Manager's Commentary
Emily Wheeler

Class F units of the Pender Bond Universe Fund (the "Fund") were up 4.7%[1] over the quarter, outperforming their benchmark, the FTSE Canada Universe Bond Index, by 3.2%. All portions of the Fund pulled in the same direction this period with our high grade, individual credit lines and Pender Corporate Bond Fund holdings all higher compared to June 30.

Rates Backdrop

Previously on pause, central banks in Canada and the US both cut rates by 25 basis points in September. Growth has slowed in both countries and the balance of risks they suggested currently lean towards employment weakness as opposed to inflation (at least for the moment). These were key factors justifying cuts. Sovereign rates were lower in Canada this quarter from 1 month to 15 years and higher further out, with Treasuries lower in the US right from 1 month to 30-year tenors. Rate moves were generally supportive of Fund holdings this quarter.

New to the Portfolio

In early August we added a position in **SSR Mining**'s 2.5%'39 convertible bonds. SSR is a precious metals miner and one of the largest gold producers in the US with the majority of their current production based in North America. Although we've seen mean reversion more recently, gold miners have been relatively undervalued versus spot gold for some time. Specifically, the ratio of spot gold to the miners still remains slightly under one standard deviation above the long-term average. We therefore feel opportunity here remains tilted to favor the miners.

At initiation, this investment appeared to represent attractive risk to reward. From a downside perspective, credit fundamentals are sound. With cash and PP&E of $400 million and $4 billion respectively versus debt of only $230 million along with EBITDA generation of more than 10 times interest expense, coverage of debt presented little cause for concern. In addition, these bonds are putable by the holder back to the company at $100 in April of next year. Therefore, assuming cash remained adequate to cover the bonds, our downside was a little over 2 points from our purchase price at approximately $102. However, upside has several potential catalysts:

1. Mean reversion to the long-term average ratio of spot to miners,
2. increased production from their newly acquired Cripple Creek & Victor assets, and
3. the potential resumption of operations at their Copper mine where production has been suspended since last year.

The company reported solid earnings during the quarter. Production from their new assets was positive and their realized price of gold was 40% higher versus the year prior. Since our purchase in early August, the underlying share price has moved through the strike with the converts now trading at over $140, or approximately 38 points higher than where we bought them last month.

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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 Pender's Fixed Income Funds may be found here: penderfund.com.*

Another new addition to the portfolio in Q3 was our **Denison Mines** 4.25%'31 convertible bond. Denison is a Canadian uranium producer that issued this convert in August to fund their Phoenix project, one of the highest-grade, undeveloped uranium mines globally. In terms of backdrop, a low price environment for uranium has led to years of production curtailments. We've recently seen a supply response, however the supply / demand picture over the next 10 years has the potential to remain favorable to producers. Exposure to a high-grade project, well covered from a debt perspective in the hard asset space made sense to us this quarter. Approximately 70% of their debt post this issue was covered with existing cash, physical uranium and uranium securities on balance sheet. Also, with ~$480 million in debt versus an estimated pre-tax NPV approximately 4 times higher than that for their Phoenix project alone, combined with an ex-Uranium Participation Corp senior management team, we viewed the risk to reward opportunity here as favorable. The bonds were issued mid-August at a 35% conversion premium and sit, as of this writing, at 6% below the strike. A purchase price of par last month vs a Sept 30 closing price of approximately $131 have made this new addition to the portfolio one the largest contributors to performance over the period.

Additional Portfolio Highlights

The Pender Bond Universe Fund may hold up to 25% of net assets in non-investment grade credit. This is done through holding Pender Corporate Bond Fund units or individual credit positions in which we have high conviction. One of Q2's additions to this portion of the Fund was a 1.4% weight in **First Majestic**'s 0.375%'27 convertible bonds. The company is a primary silver producer with attractive credit metrics. Aside from a brief spike during COVID, the gold-to-silver ratio has not reached current levels since the 90s, implying relative undervaluation of the latter. Compared to a purchase price of $97 in June, the bonds are now trading 10 points higher making it another standout performer in Q3.

Larger weights in longer dated lines such our **McDonalds** 4.857%'31s, **Occidental** 4.1%'47s, PEMEX 6.75%'47s and **AppLovin** 5.95%'54s all contributed via a combination of spread tightening and lower benchmark yields.

Fund Positioning

Since the beginning of 2025, the US 10-year term premium has hovered around a level not seen since the end of 2013, making duration relatively attractive at the moment. Little changed in the last quarter-end with duration of the Fund at 4.77 on September 30, 2025.

High yield spreads tightened approximately 16 bpts in Q3. Aside from a brief stint at the beginning of 2025, only the period leading up to the financial crisis in 2007 rivals the current tight spread environment. The Fund's credit exposure did not change materially this period. That said, the positive price performance of several credit lines individually held, slightly increased the Fund's non-investment grade weight over the period. We believe these lines are well positioned to benefit from a potential rotation out of the more expensive areas of the index and into areas like these.

Investment Grade and cash accounted for 75% of the Fund at September 30, 2025. The yield to maturity of the Fund was 3.74% at September 30, 2025.

Emily Wheeler
October 9, 2025