

Manager's Commentary

Geoff Castle

The Pender Corporate Bond Fund posted a solid October, returning 2.2%¹ within the context of a positive movement for high grade bonds and a neutral market for credit risk assets.

The top Fund contributor in October was the successful workout of our position in **Beyond Meat Inc.**, which is discussed in greater detail below. Other important movers included our position in convertible bonds of **Fluence Energy Inc.**, as companies in the business of stabilizing power demand in the North American grid enjoyed investor popularity. Fluence 2030 converts rallied over 45% in October, leading us to reduce our exposure to the line. Also positive were our positions in various USD obligations of the government of Argentina, which rallied as much as 36% on mid-term election results that supported the party of President Javier Milei.

Weaker lines included the distressed bonds of LNG-based power producer, New Fortress Energy, where investors appear to be bracing for a debt restructuring. Also selling off a bit were the convertible notes of Sibanye Stillwater, as some precious metals miners' shares pulled back after an epic summer run.

A Journey into the World Beyond...

Dear Editor,

I am just a manager of a small northern mutual fund, and I never thought that anything like this would happen to me...but the events that I have been party to in the past month merit some recounting for posterity.

The story begins, as many of these stories do, with the purchase of a bond, in this case, the zero coupon 2027 convertible bonds of vegetarian burger maker, Beyond Meat. Deeply busted, our position in Beyond bonds was accumulated at around 18c over the course of the past year, and our appetite was large enough to buy over \$90 million face value.

Through the spring and summer, in coordination with other holders, the terms of a debt-for-equity exchange transaction were negotiated with the issuer. Our thought was, unburdened by a huge, unrepayable maturity, investors might re-evaluate the company's longer-term prospects. And we might make, we hoped, something like a thirty or forty percent return for our efforts.

*However, the workings of providence are sometimes truly mysterious, as an early morning text message on Monday, October 17 so alerted me. Despite swamping the market, through the exchange transaction, with approximately twenty times the number of Beyond shares that had existed the prior week, Beyond shares were trading **higher**, not lower.*

In fact, through a combination of fairly unknowable factors, including massive short positions, meme-pumping Reddit accounts, and technical issues that prevented some owners from selling shares, the price of Beyond shares didn't immediately collapse, but

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.

soared! On a dilution-adjusted basis, *Beyond* stock had moved approximately eight times higher in just one day. And then, on October 18, the stock tripled again. At one point, at the apex of *Beyond's* meme stock mania, the company's capitalization exceeded \$4 billion. For comparison's sake, at our original bond purchase price of 18c, the like-for-like implied capitalization had been only approximately one twentieth of that level.

As bumbling bond traders, more comfortable with trading notes that move in eighths and quarters than offloading gyrating meme stock positions, we were unable to exactly monetize the peak of the hysteria, which, had we nailed precisely, would have given us a \$200million exit on a \$16million position. However, we caught enough of the wave to exit the vast majority of our position during the frenzy. And our gain of over \$30million, represented about a 1.4% return to the Pender Corporate Bond Fund.

While we cannot promise that such good fortune can be replicated, we continue to appreciate the unknowable wiles of capital markets, and today we give thanks for the generosity of fate.

New Positions

In October we added weight to our position in the 6.75% 2076 notes of **Emera Inc.** Nova Scotia-based Emera owns a variety of electricity and gas energy distribution assets in North America. Priced near par, the notes present an interesting short-term yield to their probable call in June 2026. However, if the notes are not called, we find the step-up coupon of 3-month US Treasury +5.44% to be an attractive yield for this low default probability issuer.

Also in October, we initiated positions in the AAA rated notes of two Government of Canada agencies, **CPPIB Capital Inc.**, and **Export Development Canada**, and one Government of Quebec issuer, **CDP Financial Inc.** (CDP). The "twist" or different element in these investments is the fact that they are "kangaroo bonds". The notes are Australian dollar issues and are priced against the Australian sovereign curve. While a hefty majority of our holdings are, and will remain, CAD or hedged USD notes, we find the Australian bond market of interest as a diversifier in the current market context. We see Australia as a more direct economic beneficiary of a rebounding Asian economy that has suffered over the past five years with China's slowdown. Australia also has the benefit of having comparatively fewer trade ties with the United States and so this position helps to de-risk some potential CAD weakness that may occur if Canadian trade with the United States continues to slow.

Fund Positioning

The Pender Corporate Bond Fund yield to maturity at October 31 was 5.72% with current yield of 5.01% and average duration of maturity-based instruments of 4.16 years. The Fund holds a 1.37% 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 0.08% of the total portfolio at October 31.

Geoff Castle
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