

Manager's Commentary

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As we pass the halfway point of 2026, investors may be surprised to learn that the Russell 2000 has been the top-performing major index so far this year, outpacing the S&P 500 and far exceeding the mega-cap Magnificent 7. Small caps are beating large-cap peers by nearly 1,400 basis points YTD, the largest first-half gap in more than three decades¹. The Russell 2000, up more than 20% this year, is on the verge of its fifth consecutive quarter of gains. Despite this, investor positioning tells a different story: small-cap stocks are still struggling to attract meaningful interest, an unusual disconnect given the continued performance.

Index / Fund (CAD)	June Return	1 Year Return
Pender US Small/Mid Cap Equity Fund	4.1%	28.5%²
S&P 400 Mid Cap Index	6.7%	30.9%
Peer Group	6.79%	25.9%

Source: Morningstar, as of June 30, 2026

Why is this? Investor attention continues to be consumed by AI-linked names, particularly in the semiconductor space. The SOX (the Philadelphia Semiconductor Index, the benchmark for chipmakers) is up +94% so far in 2026, compared to a +9% gain in the S&P 500, on pace for the best half-year outperformance in history, exceeding the previous record set during the dot-com bubble in H1 2000 by +15 percentage points. Interestingly, 10 stocks accounted for 78% of the gains in the S&P 500, and most of these are common to the SOX Index³.

These gains are driving capital raising, with US IPOs and share sales totaling a record \$251 billion through June 26, surpassing the previous half-year high set during the 2021 issuance boom. SpaceX's \$86.2 billion listing broke the record for the largest IPO ever; Alphabet raised an additional \$85 billion in a secondary offering, and Anthropic is expected to follow with a potential listing as soon as October. Appetite for AI-linked equity issuance remains strong, even as questions about the underlying economics continue to grow.

There is a critical distinction from prior bubbles: the hyperscalers funding this buildout (Google, Microsoft, Amazon, Meta) are real businesses with durable cash-generating models behind them. That said, the Magnificent 7 has begun to underperform the broader S&P 500 as of the date of this commentary, with surging AI and data center capital expenditure eating into free cash flow cited as the primary driver. On the other hand, we believe small-mid cap stocks serving this construction boom stand to benefit.

The earnings picture reinforces this shift. Magnificent 7 earnings growth is decelerating from roughly 48% in 2024 to around 18% by 2027. But when we look to small caps, Russell 2000 earnings growth is forecast at roughly 40% in 2027, compared to 16% for the S&P 500 overall. The deceleration within the Mag 7 is visible at the individual level: by 2027, consensus estimates show Alphabet at 4% EPS growth, Apple at 7%, Meta at 8%, Microsoft at 11%. These remain

¹ CNBC, June 30, 2026

² 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/>.

³ Morningstar, July 1, 2026

attractive businesses, but we believe they are no longer the earnings growth engines that justified years of multiple expansion.

While the Magnificent 7 are facing a more mature earnings profile and elevated valuations, companies across the small and mid-cap landscape are transacting to create value. Several of our portfolio holdings have taken advantage of the current environment to prune non-core assets, including Modine Manufacturing Co. (MOD), International Flavors and Fragrances Inc. (IFF), Brookfield Business Corporation Corp. (BBUC), Fluor Corp. (FLR), and Hexcel Corp. (HXL) or announced a strategic review (Cooper Company). Others have undertaken acquisitions: Booz Allen Hamilton Holding Corp. (BAH), Generac Holdings Inc. (GNRC), Euronet Worldwide Inc. (EFT), Antero Resources Corp. (AR), LSI Industries Inc. (LYTS), Jabil Inc. (JBL), StandardAero Inc. (SARO), Instacart (CART) and Addus Homecare Corp. (ADUS). Our most recent portfolio addition Waters Corp. (WAT) closed the largest acquisition in its history, acquiring the Biosciences and Diagnostic Solutions division from Becton, Dickinson and Company (BDX). This kind of fundamental corporate activity, while maybe unglamorous relative to an AI chip rally, but durable, is precisely the environment where active, bottom-up management tends to add value.

The conditions for small caps to attract greater investor attention appear to be falling into place: a more challenging backdrop for the Magnificent 7, rising valuation concerns at the top of the market, and an earnings growth story that is visibly broadening. The Pender US Small/Mid Cap Equity Fund was built for exactly this environment, companies large enough to have durable business models, small enough to still be mispriced, and well-positioned to capture AI-driven efficiency gains without the capex drag weighing on their mega-cap peers.

Additional Fund Updates

We initiated a position in **Copart (CPRT)**. Copart is the largest salvaged vehicle auctioneer in the US, working closely with major US insurers to realize the highest value on vehicles deemed to be a total loss. The company is heavily involved in the logistics and remarketing services required to conduct a vehicle marketplace such as the transportation of vehicle to its yards and title processing. We believe the market is questioning Copart's moat given a confluence of several negative factors that should alleviate over time – some market share ceded to #2 player IAA, pricing fatigue with personal auto insurance following several years of material price hikes (reduces available vehicle supply to CPRT) and uncertainty on autonomous vehicles' impact on salvaged vehicle supply. In our view, Copart offers the most liquid marketplace that enables insurers to realize the highest value on totaled vehicles, in addition to driving lowest combined ratios for these clients also through reducing administrative burdens. We believe this should sustain their market-leading position while the macro-driven impact from the personal auto industry on Copart's growth should alleviate over time.

We also initiated a position in **Waters Corp (WAT)**, a global leader in life sciences and diagnostics. With a focus on regulated, high-volume testing, it collaborates with customers to advance the release of medicines, ensure the safety of food and water and drives better patient outcomes by detecting diseases earlier, managing routine infections and combating antibiotic resistance. Earlier in 2026, Waters completed the largest transaction in its history with its combination with the Biosciences and Diagnostic business of Becton, Dickinson and Company through a Reverse Morris Trust transaction. A weak quarterly report along with the debt taken on for the transaction caused some nervousness in the market allowing us to initiate a position in this high-quality compounder.

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