



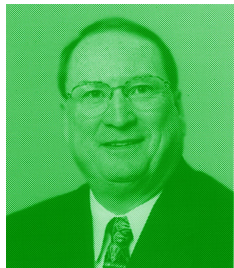
# Tradex

## QUARTERLY



Fourth quarter 2005

### President's Report to Tradex Investors



All three key segments of the Canadian financial market—stocks, bonds and the dollar—contributed to making 2005 a very good year for Canadian investors.

Led by energy stocks, the Canadian equity market finished the year up a very strong 21.9% (S&P/TSX Composite Index). Key overseas

markets also performed well in 2005 including Japan (Nikkei 225 Index), which was up 40.2%, the U. K. (FTSE 100 Index), up 16.7% and Germany (DAX Index), up 27.1%. However, the U.S. market lagged with the Dow Jones Industrial Average ending the year down 0.6% while the broader based S&P 500 Index was up a modest 3.0% (all changes are in terms of local currency).

The Canadian dollar strengthened from 83.19 cents U.S. at the start of 2005 to 85.98 cents at year-end (a 3.4% increase) after having reached a high of over 87 cents in mid-December. During the 4th Quarter, the Canadian dollar traded at its best level in 13 years versus its U.S. counterpart and also at multi-year highs versus the Euro, the Yen and the British pound.

Finally, while short-term Canadian bond yields moved higher during the second half of the year in response to the Bank of Canada increasing its key policy overnight interest rate on three occasions, longer-term bond yields moved lower and once again closed the year at extremely low levels by historical standards.

### Tradex Investment Savings Account now yielding 3.10%

The Tradex Investment Savings Account is currently yielding 3.10% (the rate is subject to change without notice). The deposits are held in trust at Manulife Bank of Canada, a wholly owned subsidiary of Manulife Financial, one of Canada's largest financial institutions, and are eligible for CDIC insurance up to \$100,000 per account in accordance with CDIC rules and regulations. Electronic transfers between your established bank account and this high-yield

savings account are available, subject to a maximum 2-business day notice. And, you earn full interest on every dollar you hold in a Tradex Investment Savings Account for each day the money is in the account. For more information on how to take advantage of this outstanding daily interest account please telephone us at 613-233-3394.

### Reducing Management Expenses

As most Tradex members know, Tradex operates on an "at cost" or "break even" basis solely for the benefit of its investors. We are unique among Canadian mutual fund companies in this regard. In 2005, our revenue increased due to stronger equity markets and the increase in third party funds under our administration. As a result, we were able to return a total of \$145,000 in operating revenue to the three Tradex Funds, compared to \$82,000 in 2004. The return of this money to the Funds helps lower their management expenses (and management expense ratio) and is therefore a direct benefit to Tradex investors. We are committed to keeping operating costs for the three Tradex Funds as low as possible for the benefit of all Tradex investors.

### Annual General Meeting on April 26, 2006

This year, the Tradex Annual General Meeting will be held at 7:00 p.m. on Wednesday, April 26, again in Le Salon at the National Arts Centre (free underground parking is provided). 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, along with the annual report for each of the Tradex Funds. We encourage Tradex investors to bring along a friend, co-worker or family member who might be interested in becoming a Tradex member.

Robert C. White  
January 16, 2006



## Tradex Equity Fund Limited – Year End Review – December 31, 2005

	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 (TEF)	-0.3	7.1	15.8	16.1	4.7	11.1	10.7
S&P/TSX Total Return Index**	2.9	14.8	24.1	21.7	6.6	11.0	—
Median Canadian Equity Fund**	2.4	10.8	17.5	15.8	6.0	9.5	—

\*April 1960

\*\*Source: Globe Information Services

### Portfolio Overview

As at December 31, 2005 net assets in the Fund totaled \$126.3 million. The investment portfolio consisted of 30 Canadian stocks, which made up 70% of its value, plus a further 21 U.S. and international stocks, which made up the remaining 30%.

By design, the Canadian portion of the portfolio is concentrated; the investment guidelines state that the 12 largest holdings are to represent over 50% of the value of the Canadian portion of the portfolio. At year-end, these 12 stocks represented 69% of the Canadian portion and 48% of the total portfolio value as follows:

Manulife Financial	7.1%	Biovail	3.3%
Royal Bank of Canada	6.2%	Telus "A"	3.0%
TD Bank	5.1%	Highpine Oil & Gas	2.9%
EnCana	4.6%	Power Corp.	2.8%
Thomson Corp.	3.9%	Great-West Lifeco	2.6%
Duvernay Oil	3.8%	CIBC	2.6%

The U.S. and international portion of the portfolio consists of large, well-known companies including Citigroup, Cisco Systems, Colgate Palmolive, Johnson & Johnson, Microsoft, Pfizer, Sprint Nextel, Wal-Mart Stores, Fuji Photo, Cadbury Schweppes, and Royal Bank of Scotland.

### Performance

Shares in Tradex Equity Fund Limited declined in value by 0.3% in the fourth quarter while increasing by 15.8% over the past twelve months.

In 2005, the Canadian equity market outperformed the U.S. market by a very wide margin. As a result, the Fund's U.S.

portfolio weighting, which averaged approximately 20% of total portfolio value, dampened its performance versus the S&P/TSX Total Return Index. Also, the fact that the Fund was underweight energy stocks versus the Index was a drag on its short-term performance (at year-end 13% of the Fund's Canadian weighting was in this sector versus an Index weighting of 27%). In this regard, portfolio manager Phillips Hager & North's (PH&N) strategy was to reduce the Fund's overall position in energy stocks as the year progressed to both "lock-in" profits and to re-deploy the funds in other growth opportunities, including making additional purchases of foreign equities. Their objective was to not only reduce the risks associated with concentrating too large of a portion of the portfolio in one sector, but also to enhance the Fund's rate of return over the long run by selectively investing in world-class non-Canadian companies in high-growth sectors, such as Consumer Staples and Pharmaceuticals, that are otherwise less available to investors in the Canadian equity market.

### Outlook

Looking forward, PH&N remain positive on the overall outlook for stocks. In their view corporate fundamentals are strong and, in general, stocks are not excessively valued. At the same time, they continue to emphasize that prudent long-term investing involves balancing "risk" and "reward". In this regard, they caution that while the Canadian market has outperformed most other major markets in recent years, this may not necessarily continue. Thus, they believe that the foreign portion of the portfolio will play an extremely important role in providing both valuable diversification from the rather narrow Canadian equity market and the opportunity to enhance the Fund's performance in the future.

## Tradex Bond Fund – Year End Review – December 31, 2005

	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 (TBF)	0.4	0.5	5.2	5.2	5.8	6.1	7.3
SCM Universe Bond Total Return Index**	0.7	0.8	6.5	6.8	7.4	7.7	—
Median Canadian Bond Fund**	0.4	0.3	4.6	4.9	5.4	6.0	—

\*September 1989

\*\*Source: Globe Information Services

### Portfolio Overview

As at December 31, 2005 total net assets in the Fund stood at \$11.0 million. The Fund is managed by TD Asset Management Inc. (TDAM) who construct and adjust the portfolio using computerized optimization techniques to enhance returns and control risk. At year-end, 35% of the Fund's assets were invested in bonds issued or guaranteed by the Government of Canada, 43% in provincial government bonds and 22% in corporate bonds.

### Performance

In 2005, the total return per unit was a solid 5.2%. Quarterly distributions totaled 43.0 cents per unit and the price of each unit increased from \$10.22 at the start of the year to \$10.31 at year-end.

Once again, Tradex Bond Fund outperformed the median manager despite the fact that it is considered to be a conservative bond fund, with over 75% of its assets invested in federal and provincial government bonds and the balance in corporate bonds rated single "A" or better. This was in part due to its management expense ratio



being below that for the median manager. (The total return for both the Tradex Bond Fund and the median manager is below the SCM Universe Bond Index since the Index does not take into account any administrative costs.)

#### Outlook

An overview of the movement in yields on Government of Canada marketable bonds during the year is as follows:

Term to Maturity	Yield Dec. 31, 2004	Yield June 30, 2005	Yield Dec. 31, 2005
2 years	2.99%	2.83%	3.85%
3 years	3.19%	2.96%	3.88%
5 years	3.66%	3.16%	3.92%
10 years	4.30%	3.74%	3.98%
30 years	4.83%	4.21%	4.05%

(Source: Bank of Canada. Mid-market yields on benchmark issues.)

As shown in the table, short-term bond yields increased by about 75 basis points over the year while longer term rates were down 30-80 basis points. The rise in short-term rates was consistent

with the Bank of Canada's decisions to raise its key overnight rate from 2 1/2 percent to 3 1/4 percent during the last four months of the year. However, the decline in longer-term rates to extremely low levels by historical standards has puzzled many market observers. The Bank of Canada is expected to proceed with a moderate amount of further policy tightening in the early part of 2006. In this context, one could anticipate yields on shorter-term bonds to trend higher. Also, it is difficult to believe that longer-term rates can fall much further unless there were very clear signs that the economy was beginning to falter. Thus, one should expect the return on bond funds (including the Tradex Bond Fund) to be lower in 2006 than in recent years.

Despite this caution, it is important to emphasize that fixed income securities perform a critical role in a well-balanced investment portfolio. They provide a regular stream of income and have far less risk than equities. For this reason, we continue to recommend that most investors allocate a portion of their portfolio to the Tradex Bond Fund or, alternatively, to the Tradex Investment Savings Account.

## Tradex Global Equity Fund – Year End Review – December 31, 2005

	Total return (%)			Average annual compound return (%)			
	Latest 3 months	Latest 6 months	1 year	3 years	5 years	Since inception*	10 years
Tradex Global Equity Fund (TGE)	-8.3	-1.4	-1.6	12.9	4.5	5.9	—
MSCI World Total Return Index (\$ Cdn)**	3.6	5.1	6.6	7.8	-2.4	—	5.8
Median Canadian Global Equity Fund**	3.4	6.3	6.9	7.8	-2.2	—	5.9

\*May 1999

\*\*Source: Globe Information Services

#### Portfolio Overview

As at December 31, 2005 total net assets in the Fund stood at \$8.0 million. The Fund invests primarily in closed-end fund companies (whose investments are principally in a diversified portfolio of equity securities of issuers based in any country) and, to a lesser extent, in Index Participation Units (which mirror the performance of a particular exchange index).

The investment approach of portfolio manager City of London Investment Management Limited (CLIM) involves deciding which of the world's stock markets, industry sectors and currencies have the best potential rate of return. As a result, the asset allocation by country (and industry sector) can change rapidly and can also deviate very substantially from the representative country weighting for the Fund's benchmark, the MSCI World Total Return Index. At year end, the Fund's country weighting was as follows:

U.S.	44%	Singapore	6%
Hong Kong	12%	Canada	3%
U.K.	11%	Other countries	14%
Germany	8%	Cash	2%

#### Performance

For the first calendar year since its inception in 1999, the Fund failed to exceed its benchmark. For the year as a whole, unit values declined by 1.6% while in the fourth quarter they were down 8.3%. The disappointing results in the fourth quarter relate to the write down in value of one of the Fund's large holdings, Langbar International, on the back of a fraud investigation involving the company's assets. Nevertheless, over the past five

years, the Fund has outperformed its benchmark by an average of 6.9% per year.

Throughout most of the year, the Fund's portfolio weighting to U.S. stocks was less than 20% versus the benchmark weighting of over 50%. However, in the fourth quarter CLIM became much more positive on the U.S. market based on the view that the U.S. Federal Reserve is nearing the end of its rate hikes and that this will encourage price/earnings ratios for U.S. stocks to rise. As a result, the Fund's exposure to the U.S. market was increased to 44% at year-end. After increasing the weighting to Japan to about 30% during the first half of the year, CLIM "took profits" on this position during the second half of the year, cutting the weighting to essentially zero at year-end. However, Asia continues to represent about 20% of the Fund's exposure, with 12% in Hong Kong and 6% in Singapore. The exposure to the U.K. was reduced slightly during the year (to 11%) while the exposure to Germany was increased from zero to 8% as CLIM views this market as being undervalued versus other markets. Finally, at year-end 8% of the portfolio value was in a variety of emerging markets and 2% was in cash.

#### Outlook

Going forward, CLIM believes that the U.S. market will appreciate in the near-term as the Federal Reserve completes its tightening cycle. However, this will likely result in a weaker U.S. dollar, at which point CLIM would revert to their more traditional underweight position to the U.S. market. They forecast that natural resources and commodities will continue to rise due to declining inventories and supply levels. Finally, their outlook for emerging markets remains positive.

*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.*



# Tradex mutual funds for the public sector

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## Labour Sponsored Investment Funds (LSIFs)

LSIFs were established to promote venture capital investing in Canada with the aim of ensuring that our country continues to generate new jobs and economic expansion. They provide the average investor with the opportunity to get in on the ground floor of high potential small and medium-sized companies, including those in the information technology and life sciences sectors.

To encourage investors to put their money into qualifying LSIFs, the federal government and many provincial governments offer investors generous tax incentives. In Ontario, depending on the type of venture capital fund, investors receive a 30% or 35% tax credit up to \$1,500 or \$1,750 on the first \$5,000 invested each year. And that's

over and above any RRSP deductions. So, LSIFs can also be well suited for non-registered investors, including individuals who are receiving income from a RRIF.

LSIFs, however, are not suited for everyone. First, the risks associated with venture capital investing are high. (Correspondingly, under the right conditions, the rewards can also be very high.) Also, they are designed only for investors with a long-term horizon, including the fact that if one does not hold the LSIF for 8 years, the tax credit must be refunded.

The table below shows the total 2005 tax savings for Ontario residents assuming the funds are placed in an RRSP:

Taxable Income	RRSP Investment	RRSP Tax Savings	LSIF Tax Credits*	Total Tax Savings	Net Out of Pocket Cost of Investment
Under \$34,009	\$5,000	\$1,053	\$1,500	\$2,553	\$2,447
\$34,010 - \$35,595	\$5,000	\$1,208	\$1,500	\$2,708	\$2,292
\$35,596 - \$59,890	\$5,000	\$1,558	\$1,500	\$3,058	\$1,942
\$59,891 - \$68,020	\$5,000	\$1,649	\$1,500	\$3,149	\$1,851
\$68,021 - \$70,560	\$5,000	\$1,770	\$1,500	\$3,270	\$1,730
\$70,561 - \$71,190	\$5,000	\$1,971	\$1,500	\$3,471	\$1,529
\$71,191 - \$115,739	\$5,000	\$2,171	\$1,500	\$3,671	\$1,329
Over \$115,740	\$5,000	\$2,321	\$1,500	\$3,821	\$1,179

\* Based on 15% federal and 15% provincial tax credits. In some cases, the provincial tax credit is 20%.

While Tradex distributes several LSIFs, the two venture fund families that we follow the most closely and recommend are as follows:

### GrowthWorks

GrowthWorks is the second largest independent manager of Labour Sponsored Funds in Canada with over \$800 million in assets under administration. In November 2005, Ottawa based Capital Alliance Ventures Inc.(CAVI) merged with GrowthWorks Canadian Fund Ltd. When investing in the GrowthWorks Canadian Fund, 70% of your money goes into a diversified portfolio of venture investments while you have a range of options for investing the remaining 30%. Another alternative is the GrowthWorks Commercialization Fund, which invests in early stage research-oriented companies and distributes 25% of the initial investment back to the investor over the first three years. For more information, visit their web site at [www.growthworks.ca](http://www.growthworks.ca).

### VenGrowth

With over \$1 billion invested in 170 small and medium sized Canadian companies, VenGrowth has earned a reputation as

one of Canada's leading private equity and venture capital managers on behalf of both individual and institutional investors. VenGrowth currently offers three Labour Sponsored Funds including an Advanced Life Sciences Fund, which provides 35% in tax credits for Ontario residents. Also offered are the VenGrowth III Investment Fund and a Traditional Industries Fund, which is VenGrowth's most conservative LSIF to date. This Fund provides investors with a capital preservation strategy as well as growth potential and the 30% in tax credits. You can learn more about VenGrowth at [www.vengrowth.ca](http://www.vengrowth.ca).

\* \* \* \* \*

For more information on investing in LSIFs through Tradex, please give Blair or Brien a call at (613) 233-3394 or 1-800-567-3863. Also, you are always welcome to visit the Tradex office in downtown Ottawa. Remember, like RRSPs, the deadline for investing to receive 2005 tax credits is March 1, 2006.

