



Tradex

Q U A R T E R L Y

Fourth quarter 2020

President's Report to Tradex Members



The Canadian equity market moved higher for the third consecutive quarter, with the S&P/TSX Composite Index increasing by 8.1% during the past 3 months. As a result, the Canadian market finished the year 2020 up 2.2%. In the US the S&P 500 Index was up 11.7% during the quarter, ending the year up 16.3%. The increase

in terms of Canadian dollars was lower for the quarter as the Canadian currency increased from 74.97 cents to 78.54 cents, an increase of 4.8% for the period resulting in a 2020 increase of 2.0%. As of December 31, the dividend yield of the S&P/TSX was 3.0% and S&P500 1.5% plus buyback yield of 2.1% (Q3), which indicates some remaining relative value in stocks as the 10-year government bond yields were 0.7% in Canada and 0.9% for US Treasuries.

The Bank of Canada held its rate at the effective lower bound (0.25%) at the October 28th and December 9th announcements and continued its quantitative easing program indicating "the development of effective vaccines is providing reassurance that the pandemic will end and more normal activities will resume, although the pace and breadth of the global rollout of vaccinations remain uncertain. Accommodative policy and financial conditions are continuing to provide support across most regions." The US FOMC held its rate at 0% to 0.25% at both meetings November 5th and December 16th and maintained its quantitative easing program plus reemphasizing "The Federal Reserve is committed to using its full range of tools to support the US economy in this challenging time" and indicating "Economic activity and employment have continued to recover but remain well below their levels at the beginning of the year. The path of the economy will depend significantly on the course of the virus."

Record 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 2020, we were able to return a record total of \$549,180 in operating revenue to the three Tradex Funds (compared to \$440,700 in 2019). 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 61st Annual General Meeting on Wednesday April 28 by Telephone and at the Tradex Offices

This year, the Tradex Annual General Meeting will again be held at 11:00 a.m. in the Tradex Offices, 85 Albert St, Suite 1600, Ottawa. As our priority is the well-being of our members and staff **during the COVID-19 outbreak**, shareholders are requested to attend by phone. Portfolio Manager and Tradex Presentations will be scheduled separately.

Annual Calendar Year Contribution Opportunities

The Tax-Free Savings Account (TFSA) additional contribution of up to \$6,000 for 2021 is available and the deadline for Registered Retirement Savings Plan (RRSP) contributions to be deducted against your 2020 income tax is March 1, 2021. For further details or to complete your contributions please contact us.

Additional Regulatory Requirements – Client-Focused Reforms

Under the new regulations, there is a deemed conflict of interest for firms offering "proprietary products" such as Tradex where we offer both the Tradex Family of Funds and funds and investments from other fund families and financial institutions. All material conflicts of interest must be resolved in the best interests of the client. Tradex is unique in that the dealer and manager are beneficially owned by the investors in the Tradex funds, thus eliminating the usual source of this conflict as there are no other shareholders who may benefit disproportionately from proprietary versus other products. In addition, Tradex advisors are salaried with no compensation related to the investments recommended and no sales targets which could create conflicts as to which products they recommend.

Blair Cooper
January 18, 2021

Tradex Equity Fund Limited – Quarterly Review – December 31, 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	11.9	19.2	12.9	9.2	10.3	10.4	8.0	9.4
S&P/TSX Total Return Index (TRI)**	9.2	14.6	7.6	6.7	7.7	9.0	7.2	—
Mean Canadian Focused Equity Fund**	9.4	15.8	7.7	5.2	5.9	7.0	5.9	—

*April 1960 **Source: Fundata Canada Inc.

During the fourth quarter an investment in Tradex Equity Fund Limited increased in value by 11.9%, outperforming the Fund's benchmark, the S&P/TSX Total Return Index, by 2.7%. It gained 12.9% for the past year, outperforming the Canadian index after all expenses. From the March 23rd bear market bottom the fund returned over 63%.

Stocks surged from their March lows due to a combination of massive stimulus, a gradual reopening of economies and, more recently, the promise of imminent vaccines. The latest rally pushed the S&P 500 Index to a new record and many other markets are also showing gains this year. We recognize that optimism is elevated and, while stocks may be expensive by some measures, investors are paying up for a recovery in earnings that is just beginning. With a number of potential vaccines progressing quickly from clinical trials to distribution, equity markets have begun to anticipate an earlier than-expected return to economic growth and higher corporate profitability. In Canada, better-than-expected economic activity has boosted the domestic stock market, which contains a significant number of economically sensitive commodity companies that should continue to benefit as long as the economic recovery accelerates.

Relative performance of the fund in the fourth quarter was supported by underweight positioning and security selection. The steepening US yield curve provided support for US financials over the quarter, as investors anticipated stronger net interest margins and the possibility of lower loan loss provisions due to a post-pandemic economic recovery. The Fund's performance during the quarter was driven by a variety of holdings, which included AutoCanada, First Republic Bank, CyberArk Software and Danish renewable energy company Orsted. Detractors from performance over the quarter included Cenovus Energy, Imperial Oil and US health care technology and equipment business Danaher.

During the quarter, foreign equities increased from 45% to 47% of the total portfolio value. The US market outperformed during the quarter (US S&P 500 Total Return Index up 12.2%) but was offset partially by the rise of the Canadian dollar from 74.97 cents to 78.54 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.

As at December 31, 2020 the Fund's 10 largest holdings were as follows:

Royal Bank of Canada	3.5%	Roche Holding AG Genusschein	2.0%
Shopify	3.0%	Brookfield Asset Management	1.9%
TD Bank	2.7%	First Republic Bank	1.9%
Microsoft	2.1%	Amazon	1.8%
Canadian National Railway	2.1%	United Health Group	1.8%

Phillips, Hager & North (PH&N) indicates that with the economy entering a period of normalization supported by low interest rates and ample fiscal stimulus, stocks continue to offer superior return potential versus fixed income. Supporting the stock outlook is long-term price momentum, which suggests equities could be in a long-lasting bull market. The economic recovery so far has repeatedly exceeded expectations; vaccine-development efforts are beginning to yield big results; the market is pleased with the outcome of the US presidential election and European nations are starting to emerge from their especially severe second wave. Near-term stock returns could be somewhat at risk because a resurgence in COVID-19 cases in Canada has raised the potential for more lockdowns and decreased profit expectations. The portfolio manager is focused on inflation expectations and interest rates, as a rapid rise in either could jeopardize the equity rally.

Tradex Bond Fund – Quarterly Review – December 31, 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	4.6	7.5	6.8	2.9	3.5	4.2	4.1	5.7
FTSE TMX Canada Universe Bond	0.6	1.1	8.7	5.6	4.8	4.2	4.5	—
Mean Canadian Bond Fund**	1.1	2.0	8.2	4.6	4.0	3.5	3.4	—

*December 1989 **Source: Fundata Canada Inc.

An investment in the Tradex Bond Fund increased in value by 4.6% during the fourth quarter, outperforming the Fund's benchmark, while it has increased by 6.8% over the past year after returning over 19% from March 23rd.

Financial markets continue to look through the near-term weakness towards a broader economic recovery due to the development of vaccines and due to the ongoing flood of fiscal and monetary policy supports. The main driver

of outperformance throughout the quarter was the ongoing rebound in risk assets along with strong security selection. Preferred shares in particular had an outsized impact on performance as the market continued to rally in response to a fundamental change in the market resulting from the issuance of a new form of capital by Canadian banks. It was an eventful quarter for takeout offers of portfolio holdings while Wajax, Canadian Natural Resources and Suncor generated strong returns.



In the quarter, shorter term bond yields remained more-or-less unchanged and effectively capped by the Bank of Canada's (BoC) main policy rates while there was a greater degree of volatility in longer term yields. Government of Canada bond yields generally increased during the quarter after achieving some new record lows in October as seen in the following table:

Term to Maturity	Yield Dec. 31/06	Yield Dec. 31/19	Yield Sept. 30/20	Record Lows	Yield Dec. 31/20
2 year	4.02%	1.69%	0.25%	0.20%*	0.20%
3 year	3.99%	1.69%	0.25%	0.23%**	0.25%
5 year	3.99%	1.68%	0.36%	0.34%***	0.39%
10 year	4.08%	1.70%	0.57%	0.55%****	0.67%
30 year	4.14%	1.76%	1.11%	0.71%#	1.21%

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

*Dec. 31/20, **Oct. 15/20, ***Oct. 16/20, ****Oct. 1/20, #March 9/20

The Fund continued to be balanced and diversified across income-generating asset classes. At quarter-end, 39% of the Fund's portfolio value was in government bonds, 31% in corporate bonds, 15% in preferred shares, and 14% in common shares, REITs and Income Trusts. The yield on the Fund's overall portfolio was 2.4% as at December 31st, as shown in

the following table, while the yield on the FTSE TMX Canada Universe index was 1.2%.

	Government Bonds	Corporate Bonds	Preferred Shares	Common Shares, Trusts, REITs	Weighted average total
Yield*	1.1%	1.5%	5.3%	4.8%	2.4%

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

Foyston, Gordon & Payne (FGP) continue to expect shorter-term interest rates will change only slightly whereas longer-term interest rates will experience further volatility while ultimately moving higher throughout 2021. Inherent in FGP's 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. They believe this combination will deliver outperformance over the long term while cash distributions provide investors with a reliable income stream, allowing the portfolio to weather short-term fluctuations more comfortably.

The portfolio is well positioned to benefit as the world emerges from COVID-19 through meaningful positions in companies that are traditionally more sensitive to the economic cycle.

Tradex Global Equity Fund – Quarterly Review – December 31, 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	17.1	23.7	12.5	8.5	12.2	10.4	12.0	6.9
Dow Jones Global Total Return Index**	10.1	16.4	13.2	10.5	11.9	10.5	12.1	—
Mean Canadian Global Equity Fund**	9.9	16.3	11.7	8.2	9.7	8.5	9.0	—

*May 1999 **Source: Fundata Canada Inc.

During the fourth quarter of 2020, the value of each unit in the Tradex Global Equity Fund increased by 17.1%. This compares to an increase of 8.9% in the Fund's benchmark. For 2020 as a whole, the value of each unit in the Fund has increased by 12.5% compared to an increase of 13.6% for the Fund's benchmark after returning over 80% from March 23rd.

After treading water for much of October ahead of the US presidential election, world equity markets romped higher during the remainder of the year to close just shy of the record high achieved during the quarter. The primary catalyst for such animal spirits was the announcement by Pfizer BioNTech (and then by Moderna and Oxford/AstraZeneca) of the completion of successful trials of their Covid 19 vaccine. Despite surging cases of infection around the globe, this fueled hopes of a return to some form of economic and social normality in 2021 and resulted in a rebound of downtrodden cyclical sectors such as energy and financials. Further impetus was provided by ongoing discussion regarding a US economic stimulus bill which in spite of a last-minute hold up in the Oval Office was finally signed into law before the year end. Elsewhere, the UK and European Union came to terms on a post Brexit trade deal and while described as "skinny" at least averted a worst case "no deal" option.

Weakness in the US dollar was also a feature of the quarter as the loonie gained nearly 4.5% versus the greenback and suppressed the return from the US equity market which hit a

record high locally. As a result the S&P 500 Index underperformed global equities with a rise of 7.6% in Canadian dollars. The Japanese yen was also weaker and limited the gain in the Topix Index to 9.0%. Conversely currency strength in the Australian dollar added to robust performance by the local market with Australian equities finishing the quarter among the strongest with a 17.1% rise. Similarly the resolution of Brexit-related trade negotiations caused an appreciation of the British pound and a rebound in UK equities as the FTSE 100 Index gained 12.4%. European markets were a significant source of outperformance as Italy and Spain gained 17.7% and 21.2% respectively while France rose 15.8% and Germany's DAX Index advanced 8.1%. Switzerland, which typically has more defensive characteristics, was a laggard as its market rose just 5.3%. Finally emerging markets also performed well with in excess of 20% gains from each of Brazil, Mexico, South Korea and India.

The Fund significantly outperformed its benchmark during the period and this was driven by a combination of very strong NAV performances from the underlying closed-end funds as well as sharply narrower discounts among the funds that were held. Activity during the period focused on reducing positions that had outperformed and recycling cash raised into funds trading at wider discounts. US exposure fell during the period while UK, European and Canadian exposure was increased and cash also rose due to a combination of profit taking into market strength and large year-end distributions from several US equity funds.

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