Manager's Commentary

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"The main reason investors struggle with how to react to bad news is that they really haven't figured out why they own the stocks they own." - Bill Nygren

Highlights

- Solid quarter caps off positive year for both relative and absolute performance.
- At year-end, equity exposure was approximately 58.3%, fixed income and credit at 34.3% while liquid alternatives were at 7.1%.
- The Fund received industry recognition with 2023 LSEG Lipper Fund Award for long-term, risk-adjusted returns.

Dear Unitholders,

The Pender Strategic Growth & Income Fund (PSGIF) returned 7.7% in the fourth quarter of 2023, modestly outperforming its category[1]. Calendar year returns were 13.4%.

The US Fed pivot signaling its intention for rate cuts in late 2024 swung market sentiment from 'extreme fear' to 'extreme greed'[2] which sparked a rally for risk-on assets. Some of the move higher was justified because lower interest rates positively impacted valuations. But we believe the rush of hot money pushed prices too far in the short term. Prices of many securities fluctuated far more than their underlying enterprise or business value in our view, which created rebalancing opportunities. We were unusually active during the quarter because the opportunity set changed.

Over the medium term, the performance of the Fund has exceeded our expectations. The mandate achieved its third consecutive top quartile year as measured by Morningstar and was also recognized as an LSEG Lipper Fund Awards Canada 2023 Winner[3]. While we aspire to generate top quartile results for our Unitholders over the long-term, a small helping of luck helped to get into the very top percentile. The three-year annualized total return of PSGIF Class F was 9.35% which ranks it in the top 1% of its category[4]. For investors holding

[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. Standard Performance Information for the Pender Strategic Growth & Income Fund Performance may be found here: https://www.penderfund.com/pender-strategic-growth-income-fund/.*
[2] *CNN's Fear & Greed Index. https://www.cnn.com/markets/fear-and-greed*
[3] *Best Global Neutral Balanced Fund over a three-year performance period. The awards are based on objective, quantitative criteria and LSEG Lipper's methodology can be viewed here.*
[4] *The 3-year total return for the category and index was 2.26% and 2.68% annualized, respectively.*

PSGIF in taxable accounts, the relative performance is even more favourable due the Fund's unusual tax efficiency[5].

From a risk capture perspective, the Fund has performed favourably in both up and down markets over this period. When markets have been up, the Fund captured 121% of the return, compared to the category ratio of 100%. This means that for every 1% increase in the index, PSGIF has increased by 1.21%. In down markets, the Fund has captured only 67% of the downside compared to category average of 104%. This is attributable due to contribution from the Pender's liquid alternatives strategies[6] which were added to the mandate in early 2022 to provide solid returns while helping to dampen volatility, as well as our differentiated approach to both fixed income[7] and direct equities. More upside in good times and less downside in bad times is a good recipe for favourable results over time.

We view risk somewhat differently than many market participants. To us, real investment risk is the risk of permanent loss of capital and the risk of an inadequate return. We believe this philosophical approach to risk is just as important, if not more so, particularly when focusing on solid long-term returns, than relying on industry standard risk metrics such as beta and standard deviation. For more reading on *How Pender Thinks about Risk* and protecting capital, see here.

Although this Fund was incepted in December 2019[8], Pender has been internally managing the core PSGIF balanced mandate since September 2015. While we are pleased with the aggregate long-term track record of the mandate, at various parts of the cycle the Fund's short-term performance did not align with our long-term aspirations. The Fund has not posted positive relative performance in every quarter or year. Nor will it in the future. In our view the ability to accept the inevitable soft patches with relative equanimity is the price to pay for the possibility of good long-term returns.

We believe the Fund's differentiated approach increases the potential to deliver solid long-term performance by leveraging Pender's specialized strategies which focus on less efficient asset classes. As of December 31, the Fund's positioning was 50.8% invested in direct equities with the remainder in four Pender specialized mandates to provide balance

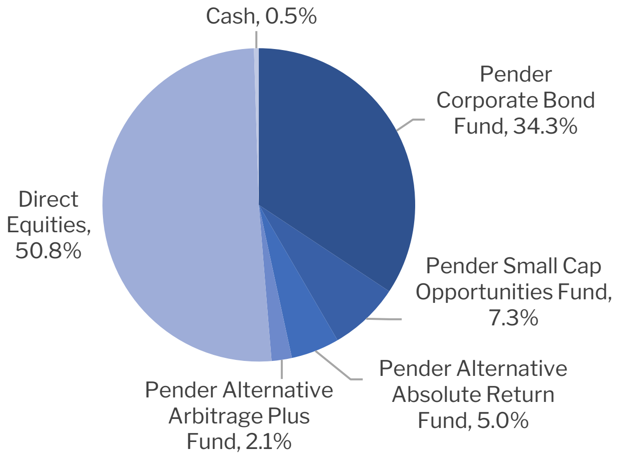
[5] *Capital loss carry forwards generated by previous management were $46.9 million at 2023 year-end. These have no expiry date which will ensure there are no capital gain distributions until they are fully utilized.*
[6] *Pender Alternative Absolute Return Fund (PAARF and Pender Alternative Arbitrate Plus Fund (PAAP)*
[7] *Pender Corporate Bond Fund*
[8] *When Pender completed acquisition of Vertex One Asset Management Mutual funds, Pender Enhanced Income Fund (PEIF) was formed on the merger of the Vertex Growth Fund and the Vertex Fund with the former Vertex Enhanced Income Fund. PEIF ran a mirrored balanced strategy with the Pender Strategic Growth & Income Fund (PSGIF). PSGIF merged with PEIF in mid 2023 to reduce complexity and so all unitholders could benefit from the tax efficiency from the substantial capital tax loss carry forwards generated by the previous strategies of the various merged funds of Vertex One Asset Management.*

and diversification. On a look-through basis, equity exposure was approximately 58.3%[9], fixed income and credit at 34.3%[10] while liquid alternatives were at 7.1%[11]

Direct Equity Holdings	Weight
Exor N.V.	4.4%
Burford Capital Limited	4.1%
KKR & Co. Inc.	3.4%
Brookfield Corporation	2.9%
Kennedy-Wilson Holdings, Inc.	2.6%
Onex Corporation	2.5%
SS&C Technologies Holdings, Inc.	2.2%
Aecon Group Inc.	2.2%
Trisura Group Ltd.	2.0%
Microchip Technology Incorporated	1.9%
Top 10	**28.2%**

Source: Pender and Morningstar, December 31, 2023

Pender Strategic Growth & Income Fund Asset Allocation



Direct Equities – An Unusually Active Quarter

We generally trimmed our larger cap holdings and added to our smaller cap holdings where valuations were more favourable. Two new core holdings were added to the portfolio and we exited a holding at a modest loss when the facts changed. We added Interactive Brokers Group (NASD: IBKR) which provides low cost, seamless global access to the securities markets for both institutional and individual investors. It is a competitively advantaged business within a cyclical industry with a long runway. We also added Premium Brands Holdings (TSX: PBH), a Canadian specialty food manufacturing and distribution company. It is a growth by acquisition story and with a business model akin to publicly-traded private equity. The management team has demonstrated a long-term track record of smart capital allocation and prudent long-term strategic decision making. We own both securities in other Pender mandates and the recent price weakness enabled us to establish positions at attractive prices. We exited Liberty Broadband (NASD: LBRDK) due to our concerns of growing business and balance sheet risk. A levered equity story in a higher interest rate environment with weakening growth prospects were key indicators that the capital could be better deployed elsewhere.

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[9] *Combining direct equities with Pender Small Cap Opportunities Fund.*
[10] *Pender Corporate Bond Fund*
[11] *Pender Alternative Absolute Fund and Pender Alternative Arbitrage Fund*

Within our direct equity holdings, we had significant positive contributions in the quarter from KKR (NYSE: KKR) and Brookfield Corp (TSX: BN).

In fact, most of our core "public-traded alternatives"[12] performed well in the fourth quarter and were significant performance contributors in 2023. Collectively, this core group rose more than 40% in the year. We modestly trimmed exposure to most of these holdings on strength in the quarter and added to Kennedy Wilson (NYSE: KW) on price weakness.

Our top detractors during the quarter included Baidu (NASD: BIDU) and Altius Renewable (TSX: ARR).

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Despite promise from its early bet "all in AI", Baidu did not participate in the broad AI rally in 2023 because of market concerns about growing geopolitical risk and economic sluggishness in China. We have no special insight when, or if, these macro headwinds will dissipate. Or get worse. Still, we remain comfortable with a modest position. It is the Fund's only holding domiciled in China. Baidu is arguably one of the most mispriced equities in the portfolio. The company is founder-led, has a robust balance sheet including net 'cash & equivalent' accounting for nearly half the market capitalization, a reliable free cash flow engine from its core marketing business, with multiple sources of optionality from its multi-year "All in AI" efforts.

We have seen the market adage "If it's in the news, it's in the price" play out countless times. By the time market concerns hit the proverbial "front page", the level of real risk is often quite low because the securities have been already sold off to levels well below reasonable worst-case scenarios. Interestingly, shorting Chinese stocks is the second most crowded trade among global fund managers, according to a recent survey by Bank of America. It's the opposite of that 90s sitcom, "Everybody Loves Raymond". Things could get very interesting if today's negative view changes.

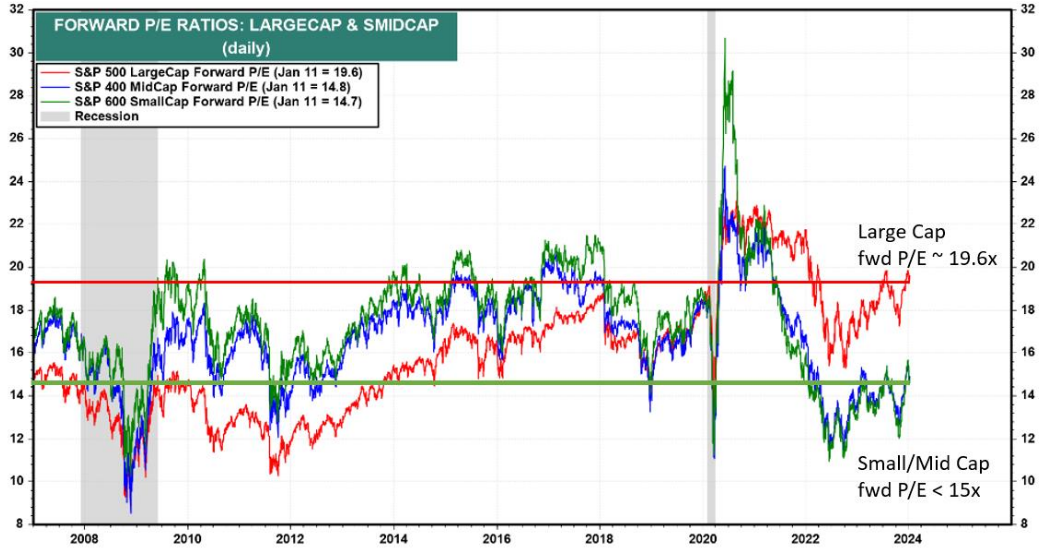
Altius is a relatively thinly traded stock. Flows into and out of the stock tend to have a larger impact on the price over the short term than fundamentals – good or bad. As a first mover in the renewables sector, we view Altius as a well-managed, reputable, and experienced royalty operator. Renewable energy is a secular growth story, but there are a number of factors that make royalty streaming compelling as power purchase agreement lengths are shortening and tax incentives are phasing out. Royalties provide non-equity dilutive, covenant-lite and flexible financing. During the quarter there was a positive development and catalyst with its 50% owned operating subsidiary Great Bay Renewables announcing a new senior secured

[12] *In aggregate, we believe our "public alternatives" provide economic exposure to attractive alternative asset classes like infrastructure, private equity, credit, litigation finance, real estate at relatively better favourable terms and superior liquidity than through direct exposure. This core group currently consists of KKR, Brookfield Corp, Onex Corp, Burford Capital, Kennedy Wilson.*

credit facility. In addition to its net cash position, Altius can now draw on the credit facility at an attractive rate to fund royalty investments without having to raise equity.

Update on Specialized Fund Strategies

Our Canadian small and microcap exposure comes primarily through our holding of Pender Small Cap Opportunities Fund (PSCOF). The Fund generated performance in line with its category for the year in the high single-digit range which was below its historical robust double-digit long-term returns. It's been a challenging small cap environment as the below valuation chart illustrates. Much of the small cap performance weakness has been due to valuation compression whereas large caps have benefited from a tailwind. We are still in a macro fund-flow driven environment.



Source: LSEG Datastream and Yardini.com, Pender. As of January 2024

While this dynamic continues to favour large cap stocks over small, it does introduce significant volatility into the more liquid parts of the small cap market. During the fourth quarter the Russell 2000 hit its 52-week low on October 27 and recovered to its 52-week high only 42 days later – the quickest turnaround in history. This was driven by large investors seeking easy liquidity and exposure to an asset initially looking to take risk off the table and then looking to add on risk with a normalizing interest rate environment. Over the long term, PSCOF has been a significant performance generator for PSGIF. We are optimistic about better days ahead considering today's relatively cheap small cap valuations as a starting point. For more details on PSCOF, see the fourth quarter update here.

Our fixed income investments are reflected by our position in the Pender Corporate Bond Fund (PCBF), which contributed positively to performance for both the quarter and the year. The overall approach is balanced across the fixed income opportunity set where it takes a counter-cyclical approach to duration and credit risk. In practice, this has generated favourable downside capture ratios for PCBF relative to its category and contributed to its positive long-term record. The Corporate Bond Fund yield to maturity at December 31 was

7.9% with current yield of 5.4% and average duration of maturity-based instruments of 4.0 years.

Although the high yield index has soared higher, the same can't be said for off-the-run and unrated bonds. Here, there is still an ample supply of bonds trading in the 50s and 60s percent of face value, where the value of the issuing companies appears to be clearly in excess of total debt outstanding. Double digit yields are still very much a thing. For more details on some of the opportunities we see in the PCBF, see the December portfolio update here.

In aggregate, our liquid alternatives positions generated a low-single digit return for the quarter and a high-single digit total return for the year. Both Funds are terrific portfolio diversifiers which should generate positive absolute return in most market conditions. These alternative strategies are designed to be more market neutral than the positioning of the rest of the PSGIF mandate. In practice, this usually means better performance in challenging markets but less upside when animal spirits become very bullish. This is achieved through paired shorting and event-driven strategies like merger arbitrage to dampen volatility while still providing decent long-term returns. These Funds were exemplary in 2022 generating positive returns when almost every other asset class and most strategies were in deeply in the red. The PAARF is generally positioned defensively today, with the December 31 yield at 3.2% while yield to maturity was 6.6%. For more details on the PAARF, see the December commentary here. For more details on the Pender Alternative Arbitrage Plus Fund (PAAP), see the December commentary for the unleveraged version of the Fund here.

Outlook

Our portfolio activity was unusually elevated in the last quarter which should help set us up favourably in the coming years. Our equity exposure is tilted more balanced than peers, which means a higher allocation to competitively advantaged small-to-mid-sized companies which have more upside from a valuation perspective. Our fixed income position through PCBF and both liquid alternatives mandates are currently positioned relatively defensively. We expect these strategies will continue to help dampen volatility and provide some downside protection. When the market sentiment swings to fear again, and the opportunity set becomes more attractive, we are ready to tactically deploy capital.

Please do not hesitate to contact us, should you have questions or comments you wish to share with us.

Felix Narhi & Geoff Castle

January 19, 2024