PENDER
STRATEGIC GROWTH AND INCOME FUND

THE MANAGER'S COMMENTARY – NOVEMBER 2021

Dear unitholders,

The Pender Strategic Growth & Income Fund (PSGIF) returned -1.6% in November, while the Pender Enhanced Income Fund was down 1.7%[1]. This result came amid increased volatility during the month as the new COVID-19 variant Omicron emerged and investors became more risk averse. Over longer periods, PSGIF gained 22.7% over the last year and has compounded at a rate of 8.2%[1] over the last five years.

Equities
As a group, our direct equity holdings ended the month lower, selling off in tandem with the broader risk-off market environment. We had some positive contributions from our positions in Altius Renewable Royalties Corp. (TSX: ARR) and Burford Capital Limited (NYSE: BUR), while Alibaba Group Holding Ltd. (NYSE: BABA) was a detractor in the month.

Altius is a renewable energy royalty company that manages a portfolio of renewable power assets, primarily operating in wind and solar projects. The company completed its first two investments in operational assets during the month, a major milestone that materially expands the addressable market for the company. Altius has created and invested in 11 new royalties this year, with five projects expected to contribute to cash flow in early 2022. We believe this cash flow inflection point will become more evident in the coming quarters and act as a positive catalyst for the company.

Burford also saw its shares rise during the month. The company held an investor day where management provided investors more detail on their future growth outlook and strategy for the business. Burford highlighted the improving return profile and monetization potential of their investments in litigation where they are targeting larger cases with higher complexity where there is less competition. We see the company as attractively valued and well-positioned to capitalize as a leader in litigation investments, with the current value of their portfolio roughly equivalent to its current enterprise value.

Following contributions to the portfolio in October, Alibaba was a detractor to the portfolio during the most recent month. The ongoing regulatory overhang in China continued to weigh down the shares and negatively impact investor sentiment. Taking this into consideration in our analysis, we continue to see an attractive risk-reward in the company given the combination of growth potential and the quality of businesses at Alibaba. The company owns the most consumer data in China, operates a highly scaled logistics platform, a massive third-party ad network and is China's largest cloud provider. Following the addition of Alibaba to the portfolio, we discussed the investment thesis in more detail in our second quarter commentary.

The portfolio's small cap investments through the Pender Small Cap Opportunities Fund (PSCOF) performed well during the month, with PSCOF up 1.3%[1] in November. This positive result went against the broader trend in equity markets due to strong contributions from individual securities. We are continuing to find great opportunities for investment in this under-followed area of the market that we believe will set PSCOF's portfolio up well for 2022 and beyond. For more details on the PSCOF, see the November monthly update here.

Fixed Income
Our fixed income exposure through the Pender Corporate Bond Fund (PCBF) also posted a positive return in November. PCBF's results were achieved in the face of a rather weak high-yield credit market that faced headwinds from the continued drumbeat of central bank tapering and the spread of the new Omicron variant.

[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.*

A few notable moves to the upside in the month were firstly PCBF's position in the deeply discounted Tricida, Inc. (NASDAQ: TCDA) 2027 convertible bonds, which rallied on an injection of equity capital from insiders. Another was PCBF's position in the reorganized equity of American Tire Distributors, Inc. (OTC: AHLD), which reported strong earnings. Despite somewhat higher trading levels, we believe AHLD still represents a deep discount to our estimate of fair value. Finally, despite some mid-month volatility, investment grade credits held in PCBF performed well as the market drove investment grade yields lower after American Thanksgiving.

Offsetting these positive contributors in PCBF were a few positions that shook with risk markets in November. Notable decliners included our position in Beyond Meat, Inc. (NASDAQ: BYND) convertible bonds, which traded down to the low 70s to yield over 6.3% to 2027. Also weak was our position in Liberty TripAdvisor Holdings, Inc. (NASDAQ: LTRPA) notes, which sold off to yield almost 8% to the 2025 put date. We like the prospects for both issuers.

The PCBF closed the month with a yield to maturity of 5.5%, current yield of 4.9% and a duration of 4.1 years. For more details on the PCBF, see the November monthly update here.

Asset Mix

The portfolio ended the month of November with about 52% invested in direct equities, 7% allocated to PSCOF, 39% invested in PCBF and about 2% in cash. This positioning remained relatively stable with no major changes during the month.

Outlook

With a backdrop of low interest rates, central banks becoming less accommodating and inflation expectations moving from transitory to more persistent, our positioning within fixed income through PCBF has become more conservative this year. PCBF lengthened duration slightly during the month in more conservative issues and maintained some exposure to floating rate instruments. PCBF's belief is that this balanced exposure is prudent in this environment while it waits for more attractive opportunities to add risk exposure.

Within our equity investments, we continue to find opportunities in attractively priced businesses that we believe have the ability to compound and create value for us as shareholders. While the broad-based equity market indexes are close to all-time highs, this has masked the significant diversion in returns underneath the surface. For example, the S&P 500 has declined about 4.1% to December 1 from its all-time high, while the average S&P 500 company is down 15.5% from their 52-week highs. With mega cap companies supporting the market, we believe this leaves significant opportunity in smaller companies that have taken their disproportionate share of the losses. With this broad opportunity set, we have been repositioning the portfolio in well priced businesses that we believe have the runway to compound at healthy rates.

The Pender Investment Team
December 17, 2021