

Manager's Commentary

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Market Environment – Energy Shocks and the AI Economy

In February, markets faced several crosswinds. The US Supreme Court ruled against the use of the International Economic Emergency Powers Act to justify the April 2025 reciprocal tariffs, while tensions between the United States and Iran escalated into armed conflict, adding to geopolitical uncertainty.

Against this backdrop, equity markets saw a continued rotation away from mega-cap US technology companies. Although earnings season delivered another round of solid results, investor attention increasingly shifted toward the economics of artificial intelligence (AI). In particular, concerns around the return on the massive capital investments required to support AI infrastructure led to selling pressure as hyperscalers announced yet another wave of significant capital expenditure.

The rapid expansion of AI infrastructure is accelerating demand for electricity. Because AI data centers require 99%+ reliability, many developers are increasingly turning to natural gas, which remains one of the few energy sources capable of scaling power supply at the speed required by hyperscalers. While renewables and nuclear will remain important components of the long-term energy mix, natural gas today provides one of the most scalable and dependable sources of baseload generation. As a result, access to abundant and relatively low-cost natural gas is becoming an increasingly important factor in determining where large-scale AI and data center infrastructure is built.

Just as natural gas was gaining increased attention, the escalation of tensions in the Middle East created a potential energy supply shock. Disruptions in the region disproportionately affect energy-importing economies such as Europe and parts of Asia, while the United States continues to benefit from abundant domestic supply. The US can produce natural gas at some of the lowest costs globally, making it one of the country's most significant structural economic advantages. Affordable natural gas has increasingly positioned the United States as an "energy affordability superpower", particularly as global electricity demand rises.

However, the ability to fully leverage this advantage is not without challenges. Natural gas demand in the United States has grown significantly over the past decade, while pipeline and storage infrastructure have not always expanded at the same pace. This mismatch can create bottlenecks and price volatility even when national supply is abundant. Taken together, these dynamics reinforce an important point: as electricity demand rises alongside the global AI buildout, energy affordability and infrastructure capacity are becoming critical competitive advantages. In this context, the United States' combination of large natural gas resources and relatively low energy costs may continue to support its leadership in the development of AI and data center infrastructure. We continue to monitor these developments closely, particularly as they relate to energy markets, infrastructure investment, and portfolio companies exposed to the data center and AI ecosystem.

Fund Specific Updates

Index / Fund (CAD)	February Return	1 Year Return
Pender US Small/Mid Cap Equity Fund	3.0%	20.7%¹
S&P 400 Mid Cap Index	4.9%	11.0%
Peer Group	2.5%	9.4%

Source: Morningstar

We initiated a new position in **Burford Capital Limited (NUR)** in February. Burford is a leader in the legal finance industry and invests in legal claims. The firm may fund litigation expenses in exchange for a share of any eventual proceeds, or provide financing to companies that have already won legal awards but require immediate liquidity while the payment process unfolds. While the underlying business has performed well over the long term, the stock price has been more volatile. As long-term investors, we believe these periods of volatility can create attractive entry points, provided management continues to deploy capital at high rates of return.

Instacart (CART) reported better-than-expected Q4 2025 results in February. Gross transaction value on the platform accelerated to +14% year-over-year growth in Q4, up from +10% in Q3. The company also added its largest customer cohort since 2022, while continuing to retain users and deepen engagement. Our thesis on the company remains positive. We believe the market will increasingly recognize the value being created across Instacart's ecosystem, which is generating high incremental margins and translating into expanding returns on invested capital, now exceeding 20%.

Generac Holdings Inc. (GNRC) was the top performing holding in the month, contributing +139bps. The company is a leading global designer and manufacturer of energy technology solutions and backup power generation systems. The residential division has been the key business and continues to have secular tailwinds as a result of increasing grid instability. But, the data center business is beginning to emerge as major growth engine for the company. CEO Aaron Jagdfeld on the quarterly earnings call mentioned it is "far and away one of the biggest needle-moving opportunities that I've seen in my three decades with the company". Generac's large diesel generator backlog exceeded \$300 million at the end of 2025.

We also wanted to highlight **Antero Resources Corp. (AR)** as a holding that is positively exposed to the theme of rising natural gas demand. Antero is a leading independent producer of natural gas and natural gas liquids (NGLs), with operations concentrated in the Appalachian Basin and all production located in the United States. As global demand for natural gas increases, driven by LNG exports, industrial reshoring, and rising electricity demand from data centers, the United States maintains a structural advantage due to its abundant low-cost supply and extensive pipeline infrastructure. While Europe and parts of Asia continue to compete to replenish natural gas inventories at elevated prices, US producers such as Antero likely remain well positioned to benefit from both domestic demand growth and expanding export markets.

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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/>.