

Manager's Commentary

Geoff Castle

The late February initiation of hostilities in the Persian Gulf augured in a challenging month for the Pender Corporate Bond Fund, which ended March down -2.2%¹. The market reacted to the US-led Iran bombing campaign by widening spreads in corporate credit and pushing benchmark yields higher across the curve, effects which impacted Fund holdings.

A source of particular weakness in March was our weight in the precious metals sector, where holdings such as First Majestic Silver Corp (AG) and Equinox Gold Corp (EQX) convertible bonds retrenched in sympathy with declining metal prices. However, a partial offset in this situation was our gain from declining values of call options which we had written against our look-through equity exposure in the miners.

Other significant decliners included positions in the Esperion Therapeutics Inc. (ESPR) and Cardlytics Inc. (CDLX) capital structures. As with the miners, we continue to like the longer-term prospects of these issuers and so we selectively added to positions during the volatility.

A key positive factor in March was our weight in Oil and Gas sector companies. An area that is the largest single industry weighting in the Fund, in which we hold a greater than 10% position in producers and service companies in the fossil fuel sector. Leading the way in this sector was our position in Gran Tierra Energy Inc. (GTE) 9.5% notes, which rallied on the completion of a liquidity-enhancing exchange offer, and our position in Northern Oil and Gas Inc. (NOG) convertible bonds, which gained 4% in March.

Fixed Income Investing in a Higher Inflation Environment

In early 2026, we believe we are seeing a fundamentally driven trend towards higher inflation. There are four key drivers in our view. **First**, the collapse of a free trading global economic system results in less efficient, more expensive production of goods and services. **Second**, the end of the benevolent pax Americana that had prevailed since the end of the Cold War has brought with it more wars, which are inherently inflationary. **Third**, the increasing economic impacts of climate change, including rising insurance premiums and increased need for non-productive emergency repairs to infrastructure. And **fourth**, as interest rates have risen, heavily indebted governments are left with increased fiscal deficits, for which the simplest remedy, debt monetization, is ultimately inflationary.

If we are correct in assessing the environment as inflationary, what is a fixed income manager to do? We think there are a number of attractive areas, including:

- **Commodities:** Inflation that drives up the cost of producing commodities will likely also drive the commodities themselves. Also benefitting should be the near-maturity bonds of commodity producers and convertible debt linked to commodity producers.
- **TIPS/Real Return Bonds:** Inflation protected securities, although sometimes exhibiting unexpected pricing relationships with actual moves in reported inflation, appear relatively attractive in this context.
- **Short Duration, Higher Quality Bonds:** These securities offer no “get rich quick” opportunity, but the 4-5% yields on bonds with less than 3 years to maturity issued by

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/>

companies with a default probability of less than 0.1% should form a key part of a liquid security strategy.

There are also a number of areas of the credit market, which, while not thematically associated with inflationary conditions, are not particularly affected by changes in inflation and moves in the yield curve. We still have to pick our horse correctly here, but these areas can be profitable credit investments, notwithstanding rising inflation:

- **Distressed Credits:** Bonds priced to yield 10% or more above the benchmark yield curve tend to be less sensitive to broader macro-economic factors as they are exposed to dynamics related to the potential liquidation value of the company's assets relative to its debt pile. Being right or wrong here is not usually a macro call.
- **Convertible debt in undervalued growth companies:** If a business is doubling its profits every two or three years, and is not priced for such growth, equity-linked exposure can be attractive, regardless of prevailing rate trends.
- **Higher yielding attractive foreign sovereigns:** The global markets offer a wide variety of options to choose from. We favour certain foreign yield curves with higher real yields, where currency is attractive on a purchasing power basis and where economic tailwinds dominate.

Fund Positioning

The Pender Corporate Bond Fund yield to maturity at March 31 was 5.93% with current yield of 5.11% and average duration of maturity-based instruments of 3.73 years. The Fund holds a 1.10% 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 9.9% of the Fund are similarly excluded from the yield and duration calculations. Cash represented 1.9% of the total portfolio at March 31.

Geoff Castle
April 8, 2026