



Forward thinking. Finding value.

MANAGER'S COMMENTARY – Q4 2018 – DAVID BARR

Fellow Unitholders,

Happy New Year. Or should I say good riddance to 2018. Either way, it's that time of year when we reflect on the previous year. What we can say is that last year sucked with respect to stock price movements.

The preordained outcome of big drawdowns in the stock market is that people are looking for answers. When stock markets are going up, everyone knows the reason, it's the result of our intelligence and skill. The search for answers in down markets brings out the brigade of talking heads - economic forecasters with big ideas. I recently shared an article on social media from Frank K. Martin CFA titled ["Tell Me What I Wanna Hear"](#) talking about these "Hedgehogs".

We saw a lot of these same types of people in 2009 and 2010, in and around the financial crisis. Why is this? People want an answer. A concrete explanation makes them feel better. The problem is, nobody knows the reasons markets do what they do on a day-to-day, week-to-week or year-to-year basis. At our weekly investment team research meeting, when asked about a company, security or business, my most common answer is "it depends". The reality is that the world is neither black nor white, but a shade of gray. Maddeningly frustrating for those looking for a definitive answer!

In hindsight, people will zoom in on one or two lightning rod issues to explain the downturn but the reality is something completely different. Stock markets are complex adaptive systems. The study of biological systems is more likely to provide a better understanding of markets than the study of economic variables. In a complex adaptive system, multiple variables or inputs will influence the outcome. The greatest challenge is understanding the impact of these variables as they influence one another. The system is dynamic and changes, leading to an uncertain future – the system itself changes the outcome.

So with that, I will stop pontificating on macro events. That's not to say we do not look at the economy. A strong economy creates tailwinds improving the outlook for different industries and companies while a weak economy creates headwinds. Even more importantly, a strong or weak economy can influence the appetite for market participation. A strong economy can produce an over priced market and a weak economy can create a cheap market.

Considering these kinds of market forces comes into our security selection and for now we are bullish. Why?

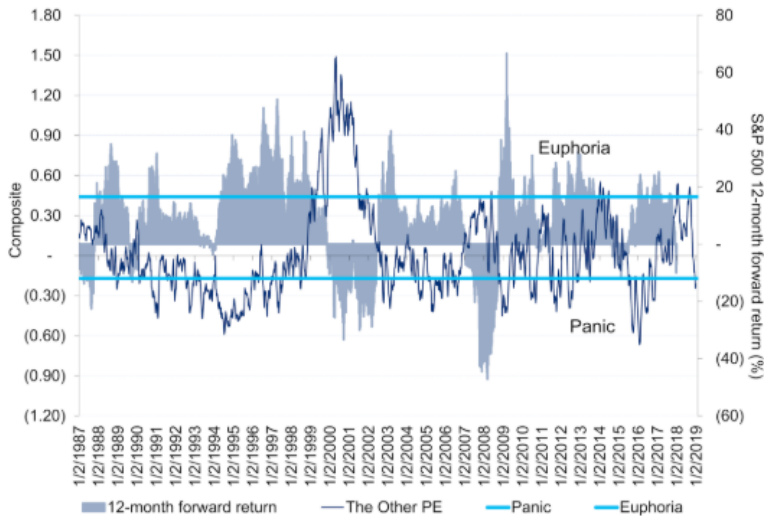
1. Today's negative sentiment
2. Top down small to mid cap valuations look bullish
3. Bottom up view also looks bullish

1. As a contrarian, today's negative sentiment is a bullish indicator

When investors are panicking, like they are today, prospective returns are usually much better.

According to Citigroup, markets are “officially” panicking and in a state of extreme fear, based on their

Citigroup Panic/Euphoria Model



Panic/Euphoria model on January 2, 2019. This is great news on a forward-looking basis. “This indicates “high probabilities of making money (with average 18% upward moves looking out 12 months)”.”¹ This model is based on various indicators and has a “good track record of predicting pullbacks and surges”. At times like this it’s all about temperament not analytics, and we believe that forced and panic selling today, generate pent up returns for tomorrow.

Source: Citigroup via

¹ <https://www.cnbc.com/2019/01/02/investors-are-officially-panicking-citigroup-says.html>

2. The top down valuation view looks bullish, especially for small-to-mid cap stocks vs. large cap focused S&P500

Small and mid-cap stocks have not been this cheap since the huge market correction in 2009. That was a great time to be bullish. We believe the same is true today. Stock prices are going nowhere but these

small and mid cap companies are increasing their intrinsic value every day, and we’ve been adding them to the portfolio. The Pender Value Fund now has much higher exposure to small-and-mid cap companies that are listed outside the large cap indices.

Source: WisdomTree, Factset



3. The bottom up view looks bullish too

We believe the portfolio, in aggregate, offers compelling value. We will not disclose our internal intrinsic value estimate ranges on every holding, but looking at the historical trading ranges of PVF's top 10 names provides some clues to how attractively valued the portfolio currently is. Historically, we have used [cash as a strategic asset class](#). We have deployed cash when markets correct, because the opportunity set widens and bargain prices in companies that we understand becomes more plentiful. Following the recent market correction, we are now essentially fully invested, which historically has been a great time to own the Fund. Based on our models, we believe that today, in aggregate, the Fund is at one of its most attractive valuation levels since its inception.

Company	Description	Ticker	Recent		Recent Valuation	Valuation			Valuation Time Range	Potential Upside to Average*
			Price (1/7/19)	Simple Valuation Metric (TTM)		High	Low	Average		
NASPERS LIMITED	Media Conglomerate	JSE:NPN	2,821.8	SOTP/Price	0.6x	n/a	n/a	n/a	n/a	n/a
Tencent (+90% of Nasper's SOTP)	China online Internet	SEHK:700	317.6	P/E	31.3x	63.0x	22.5x	42.1x	10 years	34%
PLATFORM SPECIALTY	Diversified Specialty Chemicals	NYSE:PAH	\$ 11.05	EV/EBITDA	10.2x	33.4x	9.6x	15.9x	Since 2014 listing	56%
MIDDLEBY CORP	Food equipment maker	NASD:MIDD	\$ 104.34	P/E	19.5x	36.5x	5.7x	23.6x	10 years	21%
KKR & CO	Alternative Asset Manager	NYSE:KKR	\$ 20.48	P/BV	1.3x	3.3x	0.9x	1.9x	Since 2010 IPO	46%
ABSOLUTE SOFTWARE	Software Security Solutions	TSX:ABT	\$ 8.00	EV/Total Revenues	2.3x	4.9x	1.3x	2.4x	10 years	5%
TRIPADVISOR INC	Online Travel Company	NasdaqGS:TRIP	\$ 55.22	P/Sales	4.8x	16.4x	2.8x	7.7x	Since 2011 spinoff	61%
EXOR	Conglomerate holding company	BIT:EXO	\$ 49.14	SOTP/Price	0.6x	n/a	n/a	n/a	n/a	n/a
SS&C TECHNOLOGIES	Software for financial services providers	NasdaqGS:SSNC	\$ 45.64	P/E (NTM)	13.3x	28.8x	12.1x	18.8x	10 years	41%
ALIMENTATION OUCHE-TARD	Global convenience store operator	TSX:ATD.B	\$ 69.06	P/E	16.6x	30.3x	8.3x	18.4x	10 years	11%
CCL INDUSTRIES INC.	Specialty Packaging company	TSX:CCL.B	\$ 51.02	P/E	17.5x	56.9x	7.6x	23.0x	10 years	31%
S&P500			2,549	EV/EBITDA	11.9x	13.9x	6.6x	10.6x	10 years	-11%
S&P500			2,549	P/E	17.1x	24.0x	12.1x	17.8x	10 years	4%

*Illustration purposes only which shows simplistic valuation trading ranges based on historical multiples.

While we believe undervaluation of the portfolio is directionally correct in aggregate, the table does not reflect our estimated price-to-intrinsic value ranges on a security by security basis.

Colour code

ST driver of stock > Potential upside/downside driver from [mean reversion to historic average](#)

Source: S&P CapitalIQ, Bloomberg, internal Pender estimates

David Barr

January 22, 2018

For full standard performance information, please visit: <http://www.penderfund.com/funds-and-performance/>



www.penderfund.com



@penderfund



PenderFund Capital Management

PENDER

PenderFund Capital Management Ltd.

Commissions, trailing commissions, management fees and expenses 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. 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. January 2019.