Manager's Commentary

Aman Budhwar

While the summer months are typically quieter for markets, July was dominated by earnings releases from several of the Magnificent Seven. As expected, artificial intelligence (AI) remained a central theme, with capital expenditure (capex) guidance and management commentary driving much of the market's reaction. Amazon, Alphabet, Microsoft and Meta continued to invest heavily in the infrastructure required to support AI demand.

While investors initially rewarded rising AI investment as evidence of future growth, the focus this earnings season increasingly shifted toward a more important question: when will these investments begin generating meaningful returns?

Index / Fund (CAD)	1 Month Return	1 Year Return
Pender US Small/Mid Cap Equity Fund	**-4.1%**	**21.2%**[1]
S&P 400 Mid Cap Index	-3.5%	22.7%
Peer Group	-3.8%	17.8%

Source: Morningstar, as of July 31, 2026

As we worked through the earnings releases, one company that stood out was **Amazon**. Investors responded positively to accelerating Amazon Web Services (AWS) growth and robust AI demand. AWS revenue increased 37% year-over-year, its fastest pace in 18 quarters, generating more than 60% of Amazon's consolidated operating income in the quarter, which we believe reinforces its position as an earnings driver. Despite raising its expected 2026 capex to ~US$220 billion, management indicated that demand continues to exceed available capacity. Much of the infrastructure capacity being added in 2027 is already reserved, while Amazon is also seeing substantial demand extending into 2028.

Management noted that AI servers with a life of at least 5 to 6 years are expected to reach breakeven in less than three years, while the underlying data centres have useful lives exceeding 30 years and can support multiple generations of server upgrades, with subsequent generations expected to have even better economics. CEO Andy Jassy noted that AI margins and returns are tracking a trajectory similar to the early years of AWS, if anything, slightly ahead.

On its first earnings call as a public company, **Space Exploration Technology Corp** (Spacex) Management said they expect to end 2026 with 2GW of compute (vs 1.4GW at the end of 2026) putting them on a trajectory to $100 billion in annual revenue run rate in cloud services by end of 2026. Compute capacity is expected to increase further to up to 10GW by the end of 2027. Spacex invested $15.8 billion in Q2 on AI compute infrastructure out of a total capex of $18.4 billion. They expect the supply deficit in the compute market to continue; current economics have translated into less than 1 year payback on new capex and they are seeing increasingly favorable economics with each new agreement.

We believe rising capital spend on AI infrastructure is creating opportunities for small/mid cap companies, including several held within the portfolio. We continue to favour high-quality businesses with strong management teams, sustainable competitive positions and long runways for reinvestment. Although markets will likely remain volatile as investors debate the pace and returns of

[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/.*

AI spending, we believe periods like these create attractive opportunities for patient, long-term investors willing to look beyond the next quarter.

Additional Fund Updates

Earnings season remained the primary focus and overall, we were encouraged by what we heard. The common themes across our holdings were resilient demand, improving execution and continued investment in long-term growth opportunities. Below are some highlights:

Generac (GNRC): Strong quarter with 2026 guidance maintained. Data center 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.

Fluor (FLR): Better than expected Q2, new award bookings of $6.1 billion, the strongest quarter since Q1 2024. Demand for electricity generation continues to build, driven by data centre growth, industrial expansion and broader electrification. We believe this is creating opportunities for domestic gas fuel power as well as nuclear power which could support further backlog growth in H12027.

StandardAero (SARO): Another strong quarter in commercial aerospace and business aviation. Management increased 2026 guidance and reiterated that they are not expecting any impact from higher jet fuel prices as they are positioned on the most fuel-efficient engine platforms and nearly 40% of their business sits in end markets that are not sensitive to jet fuel prices.

Modine (MOD): Modine delivered another solid quarter, led by 90% growth in data centre revenue and a third consecutive quarter of record order intake, backlog nearly doubled year over year. Near-term margins were pressured by supply constraints, but management maintained FY2027 guidance and expects results to improve as new capacity comes online.

Microchip (MCHP): Reported strong quarter exceeding guidance. Growth in sales to the data center market was up almost 100% in the June quarter and management guided for 69% growth in data centre sales in calendar 2026 to about $1 billion.

Evercore (EVR)- Evercore reported 19% revenue growth year-over-year, though results moderated from a record Q1. With backlog near record levels and recently hired bankers beginning to contribute, management expects a stronger second half as the M&A cycle continues to broaden.

Itron (ITRI)- The quarter demonstrated improving profitability despite relatively subdued revenue, as a higher mix of software revenue and continued operational efficiencies drove margin expansion. Management raised full-year earnings guidance, highlighting the company's ability to improve profitability ahead of the next wave of grid infrastructure investment.

Rambus (RMBS)- Reported a solid quarter, with revenue and earnings exceeding street expectations. Growing memory requirements for both traditional and AI servers continue to support demand, while next-generation CPU platforms which may provide an additional catalyst into 2027.

Deckers (DECK) – The positive quarter was supported by full-price selling, favorable product mix and disciplined inventory management. HOKA revenue grew **8%**, fueled by direct-to-consumer performance. Management expects growth to accelerate in H2 as international shipments normalize and new product launches gain traction. 2026 profit guidance was also raised modestly.

Verisign (VRSN) – Reported in line results, but the notable development was another increase in management's outlook for domain registration growth. Record new registrations and healthy renewal rates may suggest AI tools are making it easier for individuals and businesses to establish an online presence, positioning Verisign as an indirect beneficiary of AI adoption not a casualty.

Aman Budhwar, CFA
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PenderFund Capital Management Ltd.