

PENDER

SMALL / MID CAP DIVIDEND FUND

THE MANAGER'S COMMENTARY – JANUARY 2022

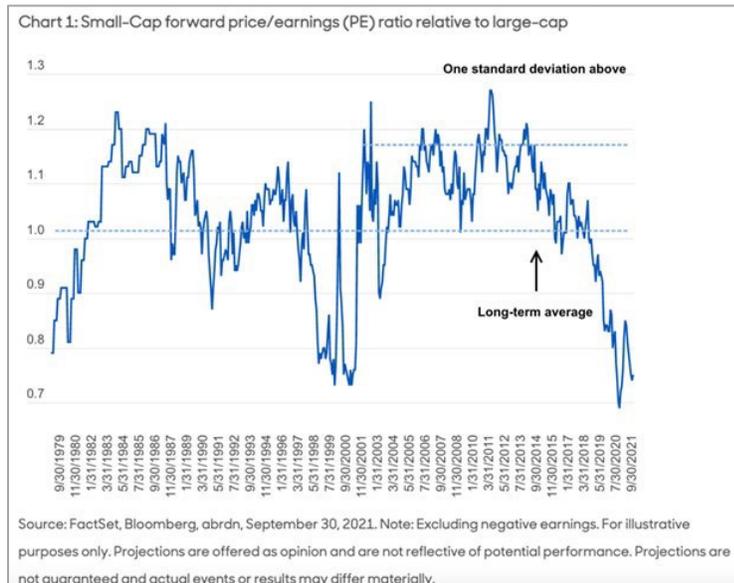
Dear unitholders,

It was a tough start to 2022, with January being one of the worst months ever for broad stock indices, particularly in the US. The large cap S&P 500 Index (CAD) returned -4.7% in the month, while the small cap Russell 2000 Index (CAD) delivered a -9.2% return. The Pender Small/Mid Cap Dividend Fund performed relatively well given this environment – returning -2.0%¹ in January, compared to -0.4% for the S&P/TSX Composite Index and -1.1% for the S&P/TSX Small Cap Index. Since the Fund's inception in January 2020, it has delivered an annualized return of 34.0%, compared to the S&P/TSX Composite Index at 13.8% and 17.6% for the S&P/TSX Small Cap Index.

Canadian markets were supported by strong energy prices, to which companies responded accordingly and performed well. We are, in general, underexposed to the energy sector and have limited exposure within the Fund. Spartan Delta Corp. (TSX: SDE), the Fund's lone energy exploration and production company, was a top contributor in January.

We view the current drawdown as being mainly liquidity driven and the result of multiple contractions, as opposed to being company-specific fundamental deterioration. At this point in time, over 70% of companies in the S&P 500 Index have reported earnings and 77% of those have beaten analyst estimates. The S&P 500 Index is reporting earnings growth of more than 30% for the fourth straight quarter and earnings growth of more than 45% for the full year². If you were just looking at earnings growth, you would find it hard to believe that the S&P 500 had such a big drawdown.

The small-cap universe was hit even harder, and many companies have not even reported earnings yet! The tide has been out for small caps for the most part in 2021 and the rushing water accelerated in



January. When will the tide come back in? In the short term, we don't know, but are confident that the rising tide will drive small-cap stocks for the next three to five years. We believe the current setup is extremely favourable for small-cap stocks. In [our last commentary](#), we talked about how valuations are disconnected from fundamentals for small-cap stocks, and valuations for small-cap stocks remains highly attractive in both relative and absolute aspects. This chart shows that small-cap stocks are trading near their largest discount to large-cap stocks in the last twenty 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 <https://insight.factset.com/sp-500-earnings-season-update-february-11-2022>

Within the portfolio, Spartan Delta was the top contributor in January, and is now the largest position in the portfolio. The company continued to execute well and is generating significant cash flow in the current commodity price environment. Following month-end, it announced strong quarterly results and is still attractively valued, with a 20% free cash flow yield that aligns with their upwardly revised guidance.

Altius Renewable Royalties Corp. (TSX: ARR) was a detractor during the month but has since recovered and is trading at fresh all-time highs following month-end. The opportunity set for the company is expanding and it is finding attractive projects in which to make investments. The current inflationary environment is also a positive for Altius' royalty model and we see the shares as attractively valued.

The dislocation in the market has created opportunities to reposition the portfolio and add to names where we see attractive risk-reward profiles that align with our conviction. We believe the current market environment has set up a very attractive long-term opportunity for our high conviction holdings and is reminiscent of the early 2000's and 2009-2010 time periods. We believe now is a compelling time to get exposure to small-cap stocks. As you can see from data below³, in the subsequent one year and three years following the dot.com bubble and the great financial recession in 2009, small-cap stocks made impressive returns. We believe now is a compelling time to add or initiate exposure to small-cap stocks.

	Mar 10, 2000 - Oct 9, 2002	Jun 6, 2008 - Mar 9, 2009
Russell 2000	-44%	-54%
Subsequent 1-year	62%	98%
Subsequent 3-years	104%	148%

David Barr, CFA
February 25, 2022



Commissions, trailing commissions, management fees and expenses plus applicable taxes all may be associated with mutual fund investments. Please read the simplified prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in net asset value and assume reinvestment of all distributions and are net of all management and administrative fees, but do not take into account sales, redemption or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Where the performance of a particular class of a fund is displayed, other classes are available and fees and performance may differ in those other classes. This communication is intended for information purposes only and does not constitute an offer to buy or sell our products or services nor is it intended as investment and/or financial advice on any subject matter and is provided for your information only. Every effort has been made to ensure the accuracy of its contents. Certain of the statements made may contain forward-looking statements, which involve known and unknown risk, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund or investee companies mentioned, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

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³ <https://www.institutionalinvestor.com/article/b1vzl8kqn0485p/Why-Now-Is-the-Time-to-Consider-Strategic-Small-Cap-Allocations>