Tradex
QUARTERLY

Second quarter 2021

President's Report to Tradex Members

The Canadian market experienced its best performance in more than a decade for the first half of 2021 rising 15.7%. For the quarter, the Canadian benchmark stock index was up 7.8%. A rebound in value and cyclical stocks, as well as in big bank stocks, helped the TSX to outperform Wall Street this year. From the lows reached March 23rd, 2020, the S&P/TSX Composite Index increased by 79.6%. Meanwhile, in the US the S&P 500 Index was up 8.2% for the quarter and 91.9% from the low and 14.4% for the past 6 months. The increase in terms of Canadian dollars was smaller for the quarter as the Canadian currency increased from 79.52 cents to 80.68 cents, an increase of 1.5%. As of June 30, the dividend yield of the S&P/TSX was 2.6% and S&P500 1.4%, which indicates continuing relative value in stocks as the 10-year government bond yields were 1.4% in Canada and 1.5% for US Treasuries.

The Bank of Canada maintained its overnight interest rate target at 0.25% supplemented by the Bank's quantitative easing (QE) program, which continues at a target pace of $3 billion per week, at its announcements April 21st and June 9th indicating "The Governing Council judges that there remains considerable excess capacity in the Canadian economy, and that the recovery continues to require extraordinary monetary policy support." They also indicated "With COVID-19 cases falling in many countries and vaccine coverage rising, global economic activity is picking up. Growth remains uneven across regions. The US is experiencing a strong consumer-driven recovery and a rebound is beginning to take shape in Europe, while a resurgence of the virus is hampering the recovery in some emerging market economies. Financial conditions remain highly accommodative, reflected in broadly higher asset prices." In the United States, the FOMC held its rate April 28th and June 16th at 0% to 0.25%. However, the Fed's projections of future rate increases became more hawkish, with more members of the committee forecasting that the first US rate hike would take place in the second half of 2022. The Committee indicated "Progress on vaccinations has reduced the spread of COVID-19 in the United States. Amid this progress and strong policy support, indicators of economic activity and employment have strengthened. The sectors most adversely affected by the pandemic remain weak but have shown improvement. Inflation has risen, largely reflecting transitory factors." 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 2021 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 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 from our website or by contacting our office.

Client Relationship Document

New regulatory requirements known as "Client Focused Reforms" made it necessary for Investment Fund Managers and Dealers to provide an amended client relationship document which we have posted on our website and included in a quarterly statement for the period ended June 30th for all members along with the requirements to maintain and update regularly (minimum every 3 years) certain information that permits individuals to invest into the investments they wish. As advised in my previous newsletter, a key change is the disclosure of the deemed conflict of interest in offering proprietary funds which is limited with the Tradex fund family given our investors beneficially own the manager and advisors are salaried with no sales targets. If you have any questions or would like to discuss, please do not hesitate to contact us.

Blair Cooper
July 19, 2021

Tradex Equity Fund Limited – Quarterly Review – June 30, 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	8.8	13.9	35.7	12.6	12.7	12.8	9.4	9.5
S&P/TSX Total Return Index (TRI)**	8.5	17.3	33.9	10.8	10.7	10.8	7.4	—
Average Canadian Focused Equity Fund***	6.4	13.7	31.7	9.3	8.8	9.4	7.3	—

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

During the second quarter an investment in Tradex Equity Fund Limited increased in value by 8.8%, approximating the Fund's benchmark, the S&P/TSX Total Return Index, and outperforming the mean fund in its category. It increased 35.7% for the past year, outperforming the Canadian index after all expenses. From the March 23rd bear market bottom the fund returned over 86%.

The S&P/TSX Composite Index had exceptionally strong returns during the first half of 2021 and was among the world's strongest-performing equity markets. Canadian stocks benefitted from rising commodity prices given that the Energy and Materials companies make up a significant portion of the Canadian market. The Financial firms, the third major leg of Canada's stock market, were bolstered by a rise in long-term interest rates and an anticipated recovery in domestic economic growth. Widespread acceptance of vaccinations by Canadians led to optimism that the domestic economy would recover in the second half of the year, in line with strength in the US.

Over the quarter, the fund's relative performance was aided by overweight/underweight positions and security selection. The fund's relative lack of exposure to Barrick Gold, B2Gold, and Kinross Gold boosted returns as gold prices fell from all-time highs. An overweight position in AutoCanada was a top contributor. An overweight position in Farmers Edge and the fund's lack of exposure to BlackBerry limited performance. Alternative asset manager Blackstone was a leading foreign contributor along with US coastal bank First Republic Bank and SVB Financial Group. The fund's position in the Swiss pharmaceutical company Roche benefitted from strength in its diagnostics division. Deutsche Post DHL Group continued to benefit from a recovery in economic activity, and their unmatched global logistics network. US chip maker Nvidia rose to an all-time high over the quarter and was a key contributor to returns. Nidec was among the largest detractors from performance. Phillips, Hager & North (PH&N) exited our position in US biotechnology company bluebird bio during the quarter.

As at June 30, 2021 the Fund's 10 largest holdings were as follows:

Royal Bank of Canada	3.9%	Alphabet Inc.	2.1%
Shopify Inc.	3.8%	Enbridge	2.0%
TD Bank	3.0%	Roche Holding AG Genusschein	1.9%
Microsoft Corp.	2.2%	Bank of Montreal	1.8%
Brookfield Asset Management	2.1%	First Republic Bank	1.8%

PH&N indicates that while the S&P 500 Index may currently appear expensive, it could grow into those elevated valuations fairly quickly as a surging economy boosts volumes and pricing power, lifting revenues and earnings, and leading to a durable earnings expansion that could last several years. Return potential improves as we move outside of North America to regions such as Europe, Japan and emerging markets, all of which offer more attractive valuations. In PH&N's view, a continued economic recovery and growth in corporate profits will be needed to support further equity returns. Inflation expectations and the outlook for the trajectory of interest rates remain important indicators for future equity-market returns. The Canadian stock market's sizeable exposure to financial services and commodities should boost its relative performance in a global economic recovery.

Tradex Bond Fund – Quarterly Review – June 30, 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	3.5	4.5	12.3	4.6	3.9	4.1	4.4	5.8
FTSE TMX Canada Universe Bond	1.7	-3.5	-2.4	4.2	3.3	2.6	3.9	—
Average Canadian Bond Fund**	1.4	-3.2	-1.3	3.6	2.6	2.1	2.9	—

*December 1989 **Source: FundData

An investment in the Tradex Bond Fund increased in value by 3.5% during the second quarter outperforming the index and its peers, while it has increased by 12.3% over the past year and has returned over 25% from March 23rd, 2020.

During the last year-and-a-half, there have been a number of volatile quarters impacting various parts of global financial markets. As the second quarter of 2021 progressed, this volatile behaviour subsided greatly as the ongoing vaccination rollout coupled with the continual flood of fiscal and monetary policy supports usher in a very healthy increase in economic growth. Official inflation statistics moved notably higher due to – easier comparisons to levels seen one year ago, substantial policy stimulus, flourishing commodity prices, and supply-chain disruptions, to name a few. Inflation increasing during an economic recovery does not come as much of a surprise but a question is how persistent above-trend inflation will be. Security selection was once again the primary driver of performance during the quarter. 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 although short term rates began to price an increase by the Bank of Canada likely in the second half of 2022, as seen in the following table:

Term to Maturity	Yield Dec. 31/06	Yield Dec. 31/20	Record Lows	Yield Mar. 31/21	Yield June 30/21
2 year	4.02%	0.20%	**0.15%***	0.22%	0.45%
3 year	3.99%	0.25%	**0.18%***	0.49%	0.65%
5 year	3.99%	0.39%	**0.30%****	0.99%	0.97%
10 year	4.08%	0.67%	**0.43%****	1.55%	1.39%
30 year	4.14%	1.21%	**0.71%*****	1.97%	1.84%

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. Canadian preferred shares continued to increase driven by the improving fundamentals and the structural changes (Limited Recourse Capital Notes and other hybrid issuance) leading to ongoing buying pressure. The impact of less preferred share issuance as LRCN and other corporate hybrids are issued, and cash being redeployed in remaining issues, should lead to continuing strong returns in the preferred market. Furthermore, the emergence from the pandemic into a stronger growth cycle with higher interest rates will eventually lead to higher dividends from outstanding preferred shares.

The yield on the Fund's overall portfolio was 2.4% as at June 30th, 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**	*1.6%*	*1.9%*	*4.5%*	*3.9%*	*2.4%*

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

Portfolio duration was reduced to about 1.2 years (versus 0.8 last quarter) below the benchmark's duration as Foyston, Gordon & Payne (FGP) believes the risk/reward of a longer duration continues to be unfavourable. FGP continue to watch for opportunities that present the highest probability of success in generating long-term risk adjusted performance. Inherent in their value investment discipline is a focus on owning a collection of what they believe to be 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.

Tradex Global Equity Fund – Quarterly Review – June 30, 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	6.9	10.9	37.2	11.0	11.3	14.9	12.8	7.3
Average Canadian Global Equity Fund**	5.5	9.4	27.2	10.6	10.2	11.2	9.8	—

*May 1999 **Source: FundData

During the second quarter of 2021, the value of each unit in the Tradex Global Equity Fund increased by 6.9% exceeding the median global equity fund and global indices. Since the Bear market lows of March 23rd the fund has risen 99.7% to quarter end.

Global equity markets continued their robust start to the year as improving vaccination rates, reduced pandemic related restrictions and continued fiscal and monetary stimulus led a rebound in economic growth while supporting corporate earnings growth. Economic re-opening gained momentum in most developed economies although much angst was generated regarding continued concerns of an inflationary outburst. While the US Federal Reserve insisted that such an outbreak would be transitory and short term in nature, labor shortages, supply chain bottlenecks and elevated house prices all contributed to concerns those inflationary expectations would become anchored higher on a longer-term basis. These concerns seemed to steadily diminish as the quarter progressed as US 10-year bond yields declined from a high of 1.80% to below 1.50%.

Growth stocks outperformed value stocks in this environment albeit this was most pronounced in the US market with the technology companies again leading the overall market higher and the S&P 500 posting a 7.1% gain in Canadian dollars. However, some value stocks continued to outperform with energy firms in particular posting a strong performance and this aided continued support for the Canadian market which rose 9.5%. Rising healthcare stocks also drove returns in the Danish and Swiss markets where equities outperformed with increases of 12.1% and 10.1% respectively. European markets overall were about in line with the Global average as French stocks outperformed while Germany was weaker with the DAX Index gaining just 3.0%. The UK also marginally underperformed following a strong first quarter with the FTSE 100 Index rising 4.2%. Japan and India were among the laggards with each facing worsening Covid infection rates and more restrictions on mobility and economic activity. Japan's Topix Index fell 2.1% while India Sensex's gained just 3.4%. South East Asian markets also underperformed for similar reasons with Singapore's Strait Times Index being representative with a 1.3% loss.

US and Canadian exposure was slightly increased over the period while UK and Emerging Markets exposure was reduced following gains. European exposure was broadly maintained while Japanese exposure fell largely as a result of market underperformance.

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