PENDER
VALUE FUND

THE MANAGER'S COMMENTARY – DECEMBER 2021

Fellow unit holders,

The Pender Value Fund was down 1.1%[1] in December, lagging large-cap indices such as the S&P/TSX Composite Index and the S&P 500 Index (CAD), which were up 3.1% and 3.5%, respectively. The Fund hit a rough patch in 2021, with a negative return of 0.8%[1] while market indices fared well with the S&P/TSX Composite Index up 25.2% and the S&P 500 Index (CAD) up 27.9%. Small-cap indices were not as strong as their large-cap peers but still generated solid returns - the S&P/TSX Small Cap Index gained 20.4% and the Russell 2000 Index gained 14.1% during 2021.

We have been fairly consistent in our messaging to unitholders over the second half of the year: stock prices have diverged from the underlying intrinsic value of businesses. This is particularly acute in certain parts of the markets, such as small cap, tech growth 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.

Meanwhile in the small-cap space, valuation is further disconnected from fundamentals. As shown in Chart 1, earnings per share of small growth stocks increased by 10% in the last six months, while stock prices decreased by 6%. As long-term investors, we believe this divergence creates wonderful opportunities for our funds.

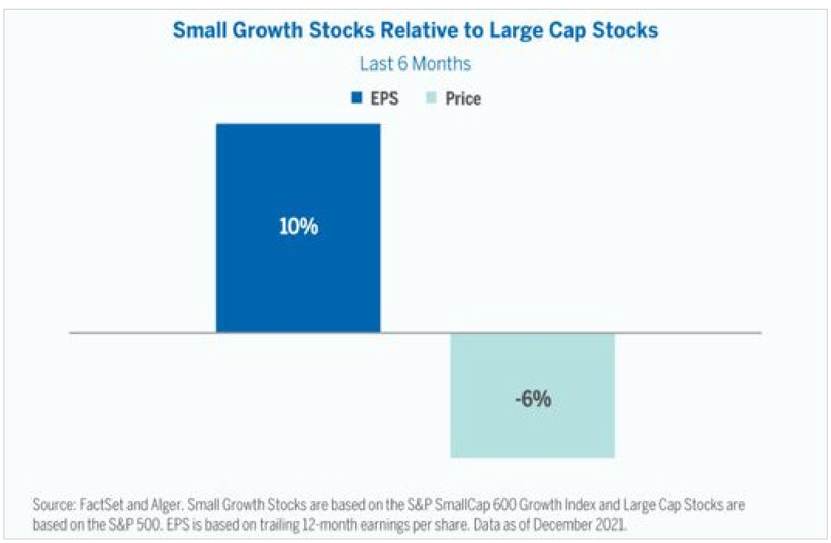

Chart 1

We believe small-cap valuations look attractive in both absolute and relative respects, as Chart 2 shows. The last time the valuation discount between small and large-cap stocks was this large (early 2001), the S&P SmallCap 600 Growth outperformed the S&P 500 by more than 50% during the subsequent five years.

---

[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*

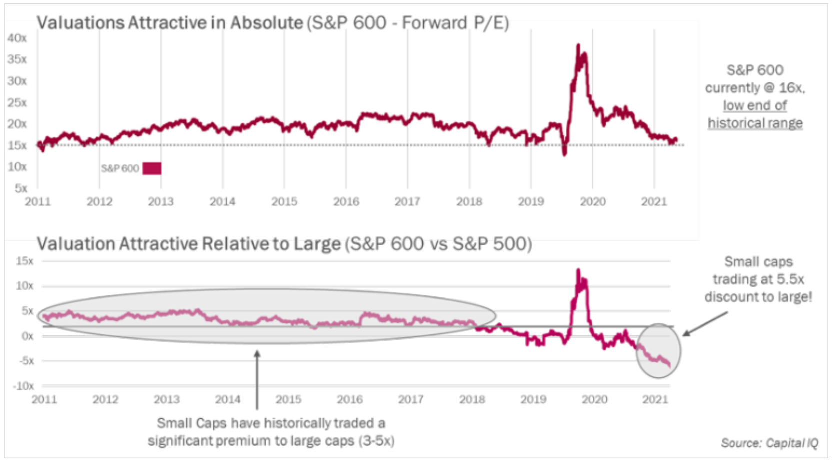

Chart 2

Looking back at 2021, megacaps, cyclicals and traditional value performed well. However, the Pender Value Fund is generally underexposed to these themes. Instead, our special situation names did well for us. Top contributors include exactEarth Ltd. (now acquired by Spire Global, Inc.), Athabasca Oil Corp. 2022 (convertible debenture) and Fannie Mae preferred shares. Non-traditional energy names like Texas Pacific Land Corporation (NYSE: TPL) was also a top contributor. TPL is an energy related royalty business which earns extremely high returns on assets.

On the negative side, Peloton Interactive, Inc. (NASDAQ: PTON), Zillow Group, Inc. (NASDAQ: ZG), and Stitch Fix, Inc. (NASDAQ: SFIX) were among the key detractors. As we discussed in previous commentaries, these companies may be experiencing temporary setbacks but we continue to like the underlying businesses for the long-term. We believe that they are fundamentally mispriced, given the markets they are addressing today.

In 2021 we were clearly too early in repositioning into these areas of pressure in the market, as evidenced by the lackluster performance of the Fund. However, as these trends have continued in the early days of 2022, we believe the Pender Value Fund is in a good place 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 potential portfolio returns.

David Barr, CFA
January 21, 2022

PENDER
PenderFund Capital Management Ltd.
