PENDER

STRATEGIC GROWTH AND INCOME FUND

THE MANAGER'S COMMENTARY – JANUARY 2022

Dear unitholders,

The Pender Strategic Growth & Income Fund (PSGIF) returned -2.3%[1] in January, taking a breather after a strong year in 2021 when it delivered a return of 19.2%. The Pender Enhanced Income Fund returned -2.3%[1] in January, following a gain of 24.1% in 2021. Over longer periods, PSGIF has compounded at a healthy rate of 7.6%[1] over the last five years. We faced more challenging market conditions in January as the narrative shifted, and monetary policy came to the forefront. The Fed was in focus as inflationary pressures mounted and interest rates rose. As bottom-up investors, we have been active in repositioning the portfolio in companies where we see attractive long-term economics, and which are priced favourably relative to expectations. Our equity and fixed income holdings ended the month lower overall, notwithstanding some offsetting individual securities that posted nice gains.

Equities

Contributing to portfolio returns in January were our equity holdings ARC Resources Ltd. (TSX: ARX), Spartan Delta Corp. (TSX: SDE) and Baidu, Inc. (NGS: BIDU). While our holdings in the Pender Small Cap Opportunities Fund (PSCOF) and Brookfield Asset Management Inc. (TSX: BAM) were detractors.

ARC Resources and Spartan Delta, both energy companies, performed well as oil prices rose to fresh multi-year highs. ARC Resources continued to perform well on the heels of posting strong quarterly results in November. The company demonstrated robust FCF generation and had positive contributions from its acquisition of Seven Generations Energy Ltd. that have surpassed expected synergies. The company increased its dividend and also announced that the majority of FCF will be returned to shareholders, with a focus on share buybacks. We see this as an attractive allocation of capital, given their current valuation. Spartan Delta also recorded strong results in its previous quarter and is executing well on the integration of Velvet Energy Ltd.'s assets, while making operational progress on new drilling programs. In our view, the company is well capitalized, has low leverage, operates high-quality assets, and remains attractive on strip pricing. Although our exposure to resource companies in the portfolio remains low, we believe these are both examples of high-quality operators that have opportunistically deployed capital into M&A to successfully grow their respective businesses.

Baidu, Inc. also performed well to start the year. This comes on the heels of a challenging 2021, when the company was impacted by the ongoing regulatory overhang in China that had weighed on the share price and has negatively influenced investor sentiment. This has created an attractive risk-reward setup as the company's fundamentals have remained strong. Baidu Inc. has continued to grow top line at a mid-teens pace, led by impressive growth in their AI cloud segment, where they continue to invest aggressively. We see the shares as undervalued, considering the quality of the franchise and the optionality from building out their AI and autonomous driving segments.

The portfolio's small-cap investments through the PSCOF detracted in January, after posting gains of 26.0%[1] in 2021. The divergence in performance between large and small-cap companies continued through the second half of 2021, and the recent volatility in January has created additional investment opportunities.

Brookfield Asset Management Inc. was also a detractor in the month of January. While not immune to the volatility, the company has performed well over the last year and over a longer-term horizon. Our investment thesis remains very much intact. We believe BAM is well positioned to capitalize on the growth in alternative asset management and has consistently demonstrated an ability to deploy capital strategically at high rates of return.

Fixed Income

Our fixed income exposure through the Pender Corporate Bond Fund (PCBF) detracted slightly in January. The month saw relatively steep declines in both high-yield and investment-grade credit as investors took their cues from the Fed and came to terms with a new tightening cycle. Despite the negative absolute performance, PCBF held up well on a

[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.*

relative basis due in part to our weight in short-duration bonds. Positions in variable-coupon asset classes such as term loans and rate-reset preferred shares also performed well as interest rates backed up.

There were also a few credit bright spots in the month, including Groupon, Inc. convertible notes that rallied over 13% on news of a substantial write-up in the company's investment portfolio. Our position in the April 2022 term loan of Royal Caribbean Cruises Ltd. also gained on the issuer's completion of a $1B financing that makes repayment extremely probable. Finally, oil and gas weights were also strong, including our position in the 2023 secured notes of W&T Offshore, Inc. and Surge Energy Inc. convertible bonds.

There were lots of red lines in investors' portfolios in January, as nearly every stock and bond index declined in the face of the Fed's abrupt re-positioning as an inflation-fighting central bank. In PCBF's portfolio, we saw weakness in longer duration holdings, such as the Fairfax Financial Holdings Limited 3.95% notes of 2031, which declined over three points in the month. While we never enjoy taking markdowns, we do view price movements in high-quality bonds as merely shifting reported returns from the current period to a future period. We are comfortable with the idea that McDonald's, Fairfax, Pepsi and other high-grade holdings have rather limited risk of default, meaning that the primary impact of a sell-off here has the potential to raise our expected return on these positions between now and maturity.

The PCBF closed the month with a yield to maturity of 5.4%, current yield of 4.6% and a duration of 3.5 years. For more details on the PCBF, see the January monthly update here.

Asset Mix
The portfolio ended the month of January with about 53% invested in direct equities, 7% allocated to PSCOF, 40% invested in PCBF and about 0% 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 persisting, our positioning within fixed income through PCBF had become more conservative coming into the year. This trend continued in January and, with the volatility during the month, we took the opportunity to selectively add positions to the portfolio in issues where we saw strong liquidity and underlying credit quality. Facing an evolving opportunity set, we have continued to add high-grade credit to the portfolio and believe this is prudent as we wait for more attractive opportunities to add risk exposure to the portfolio.

Within our equity investments, we continue to find opportunities in attractively priced businesses where we have confidence in the long-term opportunity, while navigating the short-term volatility. With mega cap companies continuing to dominate the market, we are finding significant opportunities in smaller companies that have taken a disproportionate share of the losses. With this broad opportunity set, we have been repositioning the portfolio into well-priced businesses that we believe have the runway to compound at healthy rates.

The Pender Investment Team
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PenderFund Capital Management Ltd.