

**THE MANAGER'S COMMENTARY - FEBRUARY 2021**

Fellow unit holders,

Even though it had its ups and downs, February was another positive month for small cap stocks. The Pender Small Cap Opportunities Fund gained 9.9%<sup>1</sup> for the month and 17.9% YTD, outperforming large cap indices with the S&P 500 Index (in Canadian dollars) up 2.3% for the month and 1.7% for the year, while the S&P/TSX Composite Index (in Canadian dollars) was up 4.4% and 4.0% for the respective periods. The Pender Value Fund finished the month up 3.3%<sup>1</sup> delivering a YTD return of 12.6%. It was hit hard by negative news coming out of one of the top holdings (more in the Portfolio Update section below).

**Portfolio Update**

Volatility spiked up in major stock markets in February but if you know us, you will remember that volatility means opportunity for us. We took the uptick in volatility to adjust portfolio weightings and reposition our funds to benefit from this short-term volatility. We remain fully invested. As we have mentioned in previous commentaries, we like to balance [Offense and Defense](#). Athabasca Oil 2022 bond is a notable example of using credit opportunities as a way of playing defense. It was one of the key contributors for both the Pender Small Cap Opportunities Fund and the Pender Value Fund in the month of February. We initiated the position in both funds last year when we noticed a significant dislocation in the distressed debt of the company which provided a favorable risk to reward profile compared to the equity. We sold Athabasca equity and purchased its bonds. Athabasca 2022 bond prices appreciated from our initial purchase of 14.0 cents on the dollar in the Pender Small Cap Opportunities Fund to 69.7 cents on the dollar as of February 26, 2021.

Another common top contributor was Sangoma Technologies Corp. (TSXV:STC). Sangoma is a one stop shop “communications as a service” solutions provider. It announced a significant acquisition of Star2Star in late January. We believe the Star2Star acquisition is going to pivot Sangoma into a leadership position in the communications industry with a unique portfolio of products (both cloud and on-premise) and a comprehensive set of go to market channels. Post acquisition, the combined company is expected to have over \$245M revenue (70% recurring) at 70% gross margins, a profile that may attract more investor interest. A potential US listing is also a near term catalyst that may lead to an upward re-rating of the stock.

Baidu (Nasdaq:BIDU) was a top contributor for Pender Value Fund. Baidu reported positive earnings and non advertising business has started to show traction. Baidu is an Artificial Intelligence (AI) leader in China and is loaded with optionality in areas like autonomous driving which has enormous total addressable market (TAM) potential. BIGG Digital Assets (CSE:BIGG) was a top contributor for Pender Small Cap Opportunities Fund. It operates crypto exchange NetCoins and saw a significant increase in trading volume and monthly active users in February. NetCoins is working with regulators to lead the regulated trading space in Canada. The anticipated approval of a restricted dealer license remains a critical catalyst to the share price.

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<sup>1</sup> All Pender performance data points are for Class F of the Fund. Other classes are available. Fees and performance may differ in those other classes.

On the flip side, MAV Beauty Brands (TSX:MAV) was a key detractor for both funds. MAV announced preliminary Q4 earnings that missed expectations. However, we believe the issues that impacted MAV's Q4 was transitory and non-recurring. We view the fundamentals of the business as remaining solid, and its valuation looks dislocated relative to peers. MAV has announced a strategic review which may unlock value in the future.

EBIX (NASDAQ:EBIX) was the main drag on the performance of the Pender Value Fund in February. EBIX was one of the largest positions in the Pender Value Fund and its stock price was slashed in half from \$50.74 on February 19 (Friday) to \$23.20 on February 23 (Monday) on news of the resignation of their auditor, RSM. EBIX recently announced that they have hired an India-based auditor to complete the audit and stock prices have slowly moved back up. Despite the negative twist, we are sticking to our long-term view of the company and we are closely monitoring the issues disclosed by the auditor. The historical volatility and controversial news events/short reports associated with EBIX meant that we decided to keep a large margin of safety when we purchased the stock; consequently the stock still trades well above our cost base.

### **IPO Momentum Continues...**

We started to notice a pickup in tech IPO markets last July and touched upon those improving IPO prospects in [our commentary that month](#). Since then, tech IPOs (including SPACs) have flourished, with momentum continuing into 2021 despite the pandemic. According to Nasdaq, it reached new highs in the number of IPOs and proceeds raised, welcoming 316 IPOs that raised \$80.9 billion in capital in 2020. We have seen several Canadian small cap tech companies go public recently, including Dye & Durham, WeCommerce and WishPond. We are very active in the space, leveraging our in-house private equity team to understand these businesses better and have been actively working with private tech companies we know well as they explore their go-public opportunities. We expect to see a lot more in the future. We believe this is a great opportunity set for us today, and will also provide fertile fishing grounds for us for the next decade.

*David Barr, CFA*  
*March 18, 2021*



**PENDER**  
PenderFund Capital Management Ltd.

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