

## Manager's Commentary

### Geoff Castle

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The Pender Corporate Bond Fund enjoyed a successful February, posting a total return of 2.2%<sup>1</sup>. The broader market context included strength in investment grade benchmarks, which advanced over 1%, and weaker high yield credit which delivered negative total returns on spread-widening.

The Fund's highest returning securities in February were convertible bond positions in the mining sector. Two larger movers were the 2027 notes of First Majestic Silver, which gained over 40% and Equinox Gold 2028 converts that rallied 25% in the month. These longstanding positions, which were initiated over two years ago, have rallied from levels lower than par to as much as three times that level. We have been selling these securities as they have risen in price and have also been writing covered calls against the embedded equity exposure within the notes. However, we are mindful that, relative to the underlying metals, mining shares sport a valuation gap near the widest levels on record. Therefore, we continue to maintain a positive exposure to the precious metals miners of approximately 4% of the fund on a delta-weighted basis.

Another key area of strength for the Fund in February was in oil and gas producers, which have begun to recover from the depressed levels seen in 2025. Our position in Colombian oil producer Fronterra Energy Corp's 2028 senior unsecured notes rallied to over 95% of face value at month-end, an increase of almost 30 points from their trading value at the outset of this year. Fronterra is currently the focus of a bidding war between Colombian-domiciled Geopark Ltd and Calgary-based Parex Resources Inc. We consider the traditional hydrocarbon energy industry to be deeply undervalued, and we have been actively adding weight in both straight bonds and convertible notes in the sector.

Within the rest of the Fund, we saw good moves in many of our investment grade positions such as our position in the 0.125% TIPS of 2052, which gained over 5% in February. There weren't many weak lines, but one area of trouble was software-oriented credit. Although not a focus for us, we do own a position in the 10.625% 2031 bonds of Unisys Corp which fell ten points this month.

### Charting a Strategic Direction Amid the Fog of War

The launch of hostilities in Iran at the end of February introduced significant volatility into capital markets, to which this Fund was not immune. As we contemplate the prospects of navigating through a volatile and uncertain period with respect to the new war in the Middle East, we offer thoughts on our experience investing through crises.

#### **1. We have never regretted a healthy position in liquid securities**

To the extent that crises such as our experience during COVID or on Liberation Day which threw markets into disarray, our weight in liquid securities was useful in both moderating the degree of volatility experienced by the Fund, and in providing capacity to expand opportunistic positions as prices fell. In the current instance, we entered the month of March with a 54% weight in our lowest default probability category, which includes a 31% weight in

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

investment grade bonds. The resolution of the crisis in Iran is highly uncertain, but we have at least entered the situation from the standpoint of ample position liquidity.

## **2. Big price dislocations take a long time to recover**

We do not yet know how serious the Iranian war will be or the depth or extent to which the war will impact economies and securities around the world. But one thing we have observed in past crises is that profound price dislocations tend to take a long time to resolve. So we encourage the readers of this note to be patient to the extent that we add positions where “sale prices” are created by the conflict. Even in the event of a speedy resolution of a crisis event, we have seen beaten-up bonds respond slowly to turnarounds.

## **3. The winners from crisis lows aren't necessarily the “obvious” candidates**

Any crisis in the Middle East tends to focus investors on oil and related industries, which in this case, seem likely to be the proximate beneficiaries of a supply shock for energy. However, in past crises, the most profound winning sectors weren't necessarily the obvious crisis victims. The 2000-02 technology bust lit a fire under resources and emerging markets while COVID goosed residential real estate and, after an initial bust, oil producers.

The sector and company winners that will emerge from the lows of the current crisis may be difficult to see at first. But our first instinct will be to look for the most dislocated prices, with enterprise values discounted well beyond the typical ranges. Sometimes the explanation for why prices must recover emerges over time as customers and industries react to an unforeseen change of circumstance.

### **Fund Positioning**

The Pender Corporate Bond Fund yield to maturity at February 28 was 5.38% with current yield of 4.71% and average duration of maturity-based instruments of 3.77 years. The Fund holds a 1.83% weight in 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. Likewise, near- or in-the-money convertible securities representing 10% of the Fund are similarly excluded from the yield and duration calculations. Cash represented 3.8% of the total portfolio at February 28.

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