

PENDER PENDER

VALUE FUND

SMALL CAP OPPORTUNITIES FUND

THE MANAGER'S COMMENTARY - APRIL 2020

Fellow Unitholders,

We hope you and your families are safe and healthy in these challenging times. Stock markets made an astonishing rebound in April, making it the best month for the S&P 500 since 1987. Our funds also posted strong gains during the month with the Pender Value Fund up 12.1% and the Pender Small Cap Opportunities Fund up 7.7%¹. Despite the increase in April, most major stock indices remained in a loss position on a year to date (YTD) basis, especially the small cap parts of the markets. Small cap indices such as the Russell 2000 (CAD) and Russell Microcap (CAD) were down 15.4% and 16.0% YTD respectively, compared to the S&P 500 (CAD) with a much smaller loss of 2.8%. So far in 2020 small cap stocks have lagged the performance of large cap peers, a trend we have been witnessing for a while now. While the large cap market seems to be embarking on a "V" shaped recovery, it appears the small cap world is left waiting on a "U" shaped recovery. Nonetheless, we continue to believe the small cap universe is a land of opportunity, despite short term pessimism.

Portfolio Updates

In direct contrast to March, most of our portfolio holdings had a positive month in April. Notable contributors for the Pender Value Fund were EBIX and SS&C; companies that we believe have the characteristics to compound our capital at an attractive rate of return over the long term. SS&C Technologies ("SS&C") is another great example of a compounder. SS&C provides software products and software enabled services to financial and healthcare industries. As these products and solutions are mission critical to their customers, we think its business model will be minimally impacted and remain resilient during the economic downturn. SS&C has a terrific track record of growing EPS from \$0.45 in 2010 to \$3.83 in 2019 at an impressive CAGR of 27% both organically and through acquisitions. We expect SS&C to continue on this path and, particularly in this environment, potentially take the opportunity to make more accretive acquisitions. As a result, we believe they may take the opportunity to make more accretive acquisitions.

In the Pender Small Cap Opportunities Fund, Sangoma Technologies and eGain were among the top contributors. Despite the short-term impact of COVID-19, we believe both companies will be stronger coming out of the crisis. As a Unified Communications (UC) solution provider, we believe Sangoma should continue to benefit from the tailwinds of the increasing demand to work from home and the growing need to upgrade UC infrastructure. eGain offers omni-channel digital engagement solutions (chat, virtual assistance, etc.) for enterprises. We are seeing an acceleration in the secular trend of moving customer service from voice to digital platforms. eGain recently reported Q3 earnings and management mentioned seeing more inbound inquiries for their solutions as well as rising usage from their existing customer base.

On the flip side, performance in the Funds was adversely impacted by several holdings that had not enjoyed the same rebound with general markets. For example, energy related companies were still under pressure given rapidly declining commodity prices. Athabasca Oil Corporation was one of the top detractors for both funds.

¹ F Class; source - PenderFund

The current situation caused by COVID-19 remains fluid. We continue to study the business risks and balance sheet risks of our current holdings on a day-to-day basis to evaluate whether they will not only survive the downturn, but also emerge stronger in the post COVID world. While in the early innings of this crisis we were primarily focused on risk management, we have shifted our balance to also focus on identifying new opportunities that we think will benefit from the tailwinds caused by changes in behaviour, and be potential disruptors or leaders on the other side of the global crisis.

David Barr, CFA
May 21, 2020

www.penderfund.com

PENDER
PenderFund Capital Management Ltd.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in net asset value and assume reinvestment of all distributions and are net of all management and administrative fees, but do not take into account sales, redemption or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. This communication is intended for information purposes only and does not constitute an offer to buy or sell our products or services nor is it intended as investment and/or financial advice on any subject matter and is provided for your information only. Every effort has been made to ensure the accuracy of its contents. Certain of the statements made may contain forward-looking statements, which involve known and unknown risk, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

© Copyright PenderFund Capital Management Ltd. All rights reserved. May 2020.