

Manager's Commentary

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We Are Live!

This is a great time to be launching the Pender US Small/Mid Cap Equity Fund. The historical premium small- and mid-cap stocks traded at relative to large caps has turned into a discount following the strong run up in large caps over recent years. Given the outperformance of small- and mid-caps over the long term we believe we will see headwinds become tailwinds for our target universe.

Historical Performance of Indices (%)

	3 Months	1 Year	3 Years	5 Years	10 Years	25 Years
S&P 500 TR USD	7.2	33.9	11.4	15.8	13.3	8.1
S&P MidCap 400 TR USD ¹	9.3	33.4	9.3	12.6	10.6	10.2

Source: Morningstar. As of November 30, 2024. Based on total monthly return.

- Over the last 25 years, the S&P MidCap 400 Index (USD) has outperformed the S&P 500 Index (USD) by 2.2% annualized (452% cumulative). However, over the last five years, the S&P MidCap 400 Index has trailed the larger cap index by 3.2% annualized.
- As a result, the S&P MidCap 400 Index which typically trades at a premium to the S&P 500 Index, is trading at a discount. Forward P/E is 4.9x cheaper (18.2x vs 23.0x) and the cash flow yield is 2.4% better (5.4% vs 3.0%) at the end of November 2024.
- Gains in the S&P 500 Index have been concentrated in a few stocks with the so-called 'Magnificent 7' alone accounting for 44% of the 28% YTD total return in the index. Concentration in the top 10 constituents in the S&P 500 Index increased to a historically high 35% at the end of Nov 2024, up from 21% at the end of 2018.

Early signs of a leadership shift are emerging, as the S&P MidCap 400 Index (USD) has outperformed the larger-cap, S&P 500 index over the past three months, delivering a total return of 9.3% compared to 7.2%.

Small/Mid Cap vs Large Cap (Forward PE)



Source: Capital IQ, as at October 31, 2024

¹The Fund's benchmark is the S&P MidCap 400 Index TR CAD.

Our Process

Leveraging the Pender Small Cap Equity Process, we will focus on dynamic US businesses which are often under covered by investment industry analysts.

We have a disciplined, repeatable security selection process focused on finding companies with the potential to compound earnings by reinvesting capital at above average rates of return, delivering meaningful value to our investors.

Empirical evidence suggests quality outperforms over the long term, delivering higher returns with less volatility. Our quality-focused investment approach leans towards companies with above average profitability (Return on Equity), earnings stability (quality and growth), cash flow generation and low financial leverage trading at reasonable valuations.

	Pender US Small/Mid Cap Equity Fund	S&P MidCap 400 Index
ROE %	11.50%	9.30%
P/E (NTM)	16.4x	18.4x

Source: PenderFund. As of November 29, 2024. ROE% is Normalized ROE for 2023.

Portfolio

We have built a well-diversified portfolio with 22 holdings spread across nine sectors, with top representation in the Industrials, Technology and Financials sectors. We have been able to identify companies with exposure to growth tailwinds that can reinvest capital at above average rates of return and thereby compound earnings over time. We only invest when we see upwards of 20% return to our conservatively modeled intrinsic value along with limited downside to our bear case value. As part of our due diligence process, we have studied the track record of the C-Suite and verified the incentive structure to make sure management incentives are aligned with minority shareholders.

Outlook

The 'America First' mandate of the incoming administration favors domestically focused small- and mid-cap companies. These companies also tend to have more leverage with greater exposure to floating rate debt than their large cap peers and therefore the outlook for lower rates works to their advantage.

Large cap allocations have worked, but valuations & narrow leadership suggests the need to diversify equity exposures to achieve future returns. As investors make allocations on a forward- looking basis, we would encourage them to consider the Pender US Small/Mid Cap Equity Fund to help meet their growth objectives.

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