Manager's Commentary

Parul Garg

Dear Co-investors,

Thank you for your continued partnership in the Pender Credit Opportunities Fund. In the second quarter of 2026, the Fund appreciated 11.6% net of fees, aided by impactful contributions from Wolfspeed, Inc., Evolent Health, Inc., and Fluence Energy, Inc.

We are also approaching an exciting milestone: our three-year track record of managing Funds with a stressed/distressed primary focus. Since inception on August 1, 2023 - now just one month shy of our three-year anniversary - the strategy has delivered an annualized return of 18.7%, outperforming its benchmark by 10.2% annualized. We remain deeply grateful for your trust in our strategy and investment process.

- Pender Credit Opportunities Fund Class F returned 11.6% YTD[1]; Benchmark returned 1.9% YTD[2].
- Yield to Maturity: 7.82%
- Current Yield: 5.12%

A Market of Many Minds

The first half of 2026 offered investors not one story, but several, often pulling in opposite directions. Equity indices climbed to new highs against an unsettled interest rate environment, while technological transformation powered ahead seemingly on valuations that assume everything goes right and on schedule.

Oil captured the mood. West Texas Intermediate (WTI) swung between roughly $55 and $115 over the past year before settling below $80. This was not speculative froth, but a genuine supply shock after the US-Iran conflict effectively closed the Strait of Hormuz. Then, as the quarter ended, a sharp selloff in AI names pulled back the curtain: beneath a buoyant market, the tension was real.

We believe the second half is already hinting at more uncertainty. During July, long-dated sovereign yields have surged to records, with the US 20-year Treasury above 5%, a durable term premium taking hold. Credit appears calmer, with defaults under 3%, spreads tight, — but perhaps too calm.

The months ahead offer no shortage of potential catalysts: US mid-term elections, the continuing escalation and de-escalation cycle in the US-Iran-Israel conflict, an AI race now playing out nation versus nation, a Federal Reserve transition that appears neither smooth nor predictable.

This is precisely the environment that excites us: volatility creates opportunity, and through active involvement and selective credit investment, we believe we are well positioned to capture potential alpha. This letter outlines our approach through two guiding themes: Active Rotation and Selective Opportunism.

Active Rotation

A core principle of our portfolio construction is the continuous optimization of risk and reward at the security level. Put simply, every position must constantly earn its place in the Fund.

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[1] *All Pender performance data points are for Class F of the Fund unless otherwise stated. Other classes are available. Fees and performance may differ in those other classes.*
[2] *ICE BofA US High Yield TR*

Rotating within energy. When oil surged past $115 per barrel, the prevailing view held that even if the Iran conflict de-escalated, depleted strategic reserves in the US and China would keep prices above $100. We saw it differently: energy is deeply cyclical, and oil rarely sustains a price point above $100 for long. We used the strength to exit our two heavy oil positions, W&T Offshore, Inc. (WTI) and Petróleos Mexicanos. Even we were surprised by the speed of the reversal - following de-escalation, oil fell below $70. We have since re-entered with smaller positions in two differentiated names. Northern Oil and Gas, Inc. (NOG) is a scaled, non-operated working interest company holding minority stakes in wells across multiple basins and operates a diversified, capital-light model. Its securities sold off sharply after a large first-quarter GAAP loss driven almost entirely by non-cash, mark-to-market losses on its hedge book as oil spiked. We view this as mechanical, not fundamental: cash flow remained strong, production grew, and the hedge marks are already reversing. We are adding the bonds with enterprise value near twelve-month lows. Crescent Energy Company (CRGY) is a KKR-backed operator with a disciplined acquisition record across the Eagle Ford, Uinta, and now the Permian basins. Its latest acquisition closed shortly before the Iran conflict began, and we believe those earnings should soon become visible in results.

Rotating out of crowded winners. We trimmed our Wolfspeed (WOLF) position, after its AI-driven rally from roughly $14 to $79, redeploying into PAR Technology Corporation (PAR), an idea sourced with a little help from our colleagues on Pender's small-cap equity team. PAR provides a unified cloud platform for restaurant point-of-sale, loyalty, payments, and back-office needs, with recurring revenue compounding at a mid-teens rate. Yet the stock fell roughly 78% in eight months on profitability concerns, then another 15% in March when management issued $225 million of convertible notes to address its 2027 maturity. We view that financing as prudent, it removed the balance sheet overhang. The market mispriced a financing event as an operational crisis, allowing us to build a position at a valuation that we believe significantly undervalues the recurring software base.

Selective Opportunism

We believe that investors should view an allocation to this Fund as a return enhancer. We aim to generate alpha from dislocated and mispriced corners of the market which makes credit selection our core priority.

Healthcare: out of favor. Our largest expression of this theme is a 4%+ position in the distressed credit of Evolent Health, Inc (EVH). Evolent provides specialty care management for health plans, overseeing high-cost in oncology, cardiology, and musculoskeletal care, areas representing an outsized share of medical spend. The credit sold off aggressively as the managed care ecosystem came under reimbursement pressure, with the bonds trading as low as 53 c/$. We viewed the reimbursement and margin pressure as temporary. The company has since demonstrated encouraging earning recovery. The bonds have recovered to roughly 75 c/$ while still yielding over 12% and we continue to like the risk-reward potential.

In the same theme, we initiated a smaller credit position in iRhythm Technologies, Inc. (IRTC), the leader in digital cardiac monitoring. The equity fell roughly 40% on valuation concerns even as revenue grows at a mid-to-high-teens rate, giving us equity-linked upside with the downside protection of a senior claim on a healthy business.

The uneconomic AI arms race. Goldman Sachs projects $7.6 trillion of cumulative AI infrastructure capex between 2026 and 2031, with the four largest hyperscalers spending $725 billion in 2026 alone[3]. Whether this spending anticipates future demand or responds to existing demand remains

[3] *Goldman Sachs - Tracking Trillions: The Assumptions Shaping the Scale of the AI Build-Out*

unclear. The hyperscalers understand the economics; they simply ignore them, arguing that being first to AGI justifies any cost. No one can stop and falling behind feels costlier than continuing. And the race now runs between nations, as the US and China compete for the technology frontier. Rather than pay peak multiples for the race itself, we own its constraint (electrical power). Data center power connections can take five to seven years, and PJM Interconnection (PJM), the largest US grid operator, recently fell 6.6 gigawatts short of reliability targets for the first time in its history, at record prices. Power, not capital, is the binding constraint on AI growth. Fluence Energy, Inc. (FLNC), the US leader in utility-scale battery storage, offers a quick and relatively inexpensive route to expanding grid capacity.

Risk Management

As we approach a track record of three-years, I want to emphasize our approach to risk. At Pender, good risk management begins with humility. We manage risk at three levels: strategy, credit selection, and portfolio construction.

At the strategy level, every investment must be highly idiosyncratic with an outcome driven by company-specific developments, not the broader economy or sector. This allows a portfolio of just 30–35 holdings to achieve genuine diversification. Volatility is inherent in stressed and distressed investing; if one thesis proves wrong, the damage should be contained to a small part of the portfolio.

At the credit selection level, every investment must offer meaningful risk-reward. We buy below our estimate of intrinsic value and require substantial residual value in tangible or intangible assets that hold worth even in restructuring. We need protection against being wrong, not merely against being slightly less right than expected.

At the portfolio level, we generally limit capital at risk to 5–10% per issuer, exceeding 10% only in special situations where the probability of permanent loss is low.

As always, I am humbled and grateful for the opportunity to invest your capital alongside my own.

Thank you,

Parul Garg
July 22, 2026

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PenderFund Capital Management Ltd.