

Manager's Commentary

Felix Narhi, CFA & Geoff Castle

"The future ain't what it used to be" – Yogi Berra

Dear Fellow Unitholders,

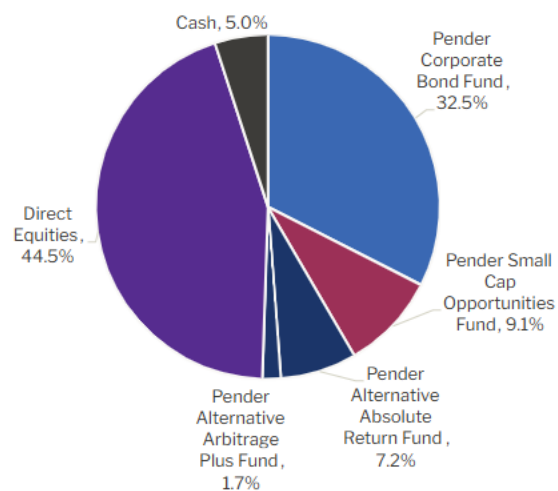
The Fund returned 3.0% in the fourth quarter of 2024 compared to its Morningstar Category which returned 1.8%¹. Small cap equity holdings and corporate credit allocations drove the quarter's outperformance. The Fund passed its 5-year anniversary on December 15, 2024. Trailing one-, three-, and five-year total annualized returns were 20.6%, 8.3% and 9.3%, respectively. Annualized total return since inception was 10.1% reflecting top decile performance within its category².

Global investment markets experienced mixed performance as equities and bonds navigated a challenging macroeconomic environment. Stock markets showed resilience, with key indices posting modest gains, driven by robust corporate earnings in the technology and consumer sectors.

In the fourth quarter, the Federal Reserve cut overnight interest rates by an additional 50 bps; however, the Federal Reserve's 2025 outlook indicates a more hawkish stance compared to the past three months. Initially, markets had priced in four rate reductions next year, but the Fed now projects only two, signaling a continued focus on inflation control. Bond markets faced volatility, with yields rising across the curve as investors adjusted to the prospect of prolonged tighter monetary policy.

Geopolitical tensions and uneven economic growth among major economies also weighed on sentiment, prompting a cautious approach from investors. As a result, markets displayed a heightened focus on data-driven developments and central bank commentary. Implications from Trump's presidential win also drove market volatility as investors positioned themselves for perceived policy beneficiaries and losers.

PSGIF Asset Allocation Q4 2024



Source Pender, as of December 31, 2024

¹ Morningstar Category is *Canada Fund Global Neutral Balanced*; the Fund's benchmark, the S&P/TSX Composite Index, returned 3.8%.

² 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/>.

Direct Equities (44.5% of Fund)

The Shift in Market Dynamics: A Long-Term Perspective

When evaluating new investments or opposing trades, we prioritize understanding the other side's perspective. Are they informed players with unique insights, or are they acting based on factors unrelated to intrinsic value? Identifying motives is essential—irrational counterparties often create opportunities for disciplined investors.

Irrational behavior, such as the meme stock frenzy of 2021 or the deep undervaluation of coal stocks during the ESG boom, highlights how markets can stray from fundamentals. While extreme, similar mispricings frequently arise, in today's landscape, technological forces and quant-driven strategies are major drivers of short-term inefficiencies. Although these innovations aim to enhance market efficiency, our experience suggests that they often do so only in the short term, potentially reducing efficiency over longer horizons.

The market has shifted away from long-term, fundamentals-driven investing, with algorithmic trading dominating and focusing on short-term metrics like earnings-per-share (EPS) revisions. Stock prices often move sharply based on minor changes in near-term expectations, overshadowing long-term potential. Certain traders exploit this volatility, amplifying price swings through short-term bets that disregard valuation.

For long-term investors, this creates opportunity. Stocks that deviate from intrinsic value due to momentum-driven forces present chances to act. When prices soar or plunge after quarterly EPS announcements, we focus on fundamentals, trading with participants indifferent to fair value.

While many investors chase short-term gains, we maintain a “forward-looking, finding value” perspective, considering an investment's potential in 2026, 2027, and beyond. This disciplined, value-oriented approach remains central to our strategy and shaped our actions last quarter.

Direct Equity Portfolio Adjustments: Trimming Gains and Seeking Opportunity in Healthcare

Notable Q4 Activity - Direct Equities					
New	Deletions	Top 3 contributors	Activity	Top 3 detractors	Activity
Genmab A/S (GMAB)	GFL Environmental (GFL)	Aecon Group (ARE)	Trimmed	Dream Unlimited (DRM)	No change
Elevance Health Inc (ELV)	Baidu (BIDU)	Interactive Brokers Group (IBKR)	Exited	Microchip Technologies (MCHP)	Increased
Molina Healthcare (MOH)	Texas Pacific Land Corp (TPL)	Onex Corp (ONEX)	No change	Clarivate (CLVT)	Increase
Markel Group (MKL)	Interactive Brokers Group (IBKR)				
Maravai LifeSciences Holdings, Inc. (MRVI)	Starwood Properties (STWD)				

Source Pender, as of December 31, 2024

During the quarter, we trimmed or exited several top-performing positions and increased holdings in areas that showed weakness. As valuations for some of our investments exceeded our estimates of fair value, we liquidated five positions, including Texas Pacific Land Corporation (NYSE: TPL), Interactive Brokers Group, Inc. (NASDAQ: IBKR), and GFL Environmental Inc. (NYSE: GFL). While we may have left some money on the table (momentum often begets more momentum), these stocks no longer offered sufficient risk-adjusted rewards. Our initial purchases were made when they were undervalued and overlooked, but the balance of potential reward against risk has shifted. We also exited

Baidu, Inc. (NASDAQ: BIDU) due to growing geopolitical risks in China. When new facts emerge and risk-adjusted return estimates decline, we believe it is prudent to move on.

Although markets remain elevated, certain pockets of exceptional relative value persist. One notable area of opportunity has been healthcare, which was the second-worst performing sector in the S&P 500 last year. With many investors favoring “risk assets,” the sector has been overlooked. Anticipating that current bullishness may not last indefinitely, we redeployed capital from “hot” holdings into “cold” areas of healthcare, seizing several attractive opportunities. As a result, the Fund entered 2025 with its highest-ever exposure to healthcare equities.

Maravai LifeSciences Holdings, Inc. (Nasdaq: MRVI) stands out as a key “picks-and-shovels” player in the life sciences industry. Despite its competitive position, the company has limited visibility into quarterly business trends and has faced a multiyear headwind from declining sales of consumables used in Pfizer’s COVID vaccine as pandemic demand waned. Unsurprisingly, EPS revisions have been negative, driving the stock to steep declines. However, the industry may be approaching a trough. Biotech funding has strengthened, pipeline cuts have slowed, and layoffs in pharma are subsiding. In our view it wouldn’t take much positive revision to spark a rally. Additionally, Maravai’s strategic value offers downside protection, with interest from three potential buyers in recent years. While our thesis does not hinge on a buyout, recent developments suggest this possibility is growing. We believe its strategic value could more than double its recent stock price.

Molina Healthcare, Inc. (NYSE: MOH) and Elevance Health Inc. (NYSE: ELV) have also experienced selloffs due to negative earnings revisions, largely tied to temporary Medicaid timing issues. Both insurers maintain exceptionally competitive positions, and we believe these challenges will resolve over the next few years.

Finally, we added Genmab A/S (Nasdaq: GMAB), a founder-led, commercial-stage biopharma company specializing in antibody-based cancer therapeutics. Genmab is transitioning from a royalty-driven model to capturing 100% of the value from its innovations. A key risk is its reliance on royalty revenues from Darzalex, Johnson & Johnson’s bestselling multiple myeloma treatment. The patent for Darzalex expires in 2030/31, which has led to concerns about an earnings crunch. However, the market is discounting the company’s robust pipeline and late-stage trials, including a potential blockbuster, HexaBody-CD38, currently under evaluation by J&J, with a decision expected in Q1-2025. While the odds of approval are uncertain, we believe the stock’s current valuation already prices in rejection, limiting downside risk. If J&J opts in, the stock stands to benefit significantly.

In summary, while we exited some high-performing investments as valuations peaked, we strategically redeployed capital into healthcare - a sector that we believe is poised for recovery and long-term growth. This deliberate shift reflects our commitment to balancing risk and reward while staying focused on long-term opportunities.

Update on Specialized Fund Strategies

Fixed Income (PCBF, 32.5% of Fund): Geoff Castle and his team’s differentiated approach to fixed income and the credit markets as a non-indexed, counter-cyclical value player



continues to pay off as the *not-so-secret* alpha generator for the Fund. For recent details on PCBF, see the December portfolio [update](#).

Liquid Alternatives (PAARF & PAAP, 8.9% of Fund): We view our liquid alternative holdings as fixed-income substitutes and the most conservative components of the Fund's asset allocation. Both liquid alternative funds act as portfolio diversifiers to lower volatility and generate positive absolute returns across most market environments. The allocation to liquid alternatives increased from 7.1% at the end of 2023 to 8.9% in 2024, remaining below the regulatory maximum of 10%. Overall, these positions achieved a low single-digit return during the quarter. For additional details on the Pender Alternative Absolute Return Fund, see the December portfolio [update](#). Pender Alternative Arbitrage Plus Fund should benefit from greater appetite for smaller cap M&A following Trump's election win. For added colour, see the December [commentary](#).

Small Caps (PSCOF, 9.1% of Fund): The Pender Small Cap Opportunities Fund gained 15.2% in the quarter, capping strong performance of 58.8%³ in 2024 as a whole. Performance in the quarter was broad-based, demonstrated by eight holdings in the portfolio contributing more than 100bps each to performance in the quarter. Over the long term with annualized returns in the high-teens, PSCOF has been a significant performance generator for PSGIF. It has been a unique differentiator in a balanced category where equity allocations tend to be mostly unbalanced into the same large cap index stocks. For further details, see the [Q4 update](#).

Navigating a Challenging Market Outlook: Defensive Positioning and Focused Opportunities

BROAD CREDIT MARKET IS EXPENSIVE	• Current spread is very close to lowest spread in last 10 years • Fixed income strategy avoids owning typical high yield names or index positions • Pender Alternative Absolute Return Fund provides downside protection
SMALL & MID-CAP EQUITIES OFFER COMPELLING RELATIVE VALUE	• Narrow market leadership + large cap valuations are stretched • Small/Mid-Cap offer compelling forward-looking opportunity
REGIME CHANGE	• Trade wars and geopolitical risks more prevalent • Trend towards lower policy rates from central banks requires attention, given credit exposure (sensitive to economic contraction) • Flagging momentum in some of the more successful trades of the past decade, companies are finding profits harder to generate
PORTFOLIO POSITIONING	• Defensive: High Liquid Alts allocation, defense from healthcare equities, above avg cash levels • Favour undervalued small and mid-cap stocks over stretched credit markets

³ Note: Fund performance is for the F Class series and is for illustrative purposes only. Other classes are available. Fees and performance may differ in those other classes. Standard Performance Information for the Fund may be found here <https://www.penderfund.com/pender-small-cap-opportunities-fund/>. PSGIF holds the O Class shares of each respective Fund which charge zero management fees and no performance fees. The Fund does not charge "fees on fees".

	• Asset allocation strategy would take advantage of any credit dislocations • Within credit exposure - balancing investment grade credits with high-yield opportunities
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Market bullishness remains pervasive, particularly in larger-cap equities. In our view, forward-looking expected returns suggest there is virtually no equity risk premium over bonds for larger-cap investors in the coming years. Similarly, credit markets offer little in the way of a risk cushion, with credit spreads and overall stock market valuations seemingly priced for perfection.

The Fund’s performance in 2024 was exceptional, but a +20% return with a balanced fund strategy is an outlier. In a more challenging environment, we see the best relative value in small- and mid-cap equities, as well as in more defensive sectors. Reflecting this outlook, we entered the year with a much more defensive position compared to a year ago. This includes a higher allocation to liquid alternative strategies, new positions in healthcare equities, and relatively high cash levels to preserve flexibility and mitigate downside risk.

We believe the Fund’s differentiated approach, which emphasizes less efficient asset classes through Pender’s specialized strategies, enhances our ability to deliver attractive long-term performance. By focusing on overlooked opportunities and maintaining disciplined portfolio management, we aim to navigate these elevated valuations while positioning for sustainable success in the years ahead.

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
January 30, 2025

