

THE MANAGER'S COMMENTARY - MARCH 2021

Fellow unit holders,

Small cap and technology stocks put the brakes on a little in March after a great run. The Pender Small Cap Opportunities Fund was up modestly by 0.3%¹ for the month and the Pender Value Fund was down by 1.6%¹. On a year to date (YTD) basis, the Pender Small Cap Opportunities Fund stands at 18.3% for the first quarter and the Pender Value Fund delivered a total return of 10.7% for the quarter, outperforming large cap indices with the S&P 500 Index (in Canadian dollars) up 4.8% YTD, while the S&P/TSX Composite Index was up 8.1% YTD.

We are happy to report that both funds have performed consistently well over the long term². The Pender Small Cap Opportunities Fund (inception date June 09, 2009) ranks in the top quartile for one-, three-, five- and 10-year time periods while the Pender Value Fund (inception date June 23, 2013) also ranks in the top quartile for one-, three- and five-year time periods.

Phoenix Rising from the Ashes

Recently we discussed opportunities in the IPO and SPAC markets. There has been a lot of excitement and valuations are not as attractive as they once were. A question we are being asked is, "Where are we finding opportunities now?" One area that we continue to see opportunities is in situations that we refer to as the "phoenix rising from ashes". When you have been following the tech sector for as long as we have, there are a number of companies that you will have watched but not owned in the past for various reasons. Now we believe some of these "dormant" companies have not only revived their fortunes but have become attractive investment opportunities. As the facts change, we change our opinion. Two potential phoenixes in our portfolio are Sylogist (TSX:SYZ) and Optiva (TSX:OPT).

Historically Sylogist was plagued by poor governance and what we saw as a misalignment of interests between management and shareholders. Over the past year, the Company has hired new management and changed incentive plans to better align management interests with shareholders. The board has been rejuvenated and governance has been improving. Sylogist runs a profitable business and generates lots of free cash flow. Now with new management, it is time to redeploy that capital and reboot its M&A strategy. Recently Sylogist did an accretive acquisition of Municipal Accounting Systems and the market responded positively. We believe that if the company continues to deploy capital strategically, it has the potential to be re-rated, similar to a Constellation Software (TSX:CSU) or an Enghouse Systems (TSX: ENGH) type of a company.

Optiva is another example. It has had a long history of struggling under the management of a controlling shareholder whose interest we view as may not have been aligned with other shareholders. The controlling shareholder has now been bought out and the board refreshed, with shareholder friendly directors who are committed to the long-term success of the company. In addition, a new management team with proven turnaround experience has been hired to transition the business. Optiva has turned the page and started a new chapter in its journey. We think it is a company that has significant growth potential and a very attractive risk/reward profile at the current price level.

Portfolio Update

As we mentioned, there was general weakness in the small cap and tech spaces during March. Our portfolio reflected this softening. Examples include, SharpSpring (NASDAQ:SHSP), Cloudera (NYSE:CLDR),

¹ 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.

² Source: MorningStar. Investment returns as of March 31, 2021

PAR (NYSE:PAR) in the Pender Small Cap Opportunities Fund, and Baidu (NASDAQ:BIDU), Stitch Fix (NASDAQ:SFIX), Zillow (NASDAQ:ZG) in the Pender Value Fund. We do not want to focus too much on short term market volatility. These remain good businesses that we believe will generate attractive returns for our unitholders over the long term. In fact, PAR has just announced a strategic acquisition of Punchh and has effectively become the first unified commerce platform for enterprise restaurants with its solutions covering the most important aspects of running a restaurant - Brink POS (transactions), Restaurant Magic (operations), and Punchh (loyalty and customer engagement). PAR's stock price has appreciated over 30% from \$63.32 on April 7 (the day before the announcement) to US\$84.72 at the time of writing (April 12, 2021).

On the positive side, BIGG Digital Assets (CSE:BIGG) and Sylogist (TSX:SYZ) were top contributors to the Pender Small Cap Opportunities Fund. BIGG, operator of crypto exchange NetCoins, continued to see significant increases in trading volumes and monthly active users. As the anticipated approval of a restricted dealer license is approaching, BIGG's stock price has been on a tear. We talked about Sylogist above. Municipal Accounting Systems was the first material acquisition Sylogist has done in a while and investors were encouraged to see Sylogist starting to execute on its M&A strategy.

Texas Pacific Land Corporation (NYSE:TPL) and EBIX (NASDAQ:EBIX) were top contributors to the Pender Value Fund. Texas Pacific Land Corporation, which is one the largest landowners in Texas, is a high-quality toll collector receiving royalty payments from energy producers that access, drill or extract resources from its land. The shares appreciated in the quarter on several positive developments. Rising oil prices and the US governments freeze of drilling on Federal land increased the value of drilling rights on the company's land. The company completed its conversion from a trust to a corporation which will provide management with additional flexibility to maximize their already strong track record of capital allocation. Concerns over rising inflation increased investor interest in the company as their vast land holdings, which include water rights, are viewed to be a good inflation hedge. EBIX, which you may recall was a huge detractor from February's performance, recovered from its lows without any material news related to the year end audit. The company has said that they expect to complete the audit by April 20. We have no further insights at this point.

We have spoken a lot about how the global pandemic has changed businesses throughout the globe, particularly in the technology space. The rapid pace of change continues to provide interesting opportunities for the diligent analyst to unearth. Good thing I'm working at home where I have several shovels!

David Barr, CFA
April 13, 2021



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