

THE MANAGER'S COMMENTARY - JULY 2021

Fellow unit holders,

Well, here we go again. Small cap stocks were out of favour in July, lagging large cap stocks. While the S&P 500 Index (in Canadian dollars) rose 3.0% in the month, the Russell Microcap Index (in Canadian dollars) declined 4.9%, resulting in a whopping 7.9% performance gap. The underperformance was partially driven by ETF fund flows which, in July, saw significant inflows to large caps and outflows from small cap and value categories¹. The lack of activity in small and microcap markets right now is very similar to what we saw last summer.

Facing headwinds in the small cap universe, the Pender Small Cap Opportunities Fund was down by 3.1%² for the month and the Pender Value Fund was down by 2.6%². On a year-to-date (YTD) basis, the Pender Small Cap Opportunities Fund has delivered a total return of 22.6%², outperforming large cap indices with the S&P 500 Index (in Canadian dollars) up 15.6% YTD, while the S&P/TSX Composite Index was up 18.2% YTD. The Pender Value Fund has a total return of 9.6%² YTD.

M&A Remains Hot

During the first half of 2021, global M&A totalled US\$2.8 trillion dollars, up 131% in value over the same period last year³. Investors are sitting on huge piles of cash with record-low interest rates and many companies have signalled that they intend to deploy cash for acquisitions. It is common to acquire technology rather than develop it internally, so with digital transformation having accelerated during the pandemic and with many companies not wanting to be left behind, the tech sector has led the way, representing close to a quarter of total M&A deal value in the first half of 2021³.

Turning to our own portfolios, we recently had two take-outs – SharpSpring, Inc. (NASDAQ: SHSP) and Cloudera, Inc (NYSE: CLDR), which we mentioned in [last month's commentary](#). We also witnessed our portfolio companies acquiring other businesses to strengthen their competitive positions. Examples include:

- Exchange Income Corporation (TSX: EIF), which bought Carson Air Ltd.
- Dye & Durham Ltd. (TSX: DND), which bought TM Group (UK) Ltd.
- Spartan Delta Corp. (TSX-V: SDE), which bought Velvet Energy Ltd.
- Square, Inc. (NYSE: SQ), which bought Afterpay Ltd. (ASX: APT)

We are excited about the current M&A cycle and believe an active M&A environment may create near term catalysts for our portfolio companies.

Portfolio Update

We did not make too many changes to our portfolios in the month of July. As small cap stocks are facing headwinds, we believe the valuations of our portfolio companies have become even more attractive. Many holdings are well below their 52-week highs, while there have been few, if any, negative changes to their businesses or fundamentals.

¹ Source: Bloomberg Finance LP, State Street Global Advisors

² 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.

³ Source: Refinitiv

For instance, WeCommerce Holdings Ltd. (TSXV: WE), a consolidator in the Shopify partner ecosystem, was 68%⁴ off from its 52-week high and was one of the key detractors for the Pender Small Cap Opportunities Fund in July. We discussed it in detail in [the commentary last month](#) and [Andrew Wilkinson has been a guest on the Pender Podcast](#). We added to the position and made it one of the top holdings, as we like the management team and the business fundamentals. We believe it has a long runway to compound capital ahead of it.

Zillow Group, Inc. (NASDAQ: ZG) was one of the detractors for the Pender Value Fund. The company recently reported a solid quarter, which was ahead of expectations, with all leading indicators going in the right direction. Yet the stock price remains 51%⁴ off from its 52-week high, even after strong quarterly results. We are confident in the long-term potential of Zillow as a disruptor to the real estate industry.

On the positive side, ProntoForms Corporation (TSXV:PFM) was one of the top contributors for both the Pender Small Cap Opportunities Fund and the Pender Value Fund. ProntoForms provides low-code software solutions that transform paper forms to mobile forms to collect and analyze field operations data. It has been growing at a nice pace organically and has a large TAM to go after. We believe it is still in the early innings of creating shareholder value.

Goodfood Market Corp. (TSX: FOOD), a Canadian meal kit delivery company, was another top contributor to the Pender Small Cap Opportunities Fund. It released positive quarterly results with record revenue and gross profits, while customer churn was at an all-time low.

For the Pender Value Fund, SS&C Technologies, Inc. (NASDAQ: SSNC) was one of the top contributors. SS&C provides software solutions and services to the financial and healthcare industries. With a long track record of consistent execution, SS&C reported a strong quarter with its highest organic growth in the past few years.

The June quarter earnings season is still going on. So far, most of the companies in our portfolios that have reported results have either met or exceeded expectations. However, sometimes fundamentals do not matter. Summer looks likely to be the “risk off” season when investors choose to be more risk-averse. We have seen this play out before and we believe that as long as we stick to our investment process and long-term perspective, our efforts will be rewarded.

David Barr, CFA and Sharon Wang
August 17, 2021



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⁴ Prices as of August 9, 2021.