# Manager's Commentary

Geoff Castle

The Pender Corporate Bond Fund recorded a positive result in December, returning 0.3%[1]. The period was characterized by positive credit returns offsetting the effect of rising benchmark interest rates. For the full year 2025, the Fund returned 13.4%, a happy outcome driven primarily by security selection as opposed to benchmark performance, which was markedly lower.

Leading the way in December were our positions in the convertible debt of platinum miner **Sibanye Stillwater Ltd** and silver miners **Vizsla Silver Corp** and **First Majestic Silver Corp**. Our direct metals holdings of platinum and silver, acquired well before their recent frenzied ascent, also contributed significantly. Although we believe even higher prices lie ahead, we have been gradually reducing our metals exposure throughout the year, using a combination of outright sales and covered call writing, and now retain roughly half our original metals position.

Other noticeable contributors to performance in December included convertible bonds in Bermuda-based **Borr Drilling Ltd** which rallied 10 points on news of an acquisition by the company of additional jack-up rigs, and our small position in the distressed debt of autonomous driving player, **Luminar Technologies Inc**, whose bonds rallied over 20 points as the company announced certain asset sales as part of a court-supervised liquidation.

Weaker lines for the Fund in December included our position in the deeply discounted notes of **Cardlytics Inc**, which runs credit-card based promotions on behalf of major card issuers, and also our position in the capital structure of **Wolfspeed Inc**, a silicon-carbide based substrate supplier to the semiconductor industry, which emerged from bankruptcy in the latter part of 2025. In both cases we believe the market has missed important improvements in the prospects of these companies over the past year and we continue to add to these positions.

## Positioning for 2026 – Thinking from the Big Picture through to Individual Lines

We enter the new year with a generally constructive predisposition towards markets within our purview. Top level economic factors seem positive. The average of global economic leading indicators is moving in a positive direction, and the general trend of central bank interest rates is trending lower. The big picture, therefore, seems supportive.

The next level involves finding market sectors and industries with unrecognized potential. We are not momentum players. We try to find unpopular ideas sitting in proverbial "left field" that are uncrowded, understudied and cheap.

Broadly speaking, we believe commodity markets still fit the bill in terms of offering cheap opportunities. However, with 2025's face-melting rally in precious metals, we are increasingly drawn to the rest of the commodities complex over the shiny coin variety. Commodity producer capex has not met the level required to sustain longer-term production in a variety of areas such as industrial metals, agriculture, oil and gas, and construction materials.

[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: https://penderfund.com/fund/pender-corporate-bond-fund/*

The hard work in our business is isolating particular credit lines that can deliver differential returns from an industry or sectoral recovery. Within **oil and gas**, however, there are plenty of wide-spread lines to choose from and numerous securities with underpriced equity optionality. We like issuers such as **McDermott International** and **Borr Drilling** both of which will benefit from improving demand for offshore energy and the high coupon-paying obligations of North Sea gas producers **Tenaz Energy Corp** and **BlueNord ASA**. All told, conventional energy credits represent about 14% of Fund assets, and a higher proportion of coupon interest.

Another area of structural credit undervaluation is in the North American marijuana business. In fact, a fascinating chart can be assembled comparing the ongoing growth of the sales and gross margin dollars generated by leading operators with the grueling long-term decline in traded enterprise values of these businesses. From valuation heights of 30-50 times <u>sales</u> in the heady days of 2018, marijuana companies have settled in around 1.5-2.0 times sales with positive and growing cash flow dynamics. Credit lines situated in the top half of company capitalizations have double digit yields. We like the outlook for key holding, Florida-based **Trulieve Cannabis Corp.** and Northeastern US operator **Terrascend Corp.**.

We cannot highlight every sector and every holding in these notes, but hope that some general messages sink in. We think seriously about sector and issuer weightings. We look for securities that will expose our unitholders not just to sectors, but to attractive and differential returns from those sectors through either a discounted price or underappreciated equity optionality. And, entering 2026, we feel good about our chances of delivering a good year of returns.

### Fund Positioning

The Pender Corporate Bond Fund yield to maturity at December 31 was 5.50% with current yield of 4.83% and average duration of maturity-based instruments of 3.96 years. The Fund holds a 2.11% 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 2.2% of the total portfolio at December 31.

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