion.

Blair Cooper
January 17, 2020

Tradex Equity Fund Limited – Quarterly Review – December 31, 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	5.8	6.6	23.0	9.4	7.8	8.3	9.3
S&P/TSX Total Return Index (TRI)**	3.2	5.7	22.9	6.9	6.3	6.9	—
Average Canadian Focused Equity Fund**	3.9	5.1	18.5	5.3	4.9	6.3	—

*April 1960 **Source: Fundata Canada Inc.

During the fourth quarter an investment in Tradex Equity Fund Limited increased in value by 5.8%, outperforming the Fund's benchmark, the S&P/TSX Total Return Index, by 2.6%. It gained 23.0% for the past year outperforming the Canadian index after all expenses.

Equities delivered impressive gains in 2019 amid low interest rates, stable inflation and modest economic growth. The Canadian equity market again lagged the US market in 2019, however, this was partially offset by the strengthening of the Canadian dollar. After nearly two years of decline, economic growth may be bottoming with leading indicators stabilized and /or turned higher in most major regions. Progress on US-China trade and Brexit has reduced two of the key macro risks. Financial assets benefitted this year from the major tailwind of aggressive monetary easing as the US, Eurozone, UK and Japan all lowered interest rates with some quantitative easing. Since the summer, economically sensitive sectors have outperformed defensives, value stocks have led growth style and international markets have participated.

Throughout 2019, sector allocation was a key driver of relative performance of the fund, particularly within the Information Technology and Industrials sectors. The fund's off-benchmark position in the IPO of cloud-based commerce platform, Lightspeed POS, was a meaningful contributor to outperformance. The Fund's performance during the quarter was driven by a variety of holdings, which included Air Canada, UnitedHealth Group and St James's Place. Detractors from performance over the quarter included OceanaGold, Anheuser-Busch InBev and Nidec.

During the quarter, foreign equities increased from 36% to represent 39% of the total portfolio value. The US market outperformed during the quarter (US S&P 500 Total Return Index up 8.9%) but was offset partially by the rise of the Canadian dollar from 75.51 cents to 76.99 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 was again active during the quarter; they added Altagas, Boyd Group, Genworth, Fortis, Cominar and Treasury Wine Estates while they eliminated Entertainment One, Recipe Unlimited, Jamieson Wellness, Premium Brands, Boralex and Unilever from the portfolio.

As at December 31, 2019 the Fund's 10 largest holdings were as follows:

Royal Bank of Canada	4.1%	Canadian National Railway	2.1%
TD Bank	3.5%	United Healthgroup	2.0%
Enbridge	2.4%	Brookfield Asset Management	2.0%
Bank of Nova Scotia	2.2%	Roche Holding AG Genusschein	2.0%
Suncor Energy	2.1%	Danaher	1.9%

Phillips, Hager & North (PH&N) expect earnings growth in 2020 to improve slightly from 2019, with more of the profit pie coming from the Financials, Materials, and Industrials sectors, and less from the Energy sector. They expect GDP growth in Canada to remain modest in 2020. However, there are a few scenarios that could lead to different outcomes. The steepening in the yield curve since the summer suggests that the odds of recession have declined. However, other measures continue to show that we are fairly late in the business cycle. Meaningful progress on trade talks and further global economic stability could raise growth expectations and boost the outlook for stocks. PH&N indicate that in the past, the recent market rotations have been associated with improving economic and corporate profit growth, and may indicate the bull market has room to run. PH&N identify companies that exhibit the strongest long-term fundamentals, and then construct the portfolio using a thorough risk-management approach.

Tradex Bond Fund – Quarterly Review – December 31, 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	0.5	1.2	5.3	2.4	3.0	4.0	5.7
FTSE TMX Canada Universe Bond	-0.9	0.3	6.9	3.6	3.2	4.3	—
Average Canadian Bond Fund**	-0.8	0.0	6.2	2.6	2.1	3.2	—

*September 1989 **Source: Fundata Canada Inc.

An investment in the Tradex Bond Fund increased in value by 0.5% during the fourth quarter, outperforming the Fund's benchmark, while it has increased by 5.3% over the past year. After acting as a restraint on portfolio performance for much of the year, the below-benchmark duration position of the portfolio was a significant contributor to relative outperformance amid a rise in interest rates during the fourth quarter while similarly preferred shares were the top performing asset class

and the primary driver of portfolio returns as our holdings outperformed the broader preferred share market. Foyston, Gordon & Payne (FGP) maintained our modest overweight in preferred shares which further contributed to the relative outperformance of the portfolio. The portfolio gains a meaningful yield advantage through an exposure to preferred shares which offer yields significantly higher than other income producing assets in the market.



While the yield on the 10-year Government of Canada bond was down about 30 basis points in 2019, volatility subsided and bond yields rose in the fourth quarter amid de-escalating geopolitical concerns. While still flat compared to historical levels, the domestic yield curve steepened throughout the quarter and is now mostly positively sloped. Top performing bonds in the portfolio during the quarter include issues from TransCanada Trust, Enbridge Inc., and Canadian Western Bank. Provincial bond exposure was little changed in the quarter and remains modestly underweight. Government of Canada bond yields increased during the quarter as seen in the following table:

Term to Maturity	Yield Dec. 31/06	Yield Dec. 31/18	Record Lows	Yield Sep. 30/19	Yield Dec. 31/19
2 years	4.02%	1.86%	0.28%*	1.58%	1.69%
3 years	3.99%	1.86%	0.30%**	1.51%	1.69%
5 years	3.99%	1.88%	0.48%***	1.40%	1.68%
10 years	4.08%	1.96%	0.95%****	1.37%	1.70%
30 years	4.14%	2.18%	1.30%#	1.53%	1.76%

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, 45% of the

Fund's portfolio value was in government bonds, 26% 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 3.1% as at December 31st, as shown in the following table, while the yield on the FTSE TMX Canada Universe index was 2.3%.

	Government Bonds	Corporate Bonds	Preferred Shares	Common Shares, Trusts, REITs	Weighted average total
Yield*	2.1%	2.8%	5.6%	4.8%	3.1%

*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. Despite the move higher in yields toward the end of 2019, FGP remain concerned with the absolute levels of long interest rates in Canada. Long duration bonds – with a yield well below the rate of inflation – remain a risky investment. FGP are focused on the preservation of capital in this low interest rate environment. As the mostly geopolitical issues the Canadian economy faces are resolved, they would expect interest rates to head higher once again. FGP maintain the allocation to common shares as they see meaningful upside in the Canadian companies we own and are confident that our holdings offer significant embedded value.

Tradex Global Equity Fund – Quarterly Review – December 31, 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	10.3	9.5	22.2	12.0	11.0	11.8	6.7
Average Canadian Global Equity Fund**	6.2	6.7	19.9	9.0	8.0	8.6	—

*May 1999 **Source: Funddata Canada Inc.

During the fourth quarter of 2019, the value of each unit in the Tradex Global Equity Fund increased by 10.3%. This compares to an increase of 6.4% in the Fund's benchmark. For 2019 as a whole, the Fund has increased by 22.2% compared to a rise of 21.4% for the Fund's benchmark.

Equity markets firmed strongly in the final months of the year as positive political developments and a stabilization of economic data buoyed already favorable sentiment among investors following a third rate cut by the US Federal Reserve in October. The US and China tentatively reached a "phase one" trade agreement in principle which had the effect of postponing further tariff increases that were scheduled to go into effect on December 15th. In addition, progress was made in ratifying the USMCA trade deal between the US, Mexico and Canada as the US House voted favorably. In the UK, hopes of a Brexit resolution were given a firm boost as the general election resulted in a significant majority for Boris Johnson's Conservative Party, increasing the probability that Parliament could pass and execute a withdrawal agreement from the European Union. Finally, the global economy, while not demonstrating a robust recovery, did show signs of stabilizing as the effect of interest rate reductions started to flow through to economic data.

Emerging markets were among the strongest equity markets during the quarter, reflecting their sensitivity to

global economic activity. In particular, the Russian market rose 16.5%, Brazil gained 13.6%, Taiwan increased 13.5% while Korea appreciated 8.9% and the MSCI China Index rose 13.7%. Select European markets were also stronger. The Irish market responded to favorable Brexit developments with a gain of 16.8% while Sweden and Denmark rose 12.5% and 11.5% respectively. In the UK, the FTSE 100 Index marginally outperformed with an 8.9% increase while Germany's DAX Index and Italy's MIB Index both rose 8.1%. The US market broadly performed in line with the global average as the S&P 500 Index posted a 7.4% gain. Meanwhile, following a relatively benign outcome to the Canadian general election, the Toronto market underperformed with an increase of just 3.4% while Australia and Japan were also among the laggards with gains of just 5.1% and 4.8% respectively.

During the period, City of London Investment Management (CLIM) reduced the Fund's Japanese exposure following strong second half gains with sales of Atlantis Japan Growth Fund and Aberdeen Japan Investment Trust. US exposure was increased primarily via participation in the Gabelli Dividend & Income Fund rights offering which more than offset the reduction in exposure via the complete sale of Nexpoint Strategic Opportunities Fund and the trimming of Adams Diversified Equity Fund. Emerging markets exposure was increased as CLIM added to Templeton Emerging Markets Investment Trust while the underweight to Australia was reduced as CLIM bought Aberdeen Australia Equity Fund Inc. following a widening of its discount.

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.



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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