Pender Corporate Bond Fund

Manager's Commentary – **August 2026**
By Geoff Castle

The Pender Corporate Bond Fund enjoyed a positive month in August, returning 1.6%[1] within the context of a fairly benign credit market that was buffeted at points by rising benchmark yields.

Precious metals exposure led the charge for the Fund, with our position in the convertible notes of South African platinum miner **Sibanye Stillwater Ltd. (SBSW)** up over 30% in August. **Equinox Gold Corp. (EQX)** and **First Majestic Silver Corp. (AG)** also posted sizeable gains as the category moved in unison. We did make some small rebalancing trims to the precious metals exposures toward the end of the period.

Oil and gas investments also contributed well. Our position in **McDermott International Ltd. (MCDIF)** reorganization equity rallied off the back of its deeply discounted rights issue. Several convertible positions in the oil sector such as **Crescent Energy Co. (CRGY)** performed well in line with rising crude prices.

There was more than just resources working for the Fund in August, as our position in the distressed term loan of insulin consumables supplier **Embecta Corp. (EMBC)** rallied over 7% on a favourable earnings report. And rounding out large contributors, positions in silicone carbide semiconductor materials player **Wolfspeed Inc. (WOLF)** rose on news that new Nvidia AI chipsets are being specified to run on their high melting point substrate.

Offsetting some of the strength above was weakness in the distressed bonds of **Lucid Group Inc. (LCID)** which fell to the 40s on continuing profitability problems. We continue to like Lucid due to its solid support from the Saudi Public Investment Fund as well as what we view as leading technological position that makes the company well-suited for future merger or partnership opportunities.

On Unsustainable Sovereign Debts and the Path of Least Resistance

It is dizzying to watch the headlines spin by regarding various attempts by the Bank of Japan, the Fed, the US Treasury and others to contain the rise of longer-term government bond yields. We believe that, rather than chasing to understand every headline and mini crisis of the sovereign bond market, investors should start with some foundational ideas against which the news of the moment can be put in context.

The key fact set to consider includes the following:

- Most of the wealthiest countries are burdened with historically unprecedented quantities of sovereign debt;
- These same countries (the US, Canada, Japan and most European countries) have mostly borrowed in flexible fiat currencies which they can print;
- Efforts to reduce government deficits in these countries are generally thwarted by political considerations; and
- Inflation, for a variety of reasons, has begun to rise, pushing market interest rates higher, which causes debt service costs to rise.

So in a nutshell, we view that government borrowers cannot reduce their debt burdens and neither can they afford to pay the higher rates. If these governments were instead individuals, or corporations, sooner or later this situation would end up in some kind of bankruptcy or default.

But because they can conjure up the cash which they themselves have borrowed, the indebted sovereigns of the 2020s have another option. They can print up cash to buy their own debt. And so yield curves need not be shaped purely by supply and demand dynamics. They can be managed and the market interest rate can be kept lower than it would otherwise be. Yield curve control is the path of least resistance.

However, in any ecosystem, it is difficult to change one factor alone. If you eliminate the coyotes from an island, you are soon overrun with rabbits. If you suppress interest rates in a market economy, you get financial bubbles and inflation.

So, what is a fixed income investor supposed to do? How do you invest in bonds in a world where inflation is rising and rates are suppressed?

We believe this environment necessitates a new game plan. We look for exposure to scarce, real assets that cannot be printed, and we get this exposure through credit securities that allow us to participate in relatively uncapped price upside for those assets. We complement this approach by adding some higher yielding fixed coupon credits with solid risk/reward characteristics and a dash of highly liquid securities to make the Fund easy to buy and sell. That is our program.

Fund Positioning

The Pender Corporate Bond Fund yield to maturity at August 31 was 5.92% with current yield of 4.83% and average duration of maturity-based instruments of 3.35 years. The Fund holds a 2.17% 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 9.3% of the Fund are similarly excluded from the yield and duration calculations. Cash represented 2.2% of the total portfolio at August.

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[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/