Tradex

QUARTERLY

First quarter 2021

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 7.3% during the past 3 months. At quarter-end the TSX had rebounded 66.5% from the March 23rd, 2020 bear market low while the S&P500 had risen 77.4%. In the US the S&P 500 Index was up 5.8% for the quarter but the increase in terms of Canadian dollars was lower for the quarter as the Canadian currency increased from 78.54 cents to 79.52 cents, an increase of 1.3%. As of March 31, the dividend yield of the S&P/TSX was 2.8% and S&P500 1.5% (Buybacks 1.6% Q4 2020), which indicates continuing relative value in stocks as the 10-year government bond yields were 1.6% in Canada and 1.7% for US Treasuries.

The Bank of Canada and the US Federal Open Markets Committee both held their rates at the effective lower bound for interest rates, in order to provide support to the financial system and the economy during the pandemic. The Federal Reserve is committed to using its full range of tools to support the US economy in this challenging time, thereby promoting its maximum employment and price stability goals.

Management Expense Ratios

We are pleased to confirm to investors that the Management Expense Ratio (MER) for all of the Tradex Funds declined in 2020, as follows:

	2020 MER	2019 MER	Median Fund for Category* MER
Tradex Equity Fund	**1.03%**	1.10%	2.28%
Tradex Bond Fund	**0.95%**	0.97%	1.27%/1.81%◊
Tradex Global Fund#	**2.79%**	2.85%	2.29%

* *Source: Morningstar*

\# includes underlying funds 1.09% generally offset by the movement in discount rates, direct cost **1.70%**

◊ Fixed Income/Fixed Income Balanced

The lower MERs reflect both the record rebates we were able to make in 2020 and the increased assets held within the Funds over which the expenses are allocated. The $549,180 rebate of management fees (versus $440,700 in 2019) was made possible due to the higher revenues that we received from the increase in assets under administration at Tradex, including revenue from administering third-party mutual funds and GICs.

Consolidate and Save

The positive impact for all Tradex members through the increased rebates (as members avail themselves of the opportunity for Tradex to act as their dealer for all of their mutual fund investments) is only one way you save. A review of 10 of our recent members transferring their outside investments to Tradex found that we were able to achieve cost savings ranging from 18% to 46%, with an average savings of 35%. Let us show you how we do it! Contact us today for a free no obligation portfolio review. We recommend all members take full advantage of dealing through Tradex and the services available.

Management Reports of Fund Performance and Financial Statements

For members who did not elect to receive a mailed copy, the 2020 reports are available anytime on our website for downloading. If you wish to receive a printed copy, please contact us.

Portfolio Manager Webcasts

Due to COVID-19 restrictions our three portfolio managers will provide their usual updates through webcasts April 26th, 27th and 29th with details available at www.tradex.ca.

Electronic Access

Please visit our website to sign up for online daily account access and to commence receiving electronic dealer statements or to receive this newsletter electronically.

A thank-you for referring New Clients

In honour of our recent 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 on the back page, from our website or by contacting our office.

Blair Cooper

Blair Cooper
April 19, 2021

Tradex Equity Fund Limited – Quarterly Review – March 31, 2021

	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	4.6	17.1	45.6	11.7	10.4	11.6	7.9	9.4
S&P/TSX Total Return Index (TRI)**	8.1	17.7	44.3	10.2	8.4	10.0	6.0	—
Average Canadian Focused Equity Fund**	6.9	17.0	41.2	8.6	7.1	8.4	6.2	—

*April 1960 **Source: Fundata Canada Inc.

During the first quarter an investment in Tradex Equity Fund Limited increased in value by 4.6%, lagging the Fund's benchmark, the S&P/TSX Total Return Index. It increased 45.6% for the past year, outperforming the Canadian index after all expenses.

The S&P/TSX Composite Index maintained its momentum into the first quarter of 2021, returning 8.1% and briefly reached new highs in March. Canadian stocks outperformed both US and global equities, which were up 4.8% and 3.5% respectively over the quarter. Strong market results came amid optimism about vaccine rollouts in much of the developed world and, in Canada, strong commodity prices partially offset by relatively slow progress in administering COVID-19 immunization. Investors continue to look ahead to an economic and earnings recovery as vaccine distribution continues to increase. Global equity markets continued to grind higher, led by cyclical stocks (including those in the airline, tourism, financials, industrial metals and machinery, and oil and gas industries) that were among the hardest hit last year but stand to be the greatest beneficiaries of an economic reopening and reflationary conditions.

Strong performance came from security selection and a lack of exposure to gold producers like Barrick Gold. Among the fund's largest contributors to relative performance were the client-centric American coastal bank First Republic Bank, SVB Financial Group, Deutsche Post DHL Group, Japanese motor manufacturer Nidec and an overweight to Magna International.

An underweight to Aphria hurt performance; cannabis stocks have been performing well since President Biden's election and the establishment of a Democrat-controlled U.S. Senate following the run-off elections in Georgia in January. Similarly, our global energy companies were a source of underperformance over the quarter, as investors rotated capital away from some of our top-performing renewable energy holdings from the past year into traditional fossil fuel stocks, which have benefitted recently from rising oil prices. Specifically, our concentrated investments in Orsted, the global leader in offshore wind power generation, and Neste, the world's largest producer of renewable diesel and renewable jet fuel.

As at March 31, 2021 the Fund's 10 largest holdings were as follows:

Royal Bank of Canada	3.9%	Microsoft Corp.	2.0%
TD Bank	3.4%	Enbridge	2.0%
Shopify Inc.	3.2%	Alphabet Inc.	1.9%
Canadian National Railway Co.	2.2%	Bank of Nova Scotia	1.9%
Brookfield Asset Management Inc.	2.0%	First Republic Bank	1.8%

From this point on, Phillips, Hager & North (PH&N) indicates that a sustained monetary and fiscal support and evidence of a recovery in corporate profits will be required to bolster equities. Inflation expectations and interest rates are in focus as yields in Canada have climbed back to their pre-pandemic levels. Rising interest rates may be an indication that bond markets expect a sustained economic expansion, which historically has boosted stocks and sectors that are tied to growth. The Canadian stock market's sizeable exposure to the cyclical areas of financial services and commodities should benefit its relative performance in a global economic recovery.

Tradex Bond Fund – Quarterly Review – March 31, 2021

	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	1.0	5.7	15.8	3.5	3.0	4.1	4.3	5.7
FTSE TMX Canada Universe Bond	-5.0	-4.4	1.6	3.8	3.2	2.8	4.0	—
Average Canadian Bond Fund**	-4.5	-3.4	3.8	3.1	2.5	2.3	3.0	—

*December 1989 **Source: Fundata Canada Inc.

An investment in the Tradex Bond Fund increased in value by 1.0% during the first quarter while the benchmark Canadian bond index lost 5.0% and the fund has increased by 15.8% over the past year in contrast to the 1.6% increase of the index. The financial markets have demonstrated their ability to look past the challenges in the very near term and shift their focus out to the second half of this calendar year and beyond where, by all accounts, the stage is set to see a number of consecutive months and quarters of economic growth. Financial assets have started this new calendar year responding powerfully to this so-called reflation trade.

The portfolio's shorter than benchmark duration positioning combined with an underweight exposure to the long end (30 years) of the Canadian yield curve were sizable positive contributors to relative performance during the quarter. Portfolio gains were broadly based and security selection contributed to the portfolio's outperformance, with Shaw Communications shares the best performer gaining 48% in the quarter. Security selection also drove performance within core bonds. This included mortgage investments, hybrid securities (bonds and preferred shares as preferred shares continued their notable rebound) and bank capital bonds (Limited Recourse Capital Notes (LRCN) and legacy capital) which experienced spread tightening.

Canadian yields spent most of the first quarter dashing higher – this is especially true further out the curve in maturities ten years and longer. Government of Canada bond yields increased during the quarter as seen in the following table:

Term to Maturity	Yield Dec. 31/06	Yield Dec. 31/19	Yield Dec. 31/20	Record Lows	Yield Mar. 31/21
2 year	4.02%	1.69%	0.20%	**0.15%***	0.22%
3 year	3.99%	1.69%	0.25%	**0.18%***	0.49%
5 year	3.99%	1.68%	0.39%	**0.30%****	0.99%
10 year	4.08%	1.70%	0.67%	**0.43%****	1.55%
30 year	4.14%	1.76%	1.21%	**0.71%*****	1.97%

Record (50 years or more) low rates **Feb. 1/21, **Aug. 4/20, ***Mar. 9/20*

The Fund continued to be diversified across income-generating asset classes. At quarter-end, 39% of the Fund's portfolio value was in government bonds, 31% in corporate bonds, 13% in preferred shares and 16% in common shares, REITs and Income Trusts. The yield on the Fund's overall portfolio was 2.5% as at March 31st, as shown in the following table, while the yield on the FTSE TMX Canada Universe index was 1.7%.

	Government Bonds	*Corporate Bonds*	*Preferred Shares*	*Common Shares, Trusts, REITs*	*Weighted average total*
*Yield**	*1.8%*	*1.8%*	*4.7%*	*4.2%*	*2.5%*

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

Looking forward, Foyston, Gordon & Payne (FGP) remains cautious with the low absolute levels of long interest rates here in Canada despite the significant move higher in yields this quarter and continues to believe that prudent positioning calls for portfolio duration to be below that of the benchmark's duration as the risk/reward continues to be unfavourable. While much of the price movement from the anticipated impact of LRCNs on the preferred share market has been realized, FGP expects a secondary impact from the actual transition. As the world emerges from COVID-19, the portfolio is well positioned to benefit through meaningful positions in companies that are traditionally more sensitive to the economic cycle.

Tradex Global Equity Fund – Quarterly Review – March 31, 2021

	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	3.8	21.5	54.3	9.7	11.1	13.0	12.1	7.0
Dow Jones Global Total Return Index**	3.6	14.0	38.6	11.1	11.3	12.7	12.3	—
Average Canadian Global Equity Fund**	3.7	14.0	38.4	9.4	9.3	10.2	9.2	—

*May 1999 **Source: Fundata Canada Inc.

During the first quarter of 2021, the value of each unit in the Tradex Global Equity Fund increased by 3.8% and has risen over 54% in the past 12 months.

Global equities drifted higher during the first quarter buoyed by the tailwinds of a further US stimulus bill, continued progress on the rollout of COVID-19 vaccines and increasing expectations of a robust economic expansion as the year progresses. The incoming Biden administration was swift in achieving its first major policy objectives as a further stimulus bill worth $1.9 trillion was signed into law and whose most prominent feature will put an additional $1,400 "stimmy" checks into many of the public's hands. Whether this will find its way into the economy remains to be seen but the sharp rallies in low-rated stocks such as Gamestop and cryptocurrencies such as Bitcoin suggest that at least some of the excess cash will be put to speculative uses in various asset markets rather than the real economy as desired. Offsetting this positivity was a back-up in interest rates as well as rising inflation expectations, fueled in part by a strong rally in commodity prices. Value stocks continued to do well in this environment as energy prices rose on the prospect of a revival in economic activity while financials benefitted from expectations of improving loan quality and higher interest rate margins. Conversely growth-oriented firms such as those involved in consumer discretionary, healthcare and technology all lagged after their strong gains in 2020.

The cyclical and industrial bias of Scandinavian markets was reflected in terms of individual market performance with Sweden gaining 9.3%, Denmark 8.5% and Norway 8.3% while Canada's energy, financials and material bias also led it to perform well, with an 8.1% advance. Eurozone market performance was mixed as the region sought to digest a disappointing vaccine roll-out with escalating cases threatening further lockdowns and thus curtailment of economic revival, especially ahead of the summer tourist season. The Netherlands AEX Index gained 6.3% while Germany's DAX Index rose 3.0% and Spain's IBEX Index squeezed out only a 1% gain. The UK market was stronger, gaining 4.5%, as an efficient vaccination program improved the prospect of a quicker re-opening while the market's sector bias to energy and financials also helped performance. The US market was broadly in line with global equities as its diversified industry allocation provided balanced exposure. In contrast, Switzerland's high exposure to healthcare companies and consumer necessities saw its market lose 3.4% while the Australian market also disappointed with just a 2% gain and Japan was another laggard with a rise of only 0.3%. Finally, emerging markets were also weak led by softness in the Chinese market after strong gains in 2020.

During the period, City of London Investment Management reduced exposure to Europe via sales of funds investing in smaller companies that had significantly outperformed. US and emerging markets exposure was increased, particularly taking advantage of weakness in technology stocks to add to positions. Finally UK and Japanese exposure was also increased during the period while it trimmed financial and energy holdings into market strength.

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The Tradex 60th Anniversary $60 New Member Incentive

Tradex is proud of its over 60-year history of serving public sector employees and their families. To show our appreciation and to build our membership, we are continuing 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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Existing Member's Signature

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Phone ____________________

____
New Member's Signature

Note to Members: Additional copies of this form are available by phoning us at 613-233-3394 or at www.tradex.ca
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