

PENDER

SMALL / MID CAP DIVIDEND FUND

THE MANAGER'S COMMENTARY – NOVEMBER 2022

Fellow Unitholders,

The Pender Small/Mid Cap Dividend Fund (PSMDF) returned a positive 3.6% in November, bringing year-to-date returns to -10.4%¹. This compares to the TSX Small Cap Index returning -7.3% year-to-date and the TSX Composite Index returning -0.9%.

For some context to these return comparisons, the Fund is more broadly diversified than the TSX, which has been a source of the relative underperformance this year. The TSX Composite Index is very concentrated, with 74.4% of the index exposed to the financials, energy, industrials and materials sectors. The PSMDF, however, is more broadly diversified, with 69.9% of the portfolio concentrated across the industrials, energy, financials, real estate and technology sectors.

The sectors that the TSX is concentrated in have performed well this year – the energy, industrials and materials sectors are all positive on the year, with these sectors up 38.1%, 7.8% and 4.1%, respectively.

Portfolio Changes

In the month of November, we added to our existing positions in Corus Entertainment Inc. (TSX: CRJ.B) and Computer Modelling Group Ltd. (TSX: CMG). We also added a new position to the portfolio – Guardian Capital Group Limited (TSX: GCG.A).

GCG made headlines in November after the company announced an agreement to sell its life insurance brokerage, mutual fund distribution and securities distribution businesses to Desjardins for \$750 million. These businesses sell to independent wealth advisors and the deal expands Desjardins' reach into this market. GCG will continue to focus on its core asset management business that has \$48 billion in AUM and \$27 billion in AUA. The sale surfaces value in assets that were buried and not getting recognition. It is notable that before the deal was announced, the market cap of the entire company was just over \$750 million. We still see unrealized value in GCG and initiated our position following the sale announcement. The company also owns a large securities portfolio valued at about \$650 million, of which the largest component is shares in BMO that it received in a prior transaction.

Company Highlights

Spartan Delta Corp. (TSX: SDE) is the largest holding in the Pender Small/Mid Cap Dividend Fund at 4.4% and was a strong contributor in November, with the stock up 23%. Driving shares in the company higher was the announcement of a strategic review process to evaluate options for the company to unlock shareholder value, including a potential sale. SDE has been firing on all cylinders and exceeding its own expectations – the company expects to generate nearly \$500 million in free cash flow this year. With the company trading at a 20% free cash flow yield, these fundamentals are not fully appreciated by the market and led management to explore strategic options and review potential avenues to unlock shareholder value.

Further supporting SDE's shares in the quarter, was its issuance of strong preliminary guidance for 2023. The company's initial guidance was highlighted by 10% organic growth and the generation of \$455

¹ Class F of the Fund. Other classes are available. Fees and performance may differ in those other classes.

million in cash flow. While SDE remains the top holding in the portfolio, we have trimmed on strength as part of our risk management process and as the shares have appreciated in value.

We continue to focus on high quality companies that are generating cash flow and are returning some of that cash to shareholders as dividends. This cash flow generation provides a degree of stability as uncertainty about the economy remains elevated. While we have already seen a correction in 2022, we have confidence in the ability of the companies we own in the portfolio to withstand a wide range of operating environments and economic scenarios.

Thank you for your support.

David Barr, CFA

December 13, 2022



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PenderFund Capital Management Ltd.

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