

## THE MANAGER'S COMMENTARY – APRIL 2021

Fellow unit holders,

After several months where small cap stocks outperformed large cap stocks, April saw a rotation back to large cap stocks. The Pender Small Cap Opportunities Fund did well, up 5.3%<sup>1</sup> for the month while the Pender Value Fund was more muted with a return of 1.7%<sup>1</sup>, compared to the S&P 500 Index (in Canadian dollars) up 3.0% and the S&P/TSX Composite Index up 2.4% in April. The performance of Pender Value Fund was also negatively impacted by a weaker US dollar. Around half of the portfolio holdings are denominated in US dollars and returns were dampened by approximately 1%.

On a year to date (YTD) basis, the Pender Small Cap Opportunities Fund delivered a total return of 24.6%<sup>1</sup> and the Pender Value Fund gained 12.6%<sup>1</sup>, outperforming large cap indices with the S&P 500 Index (in Canadian dollars) up 8.0% YTD, while the S&P/TSX Composite Index was up 10.6% YTD.

### Looking for Asymmetric Returns

A big part of managing a small cap portfolio is looking for asymmetric return profiles. We are simultaneously aiming to:

- Identify companies that could be right tail outliers; companies that could be ten or more multi baggers over a long period of time.
- Minimize left tail catastrophic risks such as losing money or having a company going to zero.

In April, two of these types of scenarios played out for our funds: BIGG Digital Assets (CSE:BIGG) in the Pender Small Cap Opportunities Fund and Burford Capital (NYSE:BUR, “Burford”) in the Pender Value Fund.

BIGG is a Canadian small cap company in the crypto space. Late last year we saw increasing interest and acceptance of digital currencies and after sifting through our small cap universe, we identified BIGG as a potential investment. BIGG provides data analysis and risk scoring capabilities for blockchain and other cryptocurrencies. Most importantly BIGG operates a crypto currency trading exchange that is currently working with Canadian regulators to become the first regulated cryptocurrency exchange in Canada. We believe that BIGG represents a promising opportunity as crypto trading is likely to move to regulated exchanges as it becomes more legitimized. Our investment turned out even better than our best-case thesis. We initially participated in a financing in November 2020 at \$0.24 cents a unit, with a half warrant at \$0.30. In unison with the price of bitcoin, the share price took off and reached a high of \$5.05 this April. We traded around the name, taking money off the table and realized a significant gain for the Fund. The stock has since come off quite a bit and we still own a small position in the Fund. While we aim to be long-term investors, opportunistically trading around our positions to reduce the risk of capital loss is a key part of our active management strategy, especially when stock prices are volatile. In scenarios like BIGG, we made money along the way, recouped all the capital invested, and kept an exposure in the Fund for further upside using “house money”.

Burford is another example of identifying right tail potential. Burford was the top holding in the Pender Value Fund as of April 30, 2021. Burford is a pioneer and market leader in global litigation finance. Litigation finance is an underpenetrated industry with growing TAM. It has an experienced management team led by the founders running a proven and repeatable process. The esoteric nature of the business has the potential to deliver highly uncorrelated returns. Burford has long been misunderstood and mispriced by the market. Recently it gained more recognition from the market and the stock performed well, rising from the low \$8 range in late March to over \$13 in early May. Burford has significant optionality from a case they have been pursuing for years. The proceedings currently appear to be favouring Burford, which could materially increase the value of the company and remove a sentiment overhang. In addition, we see plenty of pent-up potential that we could see materialize in the coming year. We believe Burford remains one of the most attractive opportunities in our portfolios.

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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.

## Portfolio Update

We did not add many new names in the funds in April. Instead, we increased weightings for a few existing holdings that sold off in April as a result of the ongoing volatility in the tech space, such as Cloudera Inc (NYSE:CLDR) and Sangoma Technologies Corp (TSXV:STC) for the Pender Small Cap Opportunities Fund, and eGain Corp (Nasdaq:EGAN) and Zillow Group Inc (Nasdaq:ZG) for the Pender Value Fund.

During the month, BIGG and Leaf Group (NYSE:LEAF) were among the top contributors for the Pender Small Cap Opportunities Fund. In early April Leaf Group announced that Graham Holdings was going to acquire it at \$8.50, a 21% premium over the closing price of previous day. We, along with other active shareholders, do not believe Graham Holdings' offer is adequate. Voting is due to be held in June and we will see if the transaction is approved.

For the Pender Value Fund, Burford and IAC/InteractiveCorp (Nasdaq:IAC) were among the top contributors. IAC was a top contributor as investor excitement grew over the prospects of the company spinning out their video hosting, sharing and service platform, Vimeo. Vimeo could represent the 11th public company to emerge from "digital golden goose" IAC, which has created over \$100B in value since Chairman Barry Diller joined the company. Angi Inc (Nasdaq:ANGI), IAC's largest holding also made significant progress in advancing their platform focused on disrupting the home services industry.

On the negative side, Nova Cannabis (TSXV:NOVC) and WELL Health Technologies (TSX:WELL) were key detractors for the Pender Small Cap Opportunities Fund and the Pender Value Fund, respectively. Nova Cannabis was spun-out of another fund holding Alcanna Inc. (TSX:CLIQ) and went public in March. We believe Nova is well positioned to gain material market share in the Canadian retail cannabis sector with a long organic growth runway and catalysts ahead as the sell-side picks up coverage on the name and investors become familiar with the new company and their strategy. WELL Health, a consolidator in the digital healthcare space, was subjected to two short reports recently and as a result, the share price took a tumble.

We are currently in an environment, in particular in the tech sector, where there is a lot of expectation built on right tail investing. People are focused on, even expecting to hit a home run. A lot of public markets investors have taken an approach similar to Venture Capital, sometimes at the expense of truly assessing left tail outcomes. What we keep in mind as we assess each opportunity is that conditions are very dynamic right now. With the pandemic the rate of innovation has increased exponentially. Alas, disruption is a double-edged sword. Get it right, and you have multi-bagger. Get it wrong and a company can be sideswiped. We think there is a lot of under appreciation for left tail risk in the market today. While we are looking for multi-baggers, now is a good time to ask "what can go wrong?" to help protect the portfolio. If you're interested, Tobias Carlisle and I touch on right and left tail investing in [Episode 69 of the Pender Podcast](#).

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PenderFund Capital Management Ltd.

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