

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

Pender Small/Mid Cap Dividend Fund

For the period ended December 31, 2020



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 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

Investment Objective and Strategies

The primary objective of the Pender Small/Mid Cap Dividend Fund (the "Fund") is to provide investors with a combination of long-term capital appreciation and a stable quarterly stream of cash distributions. The Fund invests primarily in Canadian securities, and focusses on, without being limited to, dividend paying small and mid cap companies.

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 Small/Mid Cap Dividend Fund commenced operations on January 31, 2020. As at December 31, 2020, the net assets of the Fund were \$11,533,929, representing net unitholder purchases of \$8,839,120 (including seed capital of \$150,000) and \$2,694,809 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, Pollard Banknote Limited, and IBI Group Inc. Conversely, Chorus Aviation Inc., Currency Exchange International, Corp., and Computer Modelling Group Ltd. 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 Pollard Banknote Limited, Information Services Corporation, and GDI Integrated Facility Services Inc. 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 Badger Daylighting Ltd., Chorus Aviation Inc., and Calian Group Ltd.

As at the end of the period, the Fund was 53.8% invested in Canada, 2.1% invested in US, and 44.1% 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 29.8% 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 Industrials, Information Technology, and Real Estate, 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 36.3% of the Fund at the end of the period.

Recent Developments

World markets 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. The extraordinary monetary and fiscal stimulus plans announced by governments around the world, the initial reopening of global economies, and promising medical progress for potential COVID-19 therapies and vaccines helped stabilize world markets which began recovering from the fallout of the pandemic. At the time of writing, all the major indices in Canada and the US are above their pre-COVID levels, having completely recovered from the steep declines earlier in the year.

Recent Developments (Continued)

Early in the pandemic, investors sold perceived riskier companies in favour of safer investments. This caused investors to shun indiscriminately any company that was small capitalization and cyclical. Throughout this period, we added to our weights in companies where we believed the impact on their share price was overdone. As the effects of the global pandemic were less severe than feared, many of these companies staged strong recoveries of their share prices in the back half of the year.

Investor appetite for small cap equities materially improved during this recovery. The Fund currently holds a portfolio of cash generative companies that managed well through COVID-19 related shutdowns and in many cases emerged in better position. We had a handful of our companies adjust or temporarily suspend their dividend while global economies were shut down, but none of them eliminated their dividend completely. While dividends are expected to play an important role in the total return of the Fund, our goal is to augment this with growth. With this in mind, the Fund looks to invest in companies with a growth strategy and a strong balance sheet with which to finance their plan. We believe our portfolio companies are entering 2021 in a position of strength, even with the risk of a second wave of COVID-19.

While the Fund changed its portfolio manager at the end of the period, it did not change its mandate. The Fund currently has a higher-than-normal cash level, due primarily to having recently trimmed a few holdings that we had added to aggressively during the sell-off in the spring. This puts the Fund in a position of strength, with cash to deploy at a time when the opportunity set in the small and mid cap space is excellent.

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 8% of the Fund's units. In addition, the Pender Partners Fund, a fund also managed by the Manager, collectively held 8% of the Fund's outstanding 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 November 30, 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.

CLASS A

Fund's Net Assets Per Unit (a)	2020
Net assets – beginning of period (b)	\$10.00
Increase (decrease) from operations:	
Total revenue	0.29
Total expenses	(0.08)
Realized gains (losses)	1.22
Unrealized gains (losses)	3.39
Total increase (decrease) from operations (c)	4.82
Distributions:	
From income (excluding dividends)	-
From dividends	(0.28)
From capital gains	(0.61)
Return of capital	-
Total annual distributions (c), (d)	(0.89)
Net assets – end of period	\$13.24

Ratios and Supplemental Data

Total net asset value (\$000s) (a)	\$479
Number of units outstanding (a)	36,153
Management expense ratio (e)	0.42%
Management expense ratio before absorptions (f)	2.50%
Trading expense ratio (g)	0.27%
Portfolio turnover rate (h)	70.1%
Net asset value per unit (a)	\$13.24

CLASS D

Fund's Net Assets Per Unit (a)	2020
Net assets – beginning of period (b)	\$10.00
Increase (decrease) from operations:	
Total revenue	0.29
Total expenses	(0.07)
Realized gains (losses)	1.52
Unrealized gains (losses)	6.11
Total increase (decrease) from operations (c)	7.85
Distributions:	
From income (excluding dividends)	-
From dividends	(0.28)
From capital gains	(0.66)
Return of capital	-
Total annual distributions (c), (d)	(0.94)
Net assets – end of period	\$13.22

Ratios and Supplemental Data

Total net asset value (\$000s) (a)	\$294
Number of units outstanding (a)	22,220
Management expense ratio (e)	0.25%
Management expense ratio before absorptions (f)	1.50%
Trading expense ratio (g)	0.27%
Portfolio turnover rate (h)	70.1%
Net asset value per unit (a)	\$13.22

FINANCIAL HIGHLIGHTS (CONTINUED)

CLASS E	
Fund's Net Assets Per Unit (a)	2020
Net assets – beginning of period (b)	\$10.00
Increase (decrease) from operations:	
Total revenue	0.28
Total expenses	(0.04)
Realized gains (losses)	1.03
Unrealized gains (losses)	3.30
Total increase (decrease) from operations (c)	4.57
Distributions:	
From income (excluding dividends)	-
From dividends	(0.28)
From capital gains	(0.69)
Return of capital	-
Total annual distributions (c), (d)	(0.97)
Net assets – end of period	\$13.21
Ratios and Supplemental Data	
Total net asset value (\$000s) (a)	\$1,694
Number of units outstanding (a)	128,275
Management expense ratio (e)	0.08%
Management expense ratio before absorptions (f)	0.50%
Trading expense ratio (g)	0.27%
Portfolio turnover rate (h)	70.1%
Net asset value per unit (a)	\$13.21

CLASS F	
Fund's Net Assets Per Unit (a)	2020
Net assets – beginning of period (b)	\$10.00
Increase (decrease) from operations:	
Total revenue	0.29
Total expenses	(0.07)
Realized gains (losses)	1.44
Unrealized gains (losses)	4.55
Total increase (decrease) from operations (c)	6.21
Distributions:	
From income (excluding dividends)	-
From dividends	(0.28)
From capital gains	(0.68)
Return of capital	-
Total annual distributions (c), (d)	(0.96)
Net assets – end of period	\$13.19
Ratios and Supplemental Data	
Total net asset value (\$000s) (a)	\$2,162
Number of units outstanding (a)	163,847
Management expense ratio (e)	0.25%
Management expense ratio before absorptions (f)	1.50%
Trading expense ratio (g)	0.27%
Portfolio turnover rate (h)	70.1%
Net asset value per unit (a)	\$13.19

FINANCIAL HIGHLIGHTS (CONTINUED)

CLASS H	
Fund's Net Assets Per Unit (a)	2020
Net assets – beginning of period (b)	\$10.00
Increase (decrease) from operations:	
Total revenue	0.29
Total expenses	(0.09)
Realized gains (losses)	1.32
Unrealized gains (losses)	3.97
Total increase (decrease) from operations (c)	5.49
Distributions:	
From income (excluding dividends)	-
From dividends	(0.28)
From capital gains	(0.72)
Return of capital	-
Total annual distributions (c), (d)	(1.00)
Net assets – end of period	\$13.13
Ratios and Supplemental Data	
Total net asset value (\$000s) (a)	\$1,440
Number of units outstanding (a)	109,612
Management expense ratio (e)	0.37%
Management expense ratio before absorptions (f)	2.20%
Trading expense ratio (g)	0.27%
Portfolio turnover rate (h)	70.1%
Net asset value per unit (a)	\$13.13

CLASS I	
Fund's Net Assets Per Unit (a)	2020
Net assets – beginning of period (b)	\$10.00
Increase (decrease) from operations:	
Total revenue	0.32
Total expenses	(0.09)
Realized gains (losses)	1.28
Unrealized gains (losses)	4.10
Total increase (decrease) from operations (c)	5.61
Distributions:	
From income (excluding dividends)	-
From dividends	(0.28)
From capital gains	(0.72)
Return of capital	-
Total annual distributions (c), (d)	(1.00)
Net assets – end of period	\$13.16
Ratios and Supplemental Data	
Total net asset value (\$000s) (a)	\$4,381
Number of units outstanding (a)	332,828
Management expense ratio (e)	0.23%
Management expense ratio before absorptions (f)	1.35%
Trading expense ratio (g)	0.27%
Portfolio turnover rate (h)	70.1%
Net asset value per unit (a)	\$13.16

FINANCIAL HIGHLIGHTS (CONTINUED)

CLASS N

Fund's Net Assets Per Unit (a)	2020
Net assets – beginning of period (b)	\$10.00
Increase (decrease) from operations:	
Total revenue	0.27
Total expenses	(0.05)
Realized gains (losses)	0.95
Unrealized gains (losses)	3.04
Total increase (decrease) from operations (c)	4.21
Distributions:	
From income (excluding dividends)	-
From dividends	(0.28)
From capital gains	(0.73)
Return of capital	-
Total annual distributions (c), (d)	(1.01)
Net assets – end of period	\$13.16
Ratios and Supplemental Data	
Total net asset value (\$000s) (a)	\$7
Number of units outstanding (a)	542
Management expense ratio (e)	0.17%
Management expense ratio before absorptions (f)	1.00%
Trading expense ratio (g)	0.27%
Portfolio turnover rate (h)	70.1%
Net asset value per unit (a)	\$13.16

CLASS O

Fund's Net Assets Per Unit (a)	2020
Net assets – beginning of period (b)	\$10.00
Increase (decrease) from operations:	
Total revenue	0.30
Total expenses	(0.03)
Realized gains (losses)	1.72
Unrealized gains (losses)	5.49
Total increase (decrease) from operations (c)	7.48
Distributions:	
From income (excluding dividends)	-
From dividends	(0.28)
From capital gains	(0.48)
Return of capital	-
Total annual distributions (c), (d)	(0.76)
Net assets – end of period	\$13.43
Ratios and Supplemental Data	
Total net asset value (\$000s) (a)	\$1,078
Number of units outstanding (a)	80,269
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	0.00%
Trading expense ratio (g)	0.27%
Portfolio turnover rate (h)	70.1%
Net asset value per unit (a)	\$13.43

FINANCIAL HIGHLIGHTS (CONTINUED)**Footnotes:**

- (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: January 31, 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 January 31, 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

	% of Net Assets
Pollard Banknote Limited	4.5
Information Services Corporation, Class 'A'	3.7
GDI Integrated Facility Services Inc.	3.1
Mullen Group Ltd.	2.9
Dye & Durham Limited	2.8
Hardwoods Distribution Inc.	2.6
IBI Group Inc.	2.6
K-Bro Linen Inc.	2.6
Vecima Networks Inc.	2.6
Alaris Equity Partners Income Trust	2.4
Dexterra Group Inc.	2.3
Intertape Polymer Group Inc.	2.3
Evertz Technologies Limited	2.2
PFB Corporation	2.2
Sylogist Ltd.	2.2
Colliers International Group Inc.	2.1
FirstService Corporation	1.8
Richards Packaging Income Fund	1.7
Diversified Royalty Corp.	1.5
Computer Modelling Group Ltd.	1.2
Major Drilling Group International Inc.	1.0
Social Capital Hedosophia Holdings Corp. IV, Class 'A'	0.8
Social Capital Hedosophia Holdings Corp. V, Class 'A'	0.7
Transcontinental Inc., Class 'A'	0.7

Summary of Composition of the Portfolio

	% of Net Assets
Equities	
Industrials	19.0
Information technology	9.7
Real estate	7.6
Materials	6.7
Consumer discretionary	6.0
Diversified financials	4.6
Energy	1.2
Total equities	54.8
Warrants	0.1
Total investments	54.9
Cash	44.1
Other assets less liabilities	1.0
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; 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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