

Manager's Commentary

David Barr, CFA and Sharon Wang

Fund Performance

The positive momentum in the Pender Small Cap Opportunities Fund continued in the fourth quarter of 2024, with the Fund gaining 14.8%.¹ This builds on the previous quarter's gains with the portfolio up 58.8% over the last year. The performance in the quarter outpaced the S&P/TSX Composite Index which gained 3.8%, as well as the S&P/TSX Small Cap Index which gained 0.7%. While performance of our small cap portfolio was strong in the quarter and last year, the broken record department reports that small caps have once again underperformed large caps – both north and south of the border.

We are seeing pockets of risk-taking in small cap

Hot off the presses of [our most recent commentary](#), we spoke about rebuilding our position in MDA Space Ltd. (TSX: MDA). No sooner had we written about it, the stock started moving. It is up over 90% from our purchase price and contributed 2.4% to performance in the quarter. The market moved very quickly from pricing the company as the old project-based, marginal business it used to be, to a premium supplier of high margin products to an industry with a long-term growth tailwind. We trimmed our weighting as the stock moved closer to our estimate of intrinsic value. This illustrates how quickly markets are moving right now and when companies come into favour, you need to be positioned / poised / on top of stock dynamics. There is risk coming into the small cap market, but it is far from broad based as seen from the overall performance of multiple small cap indices.

The strong performance in our portfolio in the last year has been the result of our contrarian nature. We are taking a more conservative short-term approach. Our conviction in the portfolio is high, our conviction in the markets less so, which has driven two activities in the portfolio. We have been trimming well-performing stocks and rebalancing, effectively moving our large position sizes down to protect against volatility. In addition, we initiated a hedging strategy in the quarter. We initially bought Russell 2000 puts and have since added Nasdaq puts.

Contributors and Detractors

With another robust quarter, we have lots of contributing companies to mention: Kraken Robotics Inc. (TSXV: PNG), D2L Inc. (TSX: DTOL), and MDA Space Ltd. mentioned above. These three companies contributed greater than 700bps to performance in the quarter. Including these three companies, we had eight companies contribute greater than 100bps to the Fund in the quarter. Positive performance was fairly broad based.

Three companies detracted from our performance by approximately 230bps in the quarter, Sylogist Ltd. (TSX: SYZ), NFI Group Inc. (TSX: NFI) and Glass House Brands Inc. (OTCPK: GLAS.F) Our investment theses remain intact on these companies, and we continue to hold.

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.

Portfolio Activity

Our activity level picked up in the quarter as we moved on from a couple of positions and added some catalyst driven names to the portfolio. With the US election results in, we have greater clarity into several markets and have sold our basket trade of cannabis names. We were looking for some short-term catalysts in various states and now that the results are in, we are moving on.

In the quarter we also exited our positions in Savaria Corporation (TSX: SIS) and Wishpond Technologies Ltd. (TSXV: WISH) so we could redeploy into new opportunities. One such opportunity is Lightspeed Commerce Inc. (TSX: LSPD). Lightspeed is a Montreal based software vendor of point-of-sales and payment solutions to retail and hospitality sectors. The company is in the process of a strategic review and has postponed their November 2024 capital markets day. We believe that given the pickup in M&A, and the return of their founder CEO, who publicly implied in his interview that going private might be a better option, it is a potential takeover candidate in the near term.

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