

## Manager's Commentary

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### Macro Backdrop

US markets were dominated by macro headlines in September. The government shutdown entered its first week with partisan gridlock, though behind the scenes there are signs of agreement emerging around extending enhanced subsidies for Affordable Care Act (ACA) health-insurance plans. At the same time, the Institute of Supply Management's services index fell back to 50, a level that indicates stagnation— with softer orders, weaker business activity, and a fourth straight month of employment contraction. In response, markets are now pricing a Fed rate cut at the end of October and an 80% chance of another in December to support the labour market.

### Performance

The S&P MidCap 400 Index gained +0.46% in September 2025, a modest increase that underscored the more subdued performance of mid-cap stocks relative to the S&P 500, which advanced +3.65% — its best performing September in more than 15 years. Year-to-date, mid-caps are up 5.76%, lagging the S&P 500's 14.83% gain. This divergence has widened valuation spreads and resulted in an attractive entry point in the mid-cap space. The S&P 400 trades at a forward P/E of 16.5x, representing a 6.4-turn discount to large caps, with an operating cash flow yield of 5% vs. 3% for the S&P 500. For long-term, fundamentals-driven investors like us, this widening gap reinforces the opportunity to own high-quality, growing businesses at attractive prices.

### Fund Specific Updates

The Pender US Small/Mid Cap Equity Fund's performance was supported by strength in Materials and Industrials, while Consumer Discretionary holdings modestly weighed on relative returns.

**Ero Copper Corp. (ERO)** was a top contributor in September as copper prices rallied toward \$10,500/ton, the strongest move since April. The rally was fueled by supply disruptions, a weaker US dollar, rising demand tied to data centers and one of Pender's key investment themes — the energy transition. We feature Ero below.

**Rambus Inc. (RMBS)** was another top performer in the Fund for the month, supported by accelerating investment in AI (a Pender investment theme) and data center infrastructure. Recent announcements from Oracle, Nvidia, and OpenAI highlight a multi-year capex cycle to expand cloud and high-performance computing capacity. As a leader in memory and interface technology, key components in keeping up with the exponential growth in data usage and processing requirements, Rambus is well positioned to capture this growing demand in semiconductors. We view Rambus as a low-risk way to gain exposure to the memory theme, which we believe remains underappreciated by the market.

In September, Consumer Discretionary names lagged as competition intensified. **Dollar Tree Inc. (DLTR)** came under pressure with Amazon expanding its grocery delivery offering, while **Deckers Outdoor Corporation (DECK)** gave up recent gains as doubts reemerged about the strength of its key brands following some execution missteps in spring of this year. While we are cognizant of the constantly evolving operating environment, as patient, contrarian investors, we look past such short-term market volatility in favor of maintaining ownership in high-quality franchises that we believe will compound earnings and cash flow over time.

**Stock Profile - Ero Copper Corp.**

Ero is a Canadian-based, Brazil focused copper producer with meaningful gold biproduct production. The company combines strong copper production growth, a low-cost operating profile, and long-life assets with meaningful expansion already underway.

Our thesis on Ero is anchored in the structural demand outlook for copper. As a critical material for electrification, renewable energy, and data center infrastructure, copper also plays a central role in the global energy transition. Year-to-date, copper prices are up almost 20%, supported by tight supply, a weaker US dollar, and optimism about long-term demand. Supply disruptions have also played a role, most notably Freeport-McMoRan's declaration of force majeure<sup>1</sup> at the giant Grasberg mine in Indonesia, which has added pressure to already tight global inventories. As noted above, with copper rallying toward \$10,500/ton in September 2025 — its most significant increase since April 2025 — Ero was a key contributor to Fund performance.

Looking ahead, we believe Ero is positioned to potentially achieve significant growth. Ero is developing a new large-scale mine in a joint venture with Vale Base Metals, which is intended to enhance scale, extend mine life, and reinforce its status as one of the lowest-cost copper producers globally. At the same time, current projects — including the ramp-up of the high margin Tucumã Operation and ongoing optimization and expansion initiatives at flagship Caraíba — are anticipated to drive record copper production and likely setting the stage for continued growth in the years ahead.

With a robust balance sheet and disciplined capital allocation, we believe the business is set to generate attractive free cash flow through cycles.

We view Ero as a high-conviction holding that fits squarely with Pender's investment philosophy and believe that it is building a durable, cash-generative platform in a critical industry. With secular tailwinds from electrification and positive company-specific growth drivers, we believe Ero is well positioned to continue compounding value within the Fund's concentrated, high-conviction portfolio.

**Positioning and Outlook**

At Pender, we remain focused on owning businesses, not trading stocks. We seek to obtain more value than we are paying for, and our independent, high-conviction approach aims to position us to take advantage of inefficiencies in the small and mid-cap universe. The widening valuation gap between mid and large caps, combined with macro-driven volatility, plays directly to our strengths as patient opportunists and, at times, contrarian investors.

We continue to manage an idiosyncratic portfolio built around durable, cash-generative businesses that can compound value over time. While the headlines will likely remain noisy, we believe the conditions are in place for attractive long-term outcomes in the US small and mid-cap space.

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<sup>1</sup> Unforeseeable circumstances that prevents someone from fulfilling a contract.