Tradex QUARTERLY

Third quarter 2021

President's Report to Tradex Members

The Canadian market declined in September after posting seven straight monthly gains as inflation fears persisted and expectations grew that the US Federal Reserve will tighten policy in the coming months. Wall Street also ended lower, closing out its worst quarter since early 2020. The TSX fell 0.5% for the quarter while the S&P500 gained 0.2% however they have risen 15.1% and 14.7% respectively year to date. The US increase in terms of Canadian dollars was higher for the quarter as the Canadian currency decreased from 80.68 cents to 78.49 cents, a decrease of 2.7% for the period. As of September 30, the dividend yield of the S&P/TSX was 2.6% and S&P500 1.4% (plus buybacks 1.7% Q2), which indicates relative value in stocks as the 10-year government bond yields were 1.51% in Canada and 1.53% for US Treasuries.

The Bank of Canada maintained its overnight interest rate target at 0.25% at its announcements July 14th and September 8th indicating "The global economic recovery continued through the second quarter, led by strong US growth, and had solid momentum heading into the third quarter. However, supply chain disruptions are restraining activity in some sectors and rising cases of COVID-19 in many regions pose a risk to the strength of the global recovery." In the United States, the FOMC held its rate July 28th and September 22nd at 0% to 0.25%. The Committee indicated "The path of the economy continues to depend on the course of the virus. Progress on vaccinations will likely continue to reduce the effects of the public health crisis on the economy but risks to the economic outlook remain." 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, but the Canadian purchases have been reduced and in the US the Committee judges that a moderation in the pace of asset purchases may soon be warranted.

RBC Investor & Treasury Services to become registrar and custodian for Tradex Funds

In early 2022, RBC Investor & Treasury Services will become the registrar and custodian for the Tradex Funds replacing CIBC Mellon. Similarly the Royal Trust Company will replace CIBC Mellon Trust as the trustee for the Tradex registered plans. With the registrar transition the Tradex fund statements and confirmations will be somewhat different and we anticipate new electronic options in the near future along with cost savings over continuing with CIBC Mellon.

A thank-you for referring New Clients

Phillips, Hager & North (now a part of RBC Global Asset Management) have been the portfolio managers for the Tradex Equity Fund Limited for 30 years in 2022 and in honour of this milestone 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.

25 Years of service

November 2021 marks the 25th anniversary of Debby Wright's commencing employment with Tradex. On behalf of our members, board and staff we wish to thank her for her invaluable contributions.

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 web site at www.tradex.ca. Please note the last opportunity to obtain the additional bonus for RESPs through Tradex whereby we have been able to donate to the United Way and GCWCC will end in 2022 with the banning of the deferred sales charge funds which create the commissions we have donated.

Blair Cooper
October 18, 2021

Tradex Equity Fund Limited – Quarterly Review – September 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	0.7	9.6	28.3	12.7	11.9	11.7	11.1	9.5
S&P/TSX Total Return Index (TRI)**	0.2	8.7	28.0	11.1	9.8	9.6	8.8	—
Average Canadian Focused Equity Fund***	0.8	7.2	25.4	9.3	8.4	8.5	8.9	—

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

During the third quarter, an investment in Tradex Equity Fund Limited increased in value by 0.7%, exceeding both the Fund's benchmark, the S&P/TSX Total Return Index, and the mean fund in its category. It increased 28.3% for the past year, outperforming the Canadian index after all expenses.

The S&P/TSX Composite Index reached new highs in the third quarter but ultimately finished the period close to flat. The Technology firms experienced a meaningful reversal over the quarter after significant gains early in the period. In September, however, their stocks were negatively influenced by inflationary concerns and the prospect of rising rates, which have a disproportionate effect on tech companies, as they derive much of their value from discounted future cash flows. Following an extremely strong start to the year, commodities such as copper, crude oil, and lumber declined late in the third quarter as an increase in COVID-19 cases in the developed world suggested that the economic outlook was not as robust as had been expected. Overall, those areas of the Canadian stock market that are less exposed to the pace of economic growth outperformed and offset weakness in others.

Most major stock-market indices encountered turbulence in September as mounting risks and rising yields tempered investors' enthusiasm. The S&P 500 Index fell as much as 5% from its record high earlier in the month and underperformed other global equity markets, weighed down by mega-cap growth and technology stocks. Optimism waned, as indicated by the American Association of Individual Investors survey showing an extreme lack of bulls. That said, stocks remain relatively fully valued, with the S&P 500 trading at more than one standard deviation above Phillips, Hager & North's (PH&N) modelled estimate of fair value.

Over the quarter, not owning Barrick Gold, Franco Nevada, BlackBerry and Kinross Gold enhanced performance. Tourmaline Oil, Blackstone, SVB Financial Group and Croda were strong contributors to returns. In contrast, Canadian Pacific Railway, Farmer's Edge, Anheuser-Busch InBev and Naspers were among the largest detractors from returns. Naspers owns a significant stake in Chinese technology giant Tencent.

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

Royal Bank of Canada	3.8%	Brookfield Asset Mgmt.	2.2%
Shopify Inc.	3.6%	Canadian National Railway	2.0%
TD Bank	2.9%	Enbridge	2.0%
Alphabet Inc.	2.3%	Bank of Montreal	1.9%
Microsoft Corp.	2.3%	Roche Holding AG Genusschein	1.9%

In PHN's view, a resumption in the stock market's ascent will likely require continued strong growth in corporate profits. The recovery in earnings from the pandemic lows has been extremely powerful, with profits having already exceeded their pre-pandemic level and on track to be 20% above that prior peak by the end of this year. While the strength of the recovery is truly impressive, investors may be shifting their focus to what will happen beyond the initial recovery and what would be required to extend profit increases beyond these levels. They still expect the economy to grow at a fairly rapid pace next year, which should translate to a strong corporate-profit growth and provide support for equity markets. However, continued earnings gains are becoming increasingly critical as valuations are rather demanding and there are a number of threats that could cause heightened periods of market volatility.

Tradex Bond Fund – Quarterly Review – September 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	-0.1	3.4	9.2	4.6	4.0	3.7	4.2	5.7
FTSE TMX Canada Universe Bond	-0.5	1.1	-3.4	4.3	3.7	2.3	3.3	—
Average Canadian Bond Fund**	-1.4	-0.7	-4.2	4.2	3.3	1.8	2.5	—

*December 1989 **Source: FundData

An investment in the Tradex Bond Fund decreased in value by 0.1% during the third quarter outperforming the index and its peers, while it has increased over 9% for the past year in contrast to the Canadian Bond index which lost over 3% for the past year.

For the second quarter in a row, most financial markets remained generally calm and collected even as large economic variables such as growth and inflation continued to show some ongoing signs of volatility. Rising COVID-19 infection rates and challenges with supply-side bottlenecks caused some market participants to slightly reduce their economic growth projections during the late summer months. The reductions have been generally small, and we still expect the full year of economic growth for Canada to be very strong, roughly in the 5% range. Even as supply side disruptions hampered growth forecasts, the disruptions had an even larger impact on inflation, with all expectations going in the same direction – up. There have been a litany of factors driving measured inflation higher, including supply-chain disruptions, lack of qualified workers in many industries, and flourishing resource/commodity prices. The portfolio's shorter than benchmark duration positioning was a positive contributor to relative performance in the quarter. Our allocation to corporate credit along with strong security selection were positive contributors to relative performance.

Generally, longer dated Government of Canada bond yields increased during the quarter, as seen in the following table:

Term to Maturity	Yield Dec. 31/06	Yield Dec. 31/20	Record Lows	Yield June 30/21	Yield Sept. 29/21
2 year	4.02%	0.20%	**0.15%***	0.45%	0.53%
3 year	3.99%	0.25%	**0.18%***	0.65%	0.67%
5 year	3.99%	0.39%	**0.30%****	0.97%	1.11%
10 year	4.08%	0.67%	**0.43%****	1.39%	1.51%
30 year	4.14%	1.21%	**0.71%*****	1.84%	1.98%

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, 38% 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 top performing companies in our equity portfolio this quarter were CI Financial, rising 14%, Bird Construction, up 13%, and Nutrien, gaining 10%. The main detractors from portfolio performance in our equity portfolio this quarter were Transcontinental, returning -13% and Rogers, returning -10%. The preferred share market moderated from the strong pace in the first half of the year. However, the continued call activity supported prices and translated into modest capital appreciation in addition to the stable dividends. 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 1.8%.

	Government Bonds	*Corporate Bonds*	*Preferred Shares*	*Common Shares, Trusts, REITs*	*Weighted average total*
*Yield**	*1.7%*	*1.9%*	*4.5%*	*3.9%*	*2.5%*

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

Despite the move higher in yields so far in 2021, Foyston, Gordon & Payne's (FGP) remain cautious about the absolute levels of long interest rates in Canada as the risk/reward of a longer duration continues to be unfavourable. As always, FGP will continue to allocate capital towards investment opportunities that present the highest probability of success in generating long-term risk adjusted performance within the strategy. 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.

Tradex Global Equity Fund – Quarterly Review – September 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	2.1	9.1	32.5	11.5	11.6	13.1	14.2	7.3
Dow Jones Global Total Return Index**	1.1	6.8	21.8	11.8	12.3	12.5	14.3	—
Mean Canadian Global Equity Fund**	0.2	5.7	20.5	9.9	9.9	10.1	11.3	—

*May 1999 **Source: FundData

During the third quarter of 2021, the value of each unit in the Tradex Global Equity Fund increased by 2.1% exceeding the median global equity fund and global indices. For 2021 as a whole, the Fund has increased by 13.2%.

Global equity markets struggled to make meaningful progress during the third quarter as economic data disappointed due to a combination of supply chain bottlenecks and stagnating economic re-opening as rising Covid delta variant cases resulted in the re-imposition of mobility restrictions in some areas of the globe, particularly Asia. Inflation remained a topic of concern but for now the markets seem to believe that it will be transitory as outlined confidently by various central banks, notably the US Federal Reserve. China was also a significant focus of attention as a series of new regulatory issues primarily targeting technology platforms and education providers initially spooked investors while troubles in the real estate development sector were also highlighted with particular focus on the feared insolvency of its largest developer, China Evergrande.

The Japanese market was the best performing Developed Market during the period, bouncing back from a weak second quarter and spurred in late September by the resignation of PM Suga and hopes that the new administration would pursue aggressive fiscal stimulus. The Topix Index rose 7.2% in Canadian dollar terms aided by a 2.1% appreciation of the yen. European markets were mixed with smaller markets such as the Netherlands gaining 6.1% and Denmark gaining 4.5% but offset by falls in industrial dominated Germany, down 1.9% and Sweden falling 0.2%. The UK market was broadly neutral as the FTSE 100 Index gained 1.7% while resource oriented Australia and Canada underperformed as they eeked out gains of just 0.6% and 0.2% respectively. Emerging Markets underperformed as the gravitational pull of a weak Chinese market as well as a Covid resurgence elsewhere in Asia saw the overall index fall 8.0%. Despite this there were a few bright spots with India gaining 15.6% and Russia rising 12.1%.

During the period, US exposure was reduced while Japanese and UK exposure was increased as discounts among these closed end funds remained wide. Following share price weakness, a position was also established in European listed holding company, Prosus, which predominantly provides exposure to Chinese tech company Tencent Holdings and trades at close to a 40% discount to its net asset value.

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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 (2022 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 $75,500 in 2021 or $81,500 in 2022.

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.
LAST CHANCE: contributions to deferred sales charge RESP investments will generate a 5% charitable donation to the GCWCC and United Way while available before May 2022.

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.