PENDER

SMALL CAP OPPORTUNITIES FUND

THE MANAGER'S COMMENTARY – NOVEMBER 2021

Fellow unit holders,

The Pender Small Cap Opportunities Fund was up 1.3%[1] in November, outperforming the S&P/TSX Composite Index and the S&P/TSX Small Cap Index, which were down 1.6% and 3.6%, respectively. In the US, major indices lost ground in the month, with the S&P 500 Index (USD) down 0.7% and the Russell 2000 Index (USD) down 4.2%. In terms of Canadian dollars, the S&P 500 Index (CAD) gained 2.5% and the Russell 2000 Index remained in negative territory with 1.1% loss.

The outperformance of the Fund was driven by security selection, led by performance in WeCommerce Holdings Ltd. (TSXV: WE), a consolidator in the Shopify ecosystem. As we have discussed in previous commentaries, we took the opportunity to increase our position in WeCommerce when the share price was weak and made it one of the top holdings in the Fund. Our thesis continues to prove out, with WeCommerce demonstrating healthy organic growth, consistent execution and a large pipeline of M&A opportunities giving it a long runway.

On the negative side, Sangoma Technologies Corporation (TSX: STC) was a detractor, partially offsetting the positive contribution of WeCommerce. Sangoma withdrew from its US IPO as management felt the pricing of the IPO was not attractive. Not surprisingly, share prices declined afterwards, as investors had believed an IPO would have been a positive, profile-raising event for the company. Despite the seemingly undesirable optics of the withdrawn US listing, we believe Sangoma remains fundamentally strong. For the most recent quarter (ended September 30, 2021), Sangoma reported record revenue, with over 70% of revenue being recurring, and a very healthy 72% gross margin. Their integration with Star2Star is on track in terms of products and channels, and we believe the company is positioned to accelerate overall through organic growth. These fundamental drivers, combined with a raised profile among US investors, mean we believe there is also the potential for a valuation multiple rerating that aligns more closely to US peers. As such, Sangoma remains a top holding in the portfolio.

During the month, we initiated three new positions in the Fund and are still adding to these companies as tax loss selling puts pressure on the shares. In this instance, we are willing providers of liquidity to companies that we want to own long-term but that are being sold for non-fundamental reasons. We have also trimmed some holdings that have run up nicely and increased the weightings in four existing positions where we saw price dislocation.

It is interesting to observe a tale of two markets during the tax loss season. On one hand, investors are shy of selling their winners because no one wants to incur more capital gains. On the other hand, investors are aggressively harvesting capital losses to offset capital gains. Some of our names have been negatively impacted: MAV Beauty Brands Inc. (TSX:MAV) is a good example. MAV reported weak quarterly results with sales declining, which pushed its share price to a 52-week low of $1.24. To put that into perspective, the 52-week high for MAV was $7.34. Given its prolonged history of inconsistent performance, we do not expect the new management team to rebuild the company in one quarter. They announced a few initiatives on the earnings call to improve efficiency and now they need to execute.

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[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.*

Meanwhile, insider buying picked up as CEO Serge Jureidini bought 500,000 shares on the open market. We take this as an encouraging sign of alignment with shareholders.

While equity markets are near all-time highs, we continue to find attractive opportunities to make investments in new or current holdings. Although broad, market cap-weighted index values are often cited as the barometer for equity market performance, they have masked significant dislocations under the surface. For example, with the TSX Composite Index trading within 4% of its all-time high at the time of writing, the average TSX company is down nearly 18%. Smaller companies have also been disproportionally impacted by these drawdowns, with the average company in the smallest quartile of the TSX down over 26%. This has created a fertile environment of opportunities to identify fundamentally strong businesses that have been tossed aside, and which we believe ultimately sets the portfolio up well for 2022 and beyond.

With the holiday season quickly approaching, we would like to extend warm wishes to our clients and hope you enjoy a safe, healthy and happy holiday season.

David Barr, CFA and Sharon Wang
December 14, 2021