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Blog Post: EnerNOC - A Double-Take

A first for Pender as a company held in both our Equity and Fixed Income portfolios gets taken out.

Demand-side energy management firm, EnerNOC, has announced it is being acquired by Enel Group, a European utility operator. The company was held in both the Pender Corporate Bond Fund and the Pender Value Fund, and this investment showcases the unique cross-over approach of the Pender investment team.

Pender had been aware of EnerNOC since the early 2000's. It was an idea generated through our intimate involvement with another investment and once on our radar we began to track its progress, though made no investment. In 2014 we undertook a complete research review of the opportunity and after some deep due diligence, including meeting the CFO on a visit to Vancouver, we had the complete picture. However it remained on our watchlist and not in our portfolios as we still could not justify an investment.

Fast forward to 2015 when Geoff Castle saw the EnerNOC debt trading at a discount. The existing investment thesis showed a strong equity buffer which decreased the risk of buying the debt at the discount, and Pender bought approximately \$6M of the EnerNOC convertible debentures within the Pender Corporate Bond Fund (where ENOC became our 4th ranked holding, a 3% weight).

At around this time EnerNOC announced a strategic review, and this increased the likelihood of the bond being repaid early, thus increasing the potential IRR, which made it an attractive investment for our equity funds and as such a small weighting of the convertible debt was added to the Pender Value Fund.

Immediately prior to EnerNOC's acquisition the debentures were marked at 89.6, so with the transaction put right at 100, the gain represents an approximate 30 basis point move for the Pender Corporate Bond Fund and a 15 basis point move for the Pender Value Fund.

In this case the equity watchlist proved fruitful for the credit team. The equity team had shown, in their research, that the debt was covered by the enterprise value of one of EnerNOC's businesses. So where an equity purchase of EnerNOC was beyond our risk threshold, the convertible debt, higher up the capital structure, had the potential for a positive return.

The key to the successful outcome of this investment was the fully integrated approach taken by the investment team. Pender's equity and fixed income teams are not silo-ed, but share ideas and leverage each other's talents. With their differing perspectives, potential investments are assessed from all tiers of the capital structure. EnerNOC is a great case study of our go-anywhere contrarian approach to investing, and lends credit to the breadth of our team and research process.

April 5, 2017

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