Tradex
QUARTERLY

Third quarter 2023

President's Report to Tradex Members

After three positive quarters, the Canadian equity market declined in the quarter, with the S&P/TSX Composite Index decreasing by 3.1% during the past three months. In the US the S&P 500 Index was down 3.7% for the quarter but had risen 20% from the October low of last year's bear market and requiring an additional 12% to be fully recovered (typically requiring a couple years from the bear bottom). However, the decrease in terms of Canadian dollars was lower for the quarter as the Canadian currency decreased, falling from 75.53 cents to 73.96 cents, a decrease of 2% for the period. As of September 29th, the dividend yield of the S&P/TSX was 3.4% and S&P500 1.7% (Buybacks 2.2% Q2, 2023), maintaining the more historic relationships with the rise in the 10-year government bond yields to 4.0% in Canada and rising further to 4.6% for US Treasuries.

The Bank of Canada increased its overnight interest rate target by 0.25% at its announcement July 12th then held the rate September 6th, indicating "Inflation in advanced economies has continued to come down, but with measures of core inflation still elevated, major central banks remain focused on restoring price stability. In the United States, growth was stronger than expected, led by robust consumer spending. In Europe, strength in the service sector supported growth…The Canadian economy has entered a period of weaker growth, which is needed to relieve price pressures." In the United States, the FOMC increased its rate 0.25% at its meetings July 27th then held on September 20th. The Committee indicated "Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have slowed in recent months but remain strong, and the unemployment rate has remained low. Inflation remains elevated." They also indicated "Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation." 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. You can also sign-up to receive your Tradex Funds quarterly statements and confirmation slips electronically through arrangements with our new back-office RBC Investor Services by emailing us.

Referral Campaign Ending

Members referring a new client to Tradex before December 31st and new members will receive a $32 deposit to their Tradex accounts in recognition of Brien Marshall's 32 years of service as an advisor and head of compliance & operations. 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. New in 2023 is the Tax-Free First Home Savings Account (FHSA), 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 the back page and appear on our web site at www.tradex.ca.

Blair Cooper
October 20, 2023

Tradex Equity Fund Limited – Quarterly Review – September 29, 2023

	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	-3.2	-1.9	7.2	6.1	6.0	7.8	9.1
S&P/TSX Total Return Index (TRI)**	-2.2	-1.1	9.5	9.9	7.3	7.5	—
Average Canadian Focused Equity Fund**	-2.3	0.2	12.0	8.6	5.9	6.5	—

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

During the third quarter, an investment in Tradex Equity Fund Limited decreased in value by 3.2%, trailing the Fund's benchmark, the S&P/TSX Total Return Index, and its category average.

After three consecutive quarters of positive performance, global equity markets failed to extend their year-to-date gains into the third quarter as they contended with stubborn inflation, the prospect of higher-for-longer interest rates, a fragile Chinese economy, and earnings risk associated with a potential recession. The early gains in Canadian equity markets in the quarter were primarily attributed to strong performances from a small number of stocks linked to generative artificial intelligence (AI). Over the course of the quarter this sentiment shifted to a wider group due to optimism that the economy may avoid a deep recession, with persistent issues such as inflation showing signs of easing. However, rising bond yields and increased recession risk caused a re-rating in September.

Not owning Barrick Gold, which is a fairly large weight in the S&P/TSX Capped Composite Index, was the single largest contributor to relative performance. Similarly, not owning B2Gold Corp and Osisko Gold Royalties also contributed positively. A meaningful underweight to the Utility companies also benefitted returns. Among foreign firms the portfolio's position in Europe's largest supplier of natural gas and key supplier of offshore wind Equinor and US oil and gas exploration and production company EOG Resources were among the largest contributors to returns. In Canada, Aritzia was the largest individual detractor over the period while the largest foreign detractor was Dutch-based payments processing company Adyen. Over the quarter, Phillips, Hager & North (PHN) built up a position in Novo Nordisk, the Danish pharmaceutical company that is the global leader in diabetes and obesity care, Astellas Pharma, a Japan-based pharmaceutical company and in home improvement retailer Home Depot. During the quarter, they exited Swiss health care company Roche.

As at September 29, 2023 the Fund's 10 largest holdings were as follows:

Royal Bank of Canada	3.8%	Shopify	2.1%
TD Bank	3.4%	Canadian Pacific Kansas City Ltd	2.0%
Microsoft Corp	2.8%	Bank of Montreal	1.9%
Canadian Natural Resources Ltd.	2.5%	Enbridge	1.9%
United Health Group	2.2%	Amazon.com Inc.	1.7%

In PHN's view, investors continue to focus on geopolitical conflict, interest rate trajectory, and growing concerns of a recession. Inflation continues to moderate, leading to expectations that central banks are nearing the end of a series of rapid interest rate hikes. Economists continue to factor in a high probability of a recession and while each cycle is unique, PHN's historical analysis of past tightening cycles points to a recession arriving sometime mid-2024 for much of the developed world, despite many central banks nearing the end of interest rate hikes. However, they don't expect a recession as severe as 2008 or 2020 and, importantly, short-term volatility typically doesn't have a lasting impact on the long-term trajectory of markets. In PHN's view, the best way to navigate short-term uncertainty is with a long-term plan. The ability of the market to deliver results to investors over time remains unchanged.

Tradex Bond Fund – Quarterly Review – September 29, 2023

	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	-2.7	-3.2	0.1	-0.2	0.8	2.4	5.1
FTSE TMX Canada Universe Bond	-3.9	-4.5	-1.4	-5.1	0.1	1.6	—
Average Canadian Bond Fund**	-4.0	-4.5	-1.3	-5.3	-0.6	0.8	—

*December 1989 **Source: FundData

An investment in the Tradex Bond Fund decreased in value by 2.7% during the third quarter, outperforming the index and its peers. It has increased 0.1% for the past year in contrast to the Canadian Bond index which lost over 1% for the past year.

The third quarter delivered themes that are becoming quite recognizable and consistent. Most notably, economic strength remained far more resilient than the markets were expecting at this stage of the cycle. Secondly, core inflation readings also proved to be rather stubborn in retreating towards targets established by the various central banks around the world. Lastly, the labour market in Canada remained quite robust. This situation allowed Canadian interest rates to move higher across the yield curve during the quarter, thus the portfolio's modest shorter-than-benchmark duration positioning was a positive contributor. An overweight position in corporate credit and strong security selection drove positive relative performance and the common share portfolio outperformed its benchmark.

Government of Canada bond yields increased during the quarter while the inversion of the yield curve reduced, as seen in the following table:

Term to Maturity	Record Lows	Yield Dec. 31/21	Yield Dec. 30/22	Yield June 30/23	Yield Sept. 29/23
2 year	**0.15%***	0.95%	4.06%	4.58%	4.87%
3 year	**0.18%***	1.02%	3.82%	4.21%	4.64%
5 year	**0.30%****	1.25%	3.41%	3.68%	4.25%
10 year	**0.43%****	1.42%	3.30%	3.26%	4.03%
30 year	**0.71%*****	1.68%	3.28%	3.09%	3.81%

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, 32% in corporate bonds, 13% in preferred shares, and 16% in common shares, REITs and Income Trusts. The top contributing equity this quarter was Bird Construction Inc, gaining 23% (Imperial Oil rose 24%). Transcontinental Inc., a deeply undervalued company with a sustainable dividend yield of 8.0%, declined 19%. While the market prices of financial preferred shares did see weakness for part of the quarter, they finished on a much stronger trend. The yield on the Fund's overall portfolio was 5.4% as at September 30th, as shown in the following table, while the yield on the FTSE TMX Canada Universe index was 5.0%.

	Government Bonds	*Corporate Bonds*	*Preferred Shares*	*Common Shares, Trusts, REITs*	*Weighted average total*
*Yield**	*4.6%*	*5.9%*	*7.2%*	*4.6%*	*5.4%*

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

As we move into the final quarter of 2023, Foyston, Gordon & Payne (FGP) remain constructive on corporate bonds as they believe they offer good long-term value given the wide level of spreads and the modest duration profile relative to government bonds. FGP expect preferred share returns to deliver improving resilience and modest capital appreciation in addition to rising dividends. FGP are prudently taking advantage of new opportunities at a measured pace as there is still much uncertainty in the economic landscape. They 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 ongoing geopolitical news.

Tradex Global Equity Fund – Quarterly Review – September 29, 2023

	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	-1.9	1.3	15.0	5.4	4.2	9.0	6.2
Dow Jones Global Total Return Index**	-1.2	2.5	19.1	7.4	7.3	10.6	—
Average Canadian Global Equity Fund**	-2.8	0.2	15.3	5.4	5.23	7.5	—

*May 1999 **Source: FundData

During the third quarter of 2023, the value of each unit in the Tradex Global Equity Fund decreased by 1.9%, exceeding the median global equity fund while for the past 12 months the fund rose 15%, lagging global indices.

Global equities pulled back during the third quarter of 2023, as the likelihood of a sustained period of elevated interest rates dampened the growth outlook and weighed on investor sentiment. The Federal Reserve hiked rates 25 bps at its July meeting but took a pause in September, leaving the rate at 5.5%, with the potential for a further hike in the fourth quarter. Inflation in the US remains on a downward trajectory while the job market shows signs of cooling, though neither trend is moving swiftly enough to prompt the Fed to change course. The story was similar in the Eurozone, where inflation remains a top concern, though data indicated this continues to slow. Sentiment in the UK was more optimistic, as consumer confidence improved, aided by a drop in long-term mortgage rates. Japan continues to perform well compared to its global counterparts, boosted by strong quarterly earnings results and strong domestic demand.

Energy companies performed best over the quarter, on the back of oil production cuts from Russia and Saudi Arabia led by Cenovus Energy (+26.3%), Schlumberger Limited (+22%) and ConocoPhillips (+19.5%). Communications Services firms also gained over the period, lifted by Alphabet (+11.9%) and Meta Platforms (+7.1%). Losses were led by Utility companies. From a country perspective, the S&P fell 1% in Canadian dollars, France's CAC Index declined 4.2% and Germany's DAX Index lost 5.5%. The UK's FTSE 100 Index was a relative outperformer in Europe, falling only 0.25%. In Asia, Japan's Topix and the Singapore Strait Times Index were two of the only gainers over the quarter with 1.2% and 3.5% rises, respectively, while the Australian Index was flat. Emerging Markets (-0.6%) fell slightly, as gains in the Indian Sensex (+3.2%) offset losses in South Korea (Kospi -4.7%) and Taiwan (Taiex -3.2%).

During the period, City of London (CLIM) added to widely discounted US and Emerging Asian exposure and initiated a position in Scottish Mortgage Investment Trust at a 20% discount, more than 15% wider than its five-year average, while exiting the position in JPMorgan Global Growth & Income at a premium. CLIM continued to trim tech exposure into strength and reduced exposure to the real estate sector on discount narrowing.

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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 $7,000 (2024 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 $88,000 in 2023 or $95,000 in 2024.

Unlike an RRSP, contributions to a TFSA are not 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

New in 2023, the FHSA combines 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 (defined as not having owned your residence for 5 years). The current maximum annual contributions are $8,000 (subject to maximum lifetime contributions of $40,000) and the room is cumulative once a plan is opened while allowing you to catch up on "unused" eligible contribution room over time (one additional year per annum). If not withdrawn for a home, the plan is able to be consolidated into your RRSP without impacting or requiring eligible RRSP contribution room.

For more information on setting up an FHSA, 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.