

## Manager's Commentary

### Geoff Castle

The Pender Corporate Bond Fund enjoyed a profitable November, returning 1.1%<sup>1</sup>. The Fund outperformed peers for the period in a credit market that offered relatively muted returns.

Leading the way for the Fund were our positions in precious metals, including convertible notes of miners Equinox Gold and Sibanye Stillwater, which rallied on underlying strength in gold and platinum, respectively. Also strong in November was our position in the capital structure of Esperion Therapeutics. Esperion converts rallied 24% on successful approval for marketing bempedoic acid in Canada and Japan, as well as the achievement of related milestone payments from the company's distribution partners.

Offsetting the strong performers, to a degree, was weakness in our position in Wolfspeed Inc. bonds, which perhaps suffered from selling pressure in relation to the company's recent recapitalization, and the exit of holders with shorter investment time horizons. Also weak was our positions in the busted convertible notes of Cardlytics Inc. which recently disclosed a reduction in business from a large bank partner. We are convinced that Cardlytics' marketing platform will return to growth in the coming year and added to our position in November.

#### What Will Drive Returns in 2026?

Touch wood, 2025 is turning into a good year for the Fund. But seeing as we go to work every day for the holder who is putting their money to work right now, the trailing numbers are not important. The outlook is.

What seems to be attractive from the perspective of the next twelve months are a combination of themes and situations. Themes can relate to industries, geographies or security types. By situations we refer to individual companies, and capital opportunities within those issuers' securities.

A few themes of interest to us include, in no particular order, silver miners, oil and gas producers, utilities, agriculture, health care and Latin America. Let us elaborate on a couple of **themes**:

**Silver Miners:** Silver miners have a few things going for them, not the least of which is valuation of the metal. The price of silver versus gold that has only recently turned up from historic lows of 1:100 for a silver ounce compared to a gold ounce. For context, that ratio spent many years in the last century close to 1:25, or four times as expensive. Not only is valuation attractive on the underlying metal but the ratio of prices of the miners to the metal is similarly cheap. First Majestic Silver Corp, whose stock traded around \$18 back in 2021 (at a time when silver briefly traded over \$28/oz) closed the month with a \$15 handle despite silver being now approximately twice the 2021 level. The fundamentals of the silver market are also attractive, with silver continuing to be in a state of supply deficit (in that there is more consumption than there is mined supply). And to top this off, on a security level, we are able to own good quality mining assets through conveniently priced convertible bonds in both First Majestic and Vizsla Silver, which offer downside protection close to par, with reachable upside optionality.

**Oil and Gas Producers:** Energy commodities, similar to silver, have traded recently near all-time lows with respect to gold. In 2007 it took seven barrels of oil to buy an ounce of gold, recently that number is closer to 70. While monetary debasement may explain the rise of gold, we see no reason the decline of fiat purchasing power should not extend to other scarce real assets, and we see the energy sector as the poster child of that argument. In our view, oil and gas assets trade near record low price-to-book values

<sup>1</sup> 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: <https://penderfund.com/fund/pender-corporate-bond-fund/>

and cash flows versus enterprise values, even at depressed current prices, are cheaper than historic averages. Yet we continue to find double digit yields in issuers where debt is less than half of accounting book value. Convertible bonds in issuers like Borr Drilling and Northern Oil and Gas trade below par with realistic upside to equity strikes.

**Situations**, unlike themes, really boil down to dynamics within a particular issuer, and the investing outlook relates more to the de-risking of a single corporate balance sheet than a generalize-able market trend. Let us look at a couple of such situations that seem attractive to us in the coming period:

**McDermott International, Ltd:** We first got involved in McDermott back in 2019 when the offshore engineering and construction firm filed for bankruptcy protection. At the time we believed the company would be able to quickly rid itself of onerous, badly estimated fixed price contracts that locked in operating losses. We were wrong. The hangover was much longer than we expected. However, with time, management was able to finish off the losing engagements and has managed to re-base much of McDermott's new business onto more profitable cost-plus relationships, while also reducing capital tied up in posting letters of credit as project completion guarantees. The net effect has been to put upward momentum on earnings and to gradually restore investor confidence in the company's equity and debt securities. We believe a material further re-rating is possible through 2026.

**Wolfspeed Inc:** For the uninitiated, Wolfspeed is the only scale producer of silicon carbide substrate (or "wafer") for semiconductor applications which is based in the United States. Over the last year, the company's massive recent investment program led to a mismatch between production capacity and revenue, and resulted in cash flow shortfalls and a 2025 bankruptcy filing. That is the bad news. However, there are numerous positive elements to the story that we believe will drive strong returns going forward. The first part of the equation is valuation, with Wolfspeed's ~ \$2.5 Billion enterprise value being less than one quarter of the level it sustained two years ago. The second piece is growth in its addressable market, with an industry expectation that silicon carbide wafer will increasingly penetrate high performance computing applications such as the GPU's that are required for AI applications. A third leg of the Wolfspeed story is the prospect for favorable trade barriers being erected on Wolfspeed's behalf by a US administration that prefers domestic manufacturing of critical technologies. And a fourth factor in Wolfspeed's favour is the prospect of a direct investment by the US government, which would clearly improve investor confidence in the company's prospects. With double digit yields in its secured debt and material upside in Wolfspeed convertibles, we consider our position here a key driver of potential 2026 returns.

### Fund Positioning

The Pender Corporate Bond Fund yield to maturity at November 30 was 6.17% with current yield of 4.84% and average duration of maturity-based instruments of 4.02 years. The Fund holds a 2.19% 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 2.6% of the total portfolio at November 30.

Geoff Castle  
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