Tradex

Q U A R T E R L Y

Third quarter 2020

President's Report to Tradex Members

The Canadian market continued to recover from the March 23rd Bear market lows gaining 3.9% for the quarter bringing the recovery thus far for the S&P/TSX Composite Index to 43.6%. (The Index remains down 5.5% year-to-date.) Meanwhile, in the US the S&P 500 Index was up 8.5% for the quarter and 50.2% from the low with a positive 4.1% for the year 2020. The increase in terms of Canadian dollars was smaller for the quarter as the Canadian currency again increased from 73.38 cents to 74.97 cents, an increase of 2.2%. As of September 30, the dividend yield of the S&P/TSX was 3.2% and S&P 500 1.7%, which indicates significant relative value in stocks as the 10-year government bond yields were 0.57% in Canada and 0.69% for US Treasuries.

The Bank of Canada maintained its overnight interest rate target at 0.25% at its announcements July 15th and September 9th indicating "The Bank continues to expect this strong reopening phase to be followed by a protracted and uneven recuperation phase, which will be heavily reliant on policy support." In the United States, the FOMC held its rate July 29th and September 16th at 0% to 0.25%. The Committee indicated "The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term." Materials with the subsequent press conference indicated the committee anticipates rates remaining at these levels into 2023. 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.

The COVID-19 pandemic continues to significantly impact the lives of Canadians and globally. We encourage members to continue to follow public health guidance to protect your loved ones and communities. We and our partners continue to protect your investments entrusted to us. Our office remains open to serve you but with some employees remote to ensure continuity and to support the community. Although the pandemic has caused many disruptions to our normal way of life, we are thankful that it remains easy to communicate with Tradex. Whether it is to request a specific transaction or to review your accounts, we are an e-mail, phone call or video chat away as always.

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 cost & 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 through the Member Login with daily account access and to commence receiving electronic dealer statements.

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 available from our website or by contacting our office.

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. We apologize for the inconvenience but appreciate all members 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. We anticipate e-signature capabilities in the near future to allow for a secure, confidential and convenient way to exchange documents that currently require a physical signature, such as updates to your client profiles.

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 website at www.tradex.ca.

Blair Cooper
October 19, 2020

Tradex Equity Fund Limited – Quarterly Review – September 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	6.5	24.4	6.7	7.0	7.9	8.7	7.7	9.3
S&P/TSX Total Return Index (TRI)**	4.7	22.5	0.0	4.3	5.5	7.2	5.8	—
Mean Canadian Focused Equity Fund**	5.8	20.8	2.3	3.3	4.6	5.4	5.8	—

*April 1960 **Source: FundData

During the Third quarter an investment in Tradex Equity Fund Limited increased in value by 6.5%, exceeding both the Fund's benchmark, the S&P/TSX Total Return Index, and the mean fund in its category. It increased 6.7% for the past year, outperforming the Canadian index after all expenses. From the March 23rd Bear market bottom, the fund returned over 46%.

The S&P/TSX Composite Index continued its recovery over the third quarter; however, its one-year performance remains negative due to precipitous first quarter declines. A variety of metrics suggests that the US economy has made tremendous progress from the depths in the spring. Offsetting the effects of mass unemployment on the economy has been the massive monetary and fiscal support, which has boosted retail sales and housing activity. With unemployment still high, however, economic momentum could ebb without further rounds of fiscal support. Another stimulus bill is currently in the works, but Democrats and Republicans have yet to agree on details. Stock volatility increased significantly in the past month as the rising number of coronavirus infections, US election uncertainty and the lack of a Congressional stimulus bill weighed on investor confidence. The S&P 500 fell just shy of 10% in September from its record high, but the decline represents a small pullback relative to the exceptional 60% rally from the March low. Contributing to the market weakness were some of the familiar large-cap growth stocks that have given back a bit of their recent gains. Bank stocks have also struggled as the economic recovery appeared to slow. US banks have underperformed during the pandemic and their recent weakness is an extension of a trend in place since 2008.

Over the quarter, among the contributors to returns were Auto Canada, Taiwan Semiconductor Manufacturing Company, Japanese motor manufacturer Nidec and not holding Constellation Software. In contrast, traditional energy producers such as EOG Resources weighed on performance over the quarter, as the price of oil declined on the back of concerns that a second wave of COVID-19 infections would delay an economic recovery, and continue to suppress demand. Swiss pharmaceuticals and diagnostics business Roche also detracted from performance.

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

Royal Bank of Canada	3.4%	Microsoft Corp.	2.3%
Shopify Inc.	3.1%	Deutsche Post	2.0%
TD Bank	2.8%	Amazon	2.0%
Danaher Corporation	2.7%	Roche Holding AG Genusschein	2.0%
Canadian National Railway	2.4%	Enbridge	1.8%

In Phillips, Hager & North's (PH&N) view, the recent drop in stocks represents a consolidation within a broader upward trend. The pullback in September flushed out excessive optimism that had built up through August, and investor sentiment is now much more supportive. PH&N expect Canadian profits to return to 2019 levels by 2021, a forecast that depends on a continued slowdown in the spread of COVID-19, the distribution of an effective vaccine for the virus, and improvement in consumer and business confidence. Moreover, credit markets appeared well behaved throughout the risk-off period and central banks are continuing to provide ample liquidity, suggesting a more meaningful decline in stocks is unlikely. PH&N's view is that equities are likely to outperform bonds over the medium to longer term given historically low bond yields and the fact that stocks are reasonably priced on a global basis. That said, they recognize that the upcoming US election and evolving developments around the coronavirus are potential sources of volatility.

Tradex Bond Fund – Quarterly Review – September 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	2.7	9.6	2.7	2.3	2.4	3.4	3.5	5.6
FTSE TMX Canada Universe Bond	0.4	6.3	7.1	6.1	3.8	4.3	4.4	—
Mean Canadian Bond Fund**	0.8	7.4	6.1	4.8	2.9	3.3	3.2	—

*December 1989 **Source: FundData

An investment in the Tradex Bond Fund increased in value by 2.7% during the third quarter outperforming the index and its peers, while it has increased over 14% from March 23rd. After the pandemic-induced historic declines in economic activity during the very end of the first quarter and into the second quarter, the Canadian economy continued to dig itself out of the very deep hole during the third quarter. GDP declined greater than 30% during the second quarter with likely rebound over 40% during the third. The return of economic activity has been uneven, with some sectors benefiting while others remain severely depressed. The path of the viral pandemic remains unclear keeping central banks on the sidelines with their policy interest rates. It should also keep policy makers keen on providing fiscal support for the foreseeable future. The main driver of performance throughout the quarter was the ongoing rebound in risk assets. Corporate and provincial bonds outperformed their federal benchmarks. The portfolio's overall shorter-than-benchmark duration position combined with an underweight position in the long end of the Canadian yield curve added a small positive contribution to relative performance during the quarter.

Generally, longer dated Government of Canada bond yields increased during the quarter, while shorter terms declined with new record lows for the 2, 5- and 10-year benchmark bonds, as seen in the following table:

Term to Maturity	Yield Dec. 31/06	Yield Dec. 31/19	Yield June 30/20	Record Lows	Yield Sept. 30/20
2 year	4.02%	1.69%	0.28%	**0.24%***	0.25%
3 year	3.99%	1.69%	0.30%	**0.25%****	0.25%
5 year	3.99%	1.68%	0.36%	**0.30%*****	0.36%
10 year	4.08%	1.70%	0.52%	**0.43%*****	0.57%
30 year	4.14%	1.76%	0.99%	**0.71%#**	1.11%

Record (50 years or more) low rates
**Sept. 29/20, **May 14/20, ***Aug. 4/20, #March 9/20*

The Fund continued to be diversified across income-generating asset classes. At quarter-end, 43% of the Fund's portfolio value was in government bonds, 28% in corporate bonds, 13% in preferred shares, and 14% in common shares, REITs and Income Trusts. The North West Company was the top contributor to portfolio performance for the second consecutive quarter, gaining 24%. Preferred shares in particular had an outsized impact on performance as the market rallied in response to a fundamental change in the market as a result of the issuance by RBC of a new form of capital. The yield on the Fund's overall portfolio was 2.5% as at September 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**	*1.1%*	*1.7%*	*6.0%*	*5.5%*	*2.5%*

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

Inherent in Foyston, Gordon & Payne's (FGP) value investment discipline is a focus on owning a collection of high-quality companies that have resilient business models, earnings growth potential, conservative dividend payout ratios and solid balance sheets. FGP continue to allocate capital towards investment opportunities that present the highest probability of success in generating long-term risk adjusted performance.

Tradex Global Equity Fund – Quarterly Review – September 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	5.7	27.1	6.0	5.4	8.7	8.8	11.0	6.3
Dow Jones Global Total Return Index**	5.8	21.5	10.8	9.3	10.2	10.3	11.6	—
Mean Canadian Global Equity Fund**	5.8	21.4	8.0	6.6	7.7	7.7	8.6	—

*May 1999 **Source: FundData

During the Third quarter of 2020, the value of each unit in the Tradex Global Equity Fund increased by 5.7% in line with the median global equity fund and global indices. Since the Bear market lows of March 23rd the fund has risen 53.8% to quarter end.

Global equity markets continued their rebound during the third quarter, accelerating sharply in July and August while giving up a portion of those gains in September. Positive economic news as well as improving statistics on the spread and mortality rates relating to the COVID-19 pandemic initially improved sentiment. By period end, however, markets began focusing on a combination of increasing COVID-19 cases in Europe and the US as well as a potential fiscal cliff following the expiration of supplemental US unemployment benefits while efforts to finalize further fiscal stimulus stumbled as Republicans and Democrats struggled to reach a compromise. Similarly, the US presidential election increasingly came into focus with investors contemplating the likely make up of the post-election presidency, Senate and House while also fretting about an inconclusive result and an extended period of legal wrangling and the possibility of social unrest following the vote on November 3rd.

Growth stocks continued to outpace value stocks during the period led by the technology stocks which benefit from the extended work from home environment. Consumer discretionary stocks also performed well led by Amazon and Tesla while industrial and materials stocks also outperformed. Conversely the energy stocks continued to lag while financials, healthcare and real estate securities also underperformed. Scandinavian markets of Sweden and Denmark were among the best performers as a high exposure to the industrials boosted returns. Likewise, the US market's significant exposure to the technology and consumer discretionary stocks also led to a modest outperformance as the S&P 500 Index gained 6.5% over the period. European markets and the UK mostly underperformed although Germany was more resilient, again due to a more industrial focused composition. The Japanese market was broadly in line with the global average in spite of Prime Minister Shinzo Abe's resignation during the period. Emerging markets with significant exposure to technology such as Korea, Taiwan and India also performed well while Brazil and South East Asian markets of Thailand, Indonesia, Singapore and the Philippines lagged.

The Fund's performance was broadly in line with the benchmark during the third quarter. Country allocation was a slight negative while the underlying funds outperformed on a net asset value basis. Discounts edged slightly wider and negatively impacted performance. Over time we expect discounts will revert to their mean and will be a performance tailwind. US exposure was reduced as a result of participation in a tender offer for Adams Natural Resources Fund which captured much of its discount value. Cash raised was reinvested in Japanese and European funds and as a result this increased exposure during the period.

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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 (2021 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 $69,500 in 2020 or $75,500 in 2021.

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 <u>will not be taxed even when withdrawn</u>.

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. <u>Thus, if you contribute $2,500 a year to an RESP, after the Federal grant, the amount actually invested will be $3,000</u>. 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.