Manager's Commentary

Pender Small Cap Equity Team

The Pender Global Small/Mid Cap Equity Fund returned 0.1%[1] in a challenging month for international investing. The MSCI World SMID Cap Gross Total Return USD Index (CAD) returned -2.1% in July, with emerging market (EM) small caps suffering a steeper 7.0% drop. Small-cap equities faced broad selling pressure globally during the month, underperforming their large-cap counterparts as investors prioritized value over growth.

International equities were shaped by several significant economic reports and geopolitical shifts throughout July. Most notably, the Trump administration announced 50% tariffs on a targeted list of Canadian goods (autos, dairy, and alcohol) under Section 338, citing alleged discrimination. The conflict in the Middle East and resulting maritime disruptions in the Strait of Hormuz and the Red Sea further redefined the global investment landscape, with oil prices jumping roughly ~30% in July, feeding fears of "higher-for-longer" interest rates and stalling the global disinflation narrative.

Index / Fund	1 Month	1 Year	3 Year	5 Year	10 Year
Pender Global Small/Mid Cap Equity Fund (CAD)	**0.1%**	**-1.0 %**	**14.6%**	**0.3%**	**6.0%**
MSCI World SMID Cap Gross Total Return USD Index (CAD)	-2.1%	22.1%	17.1%	9.9%	11.1%

Portfolio weights are ~38.2% Canadian equities, 47.8% US equities and 11.8% international equities.

One theme we wanted to discuss in more depth is the sector rebalancing occurring across markets internationally, as the artificial intelligence (AI) trade saw, in our view, its sharpest one-month unwinding since the cycle began several years ago. Investors began to broaden their AI exposure beyond mega-cap hardware into infrastructure, power, and industrial capacity. Over the month investor sentiment appeared to shift from "Can they afford to spend?" on AI to "What is the ROI?", leading to increased selectivity in software and services sectors.

This repricing was characterized by a rotation within global indices, where investors took profits in the semiconductor and high-beta technology spaces in favour of value, energy, and defensive sectors. The SOXX (the semiconductor ETF) is down approximately 23% from its June highs, and KOSPI (Korea's index) fell approximately 11% on July 28. In our view, Korea's stock market behaves as a leveraged trade on the semiconductor industry, since its largest constituents are SK Hynix and Samsung, two heavyweights of the semiconductor industry.

This drawdown is not due to a lack of fundamentals: semiconductor companies are, on aggregate, delivering greater than 100% earnings growth in Q2, per FactSet. The biggest change over the last two quarters has been how the AI buildout is being financed. The four hyperscalers have, to date, guided to approximately $725 billion in capex for 2026[2], up roughly 75% from 2025 spending. For the first time in the history of the hyperscalers, they are funding data center buildouts using debt. Capex is also growing faster than revenue, raising concerns about the sustainability of that growth. Amazon, Meta, Nvidia, Google, Oracle, and SpaceX have issued approximately $182 billion in investment-grade bonds in 2026, roughly 15% of all US corporate debt issuance[3]. Also worth highlighting, Alphabet just reported its first

[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: https://penderfund.com/fund/pender-global-small-mid-cap-equity-fund/*

[2] *TechTimes, June 29, 2026*

[3] *Yahoo Finance, July 10, 2026*

free-cash-flow-negative quarter since its 2004 listing. The largest companies in the US have gone from buying back shares to issuing shares (Google) and issuing debt to fund capex; it is a significant shift in the market.

Given this backdrop of decelerating AI momentum, rising financing risk, and broad-based selling pressure across small caps globally, we remain cautious on market conditions and have maintained a defensively positioned portfolio. We continue to favour businesses with resilient fundamentals and reasonable valuations and believe this positioning leaves us well placed to act opportunistically should further volatility create attractive entry points.

Fund Specific Updates (July)

Top Contributors	Contribution	Top Detractors	Contribution
CTS Eventim AG & Co KGaA (EVD)	53.0 bps	**Generac Holdings Inc. (GNRC)**	–136.2 bps
Addus Homecare Corp. (ADUS)	52.1 bps	**Tantalus Systems Holding Inc. (GRID)**	–42.3 bps
Kinaxis Inc. (KXS)	48.8 bps	**Maplebear Inc. (CART)**	–28.8 bps

CTS was the top contributor this month following a period of share price weakness. **Kinaxis** was another top performer in the month as the company continues to execute on its next phase of growth. On July 20, 2026, Kinaxis appointed Herb Yeh as Chief Financial Officer and Chief Strategy Officer. Yeh, a veteran investment banker, is expected to help raise the company's global profile and lead more active capital allocation, including potential M&A. Following month-end, the company also released solid Q2 results, raising its full-year total revenue and SaaS revenue guidance. Backlog was up 18% year-over-year, and management noted an uptick in demand across the high-tech value chain amid ramping data center builds, as well as in the defence and aerospace vertical.

Generac was the top detractor in the month despite reporting solid earnings results with 2026 guidance maintained. Data centre backlog increased to $1.6 billion vs $700 million at the end of Q1 as they received a $700 million order from the first hyperscaler and they are in conversations with a second hyperscaler for a similar or larger order. Despite a 3.39% jump in share price following the Q2 report, the stock remained under pressure, trading below its 20-day, 50-day, and 200-day moving averages at month-end. Our thesis remains unchanged.

Portfolio Activity	Action	Rationale
Kneat.com Inc. (KSI)	Sold	Sold following takeout by Thoma Bravo.
Autotrader Group PLC (AUTO)	New	New name. Dealer-side mission criticality and 70% EBITDA margin, offered at a historical low multiples.
Copart Inc. (CPRT)	Add	Increased position on share price weakness. Thesis unchanged.

We initiated a position in **Auto Trader**, a UK vertical marketplace with what we believe to be a monopoly-like customer mindshare (an estimated 85%+), dealer-side mission criticality, and 70% EBITDA margins. We found this opportunity particularly compelling given the stock was trading at a historically low multiple of 13x P/E. In our view, the moat here isn't merely classifieds traffic — it's proprietary buyer intent data, pricing architecture, and workflow integration. We also like that the position increases our international exposure as we continue to diversify away from a majority-Canadian equity base.

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