

Manager's Commentary

Pender Small Cap Opportunities Team

In Q2, the Fund returned 10.9%, ahead of the S&P/TSX Composite at 7.0%. This is despite a challenging month of June where the Fund returned -3.8%, and the S&P/TSX Composite was up 0.5%.

Index / Fund	Q2 2026 Return	1 Year Return
Pender Small Cap Opportunity Fund (CAD)	10.9%	24.5%¹
Russell Microcap Index (CAD)	28.6%	65.7%
Russell 2000 Index (CAD)	23.9%	46.7%
S&P/TSX Composite (CAD)	7.0%	32.9%

Portfolio weights remain predominantly Canadian, with ~78.7% in Canadian equities and ~12.5% in US equities.

The levels of volatility we've grown accustomed to in 2026 persisted through the quarter, rooted in three overlapping pressures: an energy supply shock, re-accelerating inflation, and a "higher-for-longer" monetary policy regime. The signing of a US-Iran Memorandum of Understanding on June 18 provided some relief, with oil retreating toward \$80/bbl. However, the reopening the Strait of Hormuz remains a challenging logistical process, suggesting volatility may persist through Q3.

Performance within the technology sector diverged sharply in Q2: high-growth technology names faced headwinds, while individual equities with exposure to the defense spending theme continued to outperform. The space sector in particular saw an uplift following SpaceX's \$1.77 trillion IPO. For some investors, rather than invest in SpaceX directly, focus has turned to alternatives, launch providers, satellite operators, and defense primes, some of which we hold within our own portfolio, which we discuss below. We would also note that small-cap valuations remain near historical lows relative to large caps, and despite ongoing volatility, particularly within technology, small-caps demonstrated resilient growth throughout the quarter.

We continue to see M&A activity pick up across small and mid-cap names. Several holdings have become acquisition targets this year, a few have attracted activist attention, and others have announced strategic reviews. We view this as an important signal: private markets are beginning to recognize value in the public small and mid-cap market where valuations have remained disconnected from long-term fundamentals. This M&A environment represents a meaningful tailwind, with the potential to surface and unlock value in underappreciated portfolio companies.

Given the uncertain backdrop, we've increased our defensive posture. Cash currently sits at roughly 5% of the portfolio, with an additional 10% allocated to merger arbitrage, bringing our targeted cash and cash-equivalent exposure to 15%. We also maintain a modest put position, though we increasingly favour cash on hand over options as a way to capitalize when quality names are available at an attractive entry point. We see the current market's performance as being driven by retail enthusiasm and momentum rather than underlying fundamentals, which

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 the Fund may be found here: www.penderfund.com/fund/pender-small-cap-opportunities-fund/

reinforces our preference for liquidity over broad market exposure at this stage. We are also leaning further into catalyst-driven situations, where a corporate action, rather than broader market direction, is likely to be the primary driver of returns. A few current examples include **PAR Technology Corp. (PAR)**, **Sangoma Technologies Corp. (STC)**, and **Pivotree Inc. (PVT)**.

Portfolio Holdings – Updates

Top Contributors (Q2 2026)	Contribution	Top Detractors (Q2 2026)	Contribution
Kneat.com Inc. (KSI)	345.9 bps	McDermott International Ltd. (MCDIF)	-141.9 bps
MDA Space Ltd. (MDA)	228.4 bps	Dye & Durham Ltd. (DND)	-94.0 bps
Telesat Corp. (TSAT)	180.9 bps	Logan Energy Corp. (LGN)	-53.7 bps

McDermott International - Was a detractor this month due to a complex event that we anticipate will clear up imminently. In June the company announced definitive plans to refinance its debt facilities and at the same time the company announced an equity rights issue at a price of \$1.50/share vs recent price prior to issue of \$25/share. This capital raise would result in \$500 million to the company which would facilitate paying down debt, improving credit ratings, and more. In advance of the rights issue some parties who cannot participate in the rights issue become forced sellers. So, from a mark-to-market point of view, our combined McDermott capital structure position may get worse before it gets better. Despite the current underperformance, we believe there's asymmetric upside in the equity position.

Kneat.com - On June 8, 2026, Kneat announced it is being acquired by Thoma Bravo for \$6.50 cash per share, a roughly 20% premium to last close, and a 40% premium to the unaffected price prior to the announcement of a strategic review. The transaction, although a boost to short-term performance, was not the outcome we'd originally underwritten. Still, we see it as demonstrative of two things at once: just how undervalued tech remains at the smaller scale of the market, and just how active the M&A environment currently is.

Space Sector - Following SpaceX's blockbuster IPO, the space sector has seen a dramatic increase in investor interest. This broader attention has contributed to a meaningful re-rating across the space complex. Our holdings in **Telesat** and **MDA Space** were top contributors in Q2, partly as a result of this increased exposure. Both companies are already being recognized as strategic Canadian partners, having been selected by the federal government for key projects related to surveillance, intelligence, and Arctic sovereignty. Importantly, we don't view this simply as multiple expansion, for **MDA** and **Telesat**, the fundamentals remain compelling: visible backlogs, strategic national-security relevance, differentiated technical capabilities, and exposure to multi-year government procurement cycles.

Portfolio Activity	Action	Rationale
Kraken Robotics Inc. (PNG)	Add	Continued conviction; thesis unchanged
Sangoma	Add	Continued conviction; thesis unchanged
Terravest Industries Inc. (TVK)	Add	Continued conviction; thesis unchanged

Outlook

Looking ahead, we continue to seek out undervalued small-cap businesses with, in our view, strong economic characteristics trading at attractive valuations. We added to our technology exposure during the quarter as we believe improving business fundamentals combined with compressed valuations create the conditions for durable long-term investments.

Pender Small Cap Opportunities Investment Team
July 14, 2026