PENDER
VALUE FUND

THE MANAGER'S COMMENTARY – MARCH 2022

Fellow unit holders,

The first quarter of 2022 came to a close with mixed performance 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 500 Index (CAD) was up 2.0%, while the Russell 2000 index (CAD) fell 0.4%, bringing the first quarter results to -6.0% and -8.9% respectively. In Canada, the S&P/TSX Composite Index gained 4.0% in March and is up 3.9% year to date (YTD), largely on the strength in energy prices following the invasion of Ukraine. The technology focused Nasdaq Index (USD) was up 5.1% in March and returned -8.9% YTD in 2022. Against this backdrop, the Pender Value Fund was down 3.3%[1] on the month and down 14.1%[1] so far this year.

Index	March	Year to Date
S&P/TSX Composite Index	4.0%	3.9%
NASDAQ (USD)	5.1%	-8.9%
S&P 500 Index (CAD)	2.0%	-6.0%
Russell 2000 Index (CAD)	-0.4%	-8.9%
Pender Value Fund	**-3.3%[1]**	**-14.1%[1]**

We saw a continuation of a trend we have seen for several months now as multiples continued to compress, particularly in growth-oriented technology firms and small cap companies. This divergence in stock prices from company fundamentals accelerated in Q1'22 as macro headwinds caused additional volatility. This impacted the performance of the Fund in March and YTD with about 41% of the portfolio invested in companies within the technology and communication services sectors. This was particularly evident in high-growth firms as the market's appetite for these companies has shifted compared to a year ago.

This dynamic has created compelling buying opportunities. When we dig in and analyze some of the businesses, we are finding that the growth runway is not being rewarded and the long-term cash flow generation potential of the business is being ignored. The pullback, driven by rising interest rates, geopolitical risk, inflation, or economic growth concerns, has created attractive entry points where we can underwrite the quality of the business by understanding which businesses are self-sustaining and which require additional capital. We see parallels in this environment to 2002/2003 where technology businesses that were not dependent on third party capital to grow their business prospered in the years (even decades) that followed. These businesses were proven to be very profitable, cash flow generative and outstanding companies for long-term investors to own.

With the multiple compression we have seen, valuation risk has been reduced and, in our opinion, this sets up the portfolio well for future returns as the value in these companies is recognized. There are multiple paths to this value being recognized over time. **Twitter Inc (NYSE: TWTR)**, for example, is about

[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.*

a 2% weight in the portfolio and rebounded following the quarter after Elon Musk announced a large ownership position in the company. The ultimate motivation behind Musk's ownership in Twitter remains to be seen, but it has put the fundamental value of the company under the microscope for other market participants to see.

Zillow Group Inc (NASDAQ: ZG) is a company we have discussed in the past, but we bring it up again as it is a good example of multiple compression reducing valuation risk. Despite its valuation being extremely depressed in our opinion, we continue to see it as a good opportunity today. Looking out a year, the business is trading a double-digit free cash flow yield and growing at a high teens rate, which we believe has the potential to hit +20%. For comparison, the company is valued in the market today at approximately where it was in 2018 – yet the core business was barely profitable then and we expect it to generate nearly $1B in free cash flow over the next year. In Zillow we see growth, significant cash flow and a structural winner as they disrupt the traditional real estate purchase and sale process – this is a great opportunity in our opinion.

In these times of uncertainty, we reiterate our view that the set up for the portfolio looks attractive with a three-to-five-year outlook. This period in small caps is reminiscent of 2020 or 2009 – periods where we experienced a sharp sell-off in equities that presented an attractive buying opportunity for long-term investors. Coming out of these periods, the following 3-5-year periods were impressive.

While investing in times of uncertainty can be challenging, the rewards are attractive for long-term investors who have the patience to stay the course. Despite the challenges in the world today, we are optimistic about the prospect for each of the companies we own in the portfolio. The opportunity to own a portfolio of high quality, compounding companies at attractive prices does not present itself often. We are convinced that the long-term opportunity is compelling. Thank you for your support.

David Barr, CFA
April 20, 2022

[*Standard performance information for the Fund*]

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PenderFund Capital Management Ltd.