

Manager's Commentary

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There are decades when nothing happens, and then there are months when decades happen. That is what June felt like. Every day it seemed like a new, more extreme headline was coming across the screen. Yet remarkably, equity markets continued their rebound from the April lows, to close the first half of the year at an all-time high. That is called 'climbing the wall of worry' and has been impressive to watch.

The backdrop is still wildly uncertain and headline risk remains elevated. A trade war between the world's largest trading partners is disrupting global supply chains. The largest ground war in Europe since WW2 continues with no end in sight. And the proxy war in the Middle East between Iran and Israel went live, including US involvement for a few hours. Yet none of that has affected investors' risk appetite as cash continues to be pulled back into the market off from the sidelines.

When President Trump was re-elected last November, investors cheered the outcome and rallied markets into year end. While it wasn't the smoothest path, his first term was very positive for wealth creation as he focused on growth over conflict, and many were looking forward to a repeat of that performance. However this term has started off on a very different note. Almost immediately tariffs were imposed on both friend and foes, trade agreements were shredded, and executive teams everywhere slammed the brakes on capital plans until able to get a handle on the operating landscape. Markets are well known to hate uncertainty, and uncertainty is what we have in record amounts.

One of the fears coming into this year was the ability to avoid an earnings recession. After several years of strong markets, valuations had become stretched, and for markets to move higher, earnings need to grow. Tariff and trade uncertainty put a damper on this as corporations announced Q1 results. But these initial fears appear to be receding. The consumer appears to have adjusted to higher prices and resumed normal activities. This has allowed companies to relaunch previously stalled capital expenditures and growth plans. Corporate activity is picking up which has resulted in several takeovers and IPOs. All healthy outcomes and a primary reason banks and other financial players have led equity returns recently.

But what does the second half hold? The risk is this recent market surge has pulled forward all the good news we could have expected. With markets at these levels, we are now pricing in earnings growth. There is also the expectation that trade wars will end shortly with a flurry of deals over the summer. In addition, markets are now expecting President Trump to return to his promise of cutting taxes and government regulation to become more business friendly. Those would all be a great outcome, but can it all happen?

One area to focus on for signals will be the bond market. This was expected to be the year of rate cuts, and we are still waiting for the first cut from the FOMC. Bond yields have remained higher than many expected as inflation has not cooled to the extent anticipated. Bond

auctions and debt refinancing will be a key story over the summer as well as the growing risk from President Trump's attempts to force rate cuts or undermine Fed Chair Powell.

Back in Canada, it feels like a complete reset. Gone is a government that seemed to do everything in its power to stifle growth, replaced with one that is saying all the right things to turn the ship around. This has caught global attention with the C\$ off to a strong start and increased optimism for future growth. Infrastructure building looks like a theme that could be with us for a while. The S&P/TSX is enjoying a nice start to the year, outperforming other North American markets for the first time in a while.

Fund Specific Commentary and Outlook

The Pender Strategic Growth and Income Fund was 2.3% for the second quarter of 2025 and is now -1.8%¹ on the year. The Fund's benchmark returned 3.4% and 4.4% respectively². The Fund has been looking to surface value through a combination of global small cap companies and high yield bonds complimented with select other equities. This worked well last year but struggled during the quarter due to trade and tariff uncertainty. We remain confident that this will serve us well over time and are encouraged as several names that had been hit hard in April have recovered through June.

After the post-“Liberation Day” sell-off in the spring, we initiated positions in three high-conviction core holdings at compelling valuations:

Danaher Corporation (DHR) – A leading life sciences and diagnostics platform, Danaher now generates roughly 80% of revenue from recurring consumables and service contracts, providing a durable cash-flow base. Its Danaher Business System (DBS) underpins continuous operational improvement and disciplined M&A. Near-term headwinds—COVID-related sales roll-offs and inventory destocking—have weighed on the share price, but we view them as temporary and not thesis-altering.

Applied Materials Inc. (AMAT) – The global leader in materials-engineering solutions for semiconductors and displays remains under-appreciated, in our view. Consensus is focused on export-control uncertainty and a possible 2025 capex pause, but secular drivers—AI compute intensity, advanced packaging, new transistor architectures—and a growing, higher-margin services segment point to stronger long-term earnings power than the market discounts.

Lvmh Moët Hennessy Louis Vuitton (LVMUY) – With 75 iconic brands spanning fashion, jewelry, wines and spirits, and beauty, Lvmh commands unrivalled scale and pricing power. The expanding global affluent class—particularly in Asia—coupled with Lvmh's brand stewardship, trend-setting capability, and diversified portfolio supports a durable

¹ All Pender performance data points are for Class F of the Fund unless otherwise stated. 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/balanced/>

² The Fund's benchmark is blended: 50% FTSE Canada Bond Universe, 35% S&P/TSX Composite Index, 15% S&P500 (Hedge to CAD)



compounding story. Its wide-moat and disciplined execution have delivered superior returns through cycles, and we expect that to continue.

While overall market returns year-to-date have been ahead of what most might have been expecting given the backdrop, this isn't the time to be complacent or chase performance, and we continue to be more defensive across our positioning. Summer markets are risky, and strange things happen with low volumes. It does need to be pointed out that even though markets are at all-time highs, one of the best performing assets this year has been gold, the original defensive asset. A 25% rally off the 'Liberation Day' lows, for most markets, is making everyone feel a little better heading off for summer vacations. But just because the last few weeks have been calm it doesn't mean it's going to be all clear sailing. We believe lots of good news is already priced into the market which makes it tough for positive surprises.

Greg Taylor
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