PENDER
STRATEGIC GROWTH & INCOME FUND

Q1 2024

Manager's Commentary

Felix Narhi, CFA & Geoff Castle

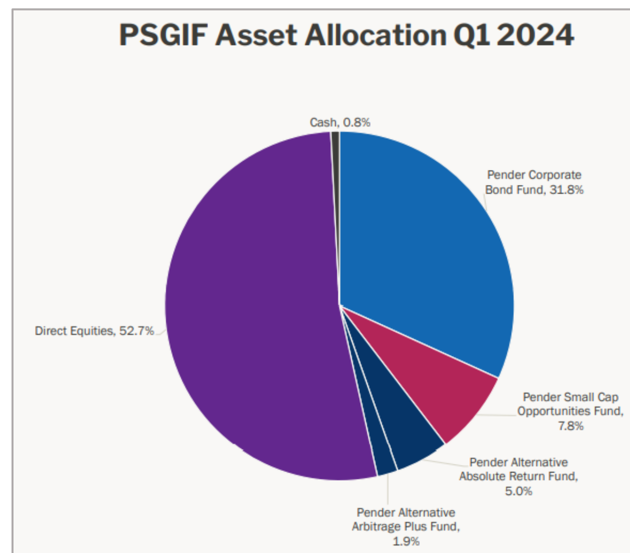
" In finance textbooks, "risk" is defined as short-term volatility. In the real world, risk is earning low returns, which is often caused by trying to avoid short-term volatility."

- Morgan Housel

Dear Unitholders,

The Pender Strategic Growth & Income Fund (PSGIF) returned 7.1% in the first quarter of 2024. The one year return was 18.8%, comfortably ahead of its benchmark return of 11.7%[1]. We are pleased with the long-term record[2], which has been generated by a value-oriented approach in direct equities and top quartile contributions from Pender's specialized strategies to provide exposure to fixed income and credit, small cap equities and liquid alternatives. In a category where index-like exposure tends to be more the norm, PSGIF provides an alternative approach to investors seeking "balance". Investors holding PSGIF in taxable accounts continue to benefit from the Fund's tax efficiency[3].

There has been no shift in strategic asset allocation. As of March 31, 2024 the Fund was 52.7% invested in direct equities with the remainder in four Pender specialized mandates to provide balance and diversification. On a look-thru basis, equity exposure was approximately 60.5%[4], fixed income & credit at 31.8%[5] while liquid alternatives were at 6.9%[6]. We believe the Fund's differentiated approach increases the odds that it should deliver solid *long-term* performance by leveraging Pender's specialized strategies which focus on less efficient asset classes.



Source Pender, as of March 31, 2024

---

[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] *Five-star Fund rating by Morningstar and recognized as an LSEG Lipper Fund Awards Canada 2023. Winner of 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.*

[3] *Capital loss carry forwards 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.*

[4] *Combining direct equities with Pender Small Cap Opportunities Fund.*

[5] *Pender Corporate Bond Fund*

[6] *Pender Alternative Absolute Fund and Pender Alternative Arbitrage Fund*

Direct Equities

We added equity positions in Clarivate Plc (NYSE: CLVT) and IAC Inc. (NASD: IAC) on stock specific weakness in the quarter. We believe both are mispriced and could have potentially significant upside over the next few years.

Clarivate is a leading information services company offering mission-critical content and analytics to organizations and operates in highly oligopolistic markets. It is like Bloomberg when you consider the indispensable nature of its offerings to financial industry professionals. Except Clarivate services principally three markets - academia, life sciences and the intellectual property ecosystem. Like many other information services companies, Clarivate has an attractive business model. We believe its key data assets are highly valuable - it is the number one or number two player in nearly every market that it operates.

The business is a reliable generator of free cash flow but investors have become skeptical because organic growth has been lagging the market. Debt levels are also elevated following a series of sizable acquisitions. Cash flows primarily allocated to deleveraging should ease balance sheet concerns over the next few years. Management is also investing heavily in the customer experience to accelerate growth, including leveraging AI, to unlock potentially immense value from its proprietary industry data sets. We believe they have a decent chance of getting back to market-like growth levels in a few years, with potential of better-than-market growth in three to four years. It is rare to find such a high-quality business, with higher barriers to entry due to the uniqueness of the content and the costs necessary to replicate these assets, available at such a heavily discounted valuation.

We view IAC as a solid operator of a diverse portfolio of internet and media assets. This is a "recycled" idea we owned in the past. The company is a self-proclaimed "anti-conglomerate" conglomerate which is opportunistically focused on growth. It invests in, acquires, builds up and then spins off a variety of growth companies. Buying IAC when the discount to a conservative estimate of the sum-of-the-parts is this wide has usually proven lucrative. Once again, we believe IAC is compelling at recent prices.

Today the stock is trading at less than the value of its two public holdings in MGM Resorts International (NYSE: MGM) and Angi Inc. (NASD: ANGI) plus net cash. But it also owns other emerging businesses which have leading positions in their respective verticals which collectively provide further optionality. Longtime CEO Joe Levin has a strong record as a proven capital allocator and operator. We have confidence in the management team's continued ability to unlock "hidden" value.

Within our direct equity holdings, we had standout positive contributions in the quarter from KKR & Co. (NYSE: KKR), Aecon Group (TSX:ARE), and Exor NV (AMS: EXO) which have gone from strength to strength. We modestly trimmed exposure Aecon.

Our top detractors during the quarter included Kennedy Wilson Holdings, Inc. (NYSE: KW) and Dream Unlimited Corp. (TSX: DRM). Bearish sentiment on real estate is extreme. The downside risks in a potentially rising rates outlook, remote work environments, cyclical

© Copyright PenderFund Capital Management Ltd. All rights reserve. April 2024.

downside risks and credit tightening are well understood by investors. This suggests that minds can change if commercial property merely does "ok", and therefore the upside case can be made. The industry's pipeline continues to be muted in some parts of real estate asset classes relative to historical levels. This constructive supply story, with stable to growing demand, should play out in improved fundamentals in the coming years. After a multi-year contraction, we think it will likely bottom out in 2024, especially with respect to quality real estate assets. Now is the time to look for bargains in the cycle. We anticipate Kennedy Wilson and Dream Unlimited should post nice recoveries in the years ahead. We added to both holdings on price weakness.

Update on Specialized Fund Strategies

Our Canadian small and microcap exposure comes primarily through our holding of *Pender Small Cap Opportunities Fund (PSCOF).* PSCOF was an outsized generator of returns in the first quarter, outpacing its category. In our last letter, we outlined that we were optimistic about better days ahead considering today's cheap relative and absolute small cap valuations as a starting point. And PSCOF delivered with high teens return in the first quarter! While we participated in the broad rally in small caps, the excess returns we've experienced this quarter were driven by company specific performance. We believe this is a sign of things to come and that we are now in the early innings of the rebound in small cap technology companies from the major selloff we saw in 2021 and 2022. The spring is coiled tight. For more details on PSCOF, see the first quarter update.

Our fixed income investments are reflected by our position in the Pender Corporate Bond Fund (PCBF), which contributed positively to performance for the quarter and year, outpacing its benchmark. 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.

In the latter half of 2023 we noticed an extraordinary divergence developing between some pockets of the credit market that we viewed as extremely cheap in comparison to a high yield bond index that was quite tightly priced versus the government bond benchmarks. We noted that these cheap pockets were difficult to approach passively because often the issues were unrated, or because their return potential came partly in equity-linked revaluation.

Although it is starting to feel as if the tide is turning, we believe the valuation anomalies have only recovered a small portion of their full potential. The PCBF yield to maturity at March 31 was 8.0% with current yield of 5.6% and average duration of maturity-based instruments of 3.8 years. There is a 5.6% weight in distressed securities held for workout value whose notional yield is not included in the foregoing calculation. Cash represented 1.7% of the total portfolio. For more details on the key drivers of the PCBF, see the March portfolio update.

In aggregate, our liquid alternatives positions generated a low-single digit return for the quarter. Both the Pender Alternative Absolute Return Fund (PAARF) and the Pender

Standard Performance Information for Pender's Balanced Funds may be found here: https://www.penderfund.com/balanced/
This commentary is subject to the Disclaimer found here: https://www.penderfund.com/disclaimer/

© Copyright PenderFund Capital Management Ltd. All rights reserve. April 2024.

Alternative Arbitrage Plus Fund (PAAP)serve as portfolio diversifiers which should generate positive absolute return in most market conditions. In practice, these strategies should deliver positive performance in challenging markets but less upside when animal spirits become bullish (like today). This is achieved through paired shorting and event-driven strategies like merger arbitrage to dampen volatility while still providing decent long-term returns. The PAARF is generally positioned defensively today, with the March 31 yield at 4.5% while yield to maturity was 6.5%. For more details on the PAARF, see the March portfolio update. For more details on the PAAP, see the March portfolio update.

Outlook

Following a more active fourth quarter, portfolio activity was more subdued in the last quarter. Our equity exposure skews tilt more evenly across small-to-large market capitalization 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 team spent much of the past year loading up PCBF with value opportunities that had a lot of "legs" from the return potential point of view. After suffering a bit while we were waiting for catalysts to materialize, the last few months have seen encouraging developments. Although potential anticipated returns have begun to be realized, we believe there is a long way to go.

In liquid alternatives, PAARF continues to be positioned defensively. With spreads approaching cyclical lows, the skew to asset prices in general favors a defensive posture in our view. While positive momentum can continue from here, eventually there will be a shift and we believe it is appropriate to be positioned for that turn rather than try and squeeze the last bit of momentum from the market. As it relates to PAAP, we continue to see a compelling investment opportunity for merger arbitrage. Spreads remain wide on a relative and absolute basis; M&A activity is rising; we continue to see deal-making increase in our core small-cap universe and the regulators appear to be picking their battles more selectively allowing us to avoid those merger deals with higher risk.

Thank you for your continued support, and please do not hesitate to contact any of us should you have any suggestions, questions, comments, or ideas you wish to share.

Felix Narhi & Geoff Castle

April 19, 2024

Standard Performance Information for Pender's Balanced Funds may be found here: https://www.penderfund.com/balanced/
This commentary is subject to the Disclaimer found here: https://www.penderfund.com/disclaimer/

© Copyright PenderFund Capital Management Ltd. All rights reserve. April 2024.