

Manager's Commentary

David Barr, CFA and Sharon Wang

Fund Performance

The positive momentum in the Pender Small Cap Opportunities Fund continued in the third quarter, with the Fund gaining 11.3%.¹ This builds on the previous quarter's gains with the portfolio up 38.4% year-to-date and 47.4% over the last year. The performance in the quarter outpaced the S&P/TSX Composite which gained 10.5%, as well as the S&P/TSX Small Cap Index which gained 8.4%. The performance in Canadian Small Caps was stronger than south of the border, driven by the resource-heavy exposure of the Canadian market. While our Fund has outperformed on a relative basis, small caps continue to lag their larger peers.

Notable Developments

The theme of management teams taking companies private at a significant discount to fair value hit our portfolio this quarter. A win for short term performance, a loss for the long term. Altius Renewable Royalties, a provider of flexible capital to renewable energy project developers agreed to go private at \$12.00 per share. A lot of PMs get excited about the short-term performance hit their portfolio receives when a holding is acquired. We however are incredibly disappointed the independent directors of the company have agreed to the transaction. If you follow the company at all, you will hear about how the company could not get the valuation it deserved in the public market. And while this is true in the short term, the company was quarters away from an inflection in royalty revenues as projects under construction become operational. We find the timing of the transaction incredibly opportunistic, and it is our intention to vote against the deal or exercise our dissent rights as we believe the company is worth closer to \$18 than the go private price of \$12. Stay tuned!

To Boldly Go, Where Canadian Investors Have Been Burned Before!

In trying to identify companies in the early stage of a long-term growth cycle, we are drawn to certain parts of the market that have long-term demand drivers. One such area is the space industry which is seeing rapid growth driven by positive secular trends. This includes the growing demand for satellite broadband, declining costs of rocket launches, a renewed interest in space exploration and space's increasing geopolitical and national security importance. We have [previously discussed the shift to commercialization in space](#) enabling a new generation of entrepreneurs to innovate and develop new technologies and services for this fast-growing industry.

On this theme, we recently added a familiar name to the portfolio, MDA Space Ltd. We have owned MDA in the past through our successful investment in Maxar Technologies Inc. which was initially formed via a merger with MDA. MDA was subsequently spun-out while Maxar was eventually sold. MDA is a market leader in geointelligence, robotics and satellite systems with a long history of innovation in space technology. The company was historically a capital intensive and lumpy business highly dependent on unpredictable government contracts which has likely prevented investors from taking a fresh look at the business. The new MDA is a high-quality company with a balanced mix of customers focused on high margin, recurring revenue. With a

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.

huge back log, key flagship contract programs which provide years of predictable growth and several potential contracts which remain outstanding catalysts, the company is well positioned to serve the growth space market while trading at what we view as an attractive valuation.

Contributors and Detractors

In a robust quarter, we have lots of companies to mention as contributors: Kraken Technologies Limited, TerraVest Industries Inc., Altius Renewable Royalties Corp, Dye & Durham Ltd. and BlackLine Systems, Inc.

On the detractors side, Thinkific was the key detractor. Having recently completed an Substantial Issuer Bid (SIB), the stock has been trading down as the market reacts to the SIB and we would expect the stock to trade a bit sporadically until business fundamentals drive the performance.

Portfolio Activity

In the quarter we completed the transition of the Pender Small/Mid Cap Dividend Fund into the portfolio. There were multiple companies fully exiting the portfolio in the quarter as part of this process. We did complete three dispositions of long term holdings in the Fund. We also completed our sales of Aviat in the quarter. Aviat had a delayed filing of their financials so we exited the position not having strong conviction in the outcome of the delay.

Our portfolio activity has slowed down from the previous few years as we have high conviction in the current portfolio and the top 20. We have predominantly higher quality growth-focused companies as larger positions in the Fund, with several interesting special situations as smaller positions in the Fund.

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