

# Tradex

## QUARTERLY

Yield on  
Tradex Investment  
Savings Account  
**1.00%**

First quarter 2022

### President's Report to Tradex Members



The Canadian equity market was one of the few to move higher for the first quarter, with the S&P/TSX Composite Index increasing by 3.1% during the past three months. In the US the S&P 500 Index was down 5% for the quarter; however, the decrease in terms of Canadian dollars was higher for the quarter as the Canadian

currency increased from 78.88 cents to 80.03 cents, an increase of 1.5%. As of March 31, the dividend yield of the S&P/TSX was 2.6% and S&P500 1.4% (Buybacks 2.2% Q4, 2021), which indicates only a nominal remaining relative value in stocks due to the significant rise in the 10-year government bond yields to 2.4% in Canada and 2.3% for US Treasuries.

The Bank of Canada and the US Federal Open Markets Committee both increased their rates by 0.25% for the first time since 2020 as economies emerge from the pandemic and inflation was extremely elevated. Expectations are for continuing increases by both central banks at their scheduled meetings this year with perhaps some 0.5% increases amongst them.

#### Management Expense Ratios

We are pleased to confirm to investors that the Management Expense Ratio (MER) for all of the Tradex Funds declined in 2021, as follows:

	2021 MER	2020 MER	Median Fund for Category* MER
Tradex Equity Fund	1.00%	1.03%	2.29%
Tradex Bond Fund	0.90%	0.95%	1.27%/1.84% <sup>‡</sup>
Tradex Global Fund <sup>#</sup>	2.71%	2.79%	2.33%

\* Source: Morningstar

<sup>#</sup> includes underlying funds 0.99% generally offset by the movement in discount rates, direct cost 1.72%

<sup>‡</sup> Fixed Income/Fixed Income Balanced

The lower MERs reflect both the record rebates we were able to make in 2021 and the increased assets held within the Funds over which the expenses are allocated. The \$649,750 rebate of management fees (versus \$550,310 in 2020) 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.

#### Tradex on the Move

Effective March 28<sup>th</sup>, 2022 RBC Investor & Treasury Services replaced CIBC Mellon as the back office for the Tradex Funds. You will notice the new look on our quarterly fund account statements and transactions through your bank accounts. With this change we will shortly announce how you can switch to electronic Tradex fund statements and revised trust documents are available on our website for registered plan holders. Furthermore, the Tradex offices will be relocating 3.5 blocks west in May to our new location 340 Albert St., unit 1604, Ottawa, ON K1R 1A4. We will continue to reimburse underground parking, now available in our Constitution Square complex which is also across the street from the Lyon LRT station.

#### Management Reports of Fund Performance and Financial Statements

For members who did not elect to receive a mailed copy, the 2021 reports are available anytime on our website for downloading. If you wish to receive a printed copy, please contact us.

#### Tradex 62<sup>nd</sup> Annual General Meeting

If you wish to view the presentations given by our three portfolio managers at the April 27, 2022 Annual General Meeting, they will appear on our website at [www.tradex.ca](http://www.tradex.ca) shortly after the meeting date in the section entitled "Members' News".

#### 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 the 30<sup>th</sup> anniversary of PH&N as our portfolio managers for Tradex Equity Fund Limited, 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  
April 18, 2022

## Tradex Equity Fund Limited – Quarterly Review – March 31, 2022

	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	-3.2	3.6	13.5	13.5	12.1	11.0	10.2	9.5
S&P/TSX Total Return Index (TRI)**	3.8	10.5	20.2	14.2	12.6	10.3	9.1	—
Average Canadian Focused Equity Fund**	-2.0	4.5	12.1	11.5	9.5	8.0	8.2	—

\*April 1960 \*\*Source: Fundata Canada Inc.

During the first quarter an investment in Tradex Equity Fund Limited decreased in value by 3.2%, lagging the Fund's benchmark, the S&P/TSX Total Return Index. It increased by 13.5% over the past year. At the March 23<sup>rd</sup> anniversary of the 2020 bear market bottom the fund had risen 93.9% for the 2-year period.

After a strong 2021, global equity markets tumbled in the first quarter of 2022 and volatility spiked as investors grappled with the prospect of rising interest rates, slowing growth, and the onset of war in Ukraine. However, the Canadian market was one of the only major global equity markets to record a gain. Canadian equity returns were supported by strong performance from Energy, Materials, and Financial companies. Performance for the fund was challenged during the quarter, as investors continue to rotate towards more value-oriented parts of the stock market. The fund is weighted to growth segments of the market.

The ongoing conflict in Europe has lifted commodity prices, specifically oil prices. Overweight positions in Tourmaline, Canadian Natural Resources, and Suncor Energy were top contributors over the period. An overweight to gold producers like Newmont, Yamana Gold and Agnico Eagle Mines boosted performance as gold is often considered a safe haven asset and hedge against inflation. In terms of positive foreign contributions, our newly initiated position in Equinor was the largest contributor to performance, followed by UnitedHealth Group, T-Mobile, and not owning Meta Platforms (formerly Facebook), which suffered a sharp decline. Copperleaf Technologies, PayPal, Coveo Solutions, Ecolab, Estée Lauder, Inditex, and Nidec were detractors. Phillips, Hager & North

(PH&N) made a number of positioning changes in January and March to exit investments in companies they felt were less equipped to thrive in the current environment and re-allocate that capital to companies they believe can successfully navigate today's challenges and create long-term value.

As at March 31, 2022 the Fund's 10 largest holdings were as follows:

Royal Bank of Canada	3.9%	Roche Holding AG Genusscheine	2.3%
TD Bank	3.7%	Bank of Nova Scotia	2.3%
Microsoft Corp.	2.6%	Canadian Natural Resources Ltd.	2.2%
Alphabet Inc.	2.5%	Brookfield Asset Management Inc.	2.2%
UnitedHealth Group Inc.	2.3%	Bank of Montreal	2.1%

After several years of strong performance, our strategy underperformed its benchmark over the quarter. PH&N's proven approach of being long-term investors in great businesses at attractive valuations remains steadfast. Their base case is for the economy to continue growing, albeit at a slowing pace, and they recognize that the range of potential outcomes is much wider than usual as a result of the ongoing conflict in Ukraine, surging commodity prices and a meaningful tightening in financial conditions. PH&N expects that central banks will likely have to raise interest rates at a steady pace over the next year to combat inflation. PH&N continues to expect stocks to outperform bonds over their 1-year forecast horizon, but they recognize that the premium that investors expect to receive for holdings stocks versus bonds has narrowed, lessening the attractiveness of equities relative to bonds at the margin.

## Tradex Bond Fund – Quarterly Review – March 31, 2022

	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	-3.6	-1.4	1.9	3.9	3.1	2.8	3.6	5.6
FTSE TMX Canada Universe Bond	-7.0	-5.6	-4.5	0.5	1.6	1.6	2.6	—
Average Canadian Bond Fund**	-6.7	-5.7	-5.0	0.2	1.0	0.9	1.7	—

\*December 1989 \*\*Source: Fundata Canada Inc.

An investment in the Tradex Bond Fund decreased in value by 3.6% during the first quarter while the benchmark Canadian bond index lost 7.0%. The fund has increased by 1.9% over the past year in contrast to the 4.5% loss of the index. At the March 23<sup>rd</sup> anniversary of the 2020 bear market bottom the fund had risen 22.8% for the 2-year period.

Inflation continued to accelerate well above central bank targets and, in most cases, we saw a broadening of price pressures across North America. Reacting to these developments, central banks – the Bank of Canada (BoC) and the US Federal Reserve (Fed) – zeroed in on their inflation targeting mandates and aggressively shifted their

plans to remove the various forms of monetary policy accommodation still in place. In March, both the BoC and the Fed started their tightening campaigns with a 25 basis points increase in their main policy rates, with many more steps very likely to occur through the balance of the year.

The portfolio's shorter-than-benchmark duration positioning was a substantial positive contributor to relative performance during the quarter. As geopolitical risks became a focal point, the high-quality profile of the bonds in the portfolio prevented any meaningful spread widening relative to the index. Canadian Natural Resources (CNQ) is one of Canada's leading oil and gas exploration and production companies.



The shares gained 46%, making CNQ the top performing company in the portfolio.

The sharply hawkish turn in action and communication from the BoC and the Fed had a direct influence on the fixed income market, with yields across all Government of Canada bonds increasing significantly during the quarter as seen in the following table:

Term to Maturity	Yield Dec. 31/06	Yield Dec. 31/20	Record Lows	Yield Dec. 31/21	Yield Mar. 31/22
2 year	4.02%	0.20%	<b>0.15%*</b>	0.95%	2.27%
3 year	3.99%	0.25%	<b>0.18%*</b>	1.02%	2.28%
5 year	3.99%	0.39%	<b>0.30%**</b>	1.25%	2.39%
10 year	4.08%	0.67%	<b>0.43%**</b>	1.42%	2.40%
30 year	4.14%	1.21%	<b>0.71%***</b>	1.68%	2.37%

**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 17% in common shares, REITs and Income Trusts. The yield on the Fund's

overall portfolio was 3.4% as at March 31<sup>st</sup>, as shown in the following table, while the yield on the FTSE TMX Canada Universe index was 3.0%.

	Government Bonds	Corporate Bonds	Preferred Shares	Common Shares, Trusts, REITs	Weighted average total
Yield*	2.8%	3.6%	4.5%	3.9%	3.4%

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

Looking at the rest of 2022, despite the increase in yields so far this year, Foyston, Gordon & Payne (FGP) remains cautious with the absolute levels of long interest rates in Canada. The portfolio will remain active in spread product as FGP identifies opportunities where underlying fundamentals have detached from market pricing. As always, they 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. FGP continues to be focused on owning a collection of high-quality companies that have resilient business models, earnings growth potential, conservative dividend payout ratios, and solid balance sheets.

## Tradex Global Equity Fund – Quarterly Review – March 31, 2022

	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	-10.5	-6.5	2.0	9.4	7.8	9.2	12.0	6.8
Dow Jones Global Total Return Index**	-6.9	-1.1	5.7	11.0	9.8	10.2	12.7	—
Average Canadian Global Equity Fund**	-7.4	-1.9	3.7	9.3	8.0	8.2	9.6	—

\*May 1999 \*\*Source: Fundata Canada Inc.

During the first quarter of 2022, the value of each unit in the Tradex Global Equity Fund decreased by 10.5% but has risen 2% in the past 12 months. At the March 23<sup>rd</sup> anniversary of the 2020 bear market bottom, the fund had risen 89.5% for the 2-year period.

Global equity markets endured a number of seismic tremors during the first quarter of 2022. It began with a sell-off in growth related sectors as the market awoke to the dangers of surging inflation globally and the likelihood that interest rates would need to rise significantly to offset these pressures as labour markets remained tight. By late February, bond yields were significantly higher and negative sentiment was compounded by the news that Russia had invaded Ukraine. The resultant global denouncements and sanctions weighed further because of the impact of the invasion on commodity and energy markets. Both oil and natural gas prices rose sharply while concerns regarding Europe's dependence on energy from Russia led to speculation of an imminent recession. Finally, China was also an ongoing source of angst, cultivating its partnership with Russia while remaining neutral enough that the West did not impose sanctions on the Chinese economy. At quarter end, the passivity at year end had given way to a host of damaging geopolitical scenarios and the prospect of 1970's style stagflation as rising interest rates to combat inflation also choked off the growth engine as the globe continues to emerge from the COVID-19 pandemic.

Given this backdrop, markets offering exposure to resource sectors led the way during the quarter. Australia was the leading developed equity market posting a 4.5% total return in Canadian dollars while Canada was not far behind with an increase of 3.8%. The UK market outperformed the global benchmark while still posting an absolute fall of 2.3% and the US was approximately neutral with a 5.9% decline. European markets were the worst performers, particularly those that are heavily industrialized and reliant on a secure and low-cost energy supply. Sweden was the worst performer with a 17.1% fall while Germany, the Netherlands, Italy, and France declined by 13.2%, 12.6%, 12.1%, and 10.4% respectively. Japan was also weak but particularly so due to a steep drop in the yen which contributed 6.4% of its overall 8.7% slide. Emerging Markets also underperformed although there was a wide disparity between commodity producers that gained and commodity consumers that lagged.

The confluence of these factors led to a poor performance of the Fund over the period. While the portfolio is overweight to the energy and material companies and these did well, this was more than offset by exposure to consumer discretionary and industrial companies as well as some smaller companies that underperformed in this risk-off environment. Trading activity was limited but at the margin City of London Investment Management added to positions that suffered significant NAV weakness and discount widening in the expectation that these will rebound when some stability returns to the markets.

*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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## The Tradex and PH&N 30<sup>th</sup> Anniversary \$30 New Member Incentive

PH&N (now a part of RBC Global Asset Management) has partnered with Tradex since 1992 as Portfolio Managers of Tradex Equity Fund Limited. To show our appreciation, build our membership and, in recognition of this milestone, 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
- Send me a \$30 cheque to my home
- Alternatively, credit the entire \$60 to the new Member's account at Tradex

\_\_\_\_\_  
 Existing Member's Signature

**New Member:**

Name \_\_\_\_\_

Address \_\_\_\_\_

Phone # \_\_\_\_\_

Email \_\_\_\_\_

\_\_\_\_\_  
 New Member's Signature

Please note: Government regulations require that this offer not be applicable to certain types of accounts.