

**ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

# Pender Strategic Investment Fund

For the period ended December 31, 2020

The logo for Pender, featuring the word "PENDER" in a bold, serif font. The letter "N" is stylized with a diagonal slash through it.

This annual Management Report of Fund Performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You may obtain a copy of the 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](http://www.penderfund.com) or the SEDAR website at [www.sedar.com](http://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

### Investment Objective and Strategies

The primary objective of the Pender Strategic Investment Fund (the "Fund") is to achieve long-term capital appreciation by investing primarily in Canadian securities. The Fund also invests a portion of its investment portfolio in securities outside of Canada.

PenderFund Capital Management Ltd. ("Pender") is the Manager and Portfolio Advisor of the Fund.

### Risks

The risks of investing in the Fund are outlined in the Simplified Prospectus dated June 25, 2020. There were no significant changes to the Fund's objectives and strategies that affected its overall level of risk during the period.

In 2020, the COVID-19 global health pandemic resulted in significant volatility and turmoil in World markets. While the negative economic impact of measures to contain the virus have been mitigated to an extent by fiscal and monetary stimulus, by measures taken to reopen world economies, and by the development of vaccines, the situation had an impact on many entities and the markets for the securities that they issue and the impact may continue. Investment results will depend to a large extent on future developments and new information that may emerge regarding COVID-19 and the pandemic, factors which are beyond the Fund's control.

### Results of Operations

The Pender Strategic Investment Fund commenced operations on July 10, 2020. As at December 31, 2020 the net assets of the Fund were \$262,613, representing seed capital of \$150,000 and \$112,613 attributable to positive investment performance. Because the Fund has been in operation for less than one-year, past performance data is not available for disclosure.

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.

Key positive individual contributors to the Fund's performance for the period included Dye & Durham Limited, Sangoma Technologies Corporation, and MAV Beauty Brands Inc. Conversely, Aritzia Inc., Spartan Delta Corp., and Burford Capital Limited had the largest adverse impact.

Portfolio transactions during the period were made 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 included Maxar Technologies Inc., MAV Beauty Brands Inc., and Sangoma Technologies Corporation. 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. For example, during the period we sold Clearwater Seafoods Incorporated, Diversified Royalty Corp., and Dye & Durham Limited, and one company we held was acquired by third party: Clearwater Seafoods Incorporated (announced).

As at the end of the period, the Fund was 57.4% invested in Canada, 40% invested in US and 2.6% in cash. The Fund's cash position may change over time as a result of portfolio transactions. The Fund's investment portfolio is concentrated and not diversified in the conventional sense. The Fund's top 10 holdings account for 45.8% of the Fund's net assets at the end of the period. This concentration may lead to varied results over any given period.

The overall sector exposure of the Fund is determined by stock selection decisions and may shift from time to time. As at December 31, 2020 we were weighted toward holdings in Communication Services, Diversified Financials and Industrials, because those are the sectors where we believe we are finding the best investment opportunities currently and, equally important, because they contain businesses for which we are best equipped to assess value. These top three sectors accounted for 45.5% of the Fund at the end of the period.

## Recent Developments

This year was an unforgettable one. While the initial impact of the COVID-19 on North American markets was muted in January, the widening global impact of the pandemic and the breakdown of OPEC resulted in significant downward volatility and market turmoil. After peaking on February 19, 2020 the S&P 500's historic bull run was crushed with breathtaking speed. By March 23, 2020 it had experienced its quickest downturn in history with a peak to trough loss of 33.9%.

Today stock markets are near or at record high levels again. Recent periods of strong performance, combined with the still fresh memories of the crash last spring, means that we are increasingly asked what we are doing to protect our gains. No one wants to go backwards. We know that another pullback is inevitable. That is, after all, what markets tend to do. There remains much uncertainty that could cause stock markets to turn rapidly and unexpectedly. Any potential impact on investment results will depend, to some extent, on the actions taken by governments, the progress of vaccination, future developments and new information about the duration and severity of the global pandemic, all of which are beyond our control.

In the current environment with high stock price volatility, disruptive pandemic related changes, high corporate appetite for M&A which has accelerated in the back-half of 2020 and strong demand for new growth companies in the public markets. We are positioning the Fund to be opportunistic and take advantage of a variety of new opportunities as they emerge. This includes a focus on finding growth companies with positive or secular tailwinds that we believe are mispriced, companies with dislocated valuations with identifiable catalysts to narrow the valuation gap while also taking advantage of short-term mispricing and capital markets driven trading opportunities.

As we run a concentrated investment portfolio, we only need to hold a relatively small number of great companies acquired at a good price to drive the performance of the Fund. We will continue to look for best ideas, those that we think will benefit from the tailwinds caused by change of behaviors, that could be potential disruptors or leaders on the other side of the global crisis and that trade at significant discounts to intrinsic values.

## 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 collectively held 100% of the Fund's units.

## Management Fees

The Fund pays management and administration fees calculated as a percentage of the net asset value of each respective class. The Management Expense Ratio ("MER") for each class does not exceed certain levels as set out in the Fund's offering documents. The fees are calculated at the close of business on each valuation day and are paid monthly. Administration fees are used by the Manager to pay the operating costs of the Fund. During the period from inception through to December 31, 2020 the Manager waived management and administration fees and custody related transaction costs for the Fund.

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 ended December 31, 2020.

<b>CLASS A</b>	
<b>Fund's Net Assets Per Unit (a)</b>	<b>2020</b>
Net assets – beginning of period (b)	\$10.00
<b>Increase (decrease) from operations:</b>	
Total revenue	0.08
Total expenses	(0.04)
Realized gains (losses)	2.67
Unrealized gains (losses)	4.80
<b>Total increase (decrease) from operations (c)</b>	<b>7.51</b>
<b>Distributions:</b>	
From income (excluding dividends)	-
From dividends	(0.06)
From capital gains	(2.64)
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>(2.70)</b>
<b>Net assets – end of period</b>	<b>\$14.80</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$131
Number of units outstanding (a)	8,870
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	2.50%
Trading expense ratio (g)	0.85%
Portfolio turnover rate (h)	77.56%
Net asset value per unit (a)	\$14.80

<b>CLASS F</b>	
<b>Fund's Net Assets Per Unit (a)</b>	<b>2020</b>
Net assets – beginning of period (b)	\$10.00
<b>Increase (decrease) from operations:</b>	
Total revenue	0.08
Total expenses	(0.04)
Realized gains (losses)	2.67
Unrealized gains (losses)	4.80
<b>Total increase (decrease) from operations (c)</b>	<b>7.51</b>
<b>Distributions:</b>	
From income (excluding dividends)	-
From dividends	(0.06)
From capital gains	(2.64)
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>(2.70)</b>
<b>Net assets – end of period</b>	<b>\$14.80</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$131
Number of units outstanding (a)	8,870
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	1.50%
Trading expense ratio (g)	0.85%
Portfolio turnover rate (h)	77.56%
Net asset value per unit (a)	\$14.80

**FINANCIAL HIGHLIGHTS (CONTINUED)****Footnotes:**

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- (a) This information is derived from the Fund's audited annual financial statements as at December 31 for the period stated, prepared under International Financial Reporting Standards.
- (b) The Fund's information for each class is from the date each class commenced operations: July 10, 2020.
- (c) 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.
- (d) Distributions were paid in cash and/or reinvested in additional units of the Fund.
- (e) 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 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.
- (f) 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.
- (g) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average net asset value during the period.
- (h) 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 for disclosure because it has been in operation for less than one year. The Fund commenced operations on July 10, 2020.

**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. Where the Fund has less than 25 holdings, the table will show the Fund's entire investment portfolio. 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

	<b>% of Net Assets</b>
MAV Beauty Brands Inc.	5.4
Maxar Technologies Inc.	5.4
Sangoma Technologies Corporation	5.4
Baidu, Inc., ADR	5.2
Stitch Fix, Inc., Class 'A'	5.0
Turmeric Acquisition Corp.	5.0
IAC/InterActiveCorp	3.7
Nuvei Corporation	3.7
Corus Entertainment Inc., Class 'B'	3.6
Aritzia Inc.	3.4
Burford Capital Limited	3.3
CCL Industries Inc., Class 'B'	3.2
Kennedy-Wilson Holdings, Inc.	2.9
Partners Value Investments LP	2.9
GDI Integrated Facility Services Inc.	2.8
Alaska Communications Systems Group, Inc.	2.7
Inscape Corporation, Class 'B'	2.7
Premium Brands Holdings Corporation	2.7
Spartan Delta Corp.	2.7
Blackline Safety Corp.	2.6
AGF Management Limited, Class 'B'	2.4
Copper Mountain Mining Corporation	2.4
Bausch Health Companies Inc.	2.3
Else Nutrition Holdings Inc.	2.3
ARC Resources Ltd.	2.1

## Summary of Composition of the Portfolio

	<b>% of Net Assets</b>
Communication services	16.5
Diversified financials	15.5
Industrials	13.5
Consumer discretionary	10.5
Consumer staples	10.4
Information technology	9.0
Materials	8.2
Energy	6.9
Real estate	4.5
Health care	2.3
<b>Total investment portfolio</b>	<b>97.3</b>
Cash	2.6
Other assets less liabilities	0.1
<b>Total net assets</b>	<b>100.0</b>

## 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; pandemics 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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