



Forward thinking. Finding value.

MANAGER'S COMMENTARY – Q3 2017 – DAVID BARR - THE PENDER CIRCLE OF COMPETENCE

Fellow Unitholders,

As active managers we are trying to build a portfolio of companies within our strategies that can provide strong, long term, risk adjusted returns for our investors. One of our key tenets is to find companies that fall within our [Circle of Competence](#). When we are looking to gain an analytical edge over our competition and develop an alternative thesis to the market, it is critical to focus on industries and companies that we know very well. That way, when opportunities present themselves we can act quickly and decisively, with the conviction that we understand the underlying business and what it may be worth. And this is never more important than when Mr. Market goes a little crazy and provides us with a buying opportunity.

We were recently able to make an investment that leveraged our knowledge of the restaurant sector (we own or have owned Starbucks, Panera, Imvescor and others), when we added Freshii to the portfolio. Freshii is the "Eat. Energize" healthy but casual restaurant franchise. We watched its IPO earlier this year and were impressed with the unit economics of the business, the founder-led management team and the growth potential. We weren't alone, so we passed on investing then over valuation concerns. The reality is, building a business is hard and CEO, Matthew Corrin, recently received a serious education on being a public company and the associated expectations. When the aggressive growth strategy Freshii outlined during its IPO process hit a bump in the road, Mr. Market reacted violently and the stock has fallen from a 52 week high of \$15.09 to \$5.63 where it sits at the time of writing.

Feeling comfortable with the underlying economics of the business, good relative SSG and a revamped growth strategy, we entered the position at a very attractive price in what we believe to be the early innings of a [compounder](#) stock.

Back to our Circle of Competence. Ours is the culmination of the skill set of the Pender investment team. I'm lucky to work with intelligent, hardworking, dedicated people. One of the core attributes of the whole team is that we are all "intellectually curious". We all like to learn new things so we are constantly researching new areas to invest. Recent deep dives include artificial intelligence, blockchain technology and disruption of the medical industry. Over time our circle has grown from small cap tech in Canada into what we would characterize today as all cap North America, with the latest addition to our investment team, Amar Pandya. When adding to the team we ask two questions; do they expand our circle and do they fit into The Pender Way, and Amar scores high on both. Amar has added depth to our mid and large cap North America circle and, unlike the rest of us on the equity team, also brings a qualified opinion on some resource based companies. You will start to see his fingerprints on the Pender Canadian Opportunities Fund and the Pender Strategic Growth and Income Fund in the future.

David Barr

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PenderFund Capital Management



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