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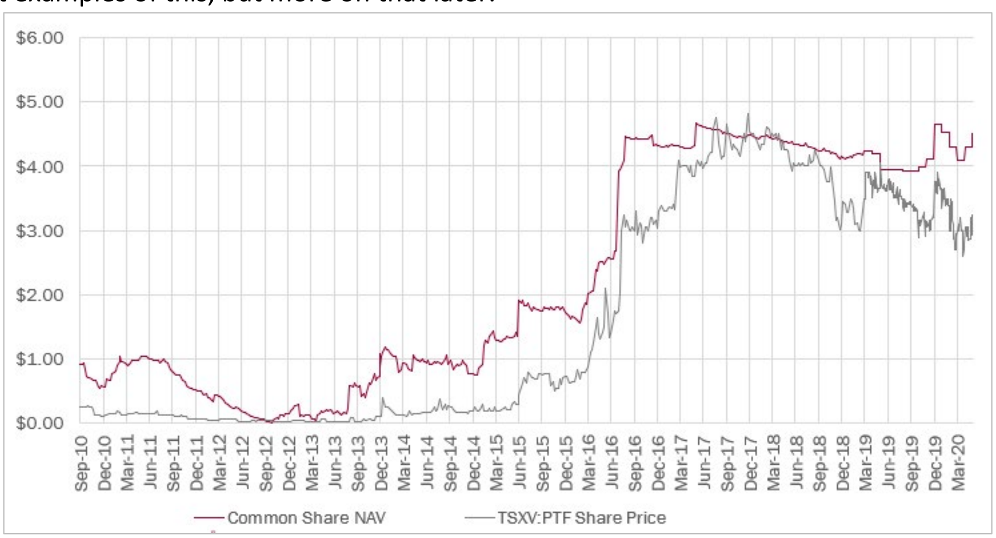
Fellow shareholders,

First, I wanted to send out my best wishes for everyone's health and safety in this tumultuous period of time.

2019 and the start of 2020 have moved the positioning of Pender Growth Fund forward in a very positive way. First slowly and then very quickly. Our goal at Pender Growth Fund is to grow the Net Asset Value on a per share basis until….well, let's just say for a long time. The key advantage of a corporate structure is that we can take a long-term approach and invest in less liquid parts of the market. In particular, private companies and less liquid small and microcap companies, two areas where we have been active for 20 years. We can do so knowing that our partners won't redeem capital with daily or even monthly notice, as could be the case in traditional investment funds, where these withdrawals often come at the exact time it can be most impactful to hold. March and April 2020 were the perfect examples of this, but more on that later.



Over the past few years, we have slowly been unwinding several of the long-term positions we had built in the Fund. Whenever we make an investment, our analysis has given us both a best case and a worst case scenario and we proceed on the basis of knowing the worst, while hoping for our best case scenario. The best being the company we are invested in compounds its intrinsic value at a wonderful rate for a long time, and/or someone comes along and buys the company from us at a significant premium to the intrinsic value of the company. When you invest, you never know which company will attract the buyers we are willing to sell to.

When PGF was listed in 2010, our private/public portfolio mix was 49% public / 51% private. Over time, that mix changed as we sold more public company than private company holdings which brought our private/public portfolio mix to 8% public / 92% private at our last AGM. Even though we had high conviction in our private companies, from a portfolio risk perspective, our concentration in private companies was way higher than my comfort level, as was our exposure to three companies that each represented over 20% of the NAV.

Our first step to address this imbalance was to raise additional capital. I am loathe to raise capital below Net Asset Value but we did so at a small discount because we believed the benefit of increased liquidity and improved portfolio diversification more than offset the slight dilution. And our new partners received a benefit as well. Dare I say a win-win. The increased size of the Fund, still only $36 million which allows us to be nimble and opportunistic, was now large enough to enable us to decrease the management fees and costs of the Fund on a percentage basis. I'm very happy to report the expenses of the Fund were 3.9% of the NAV last year, compared to 4.2% the previous year. Even more indicative is the comparison of Q1 2020 to Q1 2019 where the expenses went from 5.2% to 3.6%. Rest assured, the fight against costs by your management team will continue.

After years of not much changing in the valuations of our private companies we recently experienced two meaningful events in two of our private company investments. In December we announced the acquisition of BasicGov Systems for a price we believed was in excess of current intrinsic value. A win for PGF shareholders. On the flip side, in February, we decreased the carrying value of one of our significant private companies to zero. This was an earlier stage investment for us and the outcome was not unexpected. With two of our larger private company holdings no longer included in our NAV and a very strong cash position from the capital raise and subsequent sale of BasicGov, PGF was very well positioned at the beginning of the year and heading into the events resulting from the COVID-19 shutdown in March.

When the reality of the potential impact of the pandemic was digested by markets, we entered a period of extreme volatility. Heading into this period we had 28.6% cash in PGF. It wasn't for the faint of heart, but we acted quickly and decisively to deploy the cash. When markets are falling as they were, it can be hard to pull the trigger as you wonder about a better price tomorrow. We adhere to the philosophy that we don't know when the BEST time to buy a stock is, but we can have a very good idea about when is a really GOOD time to buy. So, we did buy and took our cash position from 28.6% to 3.3% in a matter of weeks.

ON a NAV Per Share basis the fund has decreased 3.8% year-to-date (as of May 31, 2020), including our private company valuations adjustments. While we are never please to be down, the fund has fared better than markets in general.

We don't know what the future holds in these unprecedented times, but we have high conviction in our current portfolio and will continue to be opportunistic when we can.

David Barr
Chief Executive Officer
Pender Growth Fund Inc.