Pender US Small/Mid Cap Equity Fund

Manager's Commentary – **August 2026**

Aman Budhwar, CFA

August marked an important turning point for US small and mid-cap companies, as improvement in forward earnings expectations became increasingly evident. Since the Fund's launch in December 2024, two-year forward EPS growth for the S&P MidCap 400 has risen from just over 5% to roughly 18%. The improvement within the Fund has been even more pronounced, climbing from approximately 10% to 22%.

Importantly, this acceleration in earnings expectations has not been matched by a comparable expansion in valuations. Forward P/E multiples for both the Fund and the S&P MidCap 400 remain close to where they stood at launch, and the broader valuation opportunity remains compelling: the S&P MidCap 400 trades at roughly 16x forward earnings, compared with approximately 20x for the S&P 500. In our view, investors are therefore able to gain exposure to an improving earnings-growth profile at a meaningful discount to US large caps.

Index / Fund (CAD)	1 Month Return	1 Year Return
Pender US Small/Mid Cap Equity Fund	**-1.4%**	**17.6%[1]**
S&P 400 Mid Cap Index	-1.0%	18.3%

We have been encouraged to see this earnings inflection begin to materialize after several years of relatively muted growth, and importantly, it is being supported by a broader set of economic drivers than those represented by the largest US companies. The top 10 companies account for less than 10% of the S&P MidCap 400, compared with approximately 38% of the S&P 500, which in our view may leave more room for a wider range of industries and themes to drive index-level earnings.

The AI buildout is one such theme. While attention remains focused on the hyperscalers making the investments, that spending is creating significant demand for the companies supplying the physical infrastructure required to build and operate data centers. Within the Fund, we have sought exposure to areas where we see potential bottlenecks, including power, cooling, networking equipment, and data centre construction.

Despite this improving fundamental backdrop, the path has not been linear. Some of the Fund's higher-growth holdings have experienced share-price weakness as longer-term interest rates have risen. Higher yields increase the discount rate applied to future cash flows and can disproportionately weigh on higher-growth businesses, even when their underlying earnings outlook remains intact.

We view these periods of volatility as opportunities, when share prices become disconnected from fundamentals. Our process remains focused on companies operating in attractive growth industries, generating strong returns on capital, and led by capable management teams. Where share prices decline but these characteristics and our long-term thesis remain intact, we are prepared to add. That has been the case for several holdings this year, in some instances, earnings expectations have not only remained intact through the pullback but have strengthened. We have used these periods of valuation-driven weakness to selectively add to businesses where we believe the long-term growth opportunity remains compelling.

Additional Fund Updates

Nextpower Inc. (NXT) – We initiated a new position in Nextpower, a utility-scale solar and energy technology provider that has expanded from solar trackers into electrical infrastructure, power conversion, software and services. We believe recent share-price weakness created an attractive entry point, as the market has focused on near-term margin pressure from investments in these newer businesses, which we view as supporting future growth. We see particular opportunity in electrical infrastructure, where US restrictions on certain foreign-produced power equipment could benefit domestic suppliers. Management expects electrical revenue to grow from $59 million in

FY2026 to approximately $530 million by FY2030. With strong cash generation, more than $1.2 billion of cash and no debt at the end of the June quarter, we believe Nextpower is well positioned to fund its expansion and participate in the continued buildout of US power infrastructure.

Several of our portfolio names reported earnings in August. Here are some highlights:

LSI Industries Inc. (LYTS) – Reported fiscal Q4 results, its first quarter following the Royston acquisition. Organic revenue increased 8%, led by 18% growth in Display Solutions. Management noted that while near-term input-cost inflation is weighing on Royston's margins, pricing actions should offset this pressure over the next two quarters. With opportunities for further market-share gains, we added to our position following share-price weakness.

Dollar Tree Inc. (DLTR) – Reported another better-than-expected quarter, supported by $369 million of tariff refunds. Importantly, underlying trends also improved, with customer traffic returning to positive growth one quarter ahead of guidance following three consecutive quarters of year-over-year declines related to re-ticketing. Same-store sales increased 3.7%, including a 3.3% increase in average tickets. Management raised FY2026 EPS guidance.

Estée Lauder Companies Inc. (EL) – Reported FY2026 results ahead of street expectations and management guidance. China performed well and the company experienced a return to growth in travel retail after several quarters of declines. Management noted that the profit recovery plan is progressing ahead of expectations, with efficiency gains creating capacity to reinvest in consumer-facing initiatives and innovation. Growth also accelerated across developed markets, with the company gaining share across most regions.

StandardAero Inc. (SARO) – Reported earnings with management reiterating its expectation of reaching $1 billion of LEAP engine revenue by 2030 and sees the opportunity growing to several billion dollars by the mid-2030s. The company also expanded a licensing agreement with an OEM that is expected to contribute approximately $25 million of incremental annual EBITDA over the next several years. The company also increased FY revenue and EBITDA guidance.

Genpact Ltd. (G) – Reported Q2 results, with revenue increasing 7.1% year over year. Management highlighted record pipeline and backlog, while raising its full-year EPS growth outlook.

MapleBear (Instacart) (CART) – Reported another solid quarter, with gross transaction value increasing 14% year over year, marking its tenth consecutive quarter of double-digit growth. Advertising revenue increased 16% and adjusted EBITDA exceeded guidance.

Aman Budhwar, CFA
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[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-us-small-mid-cap-equity-fund/