PENDER

STRATEGIC GROWTH AND INCOME FUND

THE MANAGER'S COMMENTARY – MARCH 2022

Dear unitholders,

In the first quarter of 2022, markets finished with mixed results as macro trends grabbed investor attention. The quarter saw increased geopolitical risk with the Russian invasion of Ukraine and rising interest rates as central banks attempted to tame persistent inflation. Concerns regarding the economic growth outlook captured headlines. In this environment, asset prices posted mixed results as these developments were digested and contributed to increased uncertainty.

In March, the S&P 500 Index (CAD) was up 2.0%, while the S&P/TSX Composite Index gained 4.0%. So far this year however, the S&P 500 is down -6.0%, while the S&P/TSX is up 3.9%. The resource heavy Canadian index has gained ground this year on the strength in commodities, particularly as concerns over Russian supplies grew. Oil closed the quarter above $100 a barrel, briefly breaking above $120 in March. Fixed income markets were also impacted as spreads widened and interest rates rose.

The Pender Strategic Growth & Income Fund (PSGIF) fared well in this environment, returning -0.1%[1] in March and is down -2.1% year to date. Our equity and fixed income holdings ended the quarter lower overall, but outperformed relative to their respective asset classes.

Equities

Within equities, our energy exposed holdings in **ARC Resources Ltd. (TSX: ARX)**, **Spartan Delta Corp. (TSX: SDE)** and **Texas Pacific Land Corporation (NYSE: TPL)** all contributed to performance in the quarter. These companies showed positive performance against the backdrop of rising oil & gas prices that hit multi-year highs.

ARC continued to perform well on the heels of posting strong quarterly results in November 2021. The company demonstrated robust free cash flow (FCF) generation and had a strong contribution from its acquisition of Seven Generations Energy Ltd. which has 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 their previous quarter and is executing well on the integration of Velvet Energy Ltd.'s assets, while making operational progress on new drilling programs. The company is well capitalized, has low leverage, operates high quality assets and remains attractive looking forward on strip pricing, in our opinion.

Texas Pacific Land Corporation also performed well in the quarter. We see their royalty model as being of a higher quality compared to peers as it requires limited capital investment and drives high, sustainable returns. In the current oil price environment, the company should generate strong FCF, further strengthening the net cash position on their balance sheet while incremental cash flow can be used to buy back shares or make opportunistic acquisitions.

[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.*

Although our exposure to resource companies in the portfolio remains relatively low, these are all examples of high-quality operators that can opportunistically deploy capital into M&A to strengthen and grow their businesses.

The portfolio's small cap investments through the Pender Small Cap Opportunities Fund (PSCOF) were a slight detractor to performance in the first quarter. Our holdings in small cap companies were not immune to the rising equity market volatility. We have seen multiple compressions in small cap valuations for several months now, although the underlying fundamentals continue to grow at healthy rates in our portfolio companies. The macro focused environment has created a potentially attractive opportunity for long-term focused investors like ourselves to capitalize on this misalignment. For more details on PSCOF, please see the March monthly update here.

Fixed Income

Our fixed income exposure through the Pender Corporate Bond Fund (PCBF) performed relatively well in the quarter against a credit market that saw both high yield and investment grade debt weaken as spreads widened and interest rates rose. In order to beat the average, it is important to do things that few others are doing, and the first quarter underscored the importance of that principle. The Fund maintained its short duration positioning and relatively conservative credit posture, while focusing on idiosyncratic opportunities at attractive prices.

Our Fund's resilience was supported by gains in **Country Garden Holdings Co., Ltd. (HKG: 2007)** bonds as Chinese state-backed financial institutions came to the defense of better capitalized property developers such as Country Garden, relieving a panic that had taken bond prices, in some cases, below 50c on the dollar. Our investment in **Federal National Mortgage Association (OTCPK: FNMA)** and **Federal Home Loan Mortgage Corporation (OTCPK: FMCC)** preferred shares also rose amid signs of the forthcoming emergence of these Government-Sponsored Entities (GSEs) from the conservatorship that arrived, along with dividend suspension, back in 2008. Finally, our position in the deeply discounted bonds of **Plantronics, Inc. (NYSE: POLY)** rallied from the low 80s to above par as that company agreed to be acquired by American hardware behemoth **HP Inc. (NYSE: HPQ).**

Notwithstanding the positive developments noted above, the broader bond market continued to struggle in the face of high inflation and a hawkish Federal Reserve. PCBF closed the quarter with a yield to maturity of 6.1%, current yield of 4.9% and an average duration of maturity-based instruments of 3.5 years. There is a 2.5% weight in distressed securities held for workout value whose notional yield is not included in this calculation. Cash represented 2.6% of the total portfolio at March 31. For more details on PCBF, see the March monthly update here.

Asset Mix

The portfolio ended the quarter with about 66% invested in direct equities, 7% allocated to PSCOF, 32% invested in PCBF and limited cash. The Fund also added the Pender Alternative Absolute Return Fund and the Pender Alternative Arbitrage Fund to the portfolio at about 3% and 2%, respectively. These alternative strategies are well suited for this environment and we believe should dampen overall portfolio volatility, while delivering low correlation returns to the portfolio.

Outlook

With a backdrop of rising interest rates, persistent inflation and moderating growth expectations, we remain focused on the individual securities we purchase in the portfolio. With our equities focused on income-oriented securities, conservative positioning in our credit exposure and the addition of alternative strategies to the asset mix, we feel this balanced positioning is prudent in today's environment. With a wider range of potential outcomes going forward, it is that much more important to remain disciplined to a proven process that has delivered in the past.

The Pender Investment Team
April 25, 2022

Standard Performance Information for the Fund