

# Consistency Counts

**10 YEARS** at the helm and multiple award wins



**Geoff Castle** has been managing the Pender Corporate Bond Fund since September 2015, delivering an incredible track record over 10 years. He and his team adhere to a **proven investment strategy** that has weathered a series of market cycles and, with a **flexible mandate, a wide investment universe** and an emphasis on **active credit selection**, they always find **pockets of opportunity** to pivot into.

Geoff reflects on how both his investment process and the fixed income landscape have evolved over the past decade. He shares how he has expanded his toolkit and how he has adapted his approach to risk management and portfolio construction as well as lessons learned. Ultimately you will learn more about what continues to set the Fund apart, even as it has grown, in delivering consistently strong, risk-adjusted returns.

## How has the fixed income universe evolved in the last 10 years?

**GEOFF:** One of the most important developments has been, I believe, a change in the secular trend of rates from the primary trend being lower, which was still the pattern through to 2020, to the primary trend of rates being higher. I think that's a situation that fixed income managers who exist in a mandate-driven straightjacket will find it difficult to adjust to. I think the key to investing in this post 2020 period is to find a way to get exposure to those things that tend to rise in rising rate environments.

The other thing I would say about the change in the primary trend (keeping in mind that there can still be the odd 12 months or so where a counter-trend move can occur) is that primary trends in rate markets tend to last for a long time. If you look back to the yield lows of August 2020, that represented the blow-off top for a bond market that was approximately 40 years into a secular bull trend. I don't think many people are expecting "higher for longer" to last decades, but if you look back on the last century the prior rising rate cycle lasted a long time. The ten-year US Treasury yield was 2.4% in 1954 and topped out a little over 16% in 1981 which was twenty-seven years of generally higher term rates in the bond market. I think investors need to be aware of the possibility that something like that could happen again.

**When you took over management of the Pender Corporate Bond Fund, you saw six ways to invest\* in fixed income that had greater potential than traditional fixed income investing. After 10 years managing the Fund, how have you expanded this toolkit; what are some of the new tools you have for investing in fixed income?**

**GEOFF:** Generally, that list still represents the game plan. In particular, "addressing the full universe" of credit instruments and "managing for value" instead of managing for a payout have been very important in building the track record. In terms of new wrinkles, we are always tweaking and fine-tuning what we do. Usually when we add a new element to the Fund, what we are really doing is responding to a valuation opportunity that we see in the capital markets, and we are asking ourselves, 'how can we take advantage of this valuation anomaly through credit securities?'

### THE TRADITIONAL WAY

- Bond ladder
- Ratings-based credit analysis
- Mandate straightjacket
- Buy "the index"
- Small pool of issuers
- Manage for payout

### \*THE PENDER WAY

- Dynamic rebalancing
- Fundamental credit evaluation
- Dynamic risk allocation
- Trading against indexers
- Addressing the full universe
- Manager for value

For instance, in 2017 we became interested in rate reset preferred shares. Then in 2018 we thought there was a play in high quality longer duration. And in the early part of this decade we paid more attention to ways we could capitalize on convertible bonds trading through par, including adding the ability to write call options against look-through equity exposure. Lately it has been a case of taking advantage of opportunities in markets outside of North America and as we have moved into new territories we have developed new models and research sources that help us to get the best value from an area or a type of security that we haven't previously owned.

### **How have the needs of fixed income investors changed in the last 10 years?**

**GEOFF:** I think investors have started to wake up to the need to protect themselves against inflation. I remember being a kid and my mother would tell us stories about taking the bus down to the White Spot and buying a hamburger for fifteen cents and then going to see a movie for ten cents admission, and my siblings and I would look at her like she was from another planet. And there was a decade or so recently when prices didn't move that much so the concept of inflation was forgotten. But now, if you're of a certain age, when you tell younger people about jobs you had where you earned three dollars an hour or bought a ticket to a hockey game for ten dollars you get that same look I used to give my mother.

So we really aren't in Kansas anymore from the point of view of the value of a dollar, or how to think about the return on your investment portfolio. I think investors have to get used to accepting a touch more nominal return volatility in order to grow their portfolio beyond the rate of inflation. And they need to think first about real returns.

### **What would you say has been the best performing investment of the last 10 years and what were the learnings from the worst investment the team made?**

**GEOFF:** There were a couple of oil market busts in 2015-16 and again in 2020 that provided some big wins in percentage terms. In both of those eras there were bonds to buy in the low teens that ultimately paid out at par. We also had great success with some quite obscure securities. Parul Garg (Associate PM on the Fund) and I got involved in Fannie Mae preferreds, which admittedly started out poorly for us, but then went from \$2 to around over \$14 within about 18 months. Then there were some, "wish we had held to their full potential", which "coulda woulda shoulda" been bigger winners. Emily Wheeler (PM on the Fund) got us involved in the convertible bonds of rare earths processor, MP Materials Corp., that, on my watch, we sold out plus 50% which, had we held a few months longer, would have been a quadruple.

We have had a few losers along the way. On the distressed credit side, I think over time we have become more careful about how we approach a pending bankruptcy. It's easy to say that in theory a company is worth a billion dollars and therefore if its debt is trading down to a value of, say \$300 million against \$1 billion in face value, then you should just ride in and buy it, guns blazing. But one has to be aware of senior lenders or groups of controlling lenders who will be using a restructuring to wipe out minorities by crafting an exclusionary DIP financing. Sometimes, recourse to the courts can turn a losing situation of this nature into a winner, as was the case for us in Cineworld Group. However, in other instances, like American Tire Distributors, your cost of seeking fair redress can be prohibitively expensive.

### **Has how you manage risk in the portfolio evolved over the years?**

**GEOFF:** The risk management process has been fairly consistent over time, with one of the key elements being keeping a close eye on real-time developments in default probabilities of issuers, using a model that relies on market inputs as opposed to ratings agencies. Our intentional diversification by sector and our maximum position size limits have also really been in place since the beginning as well.

A recent change was starting to write covered calls against look-through equity positions in convertible bonds. That began because we were faced with the dilemma of seeing a great number of high return opportunities in convertible bonds that were issued by, in our opinion, deeply undervalued companies. The first thirty points or so of upside is great, but if you see maybe two hundred points of upside, you are going to be holding a pretty volatile security, whose movements might not be cancelled out by other sectors or holdings in the Fund. So covered call writing is not a perfect solution to the problem, but it helps because you can monetize some of the volatility in an in-the-money-convertible bond and you are putting on a position that moves in the opposite direction to the underlying. The added benefit is of course that the option premium provides an additional income stream.

## You began your career as an equity manager. Do you think that helped you as a bond manager and in what way?

**GEOFF:** Yes, I had more than ten years of analyzing and managing equities under my belt before I bought my first corporate bond. In the intermission between managing equities and managing bonds I spent eighteen months in a trade credit department run by a former commercial banker who insisted that we make no forecasts into the future and that we accept the opinions of Moody's and S&P as gospel. I feel there's a bit of an advantage in not only having that whole-company valuation perspective that you get from analyzing equities, but also in having had a peek into how the more traditional credit manager might be thinking about a situation.

## After 10 years managing the Pender Corporate Bond Fund, you have enjoyed consistently positive returns. What do you believe makes this Fund different from the hundreds of others out there?

**GEOFF:** Looking back on the last ten years, it's true that the returns have been consistently positive, but that doesn't mean there wasn't the odd period of panic and drawdown. We have done what we set out to do, which was to deliver a few points above inflation to our unitholders, after considering all fees and costs, and to do that within a volatility profile that was a fixed income type number.

What makes us different? Well first, we enjoy the benefit of my wonderful colleagues, **Emily Wheeler, Parul Garg and Carl Davies**, who come to work every day thinking of great ways to make the Fund better. That's a big part of it.

But I would also say that our orientation is different. We have never said to each other, "What part of our benchmark should we overweight or underweight?" Our thinking is always, "Where are there valuation dislocations in capital markets and how can we best take advantage of them?" If that means that we need to learn about what all the trouble is about in Mexico's state-owned oil company, or we need to figure out the market prospects for a biotechnology company's main product, well, we just roll up our sleeves and get started. What is the weighting of distressed convertible biotech bonds in our benchmark? I haven't a clue. Maybe it's zero. But if we see great value there, that's where we are going to go.

## The Fund has a reputation for being nimble but has that changed as the Fund has grown; are there still opportunities to exceed benchmarks and peers, and generate positive, returns for investors?

**GEOFF:** I think that by performing as we have with a total asset size above \$2 billion, we have underscored an idea I have had all along, which is that "nimble" is a state of mind, not a number. Even at \$3 billion, we are still a mere drop of water in an endless sea which is predominantly populated by indexers and "benchmark aware" fund managers.

While it is true that we won't be owning as many \$50 million Canadian convertible bonds issues, there are many more large opportunities out there than we can fully address with the Fund at its current size. One of the benefits of scale that people may not consider is our ability at this point to not only to buy a security we like, but also to help in its initial creation. For instance, we were recently invested in a company with a maturing convertible bond, which was considering a straight bond issuance and we told them, "We still think your company is quite undervalued and we will happily sign up for \$25 million of a newly issued convert". And because our lead order was big enough, we helped make that happen. That note has traded up from par to 130 over the past year. So, in a way, at scale you can participate in charting your own destiny.



To learn more and to find out who your local Pender contact is, **please visit our website.**



penderfund.com/consistency-counts



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<sup>1</sup>Source: Pender, as of September 30, 2025. Performance data points are for Class I 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: <https://www.penderfund.com>

<sup>2</sup>Source: Morningstar, as of Sept 30, 2025. © 2025 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Morningstar Ratings are based on fund returns for periods ending 09/30/2025 and are subject to change monthly. Morningstar Star Ratings are assigned based on the ranked Morningstar Risk-Adjusted Return of each fund compared to other funds in the same CIFS Category. Morningstar calculates ratings for the three-, five-, and ten-year periods and then the Overall Morningstar Rating is based on a weighted average of Morningstar Ratings for available time periods. Morningstar calculates ratings for categories with at least five funds. If a fund scores in the top 10% of its category, it receives five stars; if it falls in the next 22.5%, it receives four stars; the next 35% earns a fund three stars; those in the next 22.5% receive two stars; and the lowest 10% receive one star. For greater detail, see [morningstar.ca](https://www.morningstar.ca). The Star Ratings and number of funds in each category for the standard periods as of 09/30/2025: Pender Corporate Bond Class F, Multi-Sector Fixed Income: YTD - N/A stars; 276 funds, 1 year - N/A stars; 266 funds, 3 years - 5 stars; 254 funds, 5 years - 5 stars; 232 funds, 10 years - 5 stars; 115 funds.