



# Tradex

## QUARTERLY

Yield on  
Tradex Investment  
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**1.75%**

Fourth quarter 2011

### President's Report to Tradex Investors



The Canadian equity market increased by 2.8% during the fourth quarter as improved economic performance in the U.S. combined with continuing strong corporate earnings overcame the significant political concerns in Europe. However, the Canadian equity market finished the year down 11.1%. The U.S. S&P 500 Index

was much stronger during the quarter, gaining 11.2% while closing the year virtually unchanged from 2010. Of interest, from the bottom of the equity markets on March 9, 2009 the TSX Composite Index has gained 58% while the U.S. S&P 500 Index has risen 85%.

As expected, the Bank of Canada maintained the target for its overnight policy interest rate at 1.00 per cent at each of its two policy meetings during the quarter. Meanwhile, yields on 3-year to 30-year Government of Canada bonds decreased by 2-28 basis points during the quarter, reaching new all-time lows, with the 30-year maturity yielding under 2.5%.

The Canadian dollar strengthened during the final quarter of 2011 and closed the year at 98.33 cents U.S. By comparison, it started the year at 100.54 cents U.S. and the fourth quarter at 95.40 cents U.S.

#### A thank-you for referring new clients to Tradex

July 2012 marks our 20th anniversary with Phillips, Hager & North (PH&N) as Portfolio Manager for Tradex Equity Fund Limited. To commemorate this event Members referring a new client to Tradex will be eligible to win a trip for two to PH&N's office in Vancouver, along with having Tradex donate to the United Way in their name. 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. For Members who are active in social media, this is now easier as you can simply "like us" on Facebook, broadcast our YouTube video or link with us on LinkedIn.

#### Reducing management expenses

As most Tradex members know, Tradex operates on an "at cost" or "break even" basis solely for the benefit of its Members. We are unique among Canadian mutual fund organizations in this regard. In 2011, our revenue increased due to an increase in assets under our administration. As a result, we were able to return a total of \$214,700 in operating revenue to the three Tradex Funds, compared to \$163,800 in 2010. The return of this money to the Tradex Funds helps to lower their management expenses (and management expense ratio) and is therefore a direct benefit to all Tradex investors.

#### Annual reminder for mutual fund reports

As initiated last summer, in an effort to continue to reduce costs for our Members and support environmental initiatives, we are enclosing our reminder of your options with respect to receiving the various regulatory documents for the Tradex Funds. If you wish to receive printed copies of the documents please provide standing instructions by signing and returning the enclosed form.

#### Tradex Annual General Meeting on April 25, 2012 at the RA Centre

This year, the Tradex Annual General Meeting will be held at 7:00 p.m. on Wednesday, April 25 in Clark Hall at the RA Centre, 2451 Riverside Drive, Ottawa (Clark Hall is located at the west end of the RA building). As in the past, all three investment counsellors will be present to provide outlooks, and answer any questions. Formal announcement of the meeting will be mailed in late March, including the Management Circular and the appropriate proxy voting form for investors in Tradex Equity Fund Limited. We encourage all Tradex Members to bring along a friend, co-worker or family member who might be interested in joining Tradex and becoming a member of this unique organization.

Blair Cooper  
January 14, 2011

## Tradex Equity Fund Limited – Quarterly Review – December 31, 2011

	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	5.5	-9.2	-9.1	11.8	-3.8	1.9	9.3
S&P/TSX Total Return Index (TRI)**	3.6	-8.9	-8.7	13.2	1.3	7.0	—
75% S&P/TSX TRI and 25% U.S. S&P 500 Index (\$CDN)**	5.1	-6.3	-5.4	11.7	0.2	4.9	—
Average Canadian Focused Equity Fund**	4.1	-10.4	-10.2	7.9	-2.7	3.6	—

\*April 1960

\*\*Source: Globe Information Services

During the fourth quarter an investment in Tradex Equity Fund Limited increased in value by 5.5%. While it declined by 9.1% in 2011, it has gained 70.4% from the bottom of the equity markets on March 9, 2009.

Macroeconomic factors continued to dominate investors' minds during the fourth quarter as the ongoing sovereign crisis in Europe garnered the majority of the headlines and investors also focused on volatility across the global economy. In this environment, both the Canadian and U.S. economies have proven resilient so far, with tepid but positive economic growth.

Within the Canadian equity market, there were widely differing returns. REITs, Telecommunication Services and pipelines generated strong positive returns as they benefited from both their defensive characteristics as well as their sensitivity to interest rates. The worst performing sector for the second straight year was Information Technology, driven by the poor performance of Research In Motion. The Materials sector faced challenges as slower growth was anticipated including gold stocks which fell in spite of a strong upward move in the price of gold bullion.

The Fund's performance during the quarter was driven by its holdings in the Materials, Energy and Financial Services sectors. In the Materials sector, the Fund benefited from its overweight position in takeover target Quadra FNX Mining. The Fund also benefited from strong stock selection within the Energy sector where a rise in the price of oil was evident. Holding an overweight position in bank stocks (5 of the Fund's top 12 holdings) versus life insurance stocks was also beneficial as the Canadian banks reported quarterly earnings that were in line with or better than expectations. The Fund's performance was hurt by several selective investments including GLG Life Tech, a China-based vertically-integrated manufacturer of

zero-calorie sweetener, and Azure Dynamics, a world leader in development and production of hybrid power train systems for commercial vehicles.

Throughout the period, approximately 22% of the total portfolio value was invested in U.S. equities. The U.S. market performed very well during the period (U.S. S&P 500 Index up 11.2%), but this was once again partially offset by the strength of the Canadian dollar, which increased from 95.40 cents U.S. to 98.33 cents U.S. Throughout the quarter 40-50% of the Fund's U.S. dollar exposure continued to be hedged into Canadian dollars. This partially reduced the currency related losses that the Fund would otherwise have experienced due to strength of the Canadian dollar.

Portfolio manager Phillips, Hager & North (PH&N) remained active in the Fund during the quarter taking advantage of the opportunities created by market volatility, adding several new holdings and trimming and eliminating several existing holdings.

As at December 31, 2011 the Fund's 12 largest holdings were as follows:

TD Bank	4.3%	Goldcorp	2.2%
Royal Bank of Canada	4.1%	Potash Corp. of Sask	2.1%
Bank of Nova Scotia	3.3%	Canadian National Railway	2.0%
Barrick Gold Corp.	2.8%	Trans Canada Corp.	1.8%
Suncor Energy	2.7%	Bank of Montreal	1.7%
Canadian Natural Resources	2.6%	CIBC	1.7%

PH&N indicate that, notwithstanding the negative headlines, they continue to believe that the North American and global economies will exhibit growth in 2012. They continue to focus on quality companies trading at reasonable valuations that are able to grow and create shareholder value in any economic environment.

## Tradex Bond Fund – Quarterly Review – December 31, 2011

	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	2.6	5.0	6.6	5.3	4.8	4.9	6.5
DEX Universe Bond Total Return Index**	2.1	7.3	9.7	7.3	6.4	6.5	—
Average Canadian Bond Fund**	1.6	5.1	6.8	6.3	4.5	4.7	—

\*September 1989

\*\*Source: Globe Information Services

An investment in the Tradex Bond Fund increased in value by 2.6% during the fourth quarter while it has increased by 6.6% over the past year.

As expected, the Bank of Canada maintained the target for its overnight policy interest rate at 1.00 per cent at each of its two policy meetings during the period. Furthermore, it now appears likely that the Bank will hold its policy rate at this

level throughout 2012. Meanwhile, the U.S. Federal Reserve continued to maintain its overnight target range rate at 0 to 1/4 per cent and reiterated its view that economic conditions in the U.S. are likely to warrant exceptionally low policy rate levels until mid 2013.

The widely discussed problems in Europe, signs of an economic slowdown in China, continued sluggish growth in the



U.S. and debt/deflation fears contributed to the ongoing rally in the bond market, with Government of Canada bond yields reaching new all time lows on December 19th, as seen in the following table:

Term to Maturity	Yield Dec. 31, 2010	Yield Sept. 30, 2011	Yield Dec. 19, 2011	Yield Dec. 30, 2011
2 years	1.67%	0.88%	0.84%*	0.95%
3 years	1.87%	1.01%	0.89%	0.99%
5 years	2.41%	1.39%	1.17%	1.27%
10 years	3.11%	2.15%	1.84%	1.94%
30 years	3.52%	2.77%	2.42%	2.49%

Source: Bank of Canada. Mid-market yields on benchmark issues.  
\* record low was 0.78% on Sept. 9th

The Fund continued to be balanced and diversified across income-generating asset classes. At quarter-end 33% of the Fund's portfolio value was in government bonds, 37% in corporate bonds, 10% in preferred shares, and 18% in common shares, REITs and Income Trusts (2% was also in cash). Income producing equities contributed strong gains to the

Fund performance during the period with the energy names advancing by at least 10%. Furthermore, as at December 31, 2011 the current or "running" yield on the Fund's overall portfolio was 3.7%, as shown in the following table. By comparison, this is 140 basis points higher than the current yield on the DEX index.

	Government Bonds	Corporate Bonds	Preferred Shares	Common shares, Trusts, REITs	Weighted average total
Yield*	2.1%	3.8%	4.9%	6.1%	3.7%

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

Portfolio Manager Foyston, Gordon & Payne (FGP) believe that while the economic data is weak, especially in southern Europe, a severe global recession is not imminent. The market will, however, remain on edge as long as there is no resolution to the European sovereign debt situation. FGP are still uncovering good value opportunities that can add to the Fund's attractive absolute yield. Their focus for all of the various securities they select, regardless of asset class or industry, is on sustainable yield.

## Tradex Global Equity Fund – Quarterly Review – December 31, 2011

	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	2.0	-8.1	-5.0	8.5	-5.4	1.8	2.2
MSCI World Total Return Index (\$Cdn)**	5.5	-5.2	-2.9	5.0	-4.5	-0.4	—
Average Canadian Global Equity Fund**	4.2	-9.0	-7.7	5.6	-5.1	-1.1	—

\*May 1999

\*\*Source: Globe Information Services

During the fourth quarter, the value of each unit of Tradex Global Equity Fund increased by 2.0% while it has decreased by 5.0% over the past year. Of interest, it has increased 55.6% from the equity markets bottom on March 9, 2009.

The year ended on a positive note with global equity markets reversing in the fourth quarter some of their losses from earlier in the year. There were two main catalysts to this improved market performance. The first was indications, principally from the U.S., showing an improving economic trend and continuing solid corporate profits. The second catalyst was greater optimism that Eurozone leaders were finally coming closer to addressing the sovereign debt crisis that has been plaguing the currency area. However, while there was much talk about fiscal union and European central bank loans to commercial banks (which should prevent any immediate liquidity crisis), the actual resolution of the real solvency issues remains elusive.

The U.S. equity market was the best performing major market during the quarter, with the S&P 500 Index recording a gain of 11.2% (all changes are in terms of local currencies). Key European markets also posted solid gains, with the London FTSE 100 Index increasing 8.7% while the German DEX Index and Paris CAC 40 Index rose 7.2% and 6.0%, respectively. Results in the far-east, however, were mixed with Hong Kong's Hang Seng Index up 4.8% while the Japanese Nikkei Index declined 2.8%. Emerging markets were also mixed with

Malaysia, Thailand, Mexico and Brazil all doing reasonably well while the Russian market was little changed and Taiwan moved lower.

The gains noted above in most foreign equity markets were reduced sharply, however, in terms of Canadian dollars as the Canadian currency advanced during the quarter. Versus the Euro, the Canadian dollar was up 5.9%, while it increased by 3.1% versus the U.S. dollar, 2.7% versus the British pound and 1.9% versus the Japanese yen.

Once again there was relatively little movement in the Fund's overall portfolio weighting among regions during the quarter. At year-end 44% of the portfolio value was invested in the U.S., 26% in developed Europe and 14% in developed Asia. Total exposure to emerging markets was also essentially unchanged in the 12% range while cash represented 4% of the total portfolio value.

City of London Investment Management (CLIM) continues to focus on those stock markets that offer the best relative values globally and gains that exposure by investing in the closed end funds that offer the best values. CLIM maintain its geographical bias in favor of the emerging markets and have been reducing the Fund's underweight position towards European shares, which appear attractively valued. The Fund's largest underweight continues to be to the United States equity market, which CLIM now believes is relatively expensive.

*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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## SWITCH, SIMPLIFY AND SAVE

Tradex offers Members access to a broad range of products and services to meet your financial needs. By centralizing your needs through Tradex you can simplify your financial picture and often achieve significant savings.

### 1. Holding all of your Mutual Funds through Tradex.

Tradex Members may purchase and hold through Tradex most of the over 5,000 mutual funds available to Canadian investors, including funds offered by Royal Bank, TD Bank, Dynamic, Fidelity, Franklin Templeton and Northwest-Ethical (to name just a few).

The benefits of dealing through Tradex are:

Tradex saves you money! When you purchase mutual funds through Tradex there are no sales commissions, deferred sales charges, account set-up fees or transaction fees. This includes those mutual funds where you would normally pay a sales commission or deferred sales charge if they were purchased elsewhere.

If you currently own mutual funds purchased elsewhere (at a bank, broker, discount broker or mutual fund dealer) you can transfer them into an account at Tradex at no cost (we'll pay the transfer fee on your behalf).

There are no annual RRSP or RRIF fees when you deal through Tradex since we pay the annual administrative fees for almost all self-directed plans. Canadian Western Trust self-directed accounts can be established to hold mutual funds, GICs, individual stocks and bonds.

We'll give you great service and expert advice just like the service we provide for the Tradex Funds. Also, you'll receive a quarterly consolidated fund statement.

Since there are no commissions or deferred sales charges, you have complete flexibility when you want to sell your units or move your money from one investment to another. No other mutual fund dealer provides you with greater freedom.

### 2. Purchasing Life Insurance Products through Tradex

Tradex is now registered to provide life insurance products in the province of Ontario, acting as an agent for a number of leading Canadian insurance companies. Life insurance

products allow you to manage risk especially as it relates to possible tragic events. Therefore, it is an integral part of overall financial planning. The key products are the following:

**Term Life Insurance** — Tradex can help you get the level of protection you need and the premium you can afford by customizing your Term Life Insurance plan's duration and coverage. Several Tradex Members have already achieved substantial savings and additional protection by replacing their bank provided mortgage and loan insurance with term life insurance through Tradex.

**Segregated Funds** — Tradex offers segregated fund options, which are professionally managed pooled funds similar to mutual funds. Segregated funds typically provide a principal guarantee upon maturity or death.

**Annuities** — Annuities are a way to ensure income after retirement or when an income stream needs to be guaranteed. Tradex has access to a range of annuity plans that can be customized to your needs and provide regular guaranteed payments to help fund on-going expenses.

**Guaranteed Minimum Withdrawal Plans** — Guaranteed Minimum Withdrawal Plans are similar to annuities but they allow room for some growth while protecting the investor against risk. Tradex can custom-tailor this type of plan to meet your specific needs.

### 3. Establishing a Qtrade discount broker account through the Tradex website

Tradex is pleased to partner with Qtrade Investor – one of Canada's leading independent online brokerage firms. (The Globe and Mail has rated Qtrade Investor the #1 online broker in Canada for the past six years.) Qtrade Investor offers you, among other things:

Access to a full range of investments including stocks, options, and fixed income securities.

Low trading commissions.

Easy electronic funds transfer to and from your chequing account.

Comprehensive investment tools and research, news, real-time quotes, portfolio watchlists, email alerts and more.

**To learn more about any of these services please give us a call at 613-233-3394 or 1-800-567-3863 or email at info@tradex.ca**