

# Tradex

## QUARTERLY

Yield on  
Tradex Investment  
Savings Account  
now 1.50%

Fourth quarter 2010

### President's Report to Tradex Investors



The Canadian equity market increased by a strong 8.7% during the fourth quarter as commodity prices rose further and there was additional evidence that the worldwide economic recovery was continuing to take hold (albeit at a modest pace). As a result, the Canadian equity market finished the year up a very respectable 14.4%.

The U.S. S&P 500 Index was also very strong during the quarter, gaining 10.2% and closing the year up 12.8%.

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 10-year and under Government of Canada bonds increased by 30-40 basis points during the quarter, after having declined during the previous period. Bond yields, however, remain extremely low by historical standards, including substantially lower than a year ago.

The Canadian dollar made strong gains during the final few days of December and closed the year above parity, at 1.0054 cents, versus its U.S. counterpart. By comparison, the Canadian currency started the year at 95.15 cents U.S. and the fourth quarter at 97.18 cents U.S.

### Assets under administration top \$200 million

At the end of 2010 assets under administration at Tradex climbed back up to be over \$200 million. Like all investment fund managers and dealers, during the recession Tradex saw a sharp drop in its assets under management. However, with the excellent performance of the two Tradex equity funds during 2010 and Members transferring funds from other dealers to be under the administration of Tradex we have seen a substantial increase in the assets we administer. The Tradex management team is very gratified by these results and sincerely thanks all Tradex Members for their continued support.

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

2010 was our 50th anniversary and due to an increase in existing Member referrals Tradex gained substantially more new Members than in any of the past 5 years. New Members are extremely important to the continued success of Tradex

and we therefore continue to 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 2010, our revenue increased due to the increase in assets under administration. As a result, we were able to return a total of \$163,800 in operating revenue to the three Tradex Funds, compared to only \$31,500 in 2009. 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.

### We welcome aboard a new employee

We are pleased to announce that Krysten Alexeenko has joined Tradex as our new Administrative Assistant. Krysten is a recent graduate of Algonquin College where she received a diploma in Small and Medium Enterprise Management. She was brought up in Smith Falls, is married and has a young son. We welcome Krysten to the Tradex team.

### CIBC Mellon is now the registrar for Tradex Funds

In late October, CIBC Mellon became the registrar for the Tradex Funds. As a result, since that time the confirmations and statements that you have been receiving have been slightly different than in the past. Like all such conversions from one company to another, there have been a few minor glitches to iron out and we apologize if these have caused you any inconvenience. CIBC Mellon has been the custodian for the Tradex Funds for a number of years and consolidating this additional function both streamlines our administrative processes and reduces costs, which we will be able to pass on to Tradex Members.

### Tradex Annual General Meeting on April 27, 2011 at the RA Centre

This year, the Tradex Annual General Meeting will be held at 7:00 p.m. on Wednesday, April 27 in Clark Hall at the RA Centre, 2451 Riverside Drive, Ottawa (Clark Hall is located at

*President's Report continued on back page*



## Tradex Equity Fund Limited – Quarterly Review – December 31, 2010

	Total return (%)			Average annual compound return (%)				
	Latest 3 months	Latest 6 months	1 year	2 years	3 years	5 years	10 years	Since inception*
Tradex Equity Fund Limited	9.5	20.4	16.0	24.0	-1.8	0.4	2.5	9.7
S&P/TSX Total Return Index** (TRI)	9.5	20.7	17.6	26.0	2.1	6.5	6.6	—
75% S&P/TSX TRI and 25% U.S. S&P 500 TRI (\$CDN)	8.8	19.4	15.6	20.2	0.9	4.7	4.3	—
Median Canadian Focused Equity Fund**	8.5	17.4	11.1	17.8	-1.4	2.5	4.3	—

\*April 1960

\*\*Source: Globe Information Services

During the fourth quarter an investment in Tradex Equity Fund Limited increased in value by 9.5% while it has increased by 16.0% over the past year.

While equity markets were strong overall, the Canadian market saw a significant shift during the quarter as interest rate sensitive and defensive sectors, including Consumer Staples, Financials, Utilities and Telecommunication Services, lagged the market after leading in previous quarters, due to interest rates moving higher. Economically sensitive stocks rose as investors focused on the ongoing economic recovery. Against a backdrop of rising commodity prices, smaller capitalization resource stocks were big winners during the quarter as investors' risk appetite returned.

During the quarter, the strongest performing sector of the S&P/TSX Composite Index was the Materials sector, driven by the strength in metal and mining companies (for example, Teck Resources). The Energy sector also recorded strong gains led by the rise in energy prices. These two sectors represented 39% of the Fund's total portfolio value at the end of the period and included a number of small cap companies that added to the Fund's performance. In total, the Fund held positions in 23 energy stocks and 20 mining stocks at the end of the period. The Information Technology sector also put in a strong showing as shares in Research in Motion were up 16% during the quarter (although they were down 18% for the entire year).

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 10.2%), but this was once again partially offset by the strength of the Canadian dollar, which increased from

97.18 cents U.S. to 100.54 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 the strength of the Canadian dollar.

During the period portfolio activity was relatively heavy as portfolio manager Phillips, Hager & North (PH&N) made a number of adjustments to the portfolio involving mainly small and mid cap companies in the energy and mining sectors. In addition, shares in Finning International, CGI and Maple Leaf Foods were added to the portfolio.

As at December 31, 2010 the Fund's 12 largest holdings were as follows:

TD Bank	3.7%	Potash Corp. of Sask.	2.4%
Royal Bank of Canada	3.6%	Teck Resources "B"	1.8%
Bank of Nova Scotia	3.3%	Goldcorp	1.8%
Suncor Energy	3.1%	Research in Motion	1.6%
Barrick Gold Corp.	3.0%	CIBC	1.6%
Canadian Natural Resources	2.6%	Canadian National Railway	1.5%

PH&N note that market sentiment has changed from being overly cautious to quite bullish in the space of the past three months. While PH&N remain confident that the economic recovery will continue, they recognize that opportunities are not as plentiful as they have been in the past. They also note that corporate earnings continue to improve, while low interest rates and benign inflation provide a supportive environment for equities in the coming year. Strong corporate free cash flow and a return to normally functioning credit markets also suggest that mergers and acquisitions activity and capital expenditures are set to accelerate, which should reinforce both valuations and economic demand.

## Tradex Bond Fund – Quarterly Review – December 31, 2010

	Total return (%)			Average annual compound return (%)				
	Latest 3 months	Latest 6 months	1 year	2 years	3 years	5 years	10 years	Since inception*
Tradex Bond Fund	-1.1	1.9	5.5	4.6	4.9	4.0	4.9	6.5
DEX Universe Bond Total Return Index	-0.7	2.4	6.7	6.1	6.2	5.2	6.3	—
Median Canadian Bond Fund**	-1.0	1.6	5.4	5.5	4.7	3.6	4.4	—

\*September 1989

\*\*Source: Globe Information Services

An investment in the Tradex Bond Fund decreased in value by 1.1% during the fourth quarter while it has increased by 5.5% 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 until well into 2011 due to a combination of factors including: benign domestic inflation; the moderate pace of the economic recovery in Canada; the continued uncertain outlook for the U.S. economy; and the increased risk of sovereign debt problems in several European countries. 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 for an extended period.

Despite the above “market friendly” news, yields on Government of Canada bonds increased by up to 40 basis points during the quarter in anticipation that the global economy would continue to recover. At the same time, it is important to note that bond yields remain extremely low by historical standards, including yields on longer-term issues being considerably lower than a year ago, as seen in the table to the right.

Term to Maturity	Yield Dec. 31, 2009	Yield Sept. 30, 2010	Yield Dec. 31, 2010
2 years	1.47%	1.36%	1.67%
3 years	1.92%	1.56%	1.87%
5 years	2.77%	2.01%	2.41%
10 years	3.61%	2.75%	3.11%
30 years	4.08%	3.35%	3.52%

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

At quarter-end, the portfolio weighting to Government of Canada bonds stood at 37% while the weighting to provincial bonds and corporate bonds stood at 27% and 36%, respectively.

As mentioned in the “President’s Report to Tradex Investors”, in this very low interest rate environment, the Directors of Tradex and the Tradex Bond Fund Committee believe that investors would benefit if the Fund’s investment objective was broadened to allow a portion of the investment portfolio to be invested other types of income-producing investments. Therefore, they are currently studying proposals from a number of portfolio managers and plan to hold a Special Meeting of unitholders on April 27, 2011 to consider changes in the overall investment objectives for the Fund.

## Tradex Global Equity Fund – Quarterly Review – December 31, 2010

	Total return (%)			Average annual compound return (%)				
	Latest 3 months	Latest 6 months	1 year	2 years	3 years	5 years	10 years	Since inception*
Tradex Global Equity Fund	7.1	18.0	10.7	16.0	-4.1	-1.1	1.6	2.6
MSCI World Total Return Index (\$Cdn)**	5.3	16.5	6.8	9.2	-4.1	-0.2	-1.3	—
Median Canadian Global Equity Fund**	5.6	15.9	6.9	11.6	-4.3	-0.6	-1.3	—

\*May 1999

\*\*Source: Globe Information Services

During the fourth quarter, the value of each unit of Tradex Global Equity Fund increased by 7.1% while it has increased by 10.7% over the past year.

Equity markets around the world continued their rebound during the fourth quarter as investors gained confidence that government and central bank policy decisions would lead to sustained global economic growth. Furthermore, the trend in U.S. economic data was distinctly positive with signs of a manufacturing rebound, improving small business sentiment and marginally improved employment data, although housing market data remained weak. Europe, on the other hand, had another turbulent quarter. Turning their attention away from Greece and towards Ireland, investors revived their fears of European sovereign debt defaults and began questioning the ongoing viability of the Euro currency.

In terms of local currencies, there were once again relatively wide differences in the performance of key markets during the period. In Europe, the German market (which had lagged the previous quarter) increased by 11.0%, the London FTSE 100 Index was up 6.3% while the Paris CAC 40 Index and Swiss Market Index increased by only 2.4% and 2.2%, respectively. In the Asia/Pacific area Japan’s Nikkei 225 Index finished the quarter up 9.7% while the Australian Index increased 4.5% and the Hong Kong and Singapore indexes were each up 3.0%. Turning to North America, the U.S. S&P 500 Index increased 10.2% while

the Toronto Composite Index was up 8.7%. Emerging markets as a whole marginally underperformed developed countries.

The gains in foreign equity returns were reduced in terms of Canadian dollars as the Canadian currency made solid advances during the quarter, closing up 5.2% versus the Euro, 4.4% versus the British Pound, 3.5% versus the U.S. dollar and 0.6% versus the Japanese yen.

There was very little movement in the Fund’s overall portfolio weighting among regions during the quarter. At quarter-end 43% of the portfolio value was invested in the U.S., 27% in Europe and 23% in Asia. Total exposure to emerging markets was also essentially unchanged, in the 11-12% range while cash represented 2% of the total portfolio value at the end of the quarter.

City of London Investment Management (CLIM) believes that the global economic recovery is gaining momentum and is presently supported by loose monetary policy conditions and supportive fiscal policies, particularly in the U.S. Economic data increasingly show a broadening economic recovery and this has been reflected in rising global stock markets but also in rising global bond yields. CLIM continues to believe that the near term environment is supportive for global equity prices while significant medium term challenges remain to be confronted.

*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 Management Inc.  
50 O'Connor Street, Suite 920  
Ottawa, Ontario K1P 6L2  
Tel: 613-233-3394 1 800 567-3863  
Fax: 613-233-8191  
e-mail: info@tradex.ca  
Web site: www.tradex.ca

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, 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.

### **A Special Meeting for Unitholders of Tradex Bond Fund**

Immediately prior to the Annual General Meeting on April 27th, we will be holding a Special Meeting for unitholders of Tradex Bond Fund to consider changes in the overall investment objective for the Fund. In this regard, in this very low interest rate environment the Directors of Tradex and the Tradex Bond Fund Committee believe that unitholders would benefit if the Fund's investment objective was broadened to allow a portion of the investment portfolio to be invested in other types of income-producing investments. At the same time, the investment strategies would remain generally consistent with its current investment strategies. Formal announcement of the meeting, including detailed information, will be mailed to unitholders in February.

### **Advantages of 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, AGF, 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 any transfer fees 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.

### **Tradex Investment Savings Account is a great place to "park" your money**

The Tradex Investment Savings Account is currently yielding 1.50% (rate subject to change without notice). It's a great place to "park" your money until you're ready to deploy it elsewhere. Like GICs, Tradex Investment Savings Accounts are eligible for CDIC insurance coverage of up to \$100,000 per account in accordance with CDIC rules and regulations.

Blair Cooper  
January 14, 2011