

Manager's Commentary

Geoff Castle

The Pender Corporate Bond Fund enjoyed solid performance in May, delivering a total return of 2.1%¹. This return was within the context of generally strong bond market conditions as benchmark yields retreated from recent highs and credit spreads were largely unchanged.

Leading the way for the Fund again in May was our position in the **Wolfspeed Inc** capital structure including the 2.5% 2030 secured convertible notes, which continued a significant rally in sympathy with other popular semiconductor issuers. By month end, we had substantially reduced our exposure to Wolfspeed through writing in-the-money calls against more than 90% of our equity-linked exposure.

Also contributing strongly in May was our position in **Fluence Energy Inc.** converts, where gains were driven by optimism regarding AI-related power impacts on the electricity grid and the expected increasing need for utility-scale battery capacity. As in the case of Wolfspeed, we wrote call options against Fluence common stock, effectively reducing our exposure to the name. Finally, in May, our longtime holding **Esperion Therapeutics Inc.** agreed to be acquired in a cash transaction. Although we had hoped for a higher eventual outcome for this position, the take-out bump provided about 40 basis points of the Fund's return this month.

There weren't many weak lines this month, but one offsetting decliner was our position in the bonds and term loan of **Embecta Corp.** Embecta sold off on a weak quarterly result related to lower volumes within a key distribution channel for its diabetes-related medical supplies. We believe Embecta's business prospects here as well as its comparatively low leverage and we added to our position during May.

Key Weighting Calls and Fund Exposures for the Back Half of 2026

In a nutshell, we describe the current environment as follows. Inflation is higher than target and many drivers may continue to drive inflation higher including persistent fiscal deficit situations in most of the biggest economies. We observe rising long bond yields in Japan that defy their central bank's attempts to control the curve. We see critical inventory shortages in oil. Politics and geopolitics appear more likely to be sources of further disruption than of calm. And we observe what appear to be mania-like conditions in the stock market with the herd's favorites being companies related to artificial intelligence and other popular growth themes.

We don't choose our environment. But we need to choose some securities to hold that make sense to us given the situation. Here is how we have chosen to position into the back half of this year.

Duration: We are mindful that long duration positions yield more than they used to. But notwithstanding the ever-existing possibility for a counter-trend rally, we don't view long bonds as being cheap. In historic terms, 30-year treasury yields are still at the lower end of the range. In the context of a generally short duration portfolio, we do make some exceptions for longer-dated TIPS and Real Return Bonds, as well as for certain unduly discounted issuers with that we believe are wider-than-deserved credit spreads in longer

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/>

tenors. Outside of that, we have our duration sail trimmed pretty tight at an overall modified duration of 3.5 years.

Sector Exposures: Hard asset sectors are still our favored way to be positioned in this market, with **oil and gas** related names like **Northern Oil and Gas Inc.**, **Borr Drilling Ltd.** and **McDermott International Ltd.** making up the Fund's single largest industry exposure. Other commodity sectors including **mining and agriculture**, round out a position in commodity-related holdings that comprise more than 20% of the portfolio by weight, and a much larger proportion of value-at-risk positions, keeping in mind that the Fund holds substantial near-cash, short-term securities.

However, there are other out-of-favour sectors worth highlighting, as the AI-boom has left certain parts of the market moribund and lacking for a bid. **Healthcare**, as an example, contains a number of distressed or deeply discounted credit issuers, such as **Evolut Health Inc.** and Embecta, in whose securities we see attractive total return prospects. Also, in the category of oversold and neglected sectors is **enterprise software**, which, at least for equity investors, has been treacherous territory over the past 18 months. Here we like the rebound potential in issuers like **PAR Technologies Corp.** and **Vertex Pharmaceuticals Inc.**, where equity-linked convertibles offer what we view as attractive and asymmetric risk/reward opportunities.

Geographic Exposures: In a situation where the economic relationship between Canada and the United States strays ever further from the close partnership envisioned in the Mulroney-Reagan era, we view international diversification of Fund holdings as an opportunity. We are also able to access unique credit opportunities through holdings in **the Americas** such as major Argentinian farmland owner **Adecoagro SA** and Mexico's **Total Play Telecomunicaciones**. In **Europe**, key offshore gas producers **Tenaz Energy** and **BlueNord ASA** have offered high yields in undervalued capital structures. Meanwhile in **China**, we see potentially attractive equity-linked opportunities in convertible bond issuers **Alibaba Group Holding Ltd.** and **Nio Inc.** Holdings domiciled outside North America comprise approximately 25% of Fund assets as of May 31.

Fund Positioning

The Pender Corporate Bond Fund yield to maturity at May 31 was 6.34% with current yield of 5.08% and average duration of maturity-based instruments of 3.53years. The Fund holds a 1.02% weight in credit instruments where positions are held for a target value lower than par, and therefore the yields of these securities are not included in the foregoing calculation. Likewise, near- or in-the-money convertible securities representing 7.1% of the Fund are similarly excluded from the yield calculation. Cash represented 2.5% of the total portfolio at May 31.

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June 5, 2026