

Manager's Commentary

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Market Environment

The first 10 months of the year were exceptionally resilient for US equities, but the market took a pause in November. Even with a solid set of earnings and revenue beats, the momentum did not carry through, and the broader US market advanced only 0.2% during the month. This was somewhat surprising given that the Q3 earnings season—which wrapped up in November—was broadly positive. Most companies continued the trend of strong results, with 81% of S&P 500 companies beating consensus earnings expectations. Year-over-year earnings growth reached 13%, supported by 7% revenue growth and 6% margin expansion.

However, sentiment was weighed down by a series of uncertainties. The longest US government shutdown on record, which lasted 43 days before ending mid-month, added to market caution. Investors also remained focused on the evolving direction of monetary policy, contributing to an ambiguous backdrop that muted risk appetite.

All eyes were on NVIDIA's earnings, given its central role in the AI investment cycle. While the results were positive—and offered some relief to market participants—the reaction was muted. Concerns linger around elevated valuations and increasingly optimistic profit expectations embedded in the artificial intelligence ecosystem. This response suggests that investor expectations may already be stretched, and questions are emerging about whether ambitious growth targets can realistically be achieved.

Market concentration also continues to be a defining feature. The top 10 stocks in the S&P 500 now represent nearly 40% of the index, the highest level on record. AI remains the dominant theme behind the rise of these mega-caps, as investors continue to believe that the massive investment in AI infrastructure and capability will ultimately deliver meaningful returns. This enthusiasm has also filtered into the small-cap space, where speculative AI-exposed names have outperformed even as the broader small-cap market has faced headwinds.

History offers perspective: from railroads to fiber optics, the earliest and most aggressive spenders have not always been the long-term winners. The same may prove true in the AI cycle.

Performance + Process

We focus on identifying high-quality companies with durable competitive advantages, strong reinvestment potential, and exposure to structurally growing industries—businesses capable of compounding earnings over time. Our investment process begins with sourcing attractive businesses through screening and continuous market research, followed by deep fundamental work. Each opportunity is then valued using base, bull, bear, and disaster-case scenarios, with a strong emphasis on downside protection through explicit probability weighting and a requirement that risk remains acceptably limited before committing capital. In periods of volatility, we remain anchored to our disciplined framework, viewing short-term market moves as opportunities and maintaining close communication with management teams while keeping focused on preventing permanent loss of capital.

Now marking the official 1 year mark, the Fund performed well both in November and trailing one year, coming in ahead of its benchmarks.

Index / Fund	November Return	1 Year Return
Pender US Small/Mid (CAD)	+1.9%	7.4%¹
S&P 400 Mid Cap Index (CAD)	+1.5%	-0.7%
Peer Group (CAD) Source: Morningstar	+1.1%	-2.0%

Fund Specific Updates

Dollar Tree (DLTR) reported a solid quarter after month end, with net sales up 9.4% and same-store sales up 4.2%, supported by continued rollout of the multi-price format, better product availability, and improving supply chain efficiency. Traffic remains resilient, and management highlighted ongoing cost-saving initiatives that enhance visibility into 2026. Notably, the company added 3 million new household shoppers in the quarter—60% from higher-income households, 30% from middle-income, and the remainder from lower-income—evidence that the banner is broadening its appeal beyond its traditional demographic. DLTR remains a high-conviction holding and has been a meaningful contributor since the launch of the fund.

We also initiated positions in **Instacart** and **StandardAero**.

StandardAero (SARO) is the world's largest independent provider of aerospace engine aftermarket services and we believe is well-positioned for sustained growth. Global flight activity is rising while the commercial fleet continues to age — now averaging ~12 years vs. ~10 years in the early 2010s. Slower-than-expected OEM deliveries are extending aircraft life and increasing demand for maintenance, while deferred COVID-era maintenance is now coming due. SARO plays a critical role between OEMs and operators, holding exclusive or semi-exclusive licenses with several engine manufacturers and maintaining a century-long reputation for safety, reliability and performance.

Instacart (NASDAQ: CART) was also added to the portfolio. Instacart benefits from a highly efficient, scaled business model focused on minimizing fees, reducing basket-size thresholds and maintaining in-store price parity, helping support continued volume growth and user adoption. Its leadership in large-basket orders (>\$75), 1.5B+ completed orders, rich data assets and best-in-class batching create significant barriers to entry in online grocery delivery. Beyond delivery, Instacart generates meaningful high-margin revenue from its \$1B+ ad business, enterprise software, in-store technologies, and by powering digital storefronts for major grocers such as Costco Canada.

Despite concerns about competition from DoorDash, Uber and Amazon, we believe increased activity across the category will expand online grocery penetration (currently only 13% of the \$1.2T U.S. market) and strengthen retailer partnerships with Instacart as they respond to Amazon's push into fresh grocery.

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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: <https://penderfund.com/fund/pender-us-small-mid-cap-equity-fund/>.