

Manager's Commentary

David Barr, CFA and Sharon Wang

Fund Performance

In the first quarter of 2025, our Fund declined -11.7%¹, mirroring the performance of US small cap markets as measured by the Russell 2000 Index (CAD), which fell -9.4%. In contrast, the S&P/TSX Composite Index gained 1.5%, and the S&P/TSX Small Cap Index rose 1.0%. This divergence between US and Canadian markets reflects distinct sector dynamics. Our Fund's overweight exposure to technology stocks, like the US small-cap universe, contributed to underperformance amid fading investor sentiment tied to macroeconomic uncertainty and trade policy risks. Meanwhile, Canadian small-cap indices, with greater representation in energy and materials, benefited from stronger commodity prices. Given these persistent headwinds, we remain cautious in our outlook and continue to emphasize capital preservation and high-quality holdings across the portfolio through the evolving macro environment.

Uncertainty is the New Normal

Long-time followers of our commentary are probably bored of hearing two things from us during these kinds of markets.

1. Small cap stocks are very attractively priced right now on a relative and absolute basis.
2. As bottom-up stock pickers we don't really talk about macroeconomics.

Despite the fear of being asked for future macro-opinions I am going to wade in here as it is important to the structure of capital markets and how we aim to achieve strong returns for our co-investors. Everyone is aware of the trend of investors moving out of active management and the rise of passive instruments and ETFs. The result of this is that there are far fewer fundamental investors operating today to help with true price discovery. Price discovery is now becoming more driven by passive flows and momentum-based quant funds. When we overlap this with the combination of uncertain economic policy in the US and social media platforms that are driving narratives and creating echo chambers that reinforce those narratives, we are getting faster and more dramatic market moves. If Ben Graham thought Mr. Market was irrational in his day, he would try to have him committed today. This level of uncertainty is the new normal.

We believe that global economic uncertainty is here for four years, if not longer given the reputational damage it is currently doing to the global financial system and the breakdown of trust. Social media and its ability to influence people is not going anywhere (there's a reason why Tik Tok is banned in the country where it was developed). And there continue to be no shortage of shills online, helping push these narratives to extremes. Our attention is their business. Our job as investors is to take advantage of the current market environment to add alpha to our portfolio for our investors.

We continue to actively manage our position sizing across the portfolio. In addition, we are utilizing our put option position to quickly take advantage of risk on and risk off market-driven

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.

headlines. Our put positions are a great tool to dampen the volatility of the Fund. They help us to move quickly when markets do and allow us to maintain our high conviction portfolio.

Contributors and Detractors

During the quarter, **TerraVest Industries Inc. (TSX:TVK)**, **Montage Gold Corp. (TSXV:MAU)**, and **Kits Eyecare Ltd. (TSX:KITS)** were the top three contributors.

TerraVest is a metal manufacturer of critical products in North America's fuel infrastructure markets. We believe TerraVest is a high-quality compounder, led by a capable management team with a solid track record of execution. We think this volatile market environment creates more M&A opportunities for TerraVest as a serial acquirer of manufacturing businesses.

It is worth mentioning that we built up a small position in put options on the Nasdaq and Russell 2000 indices as a strategic hedge in January before market turbulence started. As this is our first time introducing market puts into the strategy, we started with smaller position sizes. Despite the weightings in the portfolio, the two put options contributed more than 50bps to our performance acting as a tool to dampen volatility.

Three companies detracted from our performance by approximately 450bps in the quarter, **Sangoma Technologies Corporation (TSX:STC)**, **Dye & Durham Limited (TSX:DND)** and **WELL Health Technologies Corp (TSX:WELL)**. Our investment theses remain intact on these companies and we continue to hold.

Other Portfolio Activity

We continue to trim around the edges of the portfolio, taking profits from names that have gone beyond target weights and redeploying capital to better risk adjusted opportunities. As a result, our exposure to the materials sector was at 9.8% as the end of Q1.

We exited several holdings in the quarter. One notable name was **Vecima Networks Inc. (TSX:VCM)**. We decided to exit our position in Vecima due to its sizable customer concentration tied to Tier 1 Multiple System Operators (MSO) whose spending is highly unpredictable.

Outlook

We continue to believe that the portfolio is relatively insulated from the direct threat of tariffs due to exposure to technology and healthcare companies. Having said that, we acknowledge that both in Q1 and since, markets have continued to be driven by headline news and suspect volatility will persist. Macro risks, specifically geopolitical and trade policy, remain elevated creating uncertainty for businesses and consumers which could prove to be a further drag on economic growth. In the face of these macro headwinds, the small cap universe remains cheap on both a relative and absolute basis. We continue to employ our "scuttlebutt" approach, ranking our best ideas in terms of risk/reward, and will look to add to positions at attractive prices in order to drive long-term performance.

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