Manager's Commentary

David Barr, CFA

The Pender Value Fund Returned -3.9% in the third quarter of 2023, bringing year-to-date performance to -1.0%[1]. This result lagged the broad market performance in Canadian equities, with the S&P/TSX Composite Index declining -2.2% and the S&P/TSX Small Cap Index shedding -0.8%. The Fund performed more broadly in line with the S&P 500 Index (USD) which declined -3.3% and was ahead of the S&P 600 Index that fell -4.9%.

Performance in Canadian equities were driven by gains in the Energy sector, with Energy-related companies supported by oil prices rising 29% through the quarter and closing above $90 per barrel at the end of September. These rising crude oil prices also contributed to a recalibration of inflation expectations and comments from US Federal Reserve officials indicating higher for longer interest rates. The bond market digested these shifting expectations as the US 10-year Treasury yield rose 73 bps during the quarter to close at 4.57% at the end of September, the highest level since 2007.

Equity markets were broadly lower in the third quarter against this backdrop. With elevated inflation and higher interest rates continuing to be top of mind for investors, the outlook for economic growth going forward remains cloudy.

Portfolio Update

With weaker stock prices and an uncertain macro outlook, we continued to focus on our process and identifying high quality business that can execute their strategic plans across a wide range of economic scenarios. We made some adjustments to the portfolio in the quarter, adding two new holdings that hit our buy price.

During the quarter, we added Aecon Group Inc. (TSX:ARE) and Thinkific Labs Inc. (TSX:THNC) to the portfolio.

Aecon Group Inc is a business that provides construction and infrastructure development services. Since the new CEO, Jean-Louis Servranckx, joined the company in late 2018, Aecon has taken several steps to de-risk the business and to recycle cash into higher return businesses. We believe this development is underappreciated and not yet reflected in the share price due to the overhang of four legacy fixedprice lump-sum turnkey contracts on which it has had to book charges due to cost overruns over the last several quarters. The Company's growth initiatives are primarily directed towards businesses with lower risk profiles, including long-term operation and maintenance concessions, renewable energy and decarbonization, and other projects linked to sustainability initiatives (60%of 2022 revenue was tied to sustainability projects). Higher margin nuclear is currently at 15% of the construction segment revenue, but

[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.*

likely to increase to 20% over next 3-5 years as recent contract wins for small modular reactors get booked into revenues.

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Thinkific provides a cloud-based software platform that allows their clients the ability to create, manage and monetize online courses and other learning products. The company has a huge market opportunity driven by a large and growing creator economy and are well positioned to capture outsized growth. This is a founder-led business with significant insider ownership which we like to see as it creates meaningful alignment. The company is well capitalized following the proceeds raised in their initial public offering which allows them to continue to grow while they focus on achieving profitability. We have followed the company for years and added it to the Pender Value Fund as we see an attractive outlook for the business.

We continue to focus the opportunity set of the portfolio on high quality small and mid-sized companies where we see a disconnect with the underlying fundamentals of the business. Our weight in Canadian equities stood at 52.7% at the end of the quarter, up from 50.3% at the end of December 2022. As our Canadian exposure has grown, we have been reducing our weights to international companies, which stood at 9.5% at the end of the quarter. We have been transitioning into these companies as our international holdings approach fair value or when we see compelling opportunities to capitalize on in companies we know well.

David Barr, CFA
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