

Pender Credit Opportunities Fund

Manager's Commentary – Q3 2026

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Dear Co-investors,

Thank you for your continued partnership in the Pender Credit Opportunities Fund. In the third quarter of 2026, the Fund returned -5.4%¹ net of fees versus the benchmark return: -2.5%²

- Pender Credit Opportunities Fund Class F returned 5.6% YTD compared to the benchmark return of 0% YTD.
- The Fund's Yield to Maturity is 6.32%; Current Yield is 4.22%

A Quarter Defined by Rates

When equity managers start talking about Treasury yields, you know you are living in interesting times.

This quarter, the biggest moves didn't come from stocks, high yield, or emerging markets. They came from the part of the market investors think of as risk-free. The 10-year US Treasury yield rose about 87 basis points, its sharpest quarterly jump since 1994, handing Treasuries their worst quarter in more than thirty years. By September, every maturity from five to thirty years was yielding over 5%. In other words, the turbulence didn't start on the riskier floors of the building. It started in its foundations.

Several forces arrived at once. The Fed raised rates for the first time since 2023. Oil climbed back to around \$100 as the conflict with Iran flared again. Investors were asked to absorb a wave of new bonds, both from the US government and from tech companies funding the AI build-out. Lastly, the approaching US midterm elections added another layer of uncertainty. Faced with all of this, investors simply wanted to be paid more to lend, even to the US government.

Why does this matter? Because the risk-free rate is the yardstick for every other borrower. When it resets this quickly, so does the cost of capital for every company that needs to refinance. Higher funding costs squeeze margins and cash flow, and even good businesses can slip into stressed or distressed territory. So, what does all this mean for us? In short, higher rates are a short-term headwind for bond prices, but a long-term tailwind for our strategy. They have the potential to raise the income we earn, and they can increase the pressure on the companies whose debt we specialize in.

Where Pressure Creates Opportunity

For credit investors, higher rates come with a silver lining. Even with spreads still tight, the average high yield bond now pays about 8%, roughly double what it paid five years ago. In our part of the market, the numbers are even more compelling. CCC-rated bonds yield 16.8%, about 5.6 percentage points above their long-run average, and the gap between CCC and BB yields has reached 9.2 points³.

That gap tells us the market is no longer treating all borrowers the same. Stronger companies can still borrow cheaply, while weaker ones pay much more, if they can borrow at all. **A market that separates winners from losers is exactly the kind of market that may reward careful credit selection.**

We are already seeing the effects. Our opportunity set grew 8.6% last quarter, and the pace has picked up sharply over the past three weeks. We believe this is only the beginning. Today, only about 6% of the US high yield market trades at distressed levels, half the long-run average of about 12%. In our view, if distress levels simply return to normal, our universe could roughly triple.

How We Add Value

A bigger hunting ground is good news, but only for those who know how to hunt. The opportunity lies not just in finding cheap debt, but in understanding why it is cheap and choosing the right position in the capital

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-credit-opportunities-fund/>

² The Fund's benchmark is the ICE BofA US High Yield Index.

³ Sources: ICE BofA US CCC & Lower High Yield Index yield-to-worst via Bloomberg and FRED, Oct 2005–Sept 2026.

structure to own. We aim to turn stressed situations into returns in broadly three ways (one holding illustrates each):

1. Discounted credit: when the market gets the price wrong

Sometimes a company's debt is priced as if it were in trouble when the business is healthy and growing. We buy that debt, collect a high yield while we wait, and sell as the price recovers. These are usually our shorter holds.

Pagaya Technologies Ltd. (PGY) runs a technology-driven underwriting network that sits behind banks, auto lenders, and fintechs. When a lender receives an application that it would normally decline or struggle to price; it sends it to Pagaya. Pagaya approves only about 1% of what it receives, and those loans are funded by more than 170 institutional investors, mostly through securitizations. Pagaya earns a fee on each loan, making it less a lender than a fees collector for connecting lenders with capital.

In the second quarter, volume hit a record \$3.5 billion, up 33%, while core costs declined and operating income nearly doubled. Growth is coming from new products and partners. Management has also raised its full-year profit guidance.

Yet Pagaya's senior unsecured notes yield 13.7%, a level usually reserved for companies in trouble. The market sees a risky consumer lender; the balance sheet tells a different story. Cash, receivables and other assets of about \$1.4 billion cover \$642 million of notes 2.2x. Net debt of \$354 million against 2026 adjusted EBITDA guidance of \$460 to \$490 million implies leverage of about 0.7x, with \$1.5 billion of equity beneath us⁴. Even at 4.0x EBITDA, enterprise value covers our notes about 3.0 times. In our opinion, we are earning a distressed-level yield on a well-protected senior claim.

2. Active investing: when we want a voice

Sometimes a good price is not enough. We build a position large enough to help shape what happens next. These situations take longer to play out, so we hold fewer of them, but they are often larger in size.

Evolent Health Inc. (EVH) remains our largest healthcare holding. The company helps health plans manage care for patients with costly conditions such as cancer, heart disease and musculoskeletal disorders. After two difficult years for health insurers, Evolent repriced its contracts to reflect today's medical costs, and the results are showing. Second-quarter revenue reached \$653 million, up 47% from a year earlier and 31% from the prior quarter, while the net loss narrowed by almost half. Signed contracts and 100% retention of its top clients support more than 25% revenue growth in 2027 and adjusted EBITDA of \$150 million or more, bringing potential net leverage down to roughly 5.4x before any new wins⁴.

The key event ahead is the 2029 maturity on Evolent's convertible notes, which make up most of its debt. Management has made addressing this a top priority, with a goal of significantly improving leverage and the maturity profile within 12 to 24 months. A maturity of this size cannot be solved without lenders, which puts bondholders at the centre of whatever comes next, whether a refinancing, an exchange or a sale of the company. That is exactly where we want to be.

We are well covered while that plays out. Even at a deeply discounted 0.5x 2026 sales, the business covers its \$934 million of debt about 1.4 times, and a buyer offered \$3.8 billion for the company in 2024, more than four times the debt. The bonds gave back some of last quarter's gains and now yield over 15%, even as the business improved⁴. When price and fundamentals move in opposite directions, we pay attention to the fundamentals.

3. Restructuring: lender first, owner after

Sometimes the best outcome is to own the business. We exchange our debt for equity and share in the company's recovery.

⁴ Company Filings; Pender Internal

McDermott International Ltd. (MCDIF) shows the end to end journey. It is a global engineering and construction company that designs, builds and installs energy infrastructure, from offshore platforms and subsea systems to LNG and low-carbon facilities. With six fabrication yards and eight vessels operating in more than 50 countries, it is the only remaining pure-play energy contractor of its kind, well placed as producers around the world continue to expand capacity.

The Pender Fixed Income team have been involved with McDermott for a long time, through its 2020 Chapter 11 and the 2024 UK and Dutch restructurings that followed. Along the way, Pender Corporate Bond Fund held its first lien loans, which rose 117% from the mid-\$40s in 2025 to the high-\$90s and were repaid at par in September's refinancing. That refinancing, through a \$500 million rights offering, left McDermott with a far cleaner balance sheet and essentially no net debt. We participated fully in the rights offering at \$1.50 a share.

We think the bigger opportunity may still be ahead. Management's plan calls for EBITDA to grow from \$520 million in 2026 to about \$700 million by 2028⁴, with margins nearly doubling as older projects roll off. A potential exchange listing could widen the investor base further. Yet the company trades at only about 3x EBITDA, well below listed engineering peers. A senior claim repaid in full, and an ownership stake in the recovery: that is the complete arc of our strategy.

Three holdings, three paths, and every situation tells its own story. One company improves operations; another exchanges, extends or refinances its debt; others reshape their capital structure through a priming deal or hand ownership to creditors. Success means anticipating the road ahead and holding the right part of the debt before the company gets there.

A Window Worth Being Ready For

We cannot tell you when the next bout of volatility will arrive but what we can share is how past episodes have played out. Since 2008, every major shock has pushed high yield spreads sharply wider, and in each of these periods, spreads subsequently came back:

- 2008–09 financial crisis: spreads reached 2,182 basis points; high yield returned 57% in 2009.
- 2011 euro debt crisis: about 900 basis points; high yield returned roughly 15.6% in 2012.
- 2015–16 energy crash: 887 basis points; high yield returned roughly 17.5% in 2016.
- 2020 COVID-19: 1,087 basis points; high yield returned 23% from March 2020 to March 2021.
- 2022 rate shock: about 600 basis points; high yield returned roughly 13.5% in 2023.

We believe the lesson is simple. In our asset class, the best opportunities appear and close quickly, rewarding investors already in place. Our universe is growing, maturities are approaching, rates are staying high, and little specialist capital is waiting. We may be early, but we have rarely seen the ingredients line up this clearly, and we would rather be early and ready.

If you would like to talk about the portfolio or an allocation, I would genuinely welcome the conversation. The best time to prepare for an opportunity is before it arrives.

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

Thank you,

Parul Garg

October 26, 2026

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