



SMALL CAP OPPORTUNITIES FUND

THE MANAGER'S COMMENTARY – OCTOBER 2021

Fellow unit holders,

October was a strong month for equity markets as the appetite for risk returned after a bout of volatility in September. The Pender Small Cap Opportunities Fund participated nicely in the rally as it gained 1.9%¹ in the month. This result trailed large cap indices such as the TSX Composite Index which gained 5.0% and the S&P 500 (CAD) which gained 4.6% in October, but outperformed the BMO Small Cap Index (0.0%) and the Russell Microcap Index in Canadian dollars (-0.1%).

Portfolio Update

During the month, we exited our positions in Cloudera, Inc. and SharpSpring, Inc. after they were acquired. These proceeds were redeployed into increasing our weightings in Sylogist Ltd. (TSX: SYZ) and Blackline Safety Corp. (TSX: BLN). Sylogist, a public sector ERP (Enterprise Resource Planning) software provider, has been increasing its investments in organic growth initiatives while continuing to make opportunistic acquisitions under the leadership of a new management team. We believe the stock is reasonably priced at this level giving it an attractive risk/reward profile. Blackline Safety, a connected gas detection solution provider, has announced several large contracts recently. While market reaction has been muted, we like the growth momentum and the high percentage of recurring subscription revenue and, more importantly, the management team which has prior experience in the same industry - "Been there. Done that."

In October we sold our position in the Athabasca Oil Corporation 2022 convertible debentures following the news of their refinancing. We believe this 'closed the discount' to where we valued the company and we found better opportunities to redeploy the capital.

Top contributors for the Fund include Spartan Delta Corp. (TSX: SDE), Sangoma Technologies Corporation (TSX: STC) and Aritzia Inc. (TSX: ATZ). Spartan recently released strong Q3 results. The company is executing well on the integration of Velvet's assets with strong operational progress on new drilling programs which have a projected <0.3 year payback. Spartan trades at a discount to peers despite strong capitalization, low leverage and its uniquely diversified and high-quality asset mix. On the heels of a great quarter and solid guidance for next fiscal year, Sangoma completed a share consolidation and graduated to the TSX from TSX Venture exchange. We believe this is a positive development for the company, given the size of its revenue, which is now over C\$250M. Aritzia performed well after reporting exceptionally strong Q2 (Aug 2021) results, with record revenue and significant growth from its US, e-commerce and in store sales. Aritzia also raised guidance on revenue growth to 45%-50%. With overall performance now exceeding pre-pandemic levels, this reinforced our views around the strength, sustainability and upside potential of Aritzia's unique business model.

Nova Cannabis Inc. (TSX: NOVC) and exactEarth Ltd. (TSX: XCT) are among the key detractors for the Fund. It is interesting that both companies are directly or indirectly involved in M&A transactions. Nova Cannabis' stock sold off as their parent, Alcanna Inc. (TSX: CLIQ), is being acquired by Sundial Growers Inc. (NASDAQ: SNDL), creating some uncertainties over who will be controlling the company and the strategy going forward. exactEarth is being acquired by Spire Global Inc. (NYSE: SPIR) for a combination

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.

of cash and Spire's Class A common stock. There was volatility induced by the underlying value of the shares exactEarth is receiving. As the acquisition premium was a handsome 153% over the previous day's close, we can afford to take some volatility!

Looking forward, we expect to see some pressure in companies trading below their 52-week highs as we head into tax loss selling season. Following a period of very strong equity market returns across the board, there are significant capital gains that investors will be looking to offset in their portfolios. We are keeping dry powder available to take advantage of this annual phenomenon, which may be more pronounced this year. We have our pencils sharpened and will look for opportunities to take advantage of this selling pressure in well managed businesses where we see a disconnect to long-term intrinsic value.

David Barr, CFA and Sharon Wang

November 15, 2021



PENDER
PenderFund Capital Management Ltd.

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