Manager's Commentary

Geoff Castle

The Pender Corporate Bond Fund dipped just slightly below breakeven in July (monthly return was -0.02%[1]) within the context of a negative fixed income environment that was afflicted by rising benchmark yields across the curve.

The relative strength the Fund experienced was due, in large part, to our positioning in the oil and gas sector, which includes broad exposure to primary producers, fuel refiners and infrastructure companies. On a line-item basis, the biggest contributor was from our holdings of the **McDermott International Ltd. (MCDIF)** capital structure, where an expected refinancing of the company's 2027 term loan maturities drove that loan and the company's shares higher in July. Further contributions also came from convertible bond positions in **Northern Oil and Gas Inc. (NOG)**, and **Crescent Energy Co. (CRGY).**

Ex-North American positions also were strong July contributors. Our position in the US dollar denominated **Argentine GDP warrants**, the subject of ongoing bondholder litigation, rose significantly on settlement optimism. Chinese e-commerce and cloud computing powerhouse, **Alibaba Group Holding Ltd. (BABA)**, also rallied significantly, in part due to a breakout AI-model success by its portfolio holding Beijing Moonshot AI Technology Co., moving with it our position in the company's 2031 and 2032 convertible bonds.

However, the sell-off in the broader bond market created a headwind for the fund. We don't own many long duration bonds, but the ones we do own fared poorly. Our position in a **TIPS issue maturing in 2052** fell by more than 5% in July. Notwithstanding their inflation-protection features, TIPS can and do trade with reference to the prevailing straight US Treasury curve, and weakness in Treasuries drove the real interest rate embedded in TIPS to their highest levels since 2002. Weakness notwithstanding, we view these lines as having rebound potential and have been buying TIPS enthusiastically.

A final portfolio note was the weakness of our convertible position in **Wolfspeed Inc. (WOLF)**, which fell in sympathy with a broad-based semiconductor sector liquidation. We used the weakness to profitably repurchase some covered calls we had written against our equity rights on conversion. Trading again around its 2025 Chapter 11 emergence price, we believe Wolfspeed, the US-based maker of silicon carbide substrates, to be misunderstood, underfollowed and deeply undervalued.

Positive on Oil and on Opportunities in Energy Credit

We have continued to be constructive on the credit of traditional hydrocarbon-based energy producers. At the moment, it is our largest sector by industry weight. Our bullishness takes into account a number of factors which we summarize as follows:

1) **Oil inventories are low**. In commodities, one of the most powerful predictive price factors is simply inventories (or "stocks") in comparison to usage. We see total US inventories at the lowest levels since 1984, and back in those days global oil demand was approximately 60MM barrels per day. Today it is approximately 105MM. What we

[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/*

know of international stocks in China and elsewhere suggests that the inventory drawdown is global in nature.

2) Recent **producer capex has been in a decade long retrenchment**. Following the carnage of the 2015/16 shale bust and then the COVID-era negative oil price panic, producers have been extremely cautious in capacity enhancing investing. Prior inventories of drilled but uncompleted wells are gone and rising breakeven oil prices required for deep sea development or US shale have discouraged new investments.
3) **The geopolitical issues in the Gulf as well as in Russia show no signs of being over** nor do we believe the eventual resolutions will result in a quick return to the ex-ante free flows of crude. And the implication of a potentially slow resolution of these conflicts is likely to be further inventory drawdown.

Ultimately, we do expect that the geopolitical tumult will subside. But before that happens, we believe there may need to be a supply side response in the oil market. And we are of the view that such a supply response would likely require a sustained period of higher prices.

Now industry pricing dynamics are only one part of the investing equation; the other part has to do with how oil companies are valued. And here we are puzzled by several producers and service companies trading near decade low price-to-book ratios. And we also do not understand the wide credit spreads assigned to some oil companies with relatively low leverage and solid cash flow coverage of interest. Count us as bullish.

Fund Positioning

The Pender Corporate Bond Fund yield to maturity at July 31 was 6.16% with current yield of 5.07% and average duration of maturity-based instruments of 3.36 years. The Fund holds a 0.97% 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 7.4% of the Fund are similarly excluded from the yield and duration calculations. Cash represented 1.2% of the total portfolio at July 31.

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