PENDER

CANADIAN OPPORTUNITIES FUND

MANAGER'S COMMENTARY – Q2 2018 – DAVID BARR & AMAR PANDYA

In my October 2017 commentary I talked about expanding Pender's Circle of Competence and mentioned the addition of Amar Pandya to our team and how he brings additional depth to our mid and large cap knowledge base, as well as "a qualified opinion on some resource-based companies". You can read more on this in his blog post. I said at that time that you would start to see his influence in the Fund and I am pleased to announce that he will join me in managing the portfolio as Associate Portfolio Manager on the Pender Canadian Opportunities Fund, as well as continuing his analyst role.

With that, I'd now like to hand over to Amar to provide an update on the Canadian market, changes in the portfolio and a discussion of one of our favourite ideas.

The Canadian Market Continues to be unimpressive

Strength returned to the market in the second quarter, driven by an improved economic backdrop supported by strong corporate earnings, synchronized global economic growth and the benefits of US tax reform beginning to permeate through the world's largest economy. North of the border, despite increased concerns over trade, tighter mortgage lending rules and higher interest rates raising borrowing costs for levered consumers, the Canadian market was resilient with the S&P/TSX Composite Index up 5.9% in the quarter pushing the index up to a positive year-to-date return.

An Energy Investment at Pender?

The Pender Canadian Opportunities Fund delivered a positive return of 3.0% in the quarter. Athabasca Oil Corp., a position we initiated early this year, was a top contributor to the Fund. While we have historically had minimal exposure to energy, our process allows us to consider any investment idea, regardless of sector, where we find a stock trading at a significant discount to our conservative estimate of intrinsic valuation. See our blog post on Pender's approach to investing in the energy sector highlighting attributes of Athabasca.

Usually contrarian, sometimes fashionable

Women's fashion retailer Aritzia Inc. was another large contributor to the Fund this quarter. The company, which went public in late 2016, had fallen out of favour after aggressive selling by the private-equity backers of the firm and a weak retail sector backdrop negatively impacted investor sentiment. Despite these concerns, the company has continued to report industry-leading same store sales growth and strong cash-flow generation. We have met Aritzia's founder Brian Hill a number of times and have noted the company holds many of the founder-led company attributes we look for in long-term compounders. A recent tour of the company's headquarters demonstrated the strong entrepreneurial culture of the firm which we believe provides the company with a competitive advantage. After posting strong Q1 results and guidance for a strong summer season, the market started to take notice of the disconnect between the company's share price and its intrinsic value. We believe the company maintains a large growth runway from increasing online sales and the US, where it is just starting to expand its presence. International growth is also a long-term opportunity for the company with a strong global following, including the new Duchess of Sussex, Meghan Markle.

Performance in the Fund was offset by Auto Canada Inc., which was impacted by a weak new car sales environment, and Polaris Infrastructure, which sold off due to the company's exposure to Nicaragua, where there has been political unrest.

Markets

With major indices near record high and multiples exceedingly rich, valuation in certain sectors and with certain securities appear to be stretched. However, as we focus our research using a contrarian mindset to uncover mispriced securities, we continue to find several attractive investment opportunities in the market. As it appears we are entering the late stage of the business cycle, we are cautious of certain cyclical sectors which will require a larger margin of safety going forward. We are closely monitoring developments in trade which may drive increased volatility creating new investment opportunities.

Portfolio Updates

We had an active quarter as increased volatility created opportunities to exit holdings which had moved closer to our estimate of intrinsic value, deploy cash into new ideas and increase our exposure to several existing holdings. At the end of Q2, the Fund was nearly fully invested with 37 holdings and the top 10 positions in the Fund making up 46% of the portfolio.

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