PENDER
STRATEGIC GROWTH & INCOME FUND

September 2024

Manager's Commentary

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"Luck is random, but the ability to capitalize on luck isn't necessarily random."

- Mari Kuraishi

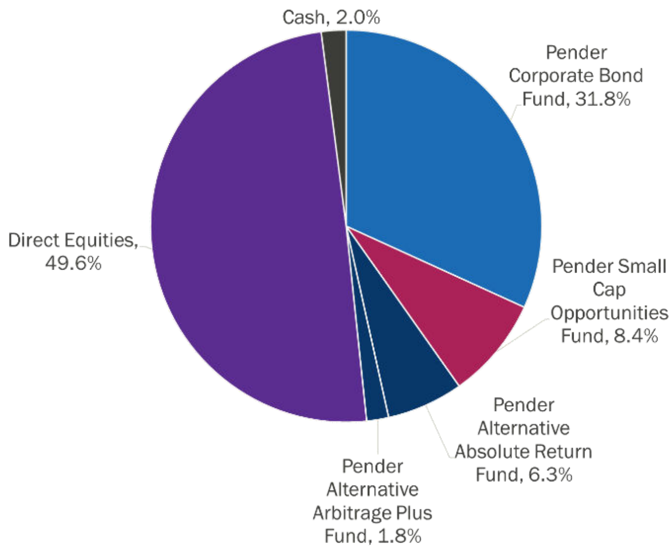
Highlights

- Fund returned 7.8%, with notable contributions from small cap equity and real-estate holdings
- First Fed reduction in borrowing costs since March 2020, increasing appetite for risk assets
- Added two new equities: Services provider Calian Group Ltd. and real estate company Howard Hughes Holdings Inc
- Allocation on look-through basis: Equity 58.0%, Fixed Income & Credit 31.8%, and Liquid Alternatives 8.1%

Dear Unitholders,

The Fund returned 7.8% in the third quarter of 2024[1], an exceptional result within the context of Global equity and credit markets. Trailing one and three year total annualized returns were 26.1% and 8.1%, respectively. Annualized total return since inception[2] was 10.0% reflecting top quartile performance within its category[3]. The S&P/TSX Composite Index returned 10.5% in the third quarter, and 26.7% and 9.6% one and three years respectively.

PSGIF Asset Allocation Q3 2024



Source Pender, as of September 30, 2024

With inflation easing, the Federal Reserve announced a 50-basis-point cut to its benchmark interest rate in September, marking the first

[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. Standard Performance Information for the Pender Strategic Growth & Income Fund Performance may be found here: https://www.penderfund.com/pender-strategic-growth-income-fund/.*

[2] *December 15, 2019.*

[3] *Global Neutral Balanced*

reduction in borrowing costs since March 2020. Before this cut, the Fed had implemented 11 consecutive rate hikes over the past two years to combat inflation, which peaked at a year-over-year rate of 9.1% in June 2022. These hikes had a significant impact on market securities, particularly by boosting the valuations of equities and other risk assets. The reduced cost of borrowing has now fueled investor optimism and encouraged greater risk taking. The real estate sector, which is sensitive to interest rate changes, saw price appreciation due to the lower cost of capital. We increased our exposure to the real estate sector earlier this spring when bearish sentiment was extreme and bargains plentiful. We are pleased with the performance tailwind today!

The declining interest rate environment is also revitalizing M&A activity. A leading technology investment banker recently noted to us, '*I'm as busy doing M&A today as I was doing IPOs in 2021*'. If market conditions remain stable, a surge in acquisitions could occur, likely benefiting smaller-cap companies disproportionately. Stay tuned.

Direct Equities – Notable Third Quarter Activity

New Holdings	Deletions
Calian Group (CGY)	CCL Industries (CCL.B)
Howard Hughes (HHH)	Dollar General (DG)
	Atkore Inc (ATKR)

Top 3 Contributors	Activity	Top 3 Detractors	Activity
Dream Unlimited (DRM)	Trimmed	Dollar General (DG)	Exited
KKR & Co (KKR)	Trimmed	Atkore Inc (ATKR)	Exited
Brookfield Corp (BN)	Trimmed	Microchip Tech (MCHP)	Increased

We added Calian Group Ltd. as a long-term core holding. Our thesis is driven by several key factors including continued compounding through smart acquisitions, an expected recovery in organic growth and attractive current valuation below peers. Calian operates as a four-piston capital allocator, enabling it to strategically shift capital between its four distinct business units based on opportunities, market conditions, and internal capacity. Such allocations can create a prime environment for generating returns in the mid-teens plus, before synergies and leverage. While short-term demand from the Canadian Armed Forces has softened due to procurement delays and increased contracting scrutiny, we expect organic growth to recover, driven by rising demand for cybersecurity, new space investments, increased military readiness and adoption of virtualization technologies. In the meantime, the recent challenging near-term outlook has hit the stock. We see it as a compelling entry point.

We added Howard Hughes Holdings Inc. (HHH) as an asymmetric special situation investment, believing the company's sum-of-the-parts real estate-driven value is significantly higher than the market reflects. Public markets often undervalue complex, self-funded companies like HHH, which have extended value creation cycles. The lack of clear catalysts to close this valuation gap has been a key challenge. However, in August, that changed when the management team announced they were exploring strategic options, including a potential take-private transaction, increasing the likelihood of such a move. As a lucky bonus, the Fed's September rate cut also benefited HHH. We view this as an opportunistic short-term position.

We trimmed our top three contributors (DRM, KKR, BN) on strength. While we are generally reluctant to entirely exit high-performing companies, recent price movements - partly driven by lower interest rates - have altered our view of their risk/reward profiles. In this context, we believe taking some capital off the table seems like a prudent decision. Also, we exited three positions (CCL.B, DG, ATKR) as our investment theses for each failed to materialize. *An adage we try to keep in mind, 'You don't have to make it back the way you lost it.'* It is crucial to scramble out of mistakes quickly, particularly when compelling alternatives are available as highlighted in our new position summaries.

Update on Specialized Fund Strategies

Small Caps (PSCOF): The positive momentum in the Pender Small Cap Opportunities Fund continued in the third quarter. The theme of management teams taking companies private at a significant discount to fair value hit our portfolio this quarter. A win for short term performance, a loss for the long term. A recent example is Altius Renewable Royalties, a provider of flexible capital to renewable energy project developers agreed to go private at a premium. It is certainly a win for now, but bittersweet to potentially give up the longer-term returns, given the company was close to an inflection point as royalty revenues from projects under construction become operational. We find the timing of the transaction incredibly opportunistic, and it is our intention to vote against the deal or exercise our dissent rights.

Fixed Income (PCBF): Pender Corporate Bond Fund outperformed its category[4] in the quarter. We will look back at September 2024 as the month that initiated the fourth Federal Reserve rate cutting cycle of this young century. The first of those cutting cycles terminated in 2003 with a Fed Funds rate of 1%. The other two, commencing in late 2007 and mid-2019, respectively, both ended with the Fed Funds rate pegged close to zero.

We believe the drivers of inflation have changed. We see a spiraling increase in demands on the public purse. Western democracies face, amongst other challenges, the new military threat of Russia and its autocratic allies; the cost of dealing with a growing spate of climate emergencies; and unfunded demands for spending on pensions and medical care for retirees who represent an increasing share of the population. We expect that an economic slowdown, such as we have seen in the wake of the Fed's unprecedented rate hiking cycle of 2022-23, may not produce the same degree of disinflation observed in past cycles. And therefore, our core view is that we will have a relatively short hiking cycle that leaves Fed Funds a couple of points lower, but which will be terminated amid resurging and persistent inflation. For recent details on PCBF, see the September portfolio update.

[4] Morningstar: High Yield Fixed Income

Liquid Alternatives (PAARF/PAAP): In aggregate, our liquid alternatives positions generated a low-single digit return during the quarter. Both Funds serve as portfolio diversifiers which *we believe should generate positive absolute return in most market conditions*. The Pender Alternative Absolute Return Fund is positioned defensively today as it continues to patiently wait for the return of volatility and better valuations in credit markets. The Fund's current yield was yield was 4.57% while yield to maturity was 5.82%. For more details on the PAARF, see the September portfolio update. Pender Alternative Arbitrate Plus Fund should benefit from greater appetite for smaller cap M&A. For more details on the PAAP, see the September portfolio update.

Outlook

We believe the Fund's differentiated approach, which focuses on less efficient asset classes through Pender's specialized strategies, increases the likelihood of delivering long-term performance.

Our direct equity exposure provides more attractive valuations and, in our view, better growth prospects than the broader market. Unlike typical "balanced" Fund strategies that often mirror large-cap indices, our approach is more diversified, spanning small-to-large market capitalization firms. The Fund's long-term returns have been primarily driven by a higher allocation to small- to-mid-sized companies, even though small caps are currently out of favor. This segment has consistently provided opportunities to uncover mispriced securities. We expect the market cycle, which currently favors large caps, to eventually shift. The recent rise in M&A animal spirits could also provide a tailwind.

In the long term, the fixed income team anticipates that North America is likely to return to some form of yield curve control, like the models currently seen in Japan and occasionally in Europe. From an investment standpoint, this environment is expected to favour assets that are both scarce and tangible, such as energy commodities and precious metals, as well as investments with highly predictable income streams, like those provided by monopolies and regulated utilities.

Thank you for your continued support, and please do not hesitate to contact any of us should you have any suggestions, questions, comments, or ideas you wish to share.

Felix Narhi & Geoff Castle

October 24, 2024