

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

Fellow unit holders,

May was a “Buy Canada” month. The S&P/TSX Composite Index was up 3.4% while the S&P 500 (CAD) was down 1.1%. The tech sector was under pressure in May with the Nasdaq (CAD) down 3.1%. Riding the sell off in the tech sector, the Pender Small Cap Opportunities Fund lost 3.0%<sup>1</sup> for the month and the Pender Value Fund was down 2.8%<sup>1</sup>. The performance of our funds was also hit by a foreign exchange headwind. The US dollar continued to weaken against the Canadian dollar in May and had a negative impact on our funds – approximately -0.4%<sup>1</sup> for the Pender Small Cap Opportunities Fund and -0.9%<sup>1</sup> for the Pender Value Fund which has a higher percentage of US holdings.

On a year to date (YTD) basis, the Pender Small Cap Opportunities Fund delivered a total return of 20.8%<sup>1</sup>, outperforming large cap indices with the S&P 500 Index (CAD) up 6.8% YTD, while the S&P/TSX Composite Index was up 14.5% YTD. On the other hand, the Pender Value Fund's YTD performance was a bit muted with a total return of 9.4%<sup>1</sup>.

**Portfolio Update**

On the portfolio repositioning side, we do not have too much to report. We had two exits in the Pender Small Cap Opportunities Fund - Photon Control Inc. (TSX: PHO) and Atlantic Power Corp (TSX: ATP)<sup>2</sup>. Photon Control has been a long-term holding in the Pender Small Cap Opportunities Fund. We first bought it for the Fund in 2016 and have been very patient with the name, holding onto it during the industry downturn as the Company has consistently demonstrated good execution in driving the business forward. The eventual acquisition by MKS Instruments validated our thesis and generated remarkable returns for our unitholders. Atlantic Power Corp, an independent power producer, was a shorter-term special situations idea that played out and was taken private in May.

With the sell-off we were able to add to some of our high conviction technology holdings, taking advantage of the volatility in the sector. For example, we increased our weighting in Sangoma (TSXV: STC) for both funds.

Sangoma was the biggest detractor in May for both funds making it the perfect time to add more. While the company reported FQ3 (March) results that were a bit softer, primarily due to unfavorable foreign exchange rates, on a constant dollar basis, the business had healthy organic growth. In January Sangoma announced a significant acquisition of US-based Star2Star Communications which closed at the end of March. The Star2Star acquisition was not included in this quarter. We believe the integration has been going well and that this acquisition considerably strengthens Sangoma's competitive position in many aspects, transitioning the business mix to 70% recurring revenue. We continue to hold a positive view of Sangoma's long-term business fundamentals, despite Sangoma's share price being down about 25% in May. We took the opportunity to add to the position on the weakness. There was also an overhang on the stock with a seller which was cleared by the end of May. Since then, the stock price has recovered a bit. Sangoma is in the process of planning its listing in the US which could lead to a re-rating of the stock.

Sylogist Ltd. (TSX: SYZ) was another detractor for the Pender Small Cap Opportunities Fund in May, a victim of the general sell-off in small cap tech land. We discussed our thesis on Sylogist in our [March commentary](#) and we remain optimistic about the business trajectory of Sylogist. Burford Capital Limited (NYSE: BUR), a leader in litigation finance, was one of the detractors for the Pender Value Fund. Its stock price retreated after a great run

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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.

<sup>2</sup> At the time of writing, it has also just been announced that Pender Small Cap Opportunities Fund holding, Sharpspring Inc (SHSP) has been acquired by Constant Contact, Inc (CTCT).

from March to early May. Despite the stock price volatility, we believe Burford remains one of the most undervalued stocks we hold.

On the positive side, Nova Cannabis Inc. (TSXV: NOVC) and Spartan Delta Corp. (TSXV: SDE) were among the top contributors, in addition to Photon Control, for the Pender Small Cap Opportunities Fund. Nova Cannabis' share price took a dive post its IPO and was one of the detractors for the Fund in April. As we discussed in the [April commentary](#), we believe Nova is well positioned to gain material market share in the Canadian retail cannabis sector with a long organic growth runway. We think there is further upside to the name as investors become familiar with the new company and its strategy, and the sell-side picks up coverage on the name. Spartan reported solid Q1 results with positive cash-flow metrics, driven by better-than-expected operating performance and cost reductions. The Company closed its recent acquisitions and recorded a gain on them, resulting from the sizeable tax-pools acquired. Spartan is well positioned with a strong net cash balance sheet, FCF generation and a large pipeline of non-competitive acquisition opportunities.

For the Pender Value Fund, Stitch Fix Inc (NASDAQ: SFIX) and our Athabasca Oil Corporation 2022 bonds were among the top contributors. Stitch Fix is one of the core holdings in the Fund. We like the long-term prospects of the business and we believe it is one of the industry disruptors we have identified ("ZIPSS") as still being at the early stages of a long growth run way. While we aim to be long-term investors, opportunistically trading around our positions is part of our value-added active management strategy to reduce the risk of capital loss, especially if stock prices are volatile. Stitch Fix is a perfect example. We traded around the name, selling it when prices were higher and buying it back when prices were lower. We recouped all of the capital invested, and still kept an exposure in the Fund for further upside – it is all "house money". The Athabasca Oil Corp 2022 bond, on the other hand, is an example of how we can leverage different asset classes using credit opportunities to add value.

In early June we held our annual investment conference. Unable to meet in person, we hosted the event virtually which gave us the added bonus of sharing our thoughts with our fellow investors who are not able to join us in person. If you missed the conference, and even if you didn't, we are rolling out the playbacks on our website.

- [How to Analyze and Navigate M&A Event Driven Opportunities is available now.](#)
- Potential Multi-Baggers: The Right and Left Tail of Small Cap Technology Investing is coming soon. [Watch this space.](#)

David Barr, CFA and Sharon Wang  
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*Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in net asset value and assume reinvestment of all distributions and are net of all management and administrative fees, but do not take into account sales, redemption or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Where the performance of a particular class of a fund is displayed, other classes are available and fees and performance may differ in those other classes. This communication is intended for information purposes only and does not constitute an offer to buy or sell our products or services nor is it intended as investment and/or financial advice on any subject matter and is provided for your information only. Every effort has been made to ensure the accuracy of its contents. Certain of the statements made may contain forward-looking statements, which involve known and unknown risk, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.*