

PENDER

US Small/Mid Cap Equity Fund

Investment Strategy & Current Opportunity

1 YEAR ANNIVERSARY FAQ



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Why is the current opportunity set attractive?

AMAN BUDHWAR: The US small- and mid-cap universe offers a uniquely attractive opportunity today due to its scale, diversification, and exposure to powerful long-term growth themes. Many investors are surprised to learn that the US small- and mid-cap market alone is larger than the entire Canadian equity market. This breadth creates a deep and expanding opportunity set—one that remains inefficient because many companies receive limited analyst coverage, allowing active managers to uncover mispriced businesses.

The current macro environment further strengthens this opportunity. As interest rates begin to decline, small- and mid-cap companies—many of which carry higher relative debt burdens—stand to benefit disproportionately. Lower financing costs can materially improve earnings power, support refinancing activity, and enhance balance sheet flexibility. With numerous businesses in this segment already demonstrating solid fundamentals, resilient cash flows, and durable competitive advantages, a declining rate environment creates a more favorable backdrop. In this setting, stronger operators are positioned to regain momentum, capture market share, and reinvest at attractive returns as weaker competitors face greater pressure. At the same time, the trailing underperformance of small- and mid-caps has opened a meaningful valuation gap relative to large caps, as reflected in forward P/E multiples and cash flow yields. The S&P Mid Cap 400 Index is trading at 16.2x trailing P/E and 4.8% free cash flow yield vs. the S&P 500 Index at 22.4x trailing P/E and 2.9% free cash flow yield at the end of November 2025, a 6.2x difference between the two.

Small caps have lagged large caps significantly since the Russell 2000 Index peak in 2021. This widening discount increases the attractiveness of the asset class, particularly for investors seeking diversification after the exceptional recent performance of US large caps.

For long-term, fundamentals-driven investors, this combination of structural breadth, cyclical dislocation, valuation discounts, and improving forward return potential creates a compelling entry point into high-quality US small- and mid-cap businesses.

How does investing in the US differ from Canadian small/mid caps?

AMAN BUDHWAR: The US small- and mid-cap universe is fundamentally different from Canada in its size, diversity, and innovation exposure. Unlike the Canadian market—heavily concentrated in financials, energy, and materials—the US small/mid-cap universe is far more diversified. The S&P Mid Cap 400 Index has its top three sectors (industrials, financials, and information technology) representing just over 50% of the index, with no single sector dominating. This diversification provides exposure to a broader range of business models, end markets, and secular growth drivers than what is typically available in Canada.

A key differentiator is access to innovation. Artificial intelligence is a major secular theme in US equities, and many small- and mid-cap companies directly enable, supply, or benefit from AI adoption. The Canadian market currently offers far fewer companies with meaningful exposure to AI-driven growth.

Taken together— Greater market breadth, stronger diversification, persistent inefficiencies, and exposure to generational growth themes like AI make the US small- and mid-cap space a broad and dynamic opportunity for long-term investors.

What were the key contributors and detractors to performance?

AMAN BUDHWAR: A major contributor was the Fund's exposure to businesses connected to the AI investment cycle. AI has driven significant capital spending in both the technology and industrial sectors, and the Fund benefited from companies positioned to supply or enable this acceleration. AI-related demand also had secondary effects across other industries—such as power generation and certain commodities—which contributed positively.

- **AI & Infrastructure Beneficiaries:** Companies tied to data-center buildouts, power demand, and enabling technologies benefited from increased investment. Increased demand for power infrastructure has also strengthened long-term prospects for materials such as copper and natural gas.
- **Consumer Sector Winners:** Several consumer holdings outperformed, including Estée Lauder, which the Fund purchased after a meaningful sell-off related to weakness in Asian markets. As demand recovered and management executed operational improvements, the stock rebounded and contributed positively.
- **Financials / Insurance Names:** Select insurers, such as Mercury General, performed well. The Fund purchased the stock at an attractive valuation, and it has performed well since.

Overall, we believe that our strong stock selection across diverse sectors—not just AI—drove results.

How has the portfolio evolved since launch?

AMAN BUDHWAR: The portfolio has maintained its disciplined structure—remaining concentrated, high-conviction, and fundamentals-driven—while gradually rotating into opportunities where risk-reward has improved.

The Fund has added positions where short-term market disruptions created attractive entry points—consistent with its philosophy of using volatility to accumulate high-quality businesses.

As conviction has increased, the portfolio has strengthened around durable, competitively advantaged companies capable of compounding over multiple years.

While the portfolio continues to evolve as new opportunities emerge, the underlying investment framework and discipline remain unchanged.

To learn more and to find out who your local Pender contact is, **please visit our website.**

For standard performance information and to learn more about the Pender US Small/Mid Cap Equity Fund visit:

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