Tradex QUARTERLY

Yield on Tradex Investment Savings Account 1.5%

Second quarter 2022

President's Report to Tradex Members

The Canadian equity market succumbed and closed lower in the second quarter as with did global equity markets, with the S&P/TSX Composite Index decreasing by 13.8% during the past three months. In the US, the S&P 500 Index was down 16% for the quarter, completing its steepest second-half percentage drop since 1970 and confirming a bear market as of June 13th having declined over 20% from its January peak. However, the decrease in terms of Canadian dollars was lower for the quarter as the Canadian currency decreased from 80.03 cents to 77.60 cents, a decrease of 3% for the period. As of June 30, the dividend yield of the S&P/TSX was 3.2% and S&P500 1.7% (Buybacks 2.6% Q1, 2022), which indicates a return towards historic relationships due to the significant rise in the 10-year government bond yields to 3.2% in Canada and 3.0% for US Treasuries.

The Bank of Canada increased their rates by 0.5% twice during the quarter to 1.5% while the US Federal Open Markets Committee increased the federal funds rate by 0.75% in June to a range of 1.50% to 1.75% after a 0.5% increase in May. Expectations are for continuing increases by both central banks at their scheduled meetings this year, with perhaps some 0.75% increases amongst them. Both central banks are also continuing their quantitative tightening measures to return inflation towards target levels.

Interim Management Reports of Fund Performance and Financial Statements

For members who did not elect to receive a mailed copy, the 2022 reports will be available by late August on our website. If you wish to receive a printed copy, please call or e-mail us.

Tradex has Moved

The Tradex offices are now located at 340 Albert St., Unit 1604, Ottawa, ON K1R 7Y6. 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.

Bear Markets

The following is an excerpt from an article written in December 2008 providing Phillips, Hager & North's perspective on bear markets and how investors should react (originally reprinted in its entirety in our first quarter 2009 newsletter) adapted for today's circumstances.

Blair Cooper
July 18, 2022

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Looking back through history, an observer can see that bear markets generally share similar attributes that take shape as investor psychology shifts from greed to extreme fear over a relatively short period of time. Common characteristics include: some form of crisis (war, runaway inflation, real estate collapse), economic recession, corporate profit declines, job losses, increasing loan defaults, and excessively expensive equity markets revaluing downward quickly. Sound familiar?

Despite what seem like obvious warning signs, in hindsight, bear markets tend to catch most everyone off guard – including professional investors. Not only is the timing of a bear market nearly impossible to predict, but so, too is its severity. Bear markets are usually more violent than expected and generally there are no safe harbours.

Given how difficult bear markets are to predict, it should be no surprise that trying to peg a market bottom is equally difficult. More importantly, this type of guesswork – fodder for countless market pundits, talk show panelists, and armchair investment managers – is actually counterproductive, since it ratchets up the hype and distracts investors from their long-term focus. The key to successful long-term investing, after all, is to remain fully invested during the market lows because equities have historically outperformed other forms of investments over the long term, even when you include the effects of bear markets.

(continued on back page)

Tradex Equity Fund Limited – Quarterly Review – June 30, 2022

	Total return (%)			Average annual compound return (%)			
	Latest 3 months	Latest 6 months	1 year	3 years	5 years	10 years	Since inception*
Tradex Equity Fund Limited	-14.1	-16.9	-10.4	7.1	11.0	10.2	9.5
S&P/TSX Total Return Index (TRI)**	-13.2	-9.9	-3.9	8.0	10.3	9.1	—
Average Canadian Focused Equity Fund**	-11.8	-13.5	-7.0	6.2	8.0	8.2	—

*April 1960 **Source: Fundata Canada Inc.

During the second quarter an investment in Tradex Equity Fund Limited decreased in value by 14.1%, lagging the Fund's benchmark, the S&P/TSX Total Return Index. It decreased by 10.4% over the past year.

In the first half of 2022, Canadian equities outperformed most other major global equity markets, with the S&P/TSX supported in large part by the strong performance of the energy companies, which make up nearly 20% of the index. These firms' performance slipped in the second quarter, and they posted a negative return as the market began to factor in the impact a potential recession would have on oil demand and prices. Ultimately, the S&P/TSX finished the period in line with most major equity markets, though its one-year return remains ahead of its global counterparts.

Broad market themes, including high inflation, rising interest rates, the Russia-Ukraine war, elevated energy prices, China's zero-tolerance COVID policy, and continued supply chain disruptions had a significant influence in determining the portfolio's largest contributors and detractors. Commodity prices declined significantly over the period as recession risks mounted, thus an underweight to base metals and gold companies was a boost to performance. An overweight to larger and more mature oil and gas names like Suncor and Tourmaline also contributed while our overweight to Aritzia hurt performance as recession fear mounted, and investors looked to more defensive parts of the market. Amongst foreign holdings, UnitedHealth Group was among the largest contributors to performance with PepsiCo and Equinor (both added in January) also among the top contributors to performance. Nvidia was among the largest detractors while copper miner First Quantum and Amazon were also a drag.

As at June 30, 2022 the Fund's 10 largest holdings were as follows:

Royal Bank of Canada	4.1%	Alphabet Inc.	2.3%
TD Bank	3.7%	Enbridge Inc.	2.3%
UnitedHealth Group Inc.	2.9%	Bank of Nova Scotia	2.3%
Microsoft Corp.	2.4%	Roche Holdings Ag Genusscheine	2.1%
Canadian Natural Resources Ltd.	2.4%	Brookfield Asset Management Inc.	2.1%

Phillips, Hager & North (PH&N) indicates key headwinds to the economy include unacceptably high inflation, aggressive central-bank tightening, a global commodity shock, the continuation of supply-chain challenges and damage from China's zero-tolerance COVID-19 policy. Because of this combination of headwinds, they gauge that the risk of recession is heightened over the next two years. With valuation levels having adjusted meaningfully, the focus now is on whether earnings expectations need to be lowered. Consensus estimates are for low double-digit profit gains over the year ahead. In an environment where those profits come through, inflation pressures subside and investor confidence rebounds from extreme pessimism, stocks could be set up to deliver double digit gains over the year ahead. But should a downturn or recession play out, history suggests that earnings could be vulnerable to declines.

Tradex Bond Fund – Quarterly Review – June 30, 2022

	Total return (%)			Average annual compound return (%)			
	Latest 3 months	Latest 6 months	1 year	3 years	5 years	10 years	Since inception*
Tradex Bond Fund	-6.5	-9.8	-7.8	1.4	1.4	2.8	5.3
FTSE TMX Canada Universe Bond	-5.7	-12.2	-11.4	-2.3	0.2	1.7	—
Average Canadian Bond Fund**	-6.2	-12.4	-12.0	-2.7	-0.5	-0.9	—

*December 1989 **Source: Fundata Canada Inc.

An investment in the Tradex Bond Fund decreased in value by 6.5% during the second quarter while the benchmark Canadian bond index lost 5.7%. The fund has decreased by 7.8% over the past year in contrast to the 11.4% loss of the index.

Inflation has been the most topical economic theme impacting financial markets for some time. During the quarter, price pressures continued to accelerate and broaden across most components of measurable inflation. The breadth and magnitude of the inflation pressures translated into central banks reacting aggressively to remove various forms of monetary policy accommodation that had been in place for the last few years as the central banks struggle to contain inflation and fulfill their inflation targeting mandate. The US Federal Reserve (the Fed) and the Bank of Canada (the BoC) have now raised their main policy rates to 1.75% and 1.50%, respectively, an increase of 150 basis points and 125 basis points since they began hiking rates in March.

The portfolio's shorter than benchmark duration positioning was again a substantial positive contributor to relative performance during the quarter. Spreads continued to widen and high-quality nature of the bonds in the portfolio prevented any meaningful spread widening relative to the index and contributed to outperformance. The stock portfolio modestly outperformed its benchmark in the quarter while Transcontinental Inc. was the single biggest contributor. As the risk of heavily persistent inflation and a stalled economic recovery increased during the quarter, the tone in the preferred share market was highly correlated with common equities. Expectations for dividend levels have increased significantly during the quarter while call activity was robust and is expected to continue throughout the remainder of the year, supporting prices.

The dramatic acceleration in the hawkish tone and communications from the BoC and the Fed continued to influence the broader fixed income market, with yields moving notably higher across all Government of Canada bonds (and bond prices continuing to fall) during the quarter as seen in the following table:

Term to Maturity	Yield Dec. 31/06	Record Lows	Yield Dec. 31/21	Yield Mar. 31/22	Yield June 30/22
2 year	4.02%	**0.15%***	0.95%	2.27%	3.10%
3 year	3.99%	**0.18%***	1.02%	2.28%	3.14%
5 year	3.99%	**0.30%****	1.25%	2.39%	3.10%
10 year	4.08%	**0.43%****	1.42%	2.40%	3.23%
30 year	4.14%	**0.71%*****	1.68%	2.37%	3.14%

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, 33% in corporate bonds, 13% in preferred shares, and 15% in common shares, REITs and Income Trusts. The yield on the Fund's overall portfolio was 4.3% as at June 30th, as shown in the following table, while the yield on the FTSE TMX Canada Universe index was 4.5%.

	Government Bonds	*Corporate Bonds*	*Preferred Shares*	*Common Shares, Trusts, REITs*	*Weighted average total*
*Yield**	*3.6%*	*4.6%*	*5.0%*	*4.5%*	*4.3%*

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

Foyston, Gordon & Payne (FGP) continue to identify new opportunities from the spread widening in the market and are prudently taking advantage of the opportunities at a measured pace as there is increased likelihood that softness in the markets will persist. They remain focused on downside protection as they navigate this unique and volatile period where the risk tone of the market will likely remain driven by inflation, fears of a recession, and geopolitical news. FGP follow their fundamental principles and strategies to build an all-weather portfolio of reliable dividend-paying companies in the equity component.

Tradex Global Equity Fund – Quarterly Review – June 30, 2022

	Total return (%)			Average annual compound return (%)			
	Latest 3 months	Latest 6 months	1 year	3 years	5 years	10 years	Since inception*
Tradex Global Equity Fund	-18.5	-27.5	-22.2	2.0	3.6	10.3	5.8
Dow Jones Global Total Return Index**	-13.0	-19.0	-13.0	5.5	6.7	11.5	—
Average Canadian Global Equity Fund**	-12.3	-18.8	-13.7	4.0	4.9	8.7	—

*May 1999 **Source: Fundata Canada Inc.

During the second quarter of 2022, the value of each unit in the Tradex Global Equity Fund decreased by 18.5%. This compares to a decrease of 13% in the index. For 2022 as a whole, the Fund has decreased by 27.5%.

Global equity market weakness continued in the second quarter of 2022 as the trends that began in the first quarter continued to reverberate in asset markets. In particular, ever escalating global inflation data weighed significantly as central banks scrambled to wrest back control with their hopes of price rises being transitory dissipating into the annals of history. The US Federal Reserve was among the more aggressive actors as it followed up a 0.25% increase in the Fed Funds rate in March with a further 0.5% increase in May and subsequently a further 0.75% rise in June despite having scorned the idea of such a rise merely a month and a half earlier. Expectations are now for further interest rate rises and as a result the dollar remained strong. Europe is similarly suffering with resurgent inflation as global supply constraints coupled with the impact on energy costs of the Russian invasion of Ukraine. The ECB has been slower to act, however, as concerns that the European economy will fall into recession temper policymakers. Indeed, with the likelihood of further interest rate increases, global investors have raised the prospects of a widespread economic contraction and it is arguably this process of reassessing the impact on corporate earnings that is driving markets lower.

Among developed equity markets, the UK was one of the more resilient markets with the FTSE 100 Index falling only 8.0% in Canadian dollar terms. This was despite political turmoil as a series of scandals rocked Boris Johnson's leadership and resulted in him being subjected to a no-confidence vote among his Conservative Party. The market's resilience likely was due more to its sector composition as energy and materials companies continued to outperform. The defensive nature of the Swiss market also resulted in outperformance as the market fell only 10.7%. The US market performed approximately in line with the global average posting a loss of 13.5%. Higher beta European markets were the main laggards as Sweden fell 14.2% and Italy declined 14.7%. Australia was also weak falling 16.1% as it gave up some of its relative outperformance from the first quarter. Emerging Markets outperformed led by a bounce back in the Chinese market.

Performance of the Fund was poor during the second quarter partly as the weak market sentiment caused a sharp derating in some closed end fund discounts. City of London (CLIM) continued to add to positions where there has been significant share price weakness with the expectation of positive returns as and when market sentiment stabilizes.

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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Bear Markets *(continued from p. 1)*

Sadly, for many investors, the emotional and financial hardship of a bear market is too much to take. Too many investors succumb to the pressure, sell at the bottom, and sit on the sidelines during the market recovery – thus missing out on the upside after having suffered through much of the downside. In fact, the largest gains in equity prices have come, more often than not, after significant declines.

Historically, when the S&P 500 has experienced price declines of 30% or more, it has then gone on to return over 40% the following two years as measured from the low.

A crisis like today's has the dual catastrophic consequence of eroding an investor's nest egg and also shortening an investor's time horizon (represented by a capitulation from his or her long-term plan). Now, more than ever, we urge investors to seek advice and establish a long term plan that will help ensure financial wellbeing beyond the time horizon of this bear market.

Of course, even for investors who have the discipline to stick to their strategies it is normal to wonder when some light will appear at the end of the tunnel.

Admittedly, it is very difficult to look past the negative headlines such as the continuing Ukraine conflict, high inflation and expected significant short term economic contraction. It is quite possible that things may get worse before we see signs of a recovery.

Fortunately, central banks and governments have learned fiscal and monetary policy lessons by studying the Great Depression and Japan's so-called "lost decade." More recently they learned that speed and massive scale – shock and awe – were critical to stemming the tide of the financial crisis. As they unwind the unprecedented monetary and fiscal policy responses rolled out around the world to counteract the pandemic, they create the capability to assist in the future.

Although Canada may see significant declines in corporate profits and employment in the near term, the declines will become less pronounced over time and the headlines will be less sensational. Investor and consumer sentiment are as negative as we have witnessed in many years. Historically, such negative sentiment has consistently been a reliable contrarian indicator. Recently, interest rates have been increasing from all time lows in an effort to control inflation. Today, our fund managers are seeing opportunities in the market unlike any that have been available for some time. In our portfolios, we are favouring securities issued by those companies best suited to not only survive the current environment, but also thrive as the economy moves into a recovery and beyond.

Investors who have discipline and a long-term focus have the two most important things needed to get through the current bear market. The last piece of the puzzle is time.