

PENDER PENDER

VALUE FUND

SMALL CAP OPPORTUNITIES FUND

THE MANAGER'S COMMENTARY - JANUARY 2020

Fellow Unitholders,

We had a positive start to 2020 with the Pender Value Fund up 1.0% in January and the Pender Small Cap Opportunities Fund with a gain of 3.7%¹. During the same time period, markets seemed to continue their divergence between large cap and small cap. Large cap indices such as the S&P500 index and the S&P/TSX Composite index advanced 1.9% and 1.7%, respectively, while small cap indices such as the Russell 2000 and Russell Microcap fell by -1.4% and -2.8% respectively.

The Broken Record

Small caps are down, large caps are up. It feels like I've been saying pretty much the same thing for years now. Contrary to what you may be thinking, we very much enjoy markets like these. Unloved parts of the market mean no competition on prices and we continue to find opportunities. After all, the Fed can't buy small cap stocks! When conditions like these persist for extended periods of time, the disconnect between the growth in the value of a business compared to its stock price gets larger and larger. Over the long term these values ultimately converge, but as the disconnect becomes wider it can set up a pent-up environment such that when the tide does eventually reverse, it can do so violently - like a January storm in Tofino.

We continue to deploy capital in the small/mid cap space and recently increased our bench strength to do so. [Don Walker](#), a very thoughtful investor in the small cap space whom I've admired for years and with whom I've shared several ideas, joined us last year to focus on investing in cash flow focussed, dividend paying small and mid cap stocks. Don hit the ground running and has already contributed several ideas. One such idea is Hamilton Thorne, which provides products and equipment to fertility clinics around the world. The company has a strong global market presence, reporting double digit organic growth, and is in the early stages of their strategy of adding more equipment and products to cross sell. (If you want to hear a more in depth analysis on the company check out the presentation Don and I gave to MOI Global [here](#)²). We have now launched the [Pender Small/Mid Cap Dividend Fund](#) as of January 31 and we are lucky to have Don onboard as Portfolio Manager of the new Fund.

I watched the Super Bowl at a friend's house this year and when the game was over he decided to show me his new vinyl record collection. Everything is cyclical. It seems like records are back in fashion. I'm pretty sure small caps will have their day again too!

Portfolio Updates

ProntoForms Corporation and Aritzia Inc. were among the key contributors for both Funds. ProntoForms provides software solutions to help customers transform paper forms into mobile forms. While the intrinsic value of the business has increased steadily with the impressive growth of its high margin recurring revenue, the "market" price had gone nowhere for several years. That is until recently. In January, ProntoForms' share price increased 36%. Like I said, when the tide turns! In addition, it appears that investors have finally started to pay attention. Aritzia Inc.'s contribution was the result of reporting a strong quarter early this year and its share price went up by 31% in January. We continue to like Aritzia's US expansion strategy and the acceleration of its e-commerce platform.

¹ F Class; source - PenderFund

² Please note, this content is only available to members of MOI Global.

On the flip side, performance in the Funds was adversely impacted by our limited energy exposure (single digit portfolio weighting). Athabasca Oil Corporation was one of the key detractors for both funds, primarily due to declining commodity prices.

There have not been any major shifts in asset allocation by sector or geography. We have kept cash at high single digits in both Funds, given the increased potential for volatility.

*David Barr, CFA
February 20, 2020*

www.penderfund.com

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. February 2020.