PENDER VALUE FUND PENDER SMALL CAP OPPORTUNITIES FUND

THE MANAGER'S COMMENTARY – JUNE 2021

Fellow unit holders,

In June we saw a bounce back in tech stocks and the US dollar, which impacted our funds positively, both from a general sector perspective and a currency perspective. The Pender Small Cap Opportunities Fund was up by 4.8%[1] for the month and the Pender Value Fund was up by 2.8%[1]. On a year to date (YTD) basis, the Pender Small Cap Opportunities Fund delivered a total return of 26.6% for the first half of the year, outperforming large cap indices with the S&P 500 Index (in Canadian dollars) up 12.2% YTD, while the S&P/TSX Composite Index was up 17.3% YTD. The Pender Value Fund has a total return of 12.5%[1] YTD.

Portfolio Update

Our activity in the month of June was limited to modest rebalancing across funds. We had a couple of exits in the Pender Small Cap Opportunities Fund. One of them was Chorus Aviation (TSX: CHR), a "close-the-discount" idea. We started building a position in February but the stock ran up before we were able to build a full position, so we took profits and exited. LEAF Group, which we have discussed many times in past commentaries, is no longer a holding in the Pender Small Cap Opportunities Fund as it completed its merger transaction with The Graham Holdings Company (NYSE: GHC) and became a subsidiary of GHC.

In June, two Pender Small Cap Opportunities Fund holdings announced that they are to be acquired by third parties: Cloudera, Inc. (NYSE: CLDR) is to be acquired by KKR & Co. Inc. (NYSE: KKR) and affiliates of Clayton, Dubilier & Rice, and SharpSpring, Inc. (NASDAQ: SHSP) is to be acquired by another marketing software company, Constant Contact, Inc. Both Cloudera and SharpSpring were among the top contributors to the Pender Small Cap Opportunities Fund.

Other top contributors for the Pender Small Cap Opportunities Fund include Maxar Technologies (TSX: MAXR) and Spartan Delta Corp. (TSXV: SDE). Maxar benefitted from new sell-side coverage, which touted the company as a "great long-term opportunity in the space market". Maxar is expected to launch the first satellite of its new, industry-leading constellation, WorldView Legion, later this year, which is a highly anticipated catalyst for the company. Spartan announced a tuck-in acquisition in June, expanding the company's acreage position for new production which should drive future operating leverage as their existing infrastructure benefits from higher utilization. The company remains well positioned with a strong net cash balance sheet, FCF generation and a large pipeline of acquisition opportunities.

For the Pender Value Fund, EBIX Inc (NASDAQ: EBIX) and Stitch Fix, Inc. (NASDAQ: SFIX) were among the top contributors. Having reported annual financials on time, EBIX is making progress preparing to go public with EBIXCash. They recently announced the addition of two independent directors to the board of EBIXCash and have appointed Grant Thornton's India affiliate to be the auditor for EBIXCash. Stitch Fix reported a strong quarter in June, with all business lines doing well. As we mentioned in a previous commentary, Stitch Fix is a core holding of the Fund and we like the long-term prospects of the business.

On the negative side, MAV Beauty Brands Inc (TSX: MAV) was one of the key detractors for both the Pender Small Cap Opportunities Fund and the Pender Value Fund. MAV experienced a recovery in sales

[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.

this year after their Q4 results were impacted by COVID-related lockdowns and supply chain issues stemming from outbreaks at suppliers. The Board of Directors initiated a strategic review process earlier this year which concluded with the company choosing to continue pursuing organic growth opportunities.

WeCommerce Holdings (TSXV: WE), a consolidator in the Shopify ecosystem, was another detractor for the Pender Small Cap Opportunities Fund. Its share price had a great run after going public at $7.00 last December and increasing to a high of $31.99 in January. Recently the stock has been under pressure, as well as being part of the selloff of high growth small cap tech companies. We took the opportunity to buy on the dip to increase our weighting in WeCommerce and it is now one of the top three holdings in the Pender Small Cap Opportunities Fund (as of June 30, 2021). We have confidence in its business fundamentals, growth profile and the management team.

For the Pender Value Fund, Fannie Mae preferred shares are both a new position and one of the detractors for the month. The Pender Value Fund capitalizes on investment ideas from our entire investment team, when the idea meets the threshold of our equity hurdle rate and this idea was originally generated by our fixed income team. We bought the preferred shares after they fell more than 60% on an unfavorable ruling from the US Supreme Court. While the ruling, which essentially upheld the US federal government's right to sweep profits from Fannie Mae into general revenues, was a negative development, we believe there is still considerable value in the preferreds. They are trading at a steep discount of approximately 90% to face value and this has resulted in a capital structure mispricing opportunity in Fannie Mae. The preferred shares are trading at around a $1.7B total market value versus a current market cap of $8.3B (4.8x current preferred market value) at the time of writing (July 6, 2021). Given preferred shares have a higher claim in the capital structure than equity, this mispricing looks attractive to us.

Summer is coming. What lies in our future? It will be interesting to see whether there will be any difference in the retail and institutional investor participation in markets and what impact that may or may not have throughout the summer. With COVID restrictions loosening around the globe, we hope to have more visibility of the effectiveness of vaccine programs, and more insight into what reopening will look like by the end of the summer. We hope our fellow unit holders are able to take the opportunity of loosening restrictions to relax and de-stress from a really challenging sixteen months.

David Barr, CFA and Sharon Wang
July 13, 2021

PENDER
PenderFund Capital Management Ltd.