



Tradex

Q U A R T E R L Y

Second quarter 2020

President's Report to Tradex Members



The Canadian market experienced its biggest quarterly percentage gain since the second quarter of 2009 rising 16%. From the lows reached March 23rd, the S&P/TSX Composite Index increased by 38.2% but ended the first half of the year down 9.1%. Meanwhile, in the US the S&P 500 Index was up 20.0% for the quarter and 38.4% from the low however

down 4.0% for the past 6 months. The increase in terms of Canadian dollars was smaller for the quarter as the Canadian currency increased from 70.49 cents to 73.38 cents, an increase of 4.1% for the period. As of June 30, the dividend yield of the S&P/TSX was 3.4% and S&P500 1.9%, which indicates significant relative value in stocks as the 10-year government bond yields were 0.52% in Canada and 0.66% for US Treasuries.

The Bank of Canada maintained its overnight interest rate target at 0.25% at its announcements April 15th and June 3rd indicating "Incoming data confirm the severe impact of the COVID-19 pandemic on the global economy. This impact appears to have peaked, although uncertainty about how the recovery will unfold remains high. Massive policy responses in advanced economies have helped to replace lost income and cushion the effect of economic shutdowns. Financial conditions have improved, and commodity prices have risen in recent weeks after falling sharply earlier this year. Because different countries' containment measures will be lifted at different times, the global recovery likely will be protracted and uneven". In the United States, the FOMC held its rate April 29th and June 10th at 0% to 0.25%. The Committee indicated "The coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world. The virus and the measures taken to protect public health have induced sharp declines in economic activity and a surge in job losses. Weaker demand and significantly lower oil prices are holding down consumer price inflation. Financial conditions have improved, in part reflecting policy measures to support the economy and the flow of credit to US households and businesses." Additionally, both central

banks along with other global central banks continue to support financial markets with purchase programs and commitments to do whatever it takes to ensure properly functioning financial markets.

Interim Management Reports of Fund Performance and Financial Statements

For members who did not elect to receive a mailed copy, the 2020 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

In honour of our 60th anniversary, members referring a new client to Tradex and new members will each receive a \$30 deposit to their Tradex account. We encourage you to promote Tradex to friends, colleagues and family members with a form to simplify the process on the back page of this newsletter or available from our website or by contacting our office.

Client Focused Reforms

New regulatory requirements known as "Client Focused Reforms" make it necessary for Investment Fund Managers and Dealers to maintain and update regularly (minimum every 3 years) certain information that permits individuals to invest into the investments they wish. We wish to thank those members who have completed and returned the "Information Update" forms we have been mailing. 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 apologize for the inconvenience but appreciate all members completing, signing and returning the updates to ensure we can continue to serve you better. If you have any questions or would like assistance in completing the forms, please do not hesitate to contact us.

Blair Cooper
July 17, 2020

Tradex Equity Fund Limited – Quarterly Review – June 30, 2020

	Total return (%)			Average annual compound return (%)				
	Latest 3 months	Latest 6 months	1 year	3 years	4 years	5 years	10 years	Since inception*
Tradex Equity Fund Limited	16.8	-5.3	0.9	6.0	7.7	5.8	8.1	9.1
S&P/TSX Total Return Index (TRI)**	17.0	-7.5	-2.2	3.9	5.7	4.5	6.4	—
Mean Canadian Focused Equity Fund***	14.1	-7.0	-2.3	2.1	4.4	2.9	6.1	—

*April 1960 **Source: Morningstar ***Source: FundData

During the Second quarter an investment in Tradex Equity Fund Limited increased in value by 16.8%, approximating the Fund's benchmark, the S&P/TSX Total Return Index, and outperforming the mean fund in its category. It increased 0.9% for the past year, outperforming the Canadian index after all expenses. From the March 23rd bear market bottom the fund returned over 37%.

The S&P/TSX Composite Index managed impressive gains over the second quarter and was ultimately the top-performing major equity index over the period. However, its one-year performance remains negative due to precipitous first quarter declines experienced by energy and financial stocks. The best-performing portion of the market was technology over the quarter and the year due to e-commerce software provider Shopify, which is now one of the biggest weights in the S&P/TSX index. The COVID-19 shock altered the course of the global economy and ravaged financial markets, prompting policymakers to step in quickly and with scale. Unprecedented monetary and fiscal stimulus, combined with signs of an economic recovery as lockdowns eased, triggered a rapid rebound in risk assets.

Over the quarter, the fund's relative performance was primarily aided by technology firms such as Shopify, Kinaxis, and MarketAxess. Newmont Corp was a strong contributor to performance although an underweight to gold production and royalty companies detracted. Among the portfolio's positions that benefitted from an improving economic backdrop was Deutsche Post DHL Group. The business's DHL express division has been a key area of strength through the worst of the economic shutdown and continues to benefit from the accelerating shift to e-commerce. Energy stocks experienced arguably the greatest reversal in performance during the quarter. Without sufficient storage capacity, the contract price of a barrel of West Texas Intermediate (the benchmark for US oil) briefly traded in negative territory for the first time in history early in the quarter. Subsequently, oil prices rallied on the back

of improving demand prospects and a temporary production truce between Saudi-Arabia and Russia, which helped curb the overabundance of supply. After being a largest detractor from performance last quarter, EOG Resources was a key beneficiary of rising oil prices, and re-emerged as an important contributor to returns in the most recent period.

As at June 30, 2020 the Fund's 10 largest holdings were as follows:

Royal Bank of Canada	3.5%	Roche Holding AG Genusschein	2.2%
Shopify Inc.	3.2%	Canadian National Railway	2.2%
TD Bank	3.1%	Enbridge	2.0%
Danaher Corporation	2.4%	Amazon.com Inc.	1.9%
Microsoft Corp.	2.4%	Brookfield Asset Management	1.9%

Phillips, Hager & North (PH&N) indicates that the worst scenarios appear to be off the table as global policymakers have responded in force, buying time for industry and consumers to gradually adapt to a more restrictive backdrop. Nevertheless, the current environment remains flush with uncertainty, and structural challenges for many industries remain. Consequently, further volatility is to be expected. Early indications of increased consumer activity are encouraging. However, uncertainty remains regarding the ultimate impact of reduced government support for individuals and businesses later in the year, elevated unemployment, and continued virus-related restrictions. The virus-related restrictions have taken a massive toll on jobs, supply chains, consumer purchases and commodity prices. Economists expect Canada's GDP to decline by at least 7% in 2020, the deepest annual downturn on record. Analysts expect Canadian earnings to decline by about 30% in 2020 but then recover strongly next year. In PH&N's view, a sustained economic recovery accompanied by gains in commodity prices will be required for Canadian stocks to outperform.

Tradex Bond Fund – Quarterly Review – June 30, 2020

	Total return (%)			Average annual compound return (%)				
	Latest 3 months	Latest 6 months	1 year	3 years	4 years	5 years	10 years	Since inception*
Tradex Bond Fund	6.7	-0.6	0.6	1.2	2.2	2.6	3.6	5.6
FTSE TMX Canada Universe Bond	5.9	7.5	7.9	5.3	3.9	4.2	4.6	—
Mean Canadian Bond Fund**	6.6	6.1	6.2	4.0	3.0	3.0	3.4	—

*December 1989 **Source: FundData

An investment in the Tradex Bond Fund increased in value by 6.7% during the second quarter outperforming the index and its peers, while it has increased by 0.6% over the past year after returning over 11% from March 23. The dramatic plunge in most economic and financial indicators through the month of March and into the month of April gave way to a rapid bounce in many of those same indicators throughout the second quarter of 2020. In Canada, our reliance on

immigration-led growth, exposure to cyclical commodity markets and global trade, combined with a high level of household debt, likely means that our road to normal looks to be a very long one. Even with the potential for a longer and bumpy road ahead, risk assets in many parts of financial markets continue to be driven to higher valuations by the numerous actions taken by policy makers (monetary, fiscal, and regulatory). The predominant theme in fixed income



markets throughout the quarter was a dramatic narrowing of corporate and provincial credit spreads. The portfolio's shorter-than-benchmark positioning was a detractor to relative performance during the quarter.

Generally, Government of Canada bond yields decreased during the quarter, with new record lows for all benchmark bonds save the 30 year, as seen in the following table:

Term to Maturity	Yield Dec. 31/06	Yield Dec. 31/19	Yield Mar. 31/20	Record Lows	Yield Jun. 30/20
2 year	4.02%	1.69%	0.42%	0.27%*	0.28%
3 year	3.99%	1.69%	0.50%	0.25%**	0.30%
5 year	3.99%	1.68%	0.60%	0.36%***	0.36%
10 year	4.08%	1.70%	0.71%	0.49%****	0.52%
30 year	4.14%	1.76%	1.32%	0.71%#	0.99%

Source: Bank of Canada. **Record (50 years or more) low rates**
*June 11/20, **May 14/20, ***June 30/20, ****May 25/20, #Mar. 9/20

The Fund continued to be diversified across income-generating asset classes. At quarter-end, 44% of the Fund's portfolio value was in government bonds, 29% in corporate bonds, 13% in preferred shares, and 14% in common shares, REITs and Income Trusts. Foyston, Gordon & Payne (FGP)

initiated a new equity position in Canadian Utilities which has a long track record of generating predictable, but modestly growing earnings, and it has the strongest balance sheet in the Canadian utilities sector. The yield on the Fund's overall portfolio was 2.8% as at June 30th, as shown in the following table, while the yield on the FTSE TMX Canada Universe index was 1.3%.

	Government Bonds	Corporate Bonds	Preferred Shares	Common Shares, Trusts, REITs	Weighted average total
Yield*	1.2%	2.0%	6.8%	6.1%	2.8%

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

Portfolio duration remains about 1.2 years below the benchmark's duration as FGP continues to have an unfavourable long-term view of the bond market's risk / reward metrics. FGP continue to watch for opportunities to add new companies to our portfolio. At some point in each crisis, when valuations are at historic lows, good companies can be bought at attractive valuations. Their strategy is to emerge from this crisis with a higher quality and more diversified portfolio of companies that will generate an even stronger stream of reliable and growing cash distributions.

Tradex Global Equity Fund – Quarterly Review – June 30, 2020

	Total return (%)			Average annual compound return (%)				
	Latest 3 months	Latest 6 months	1 year	3 years	4 years	5 years	10 years	Since inception*
Tradex Global Equity Fund	20.2	-9.1	-0.4	3.7	9.9	6.3	11.5	6.0
Dow Jones Global Total Return Index**	14.9	-2.8	5.9	7.7	10.6	8.3	12.1	—
Mean Canadian Global Equity Fund**	14.7	-3.9	2.5	5.1	7.6	5.6	9.0	—

*May 1999 **Source: FundData

During the Second quarter of 2020, the value of each unit in the Tradex Global Equity Fund increased by 20.2% exceeding the mean global equity fund and global indices. Since the Bear market lows of March 23rd the fund has risen 45.5% to quarter end.

Global equity markets rebounded strongly and steadily throughout the second quarter as fears abated on the extent of global economic damage from the lockdown to fight the COVID-19 pandemic. In particular, the gradual re-opening of economies boosted sentiment while economic data releases generally surprised to the upside, particularly employment related data in the US. While the rate of infections has begun to spike higher in some countries, most notably in southern US states, the apparent lack of desire to halt re-openings and return to lockdowns means the economic trajectory tends toward improvement. Equity markets have been underpinned by considerable fiscal and monetary stimulus globally and, with cheap money plentiful, excess funds have found a home in the stock market, although it appears there also remains plenty of cash on the sidelines waiting for a dip to buy. The technology sector and in particular the FAANG stocks (Facebook, Apple, Amazon, Netflix, Google) has been the main beneficiary while healthcare stocks have also performed well and the energy sector has recovered some losses following a stabilization of the oil price.

Antipodean markets were among the strongest during the quarter as Australia's market rose 26.3% while New Zealand rose 24.5% in Canadian dollars. These returns were aided significantly by sharp rebounds in currency levels versus the loonie but also benefitted from the sector composition of markets which emphasizes energy and materials companies. European markets benefitted from a surprisingly co-ordinated fiscal response from the Eurozone which via the European Recovery Fund suggested a more collective approach to stimulus. Market performance was somewhat uneven though with Germany's DAX leading the way with a 21.9% surge while France, Spain and Italy lagged with gains of 11.6%, 13.1% and 6.3% respectively. The UK market continued to underwhelm with a 5.0% return while Switzerland was also a laggard gaining 7.4%. Emerging Markets provided mixed returns with Hong Kong and China exhibiting weakness as the Hang Seng gained just 0.9% while Brazil and Taiwan outperformed with increases of 19.0% and 18.3% respectively.

The Fund's performance rebounded in the second quarter partly due to narrower discounts on some of the closed-end funds held but also due to strong NAV performance of the underlying funds held in the portfolio. Discounts remain wider than average and over time we expect these will normalize. US exposure was increased during the period while UK, European and Emerging Markets exposure was trimmed back. Japanese exposure was also reduced following outperformance.

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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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

The Tradex 60th Anniversary \$60 New Member Incentive

Tradex is proud of its 60-year history of serving public sector employees and their families. To show our appreciation and to build our membership, as part of our 60th anniversary celebration, we are introducing a \$60 client referral incentive. For a limited time only, when a Tradex Member refers a new client to us, both the existing Member and the new Member will each receive \$30! This is just another way to show you that **Tradex Is Different!**

-  Simply complete and send this form to us by mail, fax, email or have the new Member bring it to the introductory meeting with Tradex.
-  Please note that minimum investments apply (\$100 monthly through pre-authorized deductions from a bank account or \$1,000 through a lump sum investment for Tradex funds.)

Existing Member :

Name _____

Please select one of the following :

- Credit my Tradex account with \$30
- Credit the entire \$60 to the new Member's account at Tradex

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 Please note: Government regulations require that this offer not be applicable to certain types of accounts.

