

Manager's Commentary

Geoff Castle

The Pender Corporate Bond Fund had a good start to the year, delivering a 2.1%¹ return in January, which was significantly ahead of investment grade and high yield benchmark returns over the same period.

The month saw strength from a diversified group of holdings. Leading the way for us was our position in convertible notes of **Fluence Energy Inc. (FLNC)**, which rallied 39% on gains in the underlying stock. Fluence, a leader in the utility-grade battery and battery software industry, has found itself at the centre of the current excitement regarding electric grid reliability in the United States as AI power consumption grows. We have now locked in a meaningful quantum of profits in this position through writing call options against the underlying Fluence shares.

Miners continued to perform for the Fund as well in January, with convertible bond positions in **Sibanye Stillwater Ltd. (SSW)**, **First Majestic Silver Corp. (AG)** and **Denison Mines Corp. (DNN)** each making a large contribution to the month's total. All rallied in excess of 10% as strength in platinum, silver and uranium drove the underlying stocks deep into the money from the perspective of our converts. Although we believe there may be more to come from these positions, we have been trimming and writing some call options against the positions as part of an effort to rebalance the Fund's effective weightings into other sectors as the metals rally gets longer in the tooth.

Rounding out the list of strong positions were a couple of distressed names that started to climb back off the mat. **New Fortress Energy Inc (NFE)** 12% first lien notes bounced on optimism regarding the company's debt restructuring efforts, while our position in the distressed notes of **Teads Holding Co (TEAD)** also rallied as the company hit the conference circuit to promote their turnaround plans.

There weren't many weak spots in January, but a couple of more difficult positions included **Wolfspeed Inc (WOLF)**, where the final disposition of bankruptcy-created equity to some shareholders may have contributed to weakness, and **Cineworld** reorg equity, which faded somewhat despite the strong Christmas 2025 box office results for movie theatres. We continue to hold and like these positions.

Giving Sovereign Bonds a Second Look

"When you have eliminated the impossible, whatever remains, however improbable, must be the truth." Sir Arthur Conan Doyle.

We are reminded of this Sherlock Holmes deduction as we look at the set of opportunities that face the fixed income investor in early 2026. North American high yield credit spreads sit toward decade tights. So, too, are spreads of investment grade credit. In our view, North American public company business valuations are, on average, at levels that are amongst the extreme high end of the historic range.

As we have noted in past notes, there is still a lot of opportunity, from a business valuation point of view in sectors that have been left out of the rally (notably health care and utility

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 the Fund may be found here: <https://penderfund.com/fund/pender-corporate-bond-fund/>

names). And we have also pointed to companies domiciled outside of North America where capital structures are cheap, particularly in comparison to the US.

But one other idea starting to look more attractive is paper from a variety of sovereign issuers. US Treasury real yields are not spectacular, but they are at least positive in the context of inflation near 3%. The term premium on a US ten-year zero-coupon bond is currently 0.6%, which indicates that investors stand to receive more compensation for accepting duration risk than they have in all but a few weeks of the past five years. And the asset class is unpopular. Sometimes rallies of unpopular asset classes come out of nowhere.

We also consider Chile. Chile's topline numbers are surprisingly attractive. With a debt to GDP ratio of 0.4x, it compares positively to the United States at 1.3x and Canada at 1.0x. Inflation in Chile is quite similar to North American levels, a touch over 3%. But yields on Chilean government bonds are approximately 5% at the five-year tenor, while Canadian bonds yield 3% and US bonds yield 3.8%. There is no ongoing constitutional crisis in Chile. They have not tied their economy to a neighboring country that has suddenly erected a tariff wall. Within the context of sovereign bonds, Chile seems attractive here.

When investing in securities, unlike in life, there are no permanent friends or enemies. There is only a constant imperative to put capital where there is high probability of an attractive future return. And sovereigns, the laughingstock of the past decade from the point of view of return generation, may yet have another day in the sun.

A Note on Metals Holdings

In late 2024 and the first half of 2025 the Fund purchased approximately \$60 million of precious metals through the acquisition of ETF's and closed-end funds that focused on platinum and silver. Over the course of the past seven months, we have been reducing our effective position as prices have risen. We reduced our position both through outright sales in the market as well as by writing call options at strike prices below the prevailing metals prices. On January 29, 2026, the day prior to the dramatic drop in silver and platinum prices, our remaining unhedged exposure to silver was only about 16% of our original investment and our unhedged exposure to platinum had been reduced to roughly 36% of our original position. These positions did contribute, on January 30, to a volatile day for the Fund, no doubt. But this admittedly unconventional trade has proven to be very successful for the Fund and has been enacted in keeping with our general emphasis on downside risk control and sell discipline.

Fund Positioning

The Pender Corporate Bond Fund yield to maturity at January 31 was 5.32% with current yield of 4.58% and average duration of maturity-based instruments of 3.81 years. The Fund holds a 2.36% weight in distressed credit instruments where positions are held for a target value lower than par, and therefore the headline yields of these securities are not included in the foregoing calculation. Cash represented 3.7% of the total portfolio at January 31.

Geoff Castle
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