

Manager's Commentary

David Barr, Amar Pandya, and Laura Baker

September was another positive month for equities, with markets pushing to record highs despite ongoing macro uncertainty. In Canada, both the TSX Composite and TSX Small Cap Index reached new highs, while US small caps joined the rally with the Russell 2000 up 4.5% in September. US small caps gained ~15% (CAD) in Q3 vs. large caps at ~10.5% —supported by real earnings growth after a year of solid performance, expectations of rate cuts and attractive relative valuations. Value-oriented small caps outperformed the broad index by 2.5% as the large-cap stocks that dominate the S&P 500 have become increasingly expensive for investors. Commodities were mixed: oil was flat, while gold (+46% YTD) and silver (+60% YTD) delivered outsized gains.

Valuations across markets remain stretched, and resilient inflation alongside limited rate relief could challenge equities from here. As Benjamin Graham reminded us, *‘The intelligent investor is a realist who neither expects the market to be wise nor fears it to be foolish’*. We aim to strike that same balance—optimistic about opportunities while mindful of risks ahead. Heading into Q4, we feel both encouraged by recent performance and cautious about what lies ahead.

Index / Fund	September Return	YTD Return
Pender Small Cap Opportunity Fund (CAD)	+2.0%	+6.4%¹
Russell Microcap Index (CAD)	+6.3%	+12.0%
Russell 2000 Index (CAD)	+4.5%	+6.9%
S&P/TSX Composite (CAD)	+5.4%	+24.2%

Portfolio weights remain roughly 92.2% Canadian equities, 9.7% US equities.

The Fund saw notable contributions from certain Canadian holdings especially in Technology, Industrials and Materials. Navigating today's macro backdrop requires selectivity. We continue to focus on high-quality businesses trading at reasonable valuations with the ability to compound shareholder value over time. We are also seeing renewed momentum in M&A activity, which is unlocking value in several portfolio holdings

- For example, in September, **dentalcorp Holdings Ltd (DNTL)** announced it will be acquired by GTCR LLC for \$11/share in cash, representing a 33% premium to the pre-announcement close.
- **Quorum Information Technologies Inc. (QIS)** entered into an arrangement agreement with an affiliate of Valsoft for \$0.80 cash/share, 14% premium.
- On the other side of the equation, **Black Diamond Group Ltd (BDI)** announced that it is acquiring Royal Camp Services for \$165 million, paying 4.6x at the midpoint.

We believe small caps remain attractive on both an absolute and relative valuation basis, providing a long-term tailwind as mean reversion brings multiples closer to historical averages.

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. Standard Performance Information for Pender's Equity Funds may be found here: penderfund.com.

Top Contributors	Contribution	Top Detractors	Contribution
Kraken Robotics Inc. (PNG)	+124 bps	NFI Group Inc. (NFI)	-66.1 bps
dentalcorp Holdings Ltd (DNTL)	+114 bps	MDA Space Ltd (MDA)	-82.2 bps
Tantalus Systems Holding Inc. (GRID)	+67.5 bps	Dye & Durham Limited (DND)	-167 bps

Fund performance was positively impacted by **dentalcorp's** takeout (as mentioned previously) as well as **Kraken Robotics** (which we highlight below). On the detractor side, **Dye & Durham** weighed on returns after the company warned it would miss its audited financial statement deadline and sought a management cease-trade order. The stock hit new 52-week lows amid continued boardroom disputes and pressure from former executives and shareholders to sell the company.

Portfolio Activity	Action	Rationale
Computer Modelling Group Ltd (CMG)	Trim	Cautious view on the company's growth assumptions amid macro uncertainty
Docebo Inc. (DCBO)	Trim	Risk/reward less compelling
Resource Sector	Add	Participated in secondary offerings increased sector exposure

We had an active month in the Fund, exiting a few positions and adding selectively to others as part of our ongoing capital allocation discipline. In September, we sold our holdings in **Computer Modelling** and **Docebo** to redeploy capital into new opportunities offering more attractive risk-reward profiles. For example, we took part in several secondary offerings—largely in the resource sector—on an opportunistic basis. While we do not typically invest in the resource space, certain transactions presented compelling entry points that aligned with our value driven approach.

Stock Highlight: Kraken Robotics

One name of interest this month is **Kraken Robotics**, a Canadian leader in subsea robotics and sonar technology. As global defense budgets rise and countries accelerate investment in autonomous undersea systems, Kraken is well-positioned to benefit. Its mission-critical sonar and battery technologies are increasingly integrated across allied naval platforms, supporting modernization efforts amid growing geopolitical and maritime security focus. For example, in early September, the Australian government awarded a US\$1.1 billion investment to acquire a new fleet of Australian-designed and built extra-large autonomous undersea vehicles (the "Ghost Shark") for the Royal Australian Navy² to Kraken's largest customer, Anduril. The award marks both a significant validation of Kraken's technology by a leading US defense disruptor and a notable acceleration in defense procurement timelines. Beyond defense, Kraken also serves commercial markets including offshore energy and infrastructure inspection, adding diversity to its growth drivers.

With secular tailwinds, validated technology, and expanding production capacity, Kraken continues to deliver on its long-term growth potential. The company has demonstrated robust fundamentals, with revenue compounding at an estimated ~40–50% over the past five years and management guiding to continued high growth and healthy 20–25% EBITDA margins.

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² [Anduril wins Ghost Shark contract](#)