



**Pender Growth Fund (VCC) Inc.**

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November 12, 2014

We are updating the shareholders of Pender Growth Fund (VCC) Inc. (the "Fund") as there have been some significant developments in our portfolio companies this year, and we continue to be optimistic that the Fund will be in a position to redeem its Class R Redeemable Shares and ultimately provide value to holders of its Class C Common Shares.

**Rights of Redemption - How to Redeem**

The basic terms of our redeemable shares provide that they are redeemable once a shareholder has held the shares for five years. Once a shareholder has held their shares for this period, they may provide a Notice of Redemption. All shareholders now have the right to request redemption as they have all fulfilled the required holding period. As with all previous years, all shareholders who submit a Notice of Redemption to us by November 30<sup>th</sup> will be treated equally. If you are a shareholder and have not already submitted a redemption request, you may do so by:

- Completing a Notice of Redemption (attached)
- Sending it by mail, email or by fax prior to November 30<sup>th</sup> to:  
Pender Growth Fund (VCC) Inc.  
1640-1066 West Hastings St  
Vancouver, BC V6E 3X1  
Fax: 604-563-3199
- Copies of this fund update and Notice of Redemption forms are available on our website [www.pendergrowthfund.com](http://www.pendergrowthfund.com).

**Redemptions will not be honoured immediately**

The Fund does not currently have sufficient proceeds from the sale of businesses to be able to redeem the shares that are presented to us for redemption this year.

**But we do have a history of honouring redemptions**

The Fund has now honoured a total of \$15 million of redemptions and there are total of \$9.5 million of redeemable shares yet to redeem.

Last November, as a result of the sale of Radiant Communications, the Fund's largest holding, the Fund was able to redeem \$3.7 million of redeemable shares. All redemption requests submitted in 2011 were honoured as to 100% and redemption requests submitted in 2012 were honoured 50%.

The remaining portion of the 2012 tranche of redemptions, and the 2013 and 2014 tranches of redemptions, will be honoured as soon as the Fund is able to sell one or more of its investments that net sufficient proceeds to the Fund. Although we cannot predict when this will take place, one or more of the Fund's investments could be sold within the next year.

### **And we believe that the Fund will be able to honour its redemption obligations**

We continue to be optimistic that the Fund will be in a position to redeem its Class R Redeemable Shares and ultimately provide value to holders of its Class C Common Shares. We have a history of selling our investments. Over the past several years we have sold Gemcom, OSI, Progressive Solutions, Cytiva Radiant Communications and Webtech Wireless.

We believe that a number of our current investee companies may have a liquidity event in the next couple of years. Markets are more receptive than they have been for some time and several of the companies have matured to the point where they could be attractive to an acquirer. Our key investments are as follows:

- QHR Technologies, our largest position, is now a mature business with revenues well in excess of \$20 million per year. It is profitable, has a significant amount of cash on its balance sheet and has strategic value as a market leader. This is a far cry from the fast growing, but money losing and under-capitalized company that we invested in years ago.
- Tantalus Systems has had a significant turnaround this year. After a product problem two years ago, the company changed management and refocused its development efforts. Now its products are once again being well accepted in the market, so the risk of our investment has reduced significantly.
- D-Wave Systems is a cutting-edge technology company with a disruptive product that has already attracted world class investors and publicity and could attract an acquirer at any time.
- One45 Software, BasicGov Systems and Monexa Services are all emerging, fast growing, Software-as-a-Service companies with developed markets that are at, or near, cash-flow break-even and are potential acquisition candidates.

If we are able to sell several of these investments at values that we currently believe that we could, we will be in a position to honor all outstanding redemptions and all of the remaining value will accrue to the Class C Common Shares. It is largely a matter of patience.

### **Why are redemptions not going to be met immediately?**

In order to drive capital appreciation, the investment strategy of the Fund is to buy companies trading at a perceived discount to intrinsic value and wait for them to reach, what we believe is, their true intrinsic value - at which point they would be sold. Some of the companies in the Fund are public companies, but the value of the stock does not yet reflect intrinsic value. The junior technology market is out of favour and it is difficult to sell large blocks of stock in small companies. Full intrinsic value is likely only attained when the company is merged or acquired, or the company fundamentals drive stock appreciation and liquidity. This is also true of the private companies, where we cannot realize value for our investments until the investee company is acquired. Since the objective of the Fund is to maximize the value returned to shareholders, we believe that the best way to do this is to stick to the investment strategy and continue to hold the investments until they reach their intrinsic value.

### **Our investment obligations are complete**

The Fund operates as a Venture Capital Corporation under a regime regulated by the Province of British Columbia. This is what allowed our original shareholders to receive a 30% provincial tax credit at the time that you purchased shares in the Fund. The regime requires the Fund to invest a certain amount of the proceeds into small businesses with fewer than 100 employees that carry on business in certain industries in British Columbia. This year we received confirmation from the province that the Fund has no further obligation to invest.

**The Fund has no debt or prior claims to its assets**

The Fund is debt free and has not issued preferred shares or any other types of securities that have superior rights to the Class R redeemable shares. Holders of those shares are in first position to receive proceeds from the disposition of the Fund's investments.

**Class C shares are entitled to all excess value**

All value in excess of the Fund's outstanding redemptions belongs to the Class C shares. As of today, the net asset value of the Fund is approximately \$13 million and the maximum redemption obligation is \$9.5 million, so the Class C shares have an aggregate Net Asset Value of approximately \$3.5 million, or about \$1.00 per share. The net asset value changes from week to week depending on the value of the Fund's underlying assets. We update this number on our website every Friday.

**Meanwhile costs are being reduced**

Our management fees are calculated as a fixed percentage of the value of the Fund, so they have decreased as the Fund has become smaller. The assets in the Fund now represent approximately 3% of the more than \$430 million of assets under management in our group, meaning that the Fund benefits from many economies of scale. As a result, we have been able to negotiate lower audit fees and other third party supplier costs. As well, we have volunteered to suspend the performance fee until all Class R Redeemable Shares are redeemed.

**In summary**

We appreciate your patience. The Fund has solid, underlying investments and value in the portfolio and we are doing our best to keep costs under control and to trigger the sale of our investments. We will reinstate redemptions as soon as we are able to liquidate sufficient investments. Attached is a description of our principal investments.

**Kelly Edmison**

Chairman  
Pender Growth Fund (VCC) Inc.

**David Barr**

Chief Executive Officer  
Pender Growth Fund (VCC) Inc.