

# PENDER

SMALL / MID CAP DIVIDEND FUND

## THE MANAGER'S COMMENTARY - MARCH 2022

Dear unitholders,

The first quarter of 2022 came to a close with mixed performance in equity markets to start the year. Investors were focused on macro events on several fronts, including the ongoing conflict in Ukraine, rising commodity prices that underpin already strong inflation, and the start of an interest rate hiking cycle that could dampen growth expectations. These developments all contributed to increased uncertainty, with broad markets posting mixed results.

In March, the S&P/TSX Composite Index gained 4.0% and is up 3.9% year-to-date (YTD), while the S&P/TSX Small Cap Index gained 3.9% in March and is up 8.8% YTD. Both indexes have been supported by the strength in resource prices, which have rallied as a result of the war in Europe. In the US, the S&P 500 Index (CAD) was up 2.0% in March, while the Russell 2000 index (CAD) fell 0.4%, bringing the first quarter results to -6.0% and -8.9% respectively. Against this backdrop, the Pender Small/Mid Cap Dividend Fund was up 1.1%<sup>1</sup> on the month and 0.3%<sup>1</sup> so far this year.

Index	March	Year to Date
S&P/TSX Composite Index	4.0%	3.9%
S&P/TSX Small Cap Index	3.9%	8.8%
S&P 500 Index (CAD)	2.0%	-6.0%
Russell 2000 Index (CAD)	-0.4%	-8.9%
<b>Pender Small/Mid Cap Dividend Fund<sup>1</sup></b>	<b>1.1%</b>	<b>0.3%</b>

The Fund has performed well in a choppy environment as market dynamics have favoured stable businesses that are generating cashflow today. These are exactly the types of companies that we target in this strategy, in particular, companies which return some of that cash flow to shareholders in the form of dividend or which undertake buybacks to complement their internal reinvestment needs.

The portfolio has benefited from its holdings in energy focused names which were among the top contributors to returns in March and so far this year. **Spartan Delta Corp. (TSX: SDE)** and **Altius Renewable Royalties Corp. (TSX: ARR)** have both benefited from rising commodity prices this year and renewed interest in energy linked companies.

**Spartan Delta** was the largest holding in the Fund at month-end. Shares continued to rally after posting strong Q4 results in February where production and cashflow came in ahead of guidance and expectations. Its management team has executed well on the integration of recent acquisitions and has expanded its development program in response to rising commodity prices. The team also provided updated guidance which implies a 20% free cash flow yield looking forward, which could potentially still be conservative if the current commodity price environment persists in our opinion.

**Altius Renewable Royalties Corp.** is a top 10 holding and also benefited from rising oil and gas prices as renewable energy sources become more economic in this high commodity price environment. This leads to a stronger growth outlook and improved fundamentals for the company as its first mover advantage in the renewable royalty industry is starting to pay dividends. While the shares sold off in March, this was coming off fresh record highs set in February and the company has been a strong contributor to the Fund's performance

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<sup>1</sup> 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.

YTD. The current inflationary environment is also a positive for Altius' royalty model and we continue to see the shares as attractively valued.

**Intertape Polymer Group Inc. (TSX: ITP)** was a large contributor in March after the company was acquired by Clearlake Capital Group LP in an all-cash transaction. The industrial packaging and protective solutions company was an attractive asset as it was undergoing a transformation into a higher growth, higher return business with secular growth trends tied to rising e-commerce penetration.

Looking forward, the portfolio remains positioned in cash flowing businesses that have the ability to return capital to shareholders. In these times of uncertainty, we reiterate our view that the setup for small-cap companies remains attractive for long term investors with a multi-year outlook and we see several factors in place creating tailwinds.

First, we believe small-cap stocks are significantly undervalued on a relative and absolute basis. Small-cap companies are trading at a big discount to large caps, which is a disconnect from historical data that suggests small-cap companies should trade at a premium to large caps. Mean reversion and multiple rerating could lead to a powerful bounce back of small-cap names, in our view. Secondly, we own fundamentally strong businesses that we believe will compound value at a healthy clip for many years. With intrinsic value increasing, stock prices should eventually catch up. Finally, the M&A environment remains strong with no signs of slowing down. When a company is good quality and trading at a discount, we believe someone will take notice and buy the business at a fair price – Intertape Polymer Group is an example of this occurring in March.

While the current environment is full of uncertainty with a wide range of potential outcomes, this is usually where the opportunity exists for long-term focused investors. We are convinced that now is a compelling time to increase exposure to small-cap stocks as these times of uncertainty don't last forever, and as a clearer path forward emerges, we believe small cap companies should see an outsized benefit.

Thank you for your support.

Dave Barr, CFA

April 20, 2022

[Standard Performance Information for the Fund](#)



**PENDER**  
PenderFund Capital Management Ltd.

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