

PENDER PENDER

VALUE FUND

SMALL CAP OPPORTUNITIES FUND

THE MANAGER'S COMMENTARY – SEPTEMBER 2020

Fellow Unitholders,

Markets decided to take a pause from their dogged return from March lows this month. In September, the S&P 500 (CAD) was down 1.8% and the S&P/TSX Composite was down 2.1%. Our funds performed slightly better compared to general markets with the Pender Value Fund up 1.1% and the Pender Small Cap Opportunities Fund down 1.2%.¹

Looking back at the quarter as a whole, our funds had a great run. The Pender Value Fund generated a total return of 12.2% and the Pender Small Cap Opportunities Fund generated a total return of 14.4%¹, while the S&P 500 (CAD) was up 6.8%, the S&P/TSX Composite was up 4.7% and the Russell 3000 (CAD) was up 7.1%. We have started to see early signs that small cap stocks may finally be starting to play some catchup to large caps...but let's not jinx it!

Portfolio updates

In the past several months, while we went through the amazing rebound of stock markets, we remained fully aware of the potential volatility still on the horizon. Thus, we added SPACs and convertible debentures to our funds – two tools we use to try to achieve strong risk adjusted returns in our portfolios. Heads we win, tails we don't lose much.

The performance of our funds benefitted from this strategy last month. Social Capital Hedosophia II (SPAC; IPOB), a blank check company led by Chamath Palihapitiya, was a key contributor to the Pender Value Fund in September. The stock soared on the announcement that it is going to merge with Opendoor in September and it continued its momentum into October. The stock closed at \$26.48 as of Oct 14 whereas it had been hovering around \$11 prior to the news. The debentures of exactEarth (XCT) were a top contributor to the Pender Small Cap Opportunities Fund with the underlying stock trading well through the conversion price. The company, which provides global maritime surveillance and tracking, is a pioneer in a new satellite-based technology that is seeing strong adoption globally. Having recently reduced and simplified their cost structure, the company is well positioned for growth having high margins and a high recurring revenue model. The company has further optionality from their stake in privately owned Myriota which is worth more than 40% of exactEarth's enterprise value, assuming the debentures are converted. Zillow Group Inc. ("Zillow") and PAR Technology Corp ("PAR") were again among key contributors for the Pender Value Fund and the Pender Small Cap Opportunities Fund, respectively.

On the flip side, Dye and Durham Ltd. ("DND"), sold off in September after reaching an all time high of \$28.68, quadrupling its July IPO issue price of \$7. We believe the Company remains on track to execute its business plan and it remains a top holding in the Pender Small Cap Opportunities Fund. Cloudera Inc. and Universal Technical Institute Inc. were among other key detractors for the Pender Value Fund and the Pender Small Cap Opportunities Fund, respectively. This was not as a result of a significant news

¹ F class units; PenderFund

event or negative developments for either company and we are not too concerned about the price fluctuations.

Let's Get Ready to Rumble...

As we move closer to the US Presidential Election and the noise gets even louder (I'm not sure I thought that was possible!) we are frequently asked about how we are positioning our portfolios for the event. While the election can make for stimulating debate, like other big macro events, it is notoriously hard to either anticipate or take advantage of. In order to make "the greatest trade ever" first you need to get the event right, and second get the trade right. On top of that, it needs to be massively contrarian or completely unknown for the payoff matrix to really hit it out of the park. Reflecting on the 2016 election, the consensus was that Hilary would win. Wrong. The consensus was that if Trump won, the market would go down. Wrong again (well after a dramatic drawdown in the after-hours market). This is hard.

What we can focus on is the fact that markets don't like uncertainty. In this case the uncertainty of how the political landscape may shift on election date, or increased volatility on some to-be-determined date after the election. Markets dislike uncertainty, they hate surprises.

While keeping our eye on the long term, we are gearing up so our funds can take advantage if volatility does rear its ugly head. Volatility is just like the ugly duckling, short term it's ugly but in the long term the beauty of strong returns can emerge as an elegant swan.

David Barr, CFA
October 19, 2020



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