PENDER
CANADIAN EQUITY FUND

MANAGER'S COMMENTARY

In the US, economic headwinds have subsided somewhat due to improvements in both employment and housing markets. However, we continue to expect a low inflation rate environment going forward as a result of necessary ongoing deleveraging. In Canada, the issues are somewhat more acute due to large and growing household debt - now at 160% of disposable income (30% higher than the peak US levels). In addition, a high Canadian dollar is hurting both commodity producers (as their products are generally priced in US$) and exporters. Favorable public finances, relative to the US, and the lowest net debt to GDP ratio amongst the G7 countries, mean that Canada is viewed as a relative safe haven currency. While the Canadian dollar has depreciated 2.5% in the first quarter, we do not anticipate that the Canadian dollar will provide material near term relief to domestic commodity producers or exporters. In short, we expect all these factors to contribute to ongoing muted economic conditions.

We certainly do not have the market cornered with this view of the domestic situation and are reminded of the famous Mark Twain quotation "Whenever you find yourself on the side of the majority, it is time to pause and reflect." That being said, we do believe investment opportunities exist in the Canadian market and are finding they can be grouped into two broad categories:

1. Those where the existing trend is likely to continue for some time due to fundamental drivers in the business.
2. Those where the business is priced as if weak industry conditions or the macro environment are expected to continue forever.

Two positions were added to the fund in Q1 and demonstrate how we believe you can capitalise on these categories.

1. Dollarama (DOL)

While not traditionally viewed as a value stock because of its higher than market P/E, we think the fundamentals will drive this stock over the next several years. DOL is increasing its store count at 7%-8% annually with 3%-5% growth in same store sales - a powerful driver for the top line. Combined with its scale (700 stores) and very quick pay-backs on new stores, DOL's Free Cash Flow is accelerating and is being used to deleverage the balance sheet, repurchase shares and increase the dividend – all shareholder friendly actions.

2. Major Drilling (MDI)

We added a small position in this leading provider of specialized drilling services to global mining and mineral exploration companies. In this case, the industry back drop is well documented as bleak. Junior resource companies, which account for 20% of MDI's revenue, have no access to capital and senior/intermediate companies have reduced activity levels and are evaluating their capital budgets carefully. Our analysis indicates that these known facts are largely priced into MDI and, with net cash on the balance sheet plus the ability to furlough crews and contain capex, MDI faces limited financial risk. This is clearly a higher risk position for the fund and as such our bet size is important: a 1.5% position. This is how we think of it – we view normalized downside of about ~10% and ~15% in a bad case, meaning we are risking between 15 and 20 basis points of the portfolio. However, the potential upside is

more than a 50% gain, representing 75 basis points on the entire portfolio. This represents an excellent reward/risk trade off and by keeping our “bet size” small, due to the weak industry conditions, we are minimizing the risk of capital loss to the portfolio.

Regardless of economic conditions, we take our role as capital allocators very seriously and, despite intimidating headlines, there are always opportunities to invest in both good businesses with strong fundamentals and those trading at significant discounts to their real value. However, any investment we make is done after considering our number one objective: capital preservation. As such we always ensure each new position has the appropriate risk/reward profile thereby both protecting capital and providing upside for the fund.

Ken O’Kennedy
March 31, 2013

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.

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