

THE MANAGER'S COMMENTARY - AUGUST 2021

Fellow unit holders,

Over the past year, we have enjoyed the benefits of running concentrated portfolios, as many of our key holdings have performed well in the stock market. August was the opposite of that. While major indices were up during the month, the Pender Small Cap Opportunities Fund was down by 2.2%¹ for the month and the Pender Value Fund was down by 3.1%¹.

On a year-to-date (YTD) basis, the Pender Small Cap Opportunities Fund has delivered a total return of 19.9%¹, slightly below large cap indices, with the S&P 500 Index (in Canadian dollars) up 20.5% YTD, while the S&P/TSX Composite Index was up 20.2% YTD. The Fund has outperformed both the Russell 2000 Index (in Canadian dollars) and the S&P/TSX Small Cap Index, which were up 14.8% and 16.9% YTD respectively. The Pender Value Fund has a total return of 6.2%¹ YTD.

Portfolio Update

In a month like this we need to start by talking about things that didn't work.

MAV Beauty Brands Inc. (TSX: MAV) was a key detractor for both Funds. In August, MAV reported weaker-than-expected results and had execution issues with new product launches. With a prolonged track record of inconsistent execution at the company, the board announced that a new management team with significant industry experience has been appointed to improve operational performance. Key to the downturn was the announcement of the conclusion of their strategic review. While no deal was agreed, based on the M&A levels in the industry, it is our opinion that the company turned down an offer that they deemed inadequate. In situations like this, it is usually not a question of "if" a deal will materialize but "when".

Maxar Technologies Inc. (TSX: MAXR) was another detractor for the Pender Small Cap Opportunities Fund. Supply chain issues and delays impacted the delivery of core components for the company's new WorldView Legion satellite constellation, pushing out the expected launch date by up to two quarters. The successful launch of this constellation is expected to drive a material inflection in free cash flow for the company which has strong positioning in the growing space industry. We recently published [a second blog post on the space industry](#) which has more details.

For the Pender Value Fund, BuildDirect.com Technologies Inc. (TSXV: BILD) was a key detractor. BuildDirect is an online retailer of floor and building materials. It recently went public and saw its share prices slashed in the stock market. We have a long history with the company. Our Private Equity team has previously invested in the company and we supported its going public process. We believe the company has the right strategy and an experienced management team which will steer it through the tailwinds of the growing ecommerce penetration of flooring materials. We think the valuation of BuildDirect is extremely attractive at this point.

For the Pender Value Fund, Burford Capital Limited (AIM: BUR) was a top contributor on the back of strong financial performance, a successful investment in a high-profile litigation case and expanding investment opportunities. The pandemic is expected to drive a surge of legal claims, creating litigation

¹ All Pender performance data points are for Class F of the Fund. Other classes are available. Fees and performance may differ in those other classes.

investment opportunities for Burford which should enable the company to continue growing their 3rd party asset management business. WeCommerce was a key contributor in the Pender Small Cap Opportunities Fund. More on that next.

Portfolio Activity

We did not add any new holdings to our portfolios in August. We continue to trade around positions, taking advantage of the depressed stock prices of certain portfolio holdings. Some of the positions we bought more opportunistically in previous months turned out positively during the month. For instance, we increased the weighting of WeCommerce Holdings Ltd. (TSXV: WE), a consolidator in the Shopify partner ecosystem, and made it one of the top holdings in the Pender Small Cap Opportunities Fund. WeCommerce's share price recovered to some extent in August and became one of the top contributors for the Fund. WeCommerce continued to execute on its M&A strategy and announced an acquisition of Archetype, a top-rated Themes vendor in the Shopify ecosystem. We believe the long-term growth trajectory of WeCommerce remains intact.

The Post Summer M&A Uptick

Summer is coming to an end, which means bankers and CEOs are coming back from their cottages and family vacations to focus on deals. We support their efforts! We expect M&A activity to pick up steam in the fall. Companies have been accumulating cash on the balance sheet and are motivated to invest that cash for growth. Cash and short-term investments on corporate balance sheets globally are at an all-time high of \$6.84 trillion². That is 45% higher than the average over the five years preceding the pandemic, and a 2.6% increase from the previous quarter. We believe the M&A environment is friendly for small to mid cap companies, as risks associated with mega M&A deals appear to be higher recently: proposed deals can run into an impasse more often with regulators, but also with the parties themselves having to jump through more hoops and over more hurdles to get the transaction done. We see many opportunities in our portfolios. On top of that, many holdings are currently trading well below their 52-week highs ([please see the last commentary](#)). When valuations are attractive, both on an absolute and relative basis, it gives us confidence in what the future entails!

David Barr, CFA and Sharon Wang

September 9, 2021



PENDER
PenderFund Capital Management Ltd.

Commissions, trailing commissions, management fees and expenses plus applicable taxes all may be associated with mutual fund investments. Please read the simplified prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in net asset value and assume reinvestment of all distributions and are net of all management and administrative fees, but do not take into account sales, redemption or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Where the performance of a particular class of a fund is displayed, other classes are available and fees and performance may differ in those other classes. This communication is intended for information purposes only and does not constitute an offer to buy or sell our products or services nor is it intended as investment and/or financial advice on any subject matter and is provided for your information only. Every effort has been made to ensure the accuracy of its contents. Certain of the statements made may contain forward-looking statements, which involve known and unknown risk, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

© Copyright PenderFund Capital Management Ltd. All rights reserved. September 2021.

² Source: S&P Global, extrapolated from second-quarter earnings reports.