

Manager's Commentary

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Market Environment

October was a notable month for US markets. The period began with a government shutdown that surpassed the 35-day record set in 2019. While the shutdown has both direct and indirect implications for the broader US economy, the equity market reaction has been limited, with investors remaining focused on corporate earnings and monetary policy developments.

The Federal Reserve cut rates by 25 basis points and announced an end to its quantitative tightening program. However, Chair Powell emphasized that a further rate cut in December is not a foregone conclusion. As a result, markets are now pricing in roughly 17 basis points of additional easing in December, down from the full 25 basis points expected prior to the meeting.

US equity markets extended their multi-month rally in October, led once again by large-cap growth stocks in the Technology and Consumer Discretionary sectors. Small caps delivered mixed results, while mid-caps ended slightly negative. Corporate earnings were broadly robust, with positive surprises from most of the “Mag 7” companies.

A major theme in October was the acceleration of hyperscaler (large-scale cloud provider) capital expenditure. Following earnings, 2025 cash capex for the 11 largest global hyperscalers is now projected at \$469 billion¹, representing 68% year-over-year growth — an increase of four percentage points (or \$11 billion) since the start of the Q3 earnings season. The upward revisions were driven primarily by Amazon, Meta, and Alphabet, reflecting the ongoing scale-up in AI infrastructure investment.

As AI adoption continues to surge, computing requirements are growing exponentially, fueling stronger cloud revenue trends. In turn, data center commitments are expanding, and component suppliers are reporting sustained demand momentum and greater visibility. Collectively, these dynamics are exerting continued upward pressure on hyperscaler capex forecasts, as global AI infrastructure spending advances toward the \$3–4 trillion annual target recently outlined by Nvidia CEO Jensen Huang.

Against this backdrop, many of the “Mag 7” stocks as well as “picks and shovel” suppliers to the infrastructure buildout, reached new highs in October, far outpacing traditional sectors with limited exposure to these dominant AI-driven growth themes.

Looking ahead, we believe the combination of resilient corporate earnings, moderating monetary policy, and accelerating AI-driven investment continues to provide a supportive backdrop for equities.

Performance

The S&P MidCap 400 Index was essentially flat in October, posting a modest +0.47% gain that underscored the more subdued performance of mid-cap stocks relative to the S&P 500, which advanced +2.34% for the month. Year-to-date, mid-caps are up 4.12%, lagging the S&P 500's +16.77% return. This divergence has further widened valuation spreads, creating an attractive entry point within the mid-cap universe. The S&P 400 trades at a forward P/E of 16.4×

¹ Morgan Stanley Report, November 3, 2025

compared to ~23.5× for the S&P 500, representing a 7.1-turn discount to large caps. For long-term, fundamentals-driven investors like us, this valuation gap reinforces the opportunity to own high-quality, growing businesses at compelling prices.

Fund Specific Updates

We initiated a position in **Booz Allen Hamilton (BAH)**, an advanced technology company delivering services to the US's most critical defense, civil, and national security priorities. The company's work spans national defense, cybersecurity, infrastructure protection, and digital modernization, helping governments and organizations operate more securely and efficiently. Leveraging deep expertise in AI, cybersecurity, and engineering, Booz Allen delivers advanced, technology-driven solutions. Through continued investment in talent, partnerships, and new business models, the company is positioning itself for sustainable, high-quality growth.

Recent results reflected a short-term slowdown that, in our view, created a buying opportunity. We believe the company is well-positioned to capture sustainable growth as digital transformation accelerates across the public sector.

Our investment thesis centers on Booz Allen's unique positioning as a leading provider of cyber security and AI services to the government along with exposure to digital transformation, space and other emerging technologies, with deep relationships across the Department of Defense, the intelligence community, and civilian agencies. The company's scale, technical expertise, and security-cleared workforce create a competitive moat that is difficult to replicate. We view Booz Allen as a high-quality compounder that aligns closely with Pender's investment philosophy—owning businesses, not trading stocks, and seeking long-term value creation through disciplined execution.

Portfolio Activity	Action	Rationale
Booz Allen Hamilton	New Position	Durable growth profile and strategic positioning at the intersection of national security, cybersecurity, and AI-driven digital transformation within the US government.

This month, we also trimmed and sold select holdings to redeploy capital into higher-conviction opportunities with stronger near-term catalysts.

Outlook

We believe the current market environment remains attractive for the Pender US Small/Mid Cap Equity Fund. As we look ahead, volatility tied to interest rate expectations, geopolitical developments and shifting investor sentiment is likely to persist, creating a constructive backdrop for selective, bottom-up investing. Such conditions often present opportunities for patient, fundamentals-driven investors to identify businesses with strong balance sheets, durable cash flows, and catalysts for value realization.

Our goal remains consistent — to deliver long-term capital growth by identifying mispriced securities across sectors and geographies, leveraging Pender's deep fundamental research and high-conviction investment approach.

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