

PENDER

SMALL / MID CAP DIVIDEND FUND

THE MANAGER'S COMMENTARY – FOURTH QUARTER 2022

Dear Unitholders,

The Pender Small/Mid Cap Dividend Fund returned a positive 7.5% in the fourth quarter, bringing 2022 returns to -11.0%¹. This compares to the S&P/TSX Small Cap Index which returned -9.0% in 2022 and the TSX Composite Index which returned -5.7% for the year. Although lagging on a relative basis in 2022, the Fund is more broadly diversified compared to these indexes. These indexes are very concentrated in resource sectors, which was a rare performance bright spot in a challenging year overall for financial assets.

During the fourth quarter, the portfolio's key drivers were holdings in the energy and industrial sectors. Within energy, Spartan Delta Corp. (TSX: SDE) and North American Construction Group Ltd. (TSX: NOA) registered strong gains, while industrial sector holdings in Chorus Aviation Inc. (TSX: CHR) and Exchange Income Corporation (TSX: EIF) also contributed to the positive portfolio performance during the quarter.

New Position Added to the Portfolio

We added a new position to the portfolio towards the end of the quarter – NFI Group Inc. (TSX: NFI), which manufactures and sells buses and aftermarket services internationally. The company's stock price was depressed in the fourth quarter as delays in parts from suppliers forced the company to slow deliveries, which in turn depressed revenues and caused its working capital balances to swell.

After we initiated a position in the Fund, NFI Group provided an update that it had successfully amended the terms on its credit facility and received financing support from the government of Manitoba. Both Export Development Canada (EDC) and the Government of Manitoba provided a non-binding commitment for a \$50 million debt facility each for a one-year term, which can be extended for an additional two years subject to approval by the lenders. NFI also decided to suspend dividend payments, which we see as a positive development, since it helps the company conserve cash and focus on operations. Management will now be able to focus on ramping up production and reducing working capital to generate cash flow and profits.

Company Highlight

Sylogist Ltd. (TSX: SYZ) is a top five holding in the Fund with a 4.8% weight and was a positive contributor to performance in the quarter, with the stock up approximately 13%. Sylogist provides enterprise resource planning software solutions to its clients. We see it as a high-quality business in large part due to its very sticky business model, which is very cash generative. We added to our position in the company in 2022 after we began to see the results of the new management team that joined the company in late 2020. The team's strategy to re-invigorate the company and refocus efforts on sales execution to drive organic growth began to bear fruit with revenue trends accelerating in 2022. The company posted 6% organic revenue growth and 20% year-over-year backlog growth in its most recent quarter, up from negative organic growth at the end of 2021.

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 common theme in the small-cap technology space since late 2021 has been valuation re-rating as multiples have compressed. Sylogist has been impacted by this as well, with its multiple contracting from approximately 8x revenue in late 2021 to below 3x at the end of 2022. With fundamentals improving and the opportunity for multiple expansion as a reacceleration in growth is further established, we see an attractive risk-reward opportunity.

Sylogist is a good example of the businesses we target in the Fund – a high-quality company, generating cash flows that are returned in some part to shareholders as dividends. These cash flows were a key element of the Fund’s strategy in 2022 that helped provide a degree of stability in what was a volatile year in financial markets. As we enter 2023, we continue to find great opportunities that have been exposed by this volatility and have constructed a portfolio that is diversified across a wide range of businesses that can continue to grow and adapt as their market evolves.

David Barr, CFA
January 23, 2023



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