

PENDER

STRATEGIC GROWTH AND INCOME FUND

THE MANAGER'S COMMENTARY - AUGUST 2021

Dear unitholders,

The Pender Strategic Growth & Income Fund (PSGIF) was relatively flat in August, posting a -0.10%¹ return for the month, while the Pender Enhanced Income Fund was down 0.20%¹. This monthly performance trailed the broad market as equities continued to rally, driven by large and mega cap companies. Looking over longer periods, PSGIF is up 34.8%¹ over the last year and 9% over the last five years, compounding at a healthy rate for clients.

Equities

Our exposure to small cap companies, primarily through the Pender Small Cap Opportunities Fund (PSCOF) was a headwind during the month, with PSCOF down 2.2%¹ in August. Small caps have lagged their large cap peers significantly over the last few months, coinciding with moderating economic growth expectations and lower bond yields.

For comparison, since the end of March the S&P 500² has risen 14.5% compared to a 2.8% gain for the Russell 2000², while in Canada the TSX Composite gained 11.2% and the TSX Small Cap index was up 6.5%. This underperformance in smaller companies in these markets of 11.7% and 4.7% since March has been a headwind to short-term portfolio results.

While these gyrations do occur, long-term performance for PSCOF remains strong with the portfolio up 70.2%¹ over the last year and having compounded at 19.7% over the last 10 years. This short-term underperformance also creates an attractive setup as we approach the end of 2021 and look forward to 2022 and beyond. This is a rich hunting ground for attractive investment opportunities in an underfollowed pocket of the market, where we can apply our fundamental investment process. For more details on the PSCOF, [see the August monthly update here](#).

For the direct equities held in PSGIF, Burford Capital Limited (BUR), was a positive contributor. Burford specializes in litigation finance investments and saw their shares rise approximately 11% in the month following strong financial results, a successful investment in a high-profile litigation case and expanding investment opportunities. The pandemic is expected to drive a surge of legal claims, creating opportunities for Burford which should enable the company to continue growing their 3rd party asset management business. Brookfield Asset Management Inc. (BAM) also performed well and contributed positively to overall results. The portfolio remains exposed to a number of companies that are focused on alternative investments as the tailwinds of greater penetration rates and compounding potential remain present.

Alibaba Group Holding Ltd (BABA) was a detractor in the month as the regulatory overhang in China continued to negatively impact investor sentiment. We recently initiated a position in Alibaba and believe the risk of regulatory measures are discounted and investors have become overly punitive towards the company. We see an attractive opportunity and compounding potential in Alibaba with the shares trading at what we believe to be a significant discount to intrinsic value and global peers, given their compounding and value creation potential.

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 US Dollars

Fixed Income

Our fixed income exposure through the Pender Corporate Bond Fund (PCBF) posted a slight positive return in August. It was a mixed credit environment that saw credit spreads continue to tighten as sovereign yields moved higher. Fixed income performance in the Fund was supported by healthy gains in credits tied to the shipping industry as higher freight rates and a firm pricing outlook helped renew optimism in the sector. This strength was offset to a degree by some credits tied to reopening activity that took a step back as the Delta variant surged.

The PCBF closed the month with a yield to maturity of 5.1%, current yield of 4.9% and a duration of 3.9 years. For more details on the PCBF, [see the monthly update here](#).

Asset Mix

The portfolio ended August with 52.6% invested in direct equities, 5.9% allocated to the Pender Small Cap Opportunities Fund, 38.4% invested in the Pender Corporate Bond Fund and 3.1% in cash. This positioning remained relatively stable with no major changes during the month.

Outlook

Our fixed income exposure through the Pender Corporate Bond Fund has become more conservatively positioned this year. We felt this positioning to be prudent with spreads continuing to tighten and near all-time tights. We are conscious of the potential for a more attractive opportunity set to arise at some point in the future and have built positions in securities at the more conservative end of the corporate bond risk spectrum.

As part of our equity investment process, we remain focused on the intrinsic value embedded in the companies we own and their ability to compound in the years ahead. In aggregate, PSGIF equities are skewed to small and mid-cap companies, where we see an attractive set up after the recent period of relative underperformance. We also retained a balanced exposure to both growth and income holdings and believe the current portfolio mix is poised to provide unit holders with positive risk-adjusted returns going forward.

*The Pender Investment Team
September 14, 2021*



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PenderFund Capital Management Ltd.

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