Tradex

QUARTERLY

Third quarter 2022

Yield on Tradex Investment Savings Account 2%

President's Report to Tradex Members

The Canadian equity market declined further in the quarter with the S&P/TSX Composite Index decreasing by 2.2% during the past three months. In the US, the S&P 500 Index was down 5.3% for the quarter closing at a new low for this bear market having declined 25% from its January peak. However, the decrease in terms of Canadian dollars was lower for the quarter as the Canadian currency again decreased falling from 77.60 cents to 72.96 cents, a decrease of 6% for the period. As of September 30th, the dividend yield of the S&P/TSX was 3.4% and S&P 500 1.9% (Buybacks 3.2% Q2, 2022), maintaining the more historic relationships with the previous rise in the 10-year government bond yields holding at 3.2% in Canada and rising further to 3.8% for US Treasuries.

The Bank of Canada increased its overnight interest rate target by 1% and 0.75% respectively at its announcements July 13th and September 7th indicating "Global inflation remains high and measures of core inflation are moving up in most countries. In response, central banks around the world continue to tighten monetary policy. Economic activity in the United States has moderated, although the US labour market remains tight." They also indicated "expect the economy to moderate in the second half of this year, as global demand weakens and tighter monetary policy here in Canada begins to bring demand more in line with supply." In the United States, the FOMC increased its rate 0.75% at each of its meetings July 27th and September 21st to 3% to 3.25% and anticipates that ongoing increases in the target range will be appropriate. The Committee stated "Recent indicators point to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures." They also indicated "The war and related events are creating additional upward pressure on inflation and are weighing on global economic activity." Both central banks also continued their quantitative tightening programs.

Electronic Annual Dealer Statements Option

All members, including those having only Tradex Funds accounts, will be receiving the full year dealer statements complete with the annual performance and cost & compensation reports in the new year. If you would prefer an electronic copy or simply to reduce paper, please visit our website to sign up through the Member Login with daily account access and to commence receiving electronic dealer statements. Please watch your mailbox for an announcement shortly with a separate mailing including the sign-up links allowing you to receive your Tradex Funds quarterly statements and confirmation slips electronically through arrangements with our new back office RBC Investor & Treasury Services.

Referral Campaign Ending

Members referring a new client to Tradex before December 31st and new members will receive a $30 deposit to their Tradex accounts in celebration of the 30th anniversary of Phillips, Hager & North (now a part of RBC Global Asset Management) as the portfolio managers for the Tradex Equity Fund Limited. New Members are extremely important to the continued success of Tradex and we therefore 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.

Three 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. Coming in 2023 is the new Tax-Free First Home Savings Account which combines the best components of TFSAs (all return available tax free if withdrawn towards eligible home purchase) and RRSPs (deductibility of contributions) and is anticipated to have benefits beyond just for those saving for a first home. Details on the programs are outlined on our back page and appear on our web site at www.tradex.ca.

Blair Cooper
October 18, 2022

Tradex Equity Fund Limited – Quarterly Review – September 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	-2.4	-16.1	-13.1	5.9	6.4	8.4	9.1
S&P/TSX Total Return Index (TRI)**	-1.4	-14.4	-5.4	6.6	6.5	7.3	—
Average Canadian Focused Equity Fund***	-1.3	-12.9	-8.9	5.3	4.7	6.8	—

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

During the third quarter, an investment in Tradex Equity Fund Limited decreased in value by 2.4%, trailing the Fund's benchmark, the S&P/TSX Total Return Index, and its category average.

Global equity market volatility persisted in the third quarter. Double-digit gains in the first half of the quarter were erased in the ensuing weeks as investors reassessed the impact of various macroeconomic risks. Equity markets in Canada continued to wrestle with the impact and stubbornness of elevated inflation and the likely path of economic growth. Expectations for growth have been tempered due to the impact of rising interest rates on consumption and other economic activity, as well as the lingering effects of supply-chain disruptions in Europe and China. Economists expect Canada's economy to outpace the US due to the positive impact of higher commodity prices.

After posting an impressive recovery from the pandemic, the global expansion is mature and the risk of recession is elevated. Leading indicators of the economy have fallen meaningfully from their peaks, consumer confidence has plummeted and businesses have curtailed plans for hiring and/or capital spending. The outlook is highly uncertain given the ongoing war in Ukraine and associated energy crisis in Europe, remaining challenges from COVID-19, unacceptably high inflation and aggressive central-bank tightening. Estimates for growth have been gradually lowered throughout the year and Phillips, Hager & North (PHN) think that if recession materializes, it will most likely appear in late 2022 or early 2023. Consumer prices have risen at their fastest pace in 40 years and, while inflation is arguably the biggest threat to the expansion, a number of the forces causing surging prices may now be fading.

Over the quarter, not owning Cenovus Energy along with holding Aritzia, Waste Connections, PepsiCo, AutoZone, Equinor, T-Mobile and UnitedHealth Group enhanced performance. In contrast, Newmont, Maple Leaf Foods, AIA Group and Deutsche Post DHL Group were among the largest detractors from returns.

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

Royal Bank of Canada	4.1%	Canadian Natural Resources Ltd.	2.2%
TD Bank	3.7%	Alphabet Inc	2.2%
United Health Group Inc	3.0%	Enbridge	2.2%
Microsoft Corp	2.3%	Brookfield Asset Mgmt	2.1%
Roche Holding Ag Genusschein	2.3%	Bank of Montreal	2.1%

In PHN's view, should a recession materialize, they expect it to be of middling size and duration in the US, and for the economy to recover at a moderate pace thereafter. The situation is expected to be meaningfully worse in Europe and the UK. There are a variety of reasons to think that inflation may have peaked and be headed toward meaningfully lower readings. Almost all of this year's decline in stocks has come from shrinking valuations due to rising inflation and bond yields. As a result of the worldwide drawdown in stocks, the entire excess valuation that existed in global equity markets has been erased. Falling valuations in both stocks and bonds have improved the return potential over the longer term. However, PHN remain concerned about the short-term outlook as the risk of a recession is elevated and the future path for inflation remains uncertain.

Tradex Bond Fund – Quarterly Review – September 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	-1.4	-7.8	-9.1	0.7	1.2	2.4	5.3
FTSE TMX Canada Universe Bond	0.5	-5.2	-10.5	-2.5	0.7	1.7	—
Average Canadian Bond Fund**	-0.2	-6.3	-11.6	-3.0	-0.2	0.7	—

*December 1989 **Source: FundData

An investment in the Tradex Bond Fund decreased in value by 1.4% during the third quarter lagging the index and its peers, while it has decreased over 9% for the past year in contrast to the Canadian Bond index which lost over 10% for the past year.

The third quarter saw more sizeable changes across the entire yield curve as the two-year yield increased by another 0.7% – a continued response to the increased expectations for an extended and aggressive interest rate hiking cycle – while the 10-year rate fell. This inverted the yield curve, a development often seen as a medium-term recessionary warning signal. Inflation expectations narrowed modestly as well. In aggregate, the market returned a small positive result after the negative returns of the previous two quarters. The preferred share market generated another negative return in the quarter. Responding to inflation, slowing earnings growth, and aggressive central banks, equity market performance was almost universally negative again this quarter. After being a substantial positive contributor to relative performance over the last number of quarters, the portfolio's shorter-than-benchmark duration positioning acted as a modest drag. The portfolio's exposure to credit investments was a negative contributor. Even as the companies continued to perform well, prices were impacted by weak market sentiment, and spreads widened.

Generally, longer dated Government of Canada bond yields decreased while shorter terms increased during the quarter inverting the yield curve, as seen in the following table:

Term to Maturity	Yield Dec. 31/06	Record Lows	Yield Dec. 31/21	Yield June 30/22	Yield Sept. 29/22
2 year	4.02%	**0.15%***	0.95%	3.10%	3.79%
3 year	3.99%	**0.18%***	1.02%	3.14%	3.72%
5 year	3.99%	**0.30%****	1.25%	3.10%	3.32%
10 year	4.08%	**0.43%****	1.42%	3.23%	3.16%
30 year	4.14%	**0.71%*****	1.68%	3.14%	3.09%

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 company in our equity portfolio this quarter was Nutrien, gaining 13%. The main equity detractors were Bird Construction declining 19% and Wajax which lost 6%. Sentiment in the preferred share market continued to be negative during the quarter as inflation continued to be quite high and the likelihood of a stalled economic recovery increased. The yield on the Fund's overall portfolio was 4.6% as at September 30th, as shown in the following table, while the yield on the FTSE TMX Canada Universe index was 4.2%.

	Government Bonds	*Corporate Bonds*	*Preferred Shares*	*Common Shares, Trusts, REITs*	*Weighted average total*
*Yield**	*3.8%*	*5.2%*	*5.7%*	*4.8%*	*4.6%*

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

While Foyston, Gordon & Payne (FGP) cannot predict the outcome of the current global challenges, they will follow their fundamental principles and strategies to build an all-weather portfolio of reliable dividend-paying companies. FGP's value investment discipline 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. New opportunities continue to emerge from the spread widening, and FGP are prudently taking advantage of the opportunities at a measured pace as there is increased likelihood that softness in the bond markets persists. FGP remain focused on downside protection as they navigate this unique and volatile market where the risk tone of the market will likely remain driven by inflation, fears of a recession, and geopolitical news.

Tradex Global Equity Fund – Quarterly Review – September 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	0.9	-17.8	-23.2	2.6	3.6	10.0	5.8
Dow Jones Global Total Return Index**	-0.8	-13.7	-14.6	4.9	6.3	11.1	—
Average Canadian Global Equity Fund**	-2.3	-14.3	-15.8	3.1	4.2	8.1	—

*May 1999 **Source: FundData

During the third quarter of 2022, the value of each unit in the Tradex Global Equity Fund increased by 0.9% exceeding the median global equity fund and global indices.

Global equity markets somewhat stabilized in the third quarter albeit an initial bear market rally to mid-August faded back toward the June lows by quarter end. The main culprit was stubbornly high inflation, particularly in the US, which dashed hopes of a slowing in the pace of US interest rate rises and caused the dollar to surge against all major currencies. The US Federal Reserve raised short-term interest rates by 0.75% twice during the period to end at 3.25% while continuing to strike a hawkish tone in their public pronouncements signaling further rate rises to come. Meanwhile the European economy continues to stagnate with growing evidence that the economy is already in recession. There too, inflation remains elevated, driven by surging energy prices amid supply constraints driven by Russia's invasion of Ukraine. Absent a resolution to the conflict the outlook remains bleak although sagging equity prices have arguably already priced much of this in. Finally, it was a turbulent period for the UK as Liz Truss took over as Prime Minister, the Queen died, and the pound plummeted following the unveiling of a fiscal plan that threatened surging debt levels and a pension fund crisis that was seemingly averted when the Bank of England stepped in to support the local bond market.

Companies providing non-essential goods and services to consumers saw their stocks rebound and outperformed during the quarter while energy stocks continued to perform well. Firms involved in communication and real estate were the main detractors globally. Among the various countries' markets, there was not a high degree of deviation among returns generated. The US market was marginally stronger with the S&P 500 Index gaining 1.9% in Canadian dollars while the Australian market rose 0.7% and Japanese and Swiss markets fell 0.5% and 0.6% respectively. On the whole, Eurozone markets were a little weaker but ranged between the French market which fell 2.5% and the German market which fell 5.2%. The UK was another negative outlier with the FTSE 100 Index falling 4.9%. Greater disparity in returns was seen in Emerging Markets where Brazil gained 14.8% and India rose 12.8% while Taiwan, Korea, and China H shares fell 6.8%, 11.3%, and 16.0% respectively.

During the period, City of London (CLIM) reduced European and UK exposure while adding to US exposure. Performance stabilized as the NAV performance of funds owned in the portfolio improved and despite the size weighted average discount on the Fund widening by nearly 90 basis points to 13.8%. They continue to believe that the portfolio offers a significant store of value and will perform well as markets stabilize and investor sentiment eventually improves.

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mutual funds for the public service
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THREE GREAT WAYS TO INCREASE YOUR SAVINGS AND REDUCE TAXES

Tax-Free Savings Accounts (TFSAs)

Tax-Free Savings Accounts (TFSAs) were introduced in 2009, allowing eligible contributions to grow tax-free.

Canadians aged 18 and over contribute up to $6,500 (2023 indexing to be confirmed) every year in a TFSA. Unused TFSA contribution room can be carried forward to future years so if you have not contributed to a TFSA, you may contribute up to a limit of $81,500 in 2022 or $88,000 in 2023.

Unlike an RRSP, contributions to a TFSA will not be deductible from your current income for income tax purposes, but all returns earned in a TFSA will not be taxed even when withdrawn. Additionally, the contribution limit is increased by the amount withdrawn in the following or future years.

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 Funds and Savings Account with no fees or administration charges, and can access most Canadian mutual funds and select GICs in an intermidiary TFSA through us. 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.

You receive a cash grant of up to $500 per year (20% of the first $2,500 contributed annually) for each child. Additional Provincial grants are available in Quebec and BC.

In addition, you can catch up on "unused" grant eligible contribution room over time (maximum one year per annum).

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.

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.

TAX-FREE FIRST HOME SAVINGS ACCOUNT

Coming in 2023, the new FHSA will combine the tax deductibility of a registered retirement savings plan (RRSP) with the tax-free compounding and withdrawal benefit of TFSAs when proceeds are used for a first home purchase. The current indicated maximum annual contributions will be $8,000 (subject to maximum lifetime contributions of $40,000) and the room is cumulative while allowing you to catch up on "unused" eligible contribution room over time (1 additional year per annum). If not withdrawn for a home the plan currently is indicated to be able to be consolidated into your RRSP without impacting or requiring eligible RRSP contribution room.

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.