

## Manager's Commentary

Aman Budhwar

As we move into June, the macro backdrop remains dynamic. Inflation stays front and center, shaped by several converging forces: ongoing conflict in the Middle East and supply disruptions tied to the Strait of Hormuz, the lingering effects of tariffs, AI-driven demand, and a broadening global growth recovery. Despite these factors, markets have continued to rally, which may in part reflect improving earnings expectations. Our bottom-up stock selection process incorporates these macro headwinds and has caused us to increase our cash weightage to some of the highest levels we have had since inception, ending the quarter at just under 9%.

Index / Fund (CAD)	May Return	1 Year Return
<b>Pender US Small/Mid Cap Equity Fund</b>	<b>5.4%</b>	<b>31.7%<sup>1</sup></b>
S&P 400 Mid Cap Index	3.7%	26.1%
Peer Group	-4.8%	10.85%

Source: Morningstar, as of May 31, 2026

The Fed's preferred inflation gauge, Personal Consumption Expenditures, rose 3.8% year-over-year in April, the highest reading since May 2023 and roughly 150 basis points above year-ago levels. Persistent price pressures have pushed government bond yields sharply higher, unwinding the rate-cut expectations that dominated market sentiment earlier in the year. It appears the Fed officials have abandoned the idea that they can simply look past the price effects of the conflict. What is, in our view, shaping up to be one of the most significant energy supply disruptions in modern history has flipped the rate narrative, from expected cuts to potential hikes.

Mortgage markets are feeling the strain as well. The average 30-year fixed-rate mortgage rose 9 basis points to 6.65% in the week ended May 22, its highest level since August 2025, dealing another blow to housing affordability. Rates had previously fallen to around 6% following a series of Fed rate cuts aimed at supporting the labor market, before reversing course in late February.

On the positive side, small and mid-cap benchmarks have continued to outperform their large-cap peers. Year-to-date through May, the Russell 2000 is up 18.3%, and the S&P 400 Mid Cap Index up 13.3%, both outstripping the S&P 500's 11.2% gain. The rally has been underpinned by rising earnings expectations, forward twelve-month EPS for the Mid Cap Index is projected to grow 12.5% year-over-year, keeping the forward P/E multiple relatively stable at 17x at the end of May, the same level as it was at the end of 2025.

While technology accounts for only roughly 16% of the Mid-cap index, compared to the near-40% share of the S&P 500, many of these smaller companies are, in our view, positioned as the physical "picks and shovels" layer of the AI buildout. They sit within the industrial sector, which carries a

<sup>1</sup> 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/>.

26% weight in the index and has been a strong performer, up 17%<sup>2</sup> year-to-date. Hyperscaler capex, estimated at roughly \$800 billion this year, is flowing through the economy into areas where several of our holdings operate, including equipment, power, and heating and cooling infrastructure.

This backdrop was reinforced on Nvidia's most recent earnings call, where Jensen Huang offered an update on the trajectory of hyperscaler capex. He indicated that spending is already running at a \$1 trillion annualized rate and that he believes it could reach \$3–\$4 trillion by the turn of the decade, a remarkable revision from a year ago, when he was projecting that the \$1 trillion threshold would not be reached until 2030.

### Additional Fund Updates

**International Flavors & Fragrances (IFF)**, a leading creator and manufacturer of flavours, fragrances, and ingredients for the food, beverage, health and biosciences, and scent industries, reported earnings in May. The company delivered solid results, with the stock rising +16% following the release. IFF also announced an agreement to sell its Food Ingredients business for \$4.3 billion. We view this as a positive development that is expected to significantly de-lever the company's balance sheet and may allow management to sharpen its focus on business segments where IFF holds a sustainable competitive advantage.

Also in the consumer space, **Dollar Tree (DLTR)** reported earnings that came in ahead of Street expectations, including 3.5% same-store sales growth and Adjusted EPS that increased 38% year-over-year, once again demonstrating that its business model appears well-suited for the current inflationary environment. The stock rose +17% on the news. Management also raised FY26 EPS guidance by approximately 3%, and notably this guidance does not incorporate the impact of tariff refunds. As a reminder, DLTR received refunds for IEEPA tariffs previously paid totaling ~\$110 million, including \$6 million of interest. The increase also does not include any potential benefit, direct or indirect, from lower oil prices should the Middle East conflict be resolved. We maintain a positive thesis on the company, as its deep-value proposition and attractive opening price points enable it to better serve its core low-income customer base while also positioning it to potentially benefit from trade-down behavior, as consumers across multiple income cohorts become increasingly value-focused. We added to our position in the month.

**Copa Airlines, S.A. (CPA)** also reported earnings during the month. Notably, the quarter was not meaningfully impacted by higher fuel costs, despite jet fuel prices running 80–90% higher year-over-year, and management's guidance for the remainder of the year remains robust. The stock rose +13% following the release. Management also highlighted continued solid demand across the region, with capacity being added at a low double-digit pace. Our thesis on Copa remains positive; we view the airline as well-positioned to weather further geopolitical risks and as a key potential beneficiary should the Middle East conflict be resolved.

**Modine Manufacturing Co. (MOD)** announced a \$4 billion long-term capacity agreement during the month with a strategic data center customer. The company's Airedale brand offers large-scale industrial cooling solutions at these critical facilities, as hyperscalers and cloud companies look to secure reliable supply of key infrastructure. Modine's cooling solutions deliver thermal efficiency, which, consistent with our thesis, may translate into significant operational cost savings relative to competing alternatives. The stock rose +20% on the news.

### Aman Budhwar, CFA

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<sup>2</sup> S&P Global