



Revealed: 5 Top Growth Picks From This Award-Winning Mutual Fund

Description

Despite strong competition from low-fee exchange-traded funds and high fees hampering performance, there are still Canadian mutual funds that are performing quite well.

These successful funds often will focus on small-cap stocks — the kind that have potential to go much higher. Not all of these investments will work out, of course, but a few big winners is all it takes.

The Pender Small-Cap Opportunities Fund is doing just that. The fund is filled with small-cap Canadian growth stocks, a strategy used since the fund's inception in 2009. It's clearly working. The fund's class F units are up 18.1% annually since inception.

A \$10,000 investment made back in 2009 would be worth nearly \$50,000 today. That's a truly impressive result over a little less than a decade. And remember, this is after fees.

This fund recently closed to new investors, which makes sense. It's hard to pursue small-cap opportunities if a fund is too rich. It will be forced to spread the wealth across too many different stocks, watering down great opportunities with so-so ones.

The good news is, investors can look at the fund's top holdings and replicate some of its success themselves. Let's take a closer look at five of the largest positions in the fund.

The positions

A little over 4% of the fund's assets are invested in **Sierra Wireless** ([TSX:SW](#))([NASDAQ:SWIR](#)). The company designs and manufactures wireless communication equipment, which helps connect things to the internet. Essentially, Sierra helps your thermostat or doorbell communicate with you.

We all know what a massive market this will be in the next few years. Despite this potential, Sierra Wireless shares trade at a very reasonable 1.5 times book value and just 14.6 times forward earnings expectations. The company is especially focusing on its enterprise solutions and IoT services divisions, both of which are delivering impressive revenue growth.

Next is **Absolute Software** (TSX:ABT), which provides security software for commercial, healthcare, and education customers. Companies that use the service don't need to worry their proprietary information getting stolen from some employee's lost phone.

There's a lot to like here, including the company's recurring revenue business model, its strong gross margins, and its potential to increase the bottom line over time. It also pays a generous 4.1% dividend. A little under 4% of the Pender Small-Cap Opportunities Fund is invested in the company.

The fund also has a sizable investment in former growth darling **Freshii** (TSX:FRII). Although the fresh and healthy fast-food chain has posted tepid same-store sales results of late, it's still opening stores like crazy. As of July 1, the company had 421 North American locations. And 89 of those locations opened within the last year. That's remarkable growth.

Another stock the Pender folks like is **Knight Therapeutics** (TSX:GUD). Knight is ran by Jonathan Goodman, the man who helped grow Paladin Labs from a small healthcare company into one acquired for \$3.2 billion. Goodman started Knight the day the Paladin deal closed.

At this point, Knight is more like a venture capital company than a traditional healthcare stock. It is investing in various medicines it finds interesting and partnering up with other pharmaceutical companies. It even has a lending division for companies that would rather maintain full ownership.

Finally, the Pender fund also likes **Aritzia** (TSX:ATZ), the fast-growing specialty retailer. Profits haven't really yet followed all the revenue growth to date, but analysts are bullish for next year, saying the company could earn nearly \$1 per share. That puts the stock at just over 20 times forward earnings today — a very reasonable valuation for a company growing revenue at nearly 20% a year.

The bottom line

Many investors believe a new era is upon us. They think the path to investment success isn't with traditional blue-chip stocks. Rather, we all need to invest in the next generation of great companies. It's obvious the Pender Small-Cap Opportunity Fund got the memo. One thing is for sure: the fund's strategy sure is working.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:SWIR (Sierra Wireless)
2. TSX:ABST (Absolute Software)
3. TSX:ATZ (Aritzia Inc.)
4. TSX:FRII (Freshii)
5. TSX:GUD (Knight Therapeutics Inc.)
6. TSX:SW (Sierra Wireless)

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