PENDER
BOND UNIVERSE FUND

MANAGER'S COMMENTARY – FISCAL Q1 & Q2 2021

Performance Attribution

The Pender Bond Universe Fund's exposure to higher yielding credit served as the main contributor to outperformance YTD in 2021. The Fund's benchmark, the FTSE/TMX Canada Universe Bond Index comprised of Investment Grade corporates and government bonds in Canada, along with the ICE BofA US Corporate Total Return Index as a proxy for US Investment Grade, were down 2.46% and up 0.14% YTD respectively to July 31.

After inching into positive territory by 14 basis points on the last day of July, 2021 had proved to be one of only seven years since 1987 whereby US High Grade Fixed Income had lost money, and if 2021 had ended on March 31, this category would have seen its worst year since 1987 outside of 2008 and the financial crisis[1]. Since March however, things have improved somewhat and with the US Investment Grade Index turning positive on July 31 and generating 1.21% for the month, we are sitting prettier here than the lows reached in March.

High yield however, moved somewhat consistently higher over this period, with the ICE BAML High Yield Index finishing the month up 4.07% YTD at July 31, 2021. The Fund obtains exposure to high yield by holding Pender Corporate Bond Fund units. Specific areas of strength in the Pender Corporate Bond Fund over this period included floating rate securities and several strong performers in the convertible bond space as rates increased and investors added risk. The approach in this area continues to be one whereby coverage is key – owning securities with a margin of safety where value exceeds debt at least to the level at which we are investing. The Fund's exposure to higher yielding credit through its Corporate Bond Fund holdings buoyed the Class F units to a positive 1.96%[2] return for the seven months ended July 31, 2021.

A Positive Term Premium Materializes

One of the factors impacting the positioning of the Fund relates to the consideration received at a given time for holding longer dated maturities. We keep an eye on the term premium which reflects compensation for inflation risk and we adjust duration of the Fund in a manner similar to the counter-cyclicality inherent in value investing. When no value (lack of extra consideration) is offered, duration is kept short and when value materializes through excess yield for duration, duration may be extended somewhat. After remaining negative since 2019, the term premium moved into positive territory in the current period and forged a path higher through to the beginning of April. By the end of Q2 2021 this indicator had fallen close to zero, however remained officially in positive territory at quarter-end. Since then however, the negative trajectory has continued and as of the date of writing, the term premium sits back below zero.

As discussed above, the duration of the Fund is adjusted in relation to the level of the term premium and, as a result of a negative reading since 2019, duration was kept relatively tight since the Fund's inception in 2020. With the term premium turning positive several months ago however, the duration of

[1] CreditSights, March 26, 2021

[2] 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.

the Fund was extended slightly from 4.05 years at the end of February 2021 to 5.12 years at the end of March. This was achieved by selling several longer dated maturities in high quality issuers and exchanging these for slightly longer dated maturities of the same issuer. We sold our BCE 2026 bonds and picked up an extra ~1% by purchasing BCE 2031s. We also sold the Fund's CP Rail 2022s and replaced these with a 2029 issue to add an additional ~1.4% in yield. The modest adjustment to overall duration served the Fund well as the yield of longer dated tenors all along the curve moved lower from the end of March to the end of July. With the term premium falling back below zero recently, coupled with the moderation of North American central bank easing biases, duration was reduced somewhat in June as we invested incremental cash from subscriptions in shorter dated maturities. Duration of the Fund at July 31, 2021 was 4.82 years.

Fund Positioning

The Pender Bond Universe Fund continues to hold its Investment Grade allocation in Canadian dollar denominated bonds of North American issuers. Investing in Canadian issuers and Maples of US issuers allows the Fund to avoid incurring additional costs that would be associated with hedging this portion of the portfolio. As mentioned, the Fund continues to gain exposure to higher yielding credits through holding Pender Corporate Bond Fund units directly. The maximum weight in non-investment grade securities remains 25%. Given that the Pender Corporate Bond Fund holds a combination of Investment Grade and Non-Investment Grade securities, the Fund's 31.2% weight in Pender Corporate Bond Fund units gave the Pender Bond Universe Fund a 24% weight in non-investment grade securities at July 31. The Fund's yield to maturity at July 31 was 2.82% with a current yield of 3.50%. Cash represented 2% of the portfolio at July 31.

Emily Wheeler & Geoff Castle
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PenderFund Capital Management Ltd.