PENDER

SMALL / MID CAP DIVIDEND FUND

THE MANAGER'S COMMENTARY – DECEMBER 2021

Dear unitholders,

The Pender Small/Mid Cap Dividend Fund performed well in 2021 – returning 28.7%[1] for 2021 compared to 25.2% for the S&P/TSX Composite Index and 20.4% for the S&P/TSX Small Cap Index. Since the Fund's inception in January 2020, it has delivered an annualized return of 37.2% compared to the TSX at 14.6% and 19.1% for the TSX Small Cap Index.

Through the second half of 2021, the message was that stock prices were diverging from the underlying intrinsic value of businesses. This has been particularly acute in certain parts of the markets, such as small-cap, technology and emerging markets. For example, approximately 39% of Nasdaq stocks are down more than 50% from their 52-week highs, according to a recent Wall Street Journal report[2]. Stock prices appear to be broken and we believe this is primarily caused by the contraction of valuation multiples, but the businesses are not broken.

Looking back on the year, the Fund performed well in this environment, specifically benefitting from positions in Hardwoods Distribution Inc. (TSX: HDI), Spartan Delta Corp. (TSX: SDE) and IBI Group Inc. (TSX: IBG). These were among the largest contributors to performance in 2021 and saw increased activity in their businesses as economies began to reopen.

Hardwoods Distribution, for example, benefited from robust demand in housing markets and posted revenue growth above 40% in their most recent quarter. This revenue growth was supported by M&A activity as they continue to consolidate a fragmented industry and effectively deploy capital. Hardwoods Distribution's M&A strategy has been additive to their underlying organic growth, which has been driven by volume growth and pricing gains, which in turn helped them deliver margin expansion that has translated to bottom line results. In the last 5 years, they have grown revenues about 2.5x and operating income nearly 5x – impressive fundamental results from a high-quality small cap compounder in Canada.

Dye & Durham Limited (TSX: DND) was one of the largest detractors in the portfolio in 2021. After an impressive debut as a public company in the second half of 2020, the company digested those gains with slightly negative performance in 2021. While the stock price was muted, the company continued to be very active on the M&A front, acquiring Link Group of Australia for $3.2b in a transformative transaction. Link Group is a provider of software and data solutions that will allow DND to diversify into new verticals, with a high recurring revenue rate of roughly 85%. DND, like Hardwoods Distribution, has deployed capital effectively into M&A transactions, and we expect this trend to continue in the years to come.

Within the top 10, Sylogist Ltd. (TSX: SYZ) is a software company that provides enterprise resource planning systems for public sector customers and is one of the largest holdings in the Fund. Sylogist has a sticky business model with low customer churn and is very cash generative. Recently, the company has shown a renewed focus on sales and execution to drive organic growth. We have started to see evidence of these changes with several new customer wins in late 2021 and early signs of organic

[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] *Giant Stock Swings Kick Off 2022*

growth acceleration that positions the company well for the coming years. These organic growth drivers will be complemented by M&A activity as a means of deploying capital to make opportunistic and accretive acquisitions. We believe that the company is reasonably priced at current levels and offers an attractive risk/reward profile for the Fund.

Looking forward, we are finding attractive opportunities to put capital to work and make investments on behalf of our fellow unitholders. Small cap companies in Canada have become disconnected from their fundamentals and lagged large caps through the back half of 2021. With the S&P/TSX Composite Index trading within 2% of all-time highs, the average TSX-listed company in Canada is down about 18% from their respective highs. Looking at the smallest quartile of companies in the TSX by market cap, they are down even further – off about 24% from their highs on average. This has created a fertile hunting ground to find new holdings and reposition the portfolio into companies that are well-priced and have both fundamentally strong business models and favourable outlooks over the next few years.

While stock markets have been going through a rough patch since the start of 2022, we believe the Pender Small/Mid Cap Dividend Fund is well positioned and the portfolio is set up well for the next three to five years. We believe the businesses in our portfolio remain fundamentally strong and the market price dislocation makes us feel optimistic about future portfolio returns.

Dave Barr, CFA
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