PENDER
STRATEGIC GROWTH & INCOME FUND

June 2024

Manager's Commentary

Felix Narhi, CFA & Geoff Castle

"The only difference between a salad and garbage is timing."

- Andrew Lo, MIT Professor

Highlights

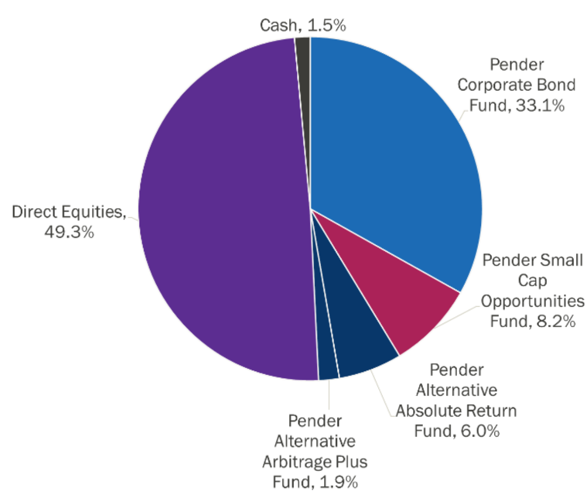
- The Fund returned 1.4% in the second quarter of 2024, with notable contributions from Pender Corporate Bond Fund (fixed income) and Pender Small Cap Opportunities Fund (small caps).
- Modest defensive reallocation to specialized fund strategies (Pender Corporate Bond Fund and Pender Alternative Absolute Return fund) and from direct equities.
- The Fund added waste management firm GFL Environmental Inc. as a core equity holding.
- On a look-through basis: equity exposure approximately 58%, fixed income and credit approximately 33%, liquid alternatives approximately 8%.

Dear Unitholders,

The Fund returned 1.4% in the second quarter of 2024, a good result within the context of the S&P/TSX Composite Index, global equity markets and credit markets[1]. Trailing one- and three-year total annualized returns were 17.3% and 4.9%, respectively. Annualized total return since inception[2] was 8.8% reflecting top quartile performance within its category[3].

During the quarter we lightened our direct equity exposure and reallocated to our fixed income and liquid alternative strategies. At the end of June, the Fund was 49.3% invested in direct equities (vs. 54.6% in March) with the remainder in four Pender specialized mandates and cash to provide balance and diversification. We believe the Fund's differentiated approach increases the odds that it should continue to deliver solid long-

PSGIF Asset Allocation Q2 2024



Source Pender, as of June 30, 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] *December 15, 2019.*
[3] *Global Neutral Balanced*

term performance by leveraging Pender's specialized strategies which focus on less efficient asset classes.

Direct Equities – GFL: One man's trash is another man's treasure

We added waste management firm and founder-led GFL Environmental Inc. (TSX: GFL) to the portfolio during the quarter, taking advantage of stock-specific weakness. Our timing proved fortunate. Shortly after our purchase, The Globe & Mail reported that GFL had hired a financial adviser to evaluate two buyout offers: one for its entire business and another for its environmental services division, which manages industrial liquid waste. While this unexpected development was welcome, we are also comfortable holding the stock at recent prices. Despite the recent excitement, GFL is still trading at a significant discount to its more established peers and our estimate of its fair value.

The waste management industry does not garner the flashy headlines. Nevertheless, the garbage business has been lucrative. The sector has quietly compounded patient shareholder wealth, significantly outpaced the S&P500 over the last decade. This is partly due to the industry's oligopolistic nature, where regional scale advantages can be smartly leveraged by shrewd operators. The leading players all have reasonable returns on capital, recession-resistant volume demand, and reliable long-term growth drivers. More importantly, in a world increasingly prone to tech disruption, we believe these businesses are unlikely to be materially disrupted over the next decade. With steady organic volume growth, modest pricing power, and more capacity for strategic tuck-in acquisitions than most peers, we believe GFL should be able to grow its free cash flow at a rate exceeding 10% over the medium term. Add in a few points from potential multiple expansion, and we think GFL's long-term returns should look a more like treasure than trash in the coming years.

Within our direct public equity holdings, strong positive contributions came from Kennedy-Wilson (NYSE:KW), Texas Pacific Land Corp (NYSE:TPL), and GFL Environmental Inc (TSX:GFL). We trimmed TPL and KKR & Co Inc (NYSE:KKR) on strength. The Fund is overweight real estate, which looks increasing compelling going into a potential rate cutting cycle with the sector broadly out of favor and many names trading at substantial discounts to their fair value. Notable detractors include Burford Capital Limited (NYSE:BUR), Clarivate PLC (NYSE:CLVT) and Baidu Inc (NASD:BIDU). We added to our CLVT holdings on weakness.

Portfolio activity was higher than average in the last quarter. We exited Altius Renewable Royalties (TSX:ARR), SS&C Technologies Holdings Inc (NASD: SSNC), Copperleaf Technologies Inc (TSX: CPLF), PAR Technology Corp (NYSE: PAR) and ARC Resources Ltd (TSX: ARX). We reallocated some of the capital to increase weights in two of our specialized fund strategies: Pender Corporate Bond Fund (PCBF) and Pender Alternative Absolute Return Fund (PAARF).

Update on Specialized Fund Strategies

In our last update, we noted that the tide was turning for valuation anomalies in PCBF and that we felt we were in early innings of a small cap rebound which would be a tailwind for

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Pender Small Cap Opportunities Fund (PSCOF). We are pleased with both strategies in the second quarter.

Many investors are content to park their cash in Guaranteed Investment Certificates (GICs). But could investors be focused too much on the potential for nominal value loss and not enough on real value erosion? Cash and GICs are not the only, nor the best, destinations on an investor's flight to safety. In truth, the erosion of purchasing power is the real risk for any long-term investor. Fortunately, compelling alternatives to GICs do exist. At least we think so. A variety of bonds and other credit instruments in the current market environment still appear to offer attractive upside, plus relatively cheap real value protection with substantial downside protection. The Corporate Bond Fund yield to maturity at June 30 was 8.7% with current yield of 5.8% and average duration of maturity-based instruments of 4.3 years. For more details on the key drivers of the PCBF, see the June portfolio update.

In aggregate, our liquid alternatives positions generated a low-single digit return for the quarter. Both Funds serve as portfolio diversifiers which should generate positive absolute return in most market conditions. The PAARF is positioned defensively today, with the June 30th yield at the fund's current yield was 4.0% while yield to maturity was 6.2%. For more details on the PAARF, see the June portfolio update. For more details on the PAAP, see the June portfolio update.

Outlook

"There's little I'm certain of, but these things are true: cycles always prevail eventually. Nothing goes in one direction forever. Trees don't grow to the sky."

– Howard Marks

Low risk premiums and signs of a potential cycle turn suggest adopting a more defensive strategy. Therefore, we have reallocated some capital from direct equity exposure to our specialized Fund strategies, which we believe offer decent upside potential along with superior defensive characteristics.

Despite this shift, we maintain that our direct equity investments are still attractive compared to the market, with more favorable valuations and, in our view, better growth prospects. Unlike typical "balanced" Fund strategies that often mimic large-cap indices, our approach is more diversified across small-to-large market capitalization firms.

Our higher allocation to small-to-mid-sized companies has been the primary driver of the Fund's strong long-term returns, even though small caps are currently out of favor. This segment has proven to be a fertile ground for uncovering mispriced securities. The market cycle favoring large caps will eventually turn. Thus, we expect to benefit from a tailwind if and when the historically high valuation gap between large-cap stocks and smaller companies returns to the mean.

Standard Performance Information for Pender's Balanced Funds may be found here: https://www.penderfund.com/balanced/
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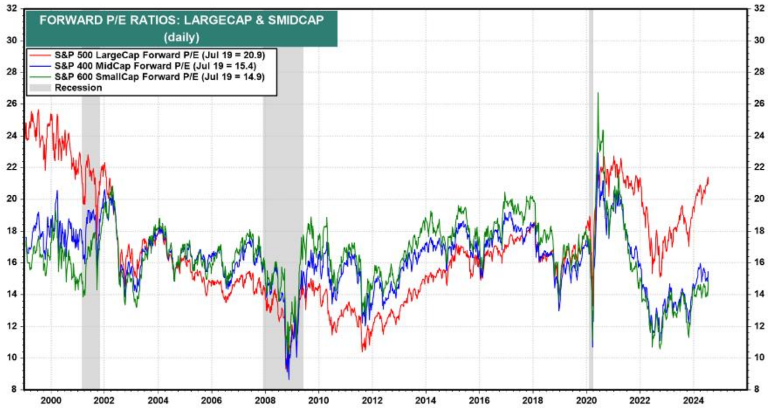
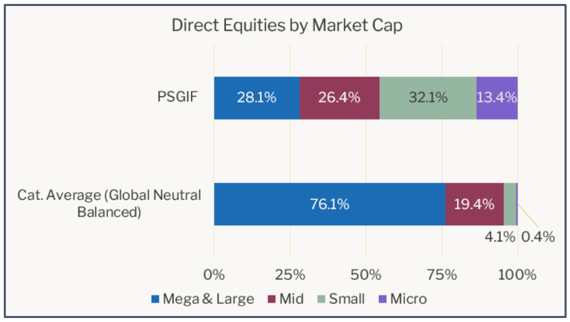
Valuation: Superior relative value in small/mid cap opportunity set



Source: LSEG Datastream and Yardini.com, Pender. As of July 18 2024



Source: Morningstar, data is based on the long position of the equity holdings, June 30, 2024. Morningstar market cap classification may differ to those of Pender.

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

July 24, 2024

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