Pender Bond Universe Fund

Manager's Commentary – **Q3 2026**

Emily Wheeler, CFA

As rates moved higher in Q3, the class F units of the Bond Universe Fund were down 1.5%[1], relatively outperforming their benchmark however by 1.5%[2]. This quarter saw the first US rate hike in over three years, with most of the move higher along the curve in Q3 taking place into quarter-end, post the Fed's September 16 decision. Weakness over the period came from longer dated lines, utilities and rates sensitive businesses like Meritage Homes. Bright spots over the period were higher coupon holdings like Trulieve Cannabis Corp. (TRLV), Jushi Holdings Inc. (JUSH) and European Investment Bank along with certain non-investment grade lines including Endeavour Silver Corp. (EDR) and OPKO Health Inc. (OPK).

Shifting Our View on Duration

Given the elevated risk of inflation due to world trade dynamics, increasing capacity for conflict and breakouts in the long end of the curve in Japan and closer to home, our focus for some time, has been more towards the front-end of the curve with reasonable levels of inflation protection through solid weights in RRBs and TIPS.

However, in the context of a rising term premium and a US 10-year yield now as high as it's been in over 2 decades, we're starting to become more constructive on duration and added some weight to high quality, longer-dated corporates in international jurisdictions just after quarter-end. Not only do these lines provide a slight tilt in Fund duration but, given current US policy and the ramifications it may have for Canada, they also provide some international exposure.

New in Q3

We added a new position in Global Payment's Investment Grade rated 1.5%'31 convertible bonds. This large, liquid issue has recently been trading below 90 cents on the dollar for over a 4% yield. Given the fundamentals of the business, we believe repayment at par is likely, thereby limiting downside to $100 in our opinion. Industry structure is good, they recently shed some ancillary segments and acquired Worldpay making the combined business one of the largest payment processors in the US. Free cash flow is expected to increase given this and we believe upside via optionality is not out of the question given their incumbent industry position, their pure play orientation going forward, and reasonable runway to approach the strike (given the 2031 maturity).

Also new to the Investment Grade portion of the Fund this period was a position in Macquarie Group's 2.723%'29 Senior Unsecured bonds. This line checks a couple of boxes for us. First, in an inflationary environment, having some exposure to commodity-linked businesses makes sense and given this business is domiciled in Australia (a resource-driven economy), it fits that bill. This line is also a Maple, so we don't incur the cost of hedging our currency exposure. In addition, given tariff and spending policy in the US and the impact these may have on the economies of North America, we also like the international exposure this line affords.

Also, last quarter, we'd been looking for situations that had been somewhat impacted by the sell-off in the software space due to the threat of AI disruption. On this theme, Zscaler's 0% of 2028 convertible bonds were added to the non-investment grade sleeve of the Fund. The company's Zero Trust Exchange is a cybersecurity platform that can be thought of as an alternative to a firewall and instead of being a candidate for AI disruption, we believe AI and the likely increase in cybersecurity threats that result, will provide a tailwind for this business going forward.

With twice as much cash as debt and $33 billion in market cap under $1.7 billion in bonds, we believe credit quality is solid. The underlying share price had sold off around 55% from a recent high when we got involved in July and with the equity trading at the low end of historic multiples, optionality via the conversion feature is not outside the realm of possibility. Significant insider ownership and a founder / CEO with a track record of successfully selling cybersecurity businesses both add to the thesis. Upside is likely greater than downside here in our opinion.

Our NTNX 0.5%'29 converts were another addition to the non-investment grade portion of the Fund last quarter. Also somewhat caught up in the software selloff, the stock was down around 33% when we got involved. The company pioneered something called "Hyperconverged Infrastructure," a system that unifies compute, storage and networking into a single system. In our opinion, a catalyst exists here relating to the company's ability to acquire market share from their key competitor who has recently increased pricing, causing clients to migrate to Nutanix. We believe that once the current bottleneck from memory shortage normalizes, customer switching to Nutanix could increase. With more cash than debt, one year default probability of less than 2 basis points and healthy revenue and EBITDA growth, we believe the company has the capacity to repay the bonds at par. The equity currently trades only approximately 14% below the strike and given solid credit fundamentals and potential demand backlog, we see this as a potentially asymmetric return opportunity.

Fund Positioning

As discussed previously, inflation risk remains elevated given trade dynamics, global conflict and higher levels of debt in the US and Canada. Given the somewhat dramatic move higher we've seen in rates however, duration is beginning to look more attractive. Duration was 3.7 at September 30, yield to maturity was 4.48% and non-Investment Grade represented 21.4% of the Fund at quarter-end.

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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-bond-universe-fund/
[2]The Fund's benchmark is FTSE Canada Universe Bond Index

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