

# PENDER

PenderFund Capital Management Ltd.

## MANAGER'S COMMENTARY – Q2 2018 – DAVID BARR

After some exciting volatility in Q1, Q2 was a return to market complacency, lower volatility and stocks going up. This was a tailwind for our equity portfolios, as performance was strong in the quarter. Enough about the quarter, let's talk about what we are finding interesting. We have seen a continuation in the trend of large stocks dominating headlines and market cap-weighted indices outperforming equal weighted indices. This is wonderful for us. Not only does it provide us with our usual small cap hunting grounds of unloved or uncovered companies outside the major indices, it creates opportunities for us in those companies that are in the bottom half of a major index. The move to passive investing is alive and well and it continues to create distortions that, quite frankly, create more opportunities for active management over the long term. While the pendulum is currently swinging in the direction of passive investing, we all know what happens when the pendulum swings the other way.

Happy Birthday!

The end of June represents the inception date for many of the investment funds we manage. This year we marked the five year anniversary of the Pender Value Fund. As long-term investors, five years is the start of a good measuring stick for an investment fund and so far, we are off to a good start! The Pender investment team has evolved over the past five years, since Felix Narhi joined the team in 2013, effectively quadrupled in size. While we don't strive for 100% year over year growth, the investment team has now grown to eight professionals. Our intent is to gradually increase our circle of competence in areas of the market where we believe we can add value and deepen the investment process at Pender. A goal we believe should lead to better results over the long term. The Pender Value Fund is unique in that it accesses investment ideas from across the entire investment team. While US and small cap ideas from Felix and I respectively drove the returns in the early years of the Fund, the last few years have also experienced strong contributions from the fixed income space and this year from the energy sector.

Our focus remains on compounding capital over the long term, and our primary hunting ground will be in the common stocks of companies that we believe have the characteristics to do so. We are also happy to be opportunistic when the situation warrants and these "close the discount" companies require very close scrutiny and oversight. Energy has been a very small part of what we've done historically but has increased recently with an addition to the team. Amar Pandya [recently wrote a piece on our approach to energy investing](#) that you may find a good read. Additionally, going up the cap structure and participating in the debt side when we can get equity-like returns has been a sensible part of our strategy.

As we all know, rear view investing is not a successful strategy. Past performance is not an indicator of future performance. We couldn't agree more. Safe to say, the Pender investment team will continue to invest "The Pender Way", focused on the long term, the underlying businesses and buying them at the right price. While markets are always changing and what worked yesterday won't necessarily work tomorrow, sticking to and improving our investment process is a way of life on the investment team and that will not change.

*David Barr*

*July 30, 2018*

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