

SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

Pender Enhanced Income Fund

Six months ended June 30, 2020

PENDER

This interim Management Report of Fund Performance contains financial highlights but does not contain either the interim financial statements or annual financial statements of the investment fund. You may obtain a copy of the interim financial statements or annual financial statements at your request, at no cost, by calling toll-free 1-866-377-4743, by writing to us at 1830 – 1066 West Hastings Street, Vancouver, BC V6E 3X2 or by visiting our website at www.penderfund.com or the SEDAR website at www.sedar.com.

You may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Results of Operations

The net assets of the Pender Enhanced Income Fund (the "Fund") were \$37,635,013 as at June 30, 2020 versus \$66,187,175 as at December 31, 2019. Of this \$28,552,162 decrease, \$14,260,831 is attributable to negative investment performance, and \$14,291,331 is attributable to net unitholder redemptions of the Fund. Because the Fund has been in operation for less than one-year, past performance data is not available.

The following comments and the comments under "Recent Developments" reflect the views of the portfolio management team and are based on information as at the end of the period. Please read the caution regarding forward-looking statements located on the last page of this document.

Equity performance

Key positive individual contributors to the Fund's equity performance for the period included Spartan Delta Corp., KKR & Co. Inc, and Texas Pacific Land Trust. Conversely, PetroShale Inc., Brookfield Property Partners L.P. and Diversified Royalty Corp. had an adverse impact.

Since becoming the portfolio advisor of the Fund, portfolio transactions were based on our stock selection process. In general, we increased weightings of individual stocks where we determined the margin of safety had increased and decreased their weightings as their traded market values moved closer to our estimates of their intrinsic values. We are constantly looking for new investment ideas and examples of new investments include Information Services Corporation, Burford Capital Limited, and Spartan Delta Corp. We may liquidate our positions for various reasons, such as when share prices have reached our assessment of fair value, when an acquisition has occurred, or where we have changed our investment thesis. During the period, we sold PetroShale Inc., Guardian Capital Group Limited, and Dream Industrial Real Estate Investment Trust, for example.

Fixed income performance

The Fund's fixed income asset, the Pender Corporate Bond Fund, was approximately 40.9% of the Fund's portfolio at the end of the period. The Pender Corporate Bond Fund had several areas of relative weakness during the first half of 2020 including its energy sector holdings, floating rate or rate reset securities along with high yield bonds, regardless of industry as investors fled risk. Floating rate or rate reset securities fell in sympathy with rate cuts and investor sentiment respecting the direction of long-term interest rates. Although a negative contributor lately, we believe this asset class remains undervalued and provides a diversification effect with merit. Offsetting these areas of weakness to some degree was relative strength in several Health Care & Pharma holdings, positions in Government of Canada bonds along with other high quality, short-duration credit from issuers such as Canadian National Railway Company and Apple Inc. Several specific names that contributed to offsetting weakness on the Health Care & Pharma side included Paratek Pharmaceuticals, Inc., OPKO Health, Inc. and Avadel Pharmaceuticals plc.

Recent Developments

Equity outlook

The equity portion of the portfolio takes a value-based approach through a portfolio of North American and foreign securities with the objectives of a) capital appreciation, b) income generation and c) capital preservation.

World markets have experienced unparalleled volatility during 2020. While the initial impact of the COVID-19 outbreak on world markets was muted in January, the widening global impact of COVID-19 and the breakdown of OPEC resulted in markets reacting with significant downward volatility and turmoil in late February and into March 2020. World markets made an astonishing rebound in April. Since then, unprecedented monetary and fiscal stimulus, the initial reopening of global economies, and promising medical progress for potential COVID-19 therapies/vaccines have continued to push world markets higher. World markets in general seem to be on a recovery path. Nonetheless, there remains many uncertainties remain that could cause world markets to turn rapidly and unexpectedly. Any potential impact on investment results will depend, to a large extent, on future developments and new information that may emerge regarding the duration and severity of the COVID-19 and the actions taken by government authorities and other entities to contain the virus or treat its impact, all of which are beyond our control.

An unprecedented level of monetary stimulus has driven interest rates down and increased the demand for higher yield investments. This has driven the valuations of many higher dividend yielding large-cap stocks to unattractive levels. As a result, the Fund's holdings of small and mid-cap dividend paying stocks is expected to increase. Our investment process is focused on estimating the range of intrinsic value of a company and to buy its stock when it trades at an attractive discount relative to that range. There has also been an abrupt and in some cases, material change to the intrinsic value of companies as a result of COVID-19. In some cases, intrinsic value has been impaired while in others it has increased. We have been focusing on increasing our exposure where the spread between a company's share price and our estimate of its intrinsic value has widened, providing what we believe to be an attractive margin of safety.

Recent Developments (continued)

Fixed income outlook

The recovery in bond markets has been robust thus far, even if it has been unevenly distributed. The US BBB Rated Index's effective yield to maturity, after spiking as high as 5.6% on March 23, closed the quarter at approximately the same level that prevailed at the beginning of the year. Government bonds, helped in no small way by limitless central bank interventions, have been bid to record low yields in North America.

Looking down the table, lower tiers of credit have begun to rebound, but less completely. Single-B credits ended the quarter at a spread to treasuries of approximately 7%, which does represent a significant improvement from over 12% at the peak of the crisis but is still several points wider than in early 2020. And the CCC and below index, which is home to the markets most distressed (and lowest priced) bonds has recovered the least. Touching 20% effective yield on March 23, the BoAML CCC Index still had a yield of approximately 15% towards the end of the period, approximately 5 points wider than where things stood in early January. The recovery in deeply discounted credits is at an earlier stage.

We remained committed to our guiding principles through this period including maintaining the shape of the fund. In order to have the ability to take advantage of opportunities as they presented themselves, as well as to keep investor confidence in the Fund, it is important to maintain the "shape" of the Fund in terms of our weighting by risk tier. The Fund remains positioned with a bias toward short duration credit and our strategy continues to favour well-covered positions with room for capital appreciation in areas such as discounted closed-end funds, currently out-of-the-money convertible notes, select rate reset preferreds and floating rate notes along with credit positions that we believe to be relatively undervalued.

Related Party Transactions

The Fund pays management and administration fees to the Manager for management and portfolio advisory services (see "Management Fees").

As at the end of the period, parties related to the Manager did not hold any of the Fund's units.

As part of the Fund's investment strategy, the Fund invests in Class O units of the Pender Corporate Bond Fund and Pender Small Cap Opportunities Fund, mutual funds also managed by the Manager. The Fund does not pay any duplicate management fees on its investment in these mutual funds.

Management Fees

The Fund pays management and administration fees calculated as a percentage of the net asset value of each respective class. The fees are calculated at the close of business on each valuation day and are paid monthly. In exchange for the administration fee, the Manager pays the operating costs of the Fund so that the Management Expense Ratio ("MER") for each class does not exceed certain levels as set out in the Fund's offering documents.

Management fees are used by the Manager, in part, to pay sales commissions, trailer fees, marketing costs and other associated distribution costs relating to the sale of units of the Fund.

Such expenses represented approximately 23% of the management fees paid by the Fund to the Manager for the period.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the period and the calendar years indicated.

CLASS A						
Fund's Net Assets Per Unit (a)	2020	2019	2018	2017	2016	2015
Net assets – beginning of period	\$7.53	\$8.23	\$9.38	\$9.56	\$9.03	\$11.11
Increase (decrease) from operations:						
Total revenue	0.17	0.32	0.57	0.60	0.82	0.91
Total expenses	(0.07)	(0.28)	(0.23)	(0.21)	(0.21)	(0.21)
Realized gains (losses)	(0.76)	(1.12)	(1.93)	0.70	(0.11)	(1.14)
Unrealized gains (losses)	(1.16)	1.18	0.99	(0.74)	0.60	(0.74)
Total increase (decrease) from operations (b)	(1.82)	0.10	(0.60)	0.35	1.10	(1.18)
Distributions:						
From income (excluding dividends)	(0.15)	-	(0.30)	(0.40)	(0.65)	(0.71)
From dividends	-	(0.01)	(0.07)	(0.03)	(0.03)	(0.04)
From capital gains	-	-	-	-	-	-
Return of capital	-	(0.39)	(0.09)	(0.05)	-	-
Total annual distributions (b), (c)	(0.15)	(0.40)	(0.46)	(0.48)	(0.68)	(0.75)
Net assets – end of period	\$5.64	\$7.53	\$8.23	\$9.38	\$9.56	\$9.03
Ratios and Supplemental Data						
Total net asset value (\$000s) (a)	\$11,014	\$18,234	\$14,982	\$27,991	\$47,727	\$64,495
Number of units outstanding (a)	1,953,311	2,421,712	1,820,922	2,985,253	4,993,155	7,141,563
Management expense ratio (d)	2.25%	3.07%	2.36%	2.07%	2.18%	1.89%
Management expense ratio before absorptions (e)	2.25%	3.07%	2.36%	2.07%	2.18%	1.89%
Trading expense ratio (f)	0.18%	0.15%	0.12%	0.08%	0.07%	0.07%
Portfolio turnover rate (g)	24.66%	194.29%	53.48%	77.82%	39.70%	26.80%
Net asset value per unit (a)	\$5.64	\$7.53	\$8.23	\$9.38	\$9.56	\$9.03

CLASS A1		
Fund's Net Assets Per Unit (a)	2020	2019
Net assets – beginning of period	\$10.00	\$10.00
Increase (decrease) from operations:		
Total revenue	0.23	-
Total expenses	(0.10)	-
Realized gains (losses)	(1.05)	-
Unrealized gains (losses)	(1.27)	-
Total increase (decrease) from operations (b)	(2.19)	-
Distributions:		
From income (excluding dividends)	(0.20)	-
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
Total annual distributions (b), (c)	(0.20)	-
Net assets – end of period	\$7.60	\$10.00
Ratios and Supplemental Data		
Total net asset value (\$000s) (a)	\$4	\$5
Number of units outstanding (a)	513	500
Management expense ratio (d)	2.25%	0.00%
Management expense ratio before absorptions (e)	2.25%	0.00%
Trading expense ratio (f)	0.18%	0.15%
Portfolio turnover rate (g)	24.66%	194.29%
Net asset value per unit (a)	\$7.60	\$10.00

FINANCIAL HIGHLIGHTS (CONTINUED)

CLASS E		
Fund's Net Assets Per Unit (a)	2020	2019
Net assets – beginning of period	\$10.00	\$10.00
Increase (decrease) from operations:		
Total revenue	0.24	-
Total expenses	(0.03)	-
Realized gains (losses)	(1.06)	-
Unrealized gains (losses)	(1.26)	-
Total increase (decrease) from operations (b)	(2.11)	-
Distributions:		
From income (excluding dividends)	(0.20)	-
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
Total annual distributions (b), (c)	(0.20)	-
Net assets – end of period	\$7.67	\$10.00
Ratios and Supplemental Data		
Total net asset value (\$000s) (a)	\$4	\$5
Number of units outstanding (a)	513	500
Management expense ratio (d)	0.50%	0.00%
Management expense ratio before absorptions (e)	0.50%	0.00%
Trading expense ratio (f)	0.18%	0.15%
Portfolio turnover rate (g)	24.66%	194.29%
Net asset value per unit (a)	\$7.67	\$10.00

CLASS F						
Fund's Net Assets Per Unit (a)	2020	2019	2018	2017	2016	2015
Net assets – beginning of period	\$7.71	\$8.36	\$9.45	\$9.55	\$8.95	\$8.95
Increase (decrease) from operations:						
Total revenue	0.17	0.35	0.58	0.61	0.82	0.92
Total expenses	(0.04)	(0.22)	(0.16)	(0.13)	(0.13)	(0.13)
Realized gains (losses)	(0.76)	(0.90)	(1.96)	0.70	(0.11)	(1.15)
Unrealized gains (losses)	(1.28)	1.29	0.99	(0.83)	0.66	(0.70)
Total increase (decrease) from operations (b)	(1.91)	0.52	(0.55)	0.35	1.24	(1.06)
Distributions:						
From income (excluding dividends)	(0.15)	(0.04)	(0.36)	(0.40)	(0.65)	(0.88)
From dividends	-	(0.13)	(0.07)	(0.04)	(0.03)	(0.05)
From capital gains	-	-	-	-	-	-
Return of capital	-	(0.24)	(0.02)	(0.04)	-	-
Total annual distributions (b), (c)	(0.15)	(0.41)	(0.45)	(0.48)	(0.68)	(0.93)
Net assets – end of period	\$5.80	\$7.71	\$8.36	\$9.45	\$9.55	\$8.95
Ratios and Supplemental Data						
Total net asset value (\$000s) (a)	\$26,493	\$47,924	\$27,364	\$53,280	\$54,685	\$57,767
Number of units outstanding (a)	4,569,441	6,217,314	3,274,932	5,640,943	5,725,384	6,452,840
Management expense ratio (d)	1.25%	2.23%	1.55%	1.26%	1.37%	1.08%
Management expense ratio before absorptions (e)	1.25%	2.23%	1.55%	1.26%	1.37%	1.08%
Trading expense ratio (f)	0.18%	0.15%	0.12%	0.08%	0.07%	0.07%
Portfolio turnover rate (g)	24.66%	194.29%	53.48%	77.48%	39.70%	26.80%
Net asset value per unit (a)	\$5.80	\$7.71	\$8.36	\$9.45	\$9.55	\$8.95

FINANCIAL HIGHLIGHTS (CONTINUED)

CLASS F1

Fund's Net Assets Per Unit (a)	2020	2019
Net assets – beginning of period	\$10.00	\$10.00
Increase (decrease) from operations:		
Total revenue	0.39	-
Total expenses	(0.05)	-
Realized gains (losses)	(1.64)	-
Unrealized gains (losses)	3.01	-
Total increase (decrease) from operations (b)	1.71	-
Distributions:		
From income (excluding dividends)	(0.20)	-
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
Total annual distributions (b), (c)	(0.20)	-
Net assets – end of period	\$7.64	\$10.00
Ratios and Supplemental Data		
Total net asset value (\$000s) (a)	\$109	\$5
Number of units outstanding (a)	14,211	500
Management expense ratio (d)	1.25%	0.00%
Management expense ratio before absorptions (e)	1.25%	0.00%
Trading expense ratio (f)	0.18%	0.15%
Portfolio turnover rate (g)	24.66%	194.29%
Net asset value per unit (a)	\$7.64	\$10.00

CLASS I

Fund's Net Assets Per Unit (a)	2020	2019
Net assets – beginning of period	\$10.00	\$10.00
Increase (decrease) from operations:		
Total revenue	0.23	-
Total expenses	(0.05)	-
Realized gains (losses)	(1.06)	-
Unrealized gains (losses)	(1.27)	-
Total increase (decrease) from operations (b)	(2.15)	-
Distributions:		
From income (excluding dividends)	(0.20)	-
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
Total annual distributions (b), (c)	(0.20)	-
Net assets – end of period	\$7.64	\$10.00
Ratios and Supplemental Data		
Total net asset value (\$000s) (a)	\$4	\$5
Number of units outstanding (a)	513	500
Management expense ratio (d)	1.10%	0.00%
Management expense ratio before absorptions (e)	1.10%	0.00%
Trading expense ratio (f)	0.18%	0.15%
Portfolio turnover rate (g)	24.66%	194.29%
Net asset value per unit (a)	\$7.64	\$10.00

FINANCIAL HIGHLIGHTS (CONTINUED)

CLASS N		
Fund's Net Assets Per Unit (a)	2020	2019
Net assets – beginning of period	\$10.00	\$10.00
Increase (decrease) from operations:		
Total revenue	0.24	-
Total expenses	(0.04)	-
Realized gains (losses)	(1.06)	-
Unrealized gains (losses)	(1.26)	-
Total increase (decrease) from operations (b)	(2.12)	-
Distributions:		
From income (excluding dividends)	(0.20)	-
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
Total annual distributions (b), (c)	(0.20)	-
Net assets – end of period	\$7.65	\$10.00
Ratios and Supplemental Data		
Total net asset value (\$000s) (a)	\$4	\$5
Number of units outstanding (a)	513	500
Management expense ratio (d)	0.85%	0.00%
Management expense ratio before absorptions (e)	0.85%	0.00%
Trading expense ratio (f)	0.18%	0.15%
Portfolio turnover rate (g)	24.66%	194.29%
Net asset value per unit (a)	\$7.65	\$10.00

CLASS O		
Fund's Net Assets Per Unit (a)	2020	2019
Net assets – beginning of period	10.00	\$10.00
Increase (decrease) from operations:		
Total revenue	0.24	-
Total expenses	(0.01)	-
Realized gains (losses)	(1.06)	-
Unrealized gains (losses)	(1.27)	-
Total increase (decrease) from operations (b)	(2.10)	-
Distributions:		
From income (excluding dividends)	(0.20)	-
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
Total annual distributions (b), (c)	(0.20)	-
Net assets – end of period	\$7.68	\$10.00
Ratios and Supplemental Data		
Total net asset value (\$000s) (a)	\$4	\$5
Number of units outstanding (a)	513	500
Management expense ratio (d)	0.00%	0.00%
Management expense ratio before absorptions (e)	0.00%	0.00%
Trading expense ratio (f)	0.18%	0.15%
Portfolio turnover rate (g)	24.66%	194.29%
Net asset value per unit (a)	\$7.68	\$10.00

FINANCIAL HIGHLIGHTS (CONTINUED)**Footnotes:**

- (a) This information is derived from the Fund's unaudited semi-annual financial statements as at June 30 and audited annual financial statements as at December 31 for the period stated, prepared under International Financial Reporting Standards.
- (b) Net assets per unit and distributions per unit are based on the actual number of units for the relevant Fund class outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding during the period.
- (c) Distributions were paid in cash and/or reinvested in additional units of the Fund.
- (d) Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) for the period and is expressed as an annualized percentage of daily average net asset value during the period. The MER may vary from one class of units to another because of differences in the applicable management fees and certain fees and expenses may have been absorbed by the Manager which would otherwise be reflected in the Fund.
- (e) The Manager of the Fund has agreed to absorb sufficient expenses of the Fund, as necessary, such that the annual MER after all charges and taxes (including sales, goods and services and other similar charges) will not exceed certain limits as outlined in the Fund's Simplified Prospectus. The amount of expenses absorbed is at the discretion of the Manager as set out in the Fund's Simplified Prospectus and the Manager may in its sole discretion cease to absorb expenses.
- (f) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
- (g) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. In general, the higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

PAST PERFORMANCE

The past performance for the Fund is not available because it has been in operation for less than one year. The performance of the fund was reset as at December 15, 2019, the date of the merger.

SUMMARY OF INVESTMENT PORTFOLIO

The largest holdings of the Fund as at the end of the period and the major asset classes in which the Fund was invested, are indicated below. The investment portfolio may change due to ongoing portfolio transactions. An update of the Fund's summary of investment portfolio as at the end of each calendar quarter is available from the Manager. Please see the front page of this document for information about how this can be obtained.

Summary of Top 25 Holdings

	% of Net Assets
Pender Corporate Bond Fund, Class 'O'	40.9
Pender Small Cap Opportunities Fund, Class 'O'	6.1
Brookfield Asset Management Inc., Class 'A'	5.1
CCL Industries Inc., Class 'B'	4.1
Diversified Royalty Corp.	3.4
Brookfield Property Partners L.P.	3.0
Baidu, Inc., ADR	2.6
KKR & Co. Inc.	2.6
Brookfield Business Partners L.P.	2.5
Information Services Corporation, Class 'A'	2.1
ARC Resources Ltd.	2.0
Better Choice Company Inc.	2.0
Burford Capital Limited	2.0
Enbridge Inc.	2.0
Spartan Delta Corp.	1.8
MAV Beauty Brands Inc.	1.6
Exchange Income Corporation	1.5
Fiera Capital Corporation	1.4
Hanesbrands Inc.	1.3
Starwood Property Trust, Inc.	1.3
Texas Pacific Land Trust	1.3
Vision Critical Communications Inc., Preferred, Class 'B2-1'	1.3
Onex Corporation	1.2
Dream Unlimited Corp.	1.1
Northrop Grumman Corporation	1.1

Summary of Composition of the Portfolio

	% of Net Assets
Mutual funds	
Pender Corporate Bond Fund, Class 'O'	40.9
Pender Small Cap Opp. Fund, Class 'O'	6.1
Total mutual funds	47.0
Equities	
Diversified financials	13.6
Energy	7.8
Real estate	6.2
Industrials	5.1
Consumer discretionary	4.7
Materials	4.5
Consumer staples	3.6
Communications services	3.5
Information technology	1.3
Health care	0.5
Utilities	0.4
Insurance	0.2
Total equities	51.4
Corporate bonds	0.3
Warrants	0.0
Total investments	98.7
Cash	1.1
Other assets less liabilities	0.2
Total net assets	100.0

Caution Regarding Forward-Looking Statements

This report contains forward-looking statements about the Fund, including its strategy, prospects and further actions. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates”, or negative versions thereof and similar expressions.

In addition, any statement made concerning future performance, strategies or prospects, and possible future Fund action is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to risks, uncertainties and assumptions about the Fund and economic factors, among other things.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements. Any number of important factors could contribute to these digressions, including, but not limited to: general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

We stress that the above-mentioned list of important factors is not exhaustive. We encourage you to consider these and other factors carefully before making any investment decisions and we urge you to avoid placing undue reliance on forward-looking statements. Further, except as may be required under applicable law, the Manager has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance.

PENDER

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