PENDER SMALL/MID CAP DIVIDEND FUND – SPRING COMMENTARY

The Fund continued to deliver positive performance with year-to-date returns through to April 30, 2021 of 17.9%[1]. This performance has been supported by many of the businesses we own seeing an expansion in operating leverage, driven by cost reductions implemented last year combined with an acceleration in revenue growth. As our investment process focuses on balance sheet strength and free cash flow generation, most of the companies we own have a stronger liquidity profile today than a year ago. Management teams in many of these companies have established track records of effective capital allocation and we anticipate that they will be opportunistic in the deployment of that capital to fund new growth opportunities, raise their dividends and make accretive acquisitions.

Pollard Banknote has been a top contributor to the Fund this year as the company's iLottery business in the US continues to scale and garner recognition from the market. Pollard's legacy instant lottery manufacturing business is a good quality, recession resistant business with high barriers to entry, with the retail lottery industry still demonstrating strong growth across North America. Through their 50% interest in NeoPollard Interactive ("NPI") the company has been rapidly scaling their online lottery business in the US. With only 10 states having legalized online lottery sales, we believe that we are still in the early stages of an iLottery expansion as states look for new sources of revenue to fund post-pandemic spending. Even in the few states where NPI already operates, we believe there is an opportunity to increase online lottery sales penetration to 50%, as is the case in many European jurisdictions with mature online lottery industries.

While it may appear that the growth of iLottery will come at the expense of retail lottery sales, results from Michigan, which was an early adopter of iLottery, suggest that through leveraging advertising and cross-selling retail sales have actually accelerated. The Pollard family, who founded the business and own nearly 65% of the company, have proven to be excellent stewards of capital and we are confident in their ability to take advantage of the expansion opportunity which lies ahead.

"Risk comes from not knowing what you're doing" - Warren Buffett
The trajectory of vaccination rates in Canada and the broad reopening and loosening of restrictions in the US provide favorable tailwinds for our North America focused holdings. We remain confident in the long-term with the enduring simplicity of our process.

- A focus on identifying quality businesses that generate high returns and sustainable free cash flow.
- Investing in stocks that pay a dividend with a low sustainable payout providing excess capital to invest in growth.
- Identifying smaller, underfollowed businesses focused on a niche with a long runway.
- Evaluating the business through our Trinity of Risk, assessing balance sheet, business, and valuation risks.
- Investing in businesses led by founders and incentivized management teams.
- All the while remaining disciplined to our process and patient in our approach.

New Additions
Héroux-Devtek Inc., a leading aerospace and defence supplier with a specialization in the design, development, manufacturing and repair of aircraft landing gear and actuation systems is a new holding. The business was disrupted in 2020 due to the pandemic as commercial customers like Boeing delayed and cut production rates on new aircraft manufacturing. Héroux's management demonstrated excellent execution in navigating this downturn, reducing their cost structure, improving their free cash flow generation and paying down debt. The business was also stabilized by their expanding presence in the defence industry, focused on producing fighter jet landing gear, which now represents about two-thirds of the company's revenue. Héroux was recently

[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.

awarded a preferred supplier ranking from Boeing, a testament to the resilience demonstrated by the company during the pandemic and their solid operational track record.

We believe Héroux is well positioned as a unique company in an industry highly impacted by the pandemic. It has emerged stronger and with improved long-term growth prospects. The company should benefit from a recovery in commercial air travel while leveraging their solid defence backlog. With its balance sheet and capital allocation focused management team, we think the company could deploy capital into M&A, seizing opportunities created by the pandemic. The business is attractively valued, trading at an implied double-digit FCF yield and a large discount to peers which we believe is unwarranted given the quality of the business, the experienced management team and the demonstrated persistency of those cash flows.

Spartan Delta Corp. As our investment process is focused on identifying high quality businesses in niche industries which generate high returns on invested capital and persistent cash flows, we typically avoid investing in capital intensive and commoditized businesses like energy producers. Spartan Delta Corp. however, is a unique energy business formed in early 2020 specifically to take advantage of dislocated and distressed opportunities in the Canadian energy sector. The management team leading Spartan Delta have created, led and ultimately sold three similar consolidation focused energy businesses in the past with IRR's from foundation ranging from 33% to 128%. Spartan's strategy is focused on acquiring quality energy assets at attractive prices which have hidden value or untapped potential that generate substantial free cash flow with a quick payback. The business is being built for scale, diversification and with an ESG focus; all factors that management believes are critical to building a successful energy business in the current environment. With an experienced, capable management team, unique deal flow, net cash on the balance sheet, hidden assets and trading at a double-digit FCF yield, we believe Spartan is well positioned to deliver shareholder value.

Portfolio Update

In addition to adding some new holdings to the fund, the primary actions we have taken in Q1 and through the Q1 earnings reporting season have been focused on watering the flowers and cutting the weeds in the Fund. We have been taking advantage of volatility to opportunistically add to higher quality holdings, while exiting some of our more cyclical holdings where valuations are no longer as attractive, or where we have found more compelling opportunities for that capital. Ultimately what is most important for the long-term performance of the Fund is our ability to find investment opportunities trading at reasonable valuations today where we have high confidence that earnings power will be higher over the next few years. On that basis we continue to see lots of opportunity.

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