

Manager's Commentary

Geoff Castle

The Pender Corporate Bond Fund had a historic September, gaining 4.8%¹, as a number of drivers led to the Fund's best one-month performance since inception.

Precious metals holdings again led the Fund's returns in September, as eight of our holdings in the sector delivered double-digit gains. Our convertible notes in platinum group metals miner, **Sibanye Stillwater**, rose over 40%, as new highs in platinum, and a renewed market focus on in-the-ground metals resources, pushed Sibanye's stock higher.

Distressed debt securities were another driving force. Leading this group was our longstanding position in the takeback term loan of offshore engineering and construction specialist, **McDermott International**, which rallied over 35% in September due to the market's long overdue recognition of McDermott's improving profitability.

Catalyst events also triggered some big moves in Fund holdings, with none larger than the impact of **Wolfspeed, Inc.**'s emergence from its Chapter 11 restructuring. Our Wolfspeed position gained more than 50% as the North Carolina-based silicon carbide wafer maker completed a successful reorganization in which we received takeback notes, convertible notes and equity in exchange for our original position in Wolfspeed convertibles. With the specter of restructuring now lifted, investors were newly focused on Wolfspeed's growing commercial opportunities and growth opportunities ahead.

These major moves overshadowed a number of positive moves that in other periods would have been headlines in their own right. The Fund enjoyed double-digit gains in several other holdings, including:

- **Beyond Meat** convertible bonds on its launch of its debt-reducing exchange offer;
- **Cardlytics** converts on a stock rally inspired by a bullish report from Andrew Left of Citron Research; and
- **Fluence Energy** converts as battery storage names continued to rally off a multi-year low.

Although there were not many offsetting negative movers in September, two worth noting were **American Tire Distributors**, where we abandoned our legal efforts and wrote off our remaining weight to zero, and **Spirit Airlines** which filed for a "Chapter 22" restructuring due to claims from a key airplane lessor. Our re-org equity position in Spirit declined by over 60%, while our larger holding of the 11% secured notes fell by more than 10%. We continue to believe that better days are ahead for our Spirit holding.

Some 2025 Thinking - Bonds as defense and Quinn Hughes as defense

We speak often to our investors about the role of defensive holdings within their portfolios. Like the Fed, we ourselves have a kind of "dual mandate". While our investors want to make money, they also consider fixed income to be a portfolio stabilizer. We get that. Putting it simply, equities are offense and bonds are defense. Now let us make the case for Quinn Hughes.

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: penderfund.com.

For the non-hockey follower, Quinn Hughes is a high scoring defenseman for our hometown Vancouver Canucks. While protecting his own end of the ice, he is a key part of the team's attack in the offensive zone. And that, in a way, is how we see ourselves as a bond fund within client portfolios. We are defense with the ability to put points on the board.

There are many offensive tools at our disposal, as this month's performance well demonstrates. We can own a **distressed credit that prices well below par**. McDermott's term loan began September at 55c on the dollar and ended at 75c. That's one way.

But sometimes a **convertible bond has equity upside potential**. We initiated our position in Sibanye 2028 converts around par in 2024 when the company's stock traded below book value, and platinum had gone nowhere, price-wise, since 2006. We're still not back to average trading ranges for platinum, but Sibanye stock has begun to move, and our now in-the-money convert has appreciated from par to more than 200. That's another way.

But let's not forget about earning **coupon income**. Our investment in **Tenaz Energy**, a key player in the North Sea offshore gas market in the Netherlands is a simple straight bond. It's well covered, value-wise, in our opinion, and yet due to a short supply of willing investors at the time they came to market in 2024, the coupon the company needed to offer was 12%. That's another way.

And there are many other tools. Yield-to-call, change of control, taking advantage of duration moves, fee taking, covered call writing. All of these can go into the mix of generating a return.

But let's not forget about the other end of the ice...protecting against losses. What are the mechanisms that we use to keep this Fund's drawdown potential to be less than an equity mandate? And here we need to be aware of different mechanisms, too. The biggest one we use is just to ensure the fair market value of the assets that back any particular credit security we own is more than the value of debt issued by the company with some margin of safety.

But as with offense, there are many tools of defense. Strong interest coverage, tight duration, implicit support from larger entities, hidden or underappreciated assets. The list is not short.

Do these sources of defense always preserve nominal portfolio value, as measured over very short time periods, as well as a GIC does? No, they do not. Do they work well at preserving **real portfolio value** as measured over a typical investor's holding period? We like to think they do. What are you optimizing for?

Fund Positioning

The Pender Corporate Bond Fund yield to maturity at September 30 was 5.73% with current yield of 4.84% and average duration of maturity-based instruments of 3.98 years. The Fund holds a 5.08% weight in securities such as distressed credit or in-the-money convertibles where positions are held for a target value which is different than par, and therefore the headline yields of these securities are not included in the foregoing calculation. Cash represented 1.03% of the total portfolio at September 30.

Geoff Castle
October 6, 2025