

## Manager's Commentary

Emily Wheeler

The class F units of the Pender Bond Universe Fund were up 1.1%<sup>1</sup> in the first quarter of 2026, relatively outperforming their benchmark by 0.9%. As rates moved higher in Canada and the US, High Grade was somewhat weaker over the period as were certain credit holdings including the Fund's Esperion and Meritage Homes converts. Relative outperformance over the period was driven by several individual lines held in the Non-IG portion of the portfolio.

### Rates Backdrop

Q1 was defined by the start of the war in Iran, which began late February. The resource demands and government spending characteristic of war often provide the seeds from which inflation sprouts. We recently read that for every 20% increase in the price of oil, CPI can be expected to rise 100 bpts<sup>2</sup>. Even though CPI prints remained somewhat benign in Q1, with oil up ~50% since the war started to March 31, the possibility of inflation to come pushed rates higher.

Last quarter, we discussed several opposing factors clouding a straightforward assessment of duration positioning. We suggested, an elevated term premium and weaker jobs numbers tipped the scale in duration's favor but commodity price strength, a breakout in Japanese long bond yields, and somewhat hopeful readings in certain leading indicators, favored less exposure here. What has changed over this period however, is materially higher energy prices. Given these factors, we remain focused on the 3-5 year portion of the curve in general.

Depending on how long the conflict in Iran persists, the related spending, the run-up in energy prices and the inflation that likely results, have been on our minds. Apropos of this, the Fund currently has an 8% weight in RRBs and TIPS. Given that shorter dated lines have relatively outperformed longer dated lines over the last 12 months and the belief this may move slightly further out the curve, we added a 2032 TIPS line to the portfolio in February. A tailwind here could result from a pickup in inflation (wars tend to be inflationary whether it be Iran or elsewhere) or a Fed rate cut or two (no longer priced in, but potentially favored by the current US administration, ultimately).

### Precious Metals

The Fund started the period with a 5% weight in Precious Metals and although we saw a dramatic pullback in this area post the end of February, some of our largest individual contributors to performance in Q1 were still generated from this allocation.

One such position was our SSR Mining 2039 convertible bonds. The company issued a redemption notice for these in mid-February, two weeks before the peak in the underlying share price (pre-war). Given the bonds had risen from our original purchase price of \$102.6 in August to \$182, we decided to convert to equity and subsequently reduced our position somewhat post-conversion. Regardless of a significant pull back in the share price immediately following

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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-bond-universe-fund/>

<sup>2</sup> Grant's Interest Rate Observer, March 2026

February 28, the company announced a share buy-back representing 10% of their float and the share price recovered into quarter-end, finishing the period 33% higher. In hindsight, we should have held on to all shares. Nevertheless, this position represented a key driver of returns for the period and a substantial win from a purchase price of \$102.6 only seven months prior.

The First Majestic convertible bonds we hold were not immune to the sell-off post February 28 either. However, a partial rebound into quarter-end occurred, which left our position 16 points above the year-end mark, another top contributor to performance year to date and since initiation 43 points lower in June of 2025.

### **Additional Contributors**

For obvious reasons, a unique area of strength this period was Energy. The Fund had a 5.4% weight here going into the period. Bolstered by a 77% move higher in oil and a 43% move higher in the company's underlying equity, our Borr Drilling converts were a star performer this period. The company announced two separate transactions to purchase rigs in Q1, with a number of these purchased at lower cash breakeven levels than their existing fleet. The second of the two transactions resulted in the company becoming the largest rig operator in Mexican Offshore. Insider buying was strong through the quarter, and our converts moved 10 points higher.

The Fund's Denison Mines 4.25%'31 convertible bond position also contributed positively this quarter. Several de-risking steps were made in Q1 in relation to their high-grade Phoenix project. Among them, they announced grid power was now available at site, a construction manager had been contracted, and final regulatory approvals were received allowing the board to make the final investment decision to proceed with construction. Now scheduled to commence in March, successful construction of this project could see the first uranium mine built in Canada in a generation. The stock moved 33% higher and the converts we hold increased 22 points over the period.

### **Fund Positioning**

Although having widened marginally this quarter, spreads remain relatively tight versus historic trends and as such, the Fund has less than a full allocation to credit (23.2% at month-end). Yield to maturity was 4.1%, duration was 4.3 and cash represented 3.4% of the Fund at March 31, 2026.

Emily Wheeler, CFA  
April 14, 2026