

Manager's Commentary

Geoff Castle

The Pender Corporate Bond Fund ended the month of June down -0.7%¹, a result driven primarily by individual line-items which offset the generally positive price environment in the bond market over the period.

The most significant area of weakness for the Fund in June was oil and gas issuers, including equity-sensitive convertible lines in Borr Drilling Ltd. (BORR), Crescent Energy Co. (CRGY) and Northern Oil and Gas Inc. (NOG), amongst others. We remain constructive on the sector as crude inventory measures are at decade lows, while investment in new production continues to be well below long-term average investment levels. Moreover, the geopolitical picture, improved by the Iran War ceasefire, still seems to contain material risks to shipping and production going forward.

Other soft spots for the Fund in June included declines in our position in Wolfsped Inc. (WOLF) convertible bonds, as well as those of several precious metals issuers including Equinox Gold Corp. (EQX), First Majestic Silver Corp (AG) and Sibanye Stillwater Ltd. (SSW). While covered calls written against look-through equity exposure did reduce the consolidated impact of these positions, the overall impact was still negative.

Notwithstanding a difficult tape, the Fund did have some successes within the month, led by a rally in discounted bonds of Evolent Health Inc. (EVH), which gained as much as 10 points on optimism for improved profitability in 2026. Further, our position in the capital structure of PAR Technology Corp. (PAR) gained as pessimism towards software businesses appeared to recover from a climax in the period.

Software is Dead! ... Long Live Software

We live at the dawn of a new era. Artificial intelligence models and agents are poised to re-orient critical tasks done across every kind of business. Seamlessly connecting company data to powerful models, the new AI agents will render obsolete many current workflows, taking with them the need to buy and operate software programs. Businesses that sell software by the seat will face overpowering headwinds of falling seat count, reduced pricing and, ultimately, ruin. Or so we are told.

We make no claim to be “seers” of the technological future. But we have been through a few of these revolutions before. The internet-enabled mobile phone and e-commerce have transformed society. But, much to the chagrin of the year 2000 stock promoter, the big changes didn't arrive, from an economic perspective, in Q4 2001, but rather many years later. And by the time the innovations of what was then called “the new economy” became fully established, a great number of the “old economy” leaders were still doing just fine, thank you.

And so, we consider the wreckage of the so-called “SaaS-pocalypse” which encompasses not only software companies, but also businesses involved in various information and other services deemed to be threatened by artificial intelligence. There are plenty of cliffs that

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/>

major companies have fallen off in recent months. The victims, Salesforce, Gartner, Adobe now sport stock charts that only a mother could love. Down, and to the right.

We do not defend the top-tick buyers of the early 2020s software boom, but we do endorse the idea that changes in the real world come much more slowly than the frenetic traders of modern capital markets appear to appreciate.

There are a couple of dynamics that support incumbents against the onslaught of new disruptive technologies. First, customers are often slower to shift their behaviour than the disruptors models expect. Details matter. Ninety-five percent accurate solutions do not easily supplant processes that are already working in an error-free fashion. And for businesses facing other potentially more pressing challenges, taking time out to revamp a background system like a software platform is a decision which can be easily postponed.

And second, the disrupted companies tend not to simply give up. We see “SaaS-pocalypse” victims using AI tools to improve their own products and to expand the value they are providing to their customers. Incumbents can cut prices, improve offerings, and bundle their offerings with difficult-to-displace hardware. And the historic data the customers need is usually embedded within the incumbent supplier's platform. As recent military campaigns in both Iran and the Ukraine underscore, it is much more difficult to invade territory than to defend it.

Key Software Investments in the Corporate Bond Fund

Credit markets provide some interesting ways to play undervalued software opportunities with the downside protection inherent in a company's senior capital with the potential for appreciation through spread tightening or equity-linked upside. The Corporate Bond Fund holds an approximate 13% weight in software or software-based service companies with a mix of straight bonds and converts. Some favorites:

- **Par Technology Corp.** – A deeply discounted structure with a mix of busted and near-the-money converts with what we believe has tons of upside.
- **Vertex Inc. (VERX)** – Growing and profitable, with net debt representing just a tiny fraction of enterprise value. A single busted convert with what we believe has lots of potential.
- **Cardlytics Inc. (CDLX)** – Left for dead provider of customer reward systems integrated with major US banks. At 25c on the dollar we see signs of life for the bonds.

Fund Positioning

The Pender Corporate Bond Fund yield to maturity at June 30 was 6.05% with current yield of 5.01% and average duration of maturity-based instruments of 3.44 years. The Fund holds a 1.02% 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 9.8% of the Fund are similarly excluded from the yield and duration calculations. Cash represented 1.5% of the total portfolio at June 30.

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