PENDER

BOND UNIVERSE FUND

OCTOBER 2021

Performance Attribution

The return of the Class F units of the Pender Bond Universe Fund over the three-month period ended October 31, 2021 was negative 0.9%[1]. The Fund's benchmark, the FTSE/TMX Canada Universe Bond Index, was down 2.6% over this period and the ICE BofA US Corporate Total Return Index, a proxy for US Investment Grade, was down 1%. With the year-to-date return of US Investment Grade coming in at negative 87 bps to the end of October, the year 2021 is currently one of only seven years since 1987 where US High Grade Fixed Income has seen a negative return[2]. With the ICE BofA US High Yield Index up 40 bps since the end of July and Pender Corporate Bond Fund Class F units up 1.9%[1] over the same period, the Fund's relative outperformance in relation to its benchmark was driven by the Fund's exposure to higher yielding areas of the credit market through its allocation to the Pender Corporate Bond Fund.

Core Strategy

Our approach involves a focus on value whereby we aim to minimize the level of default risk for the yield we are receiving with each investment made. In terms of positioning, this is adjusted over time in response to fundamentals dictated by the level of the term premium and also by the movement of credit spreads through the cycle. In times when the term premium rises above zero, thereby providing an indication that investors are receiving compensation for taking on the risk of inflation, the duration of the fund may be extended and then shortened when the term premium falls below zero – during times when little or no compensation is being paid.

Credit exposure on the other hand, is adjusted depending on the cycling of spreads. Looking back over time to the inception of the Fund, the volatility brought on by COVID-19 provided a unique opportunity to shift the Fund somewhat in terms of credit exposure. In March of 2020, triple B spreads widened to just shy of 5% allowing us to increase our exposure to credit and decrease our weight in government bonds where yields had fallen significantly. Conversely, in a tight spread environment when the extra yield received for taking on credit risk is relatively low, increasing the Fund's exposure to positions with higher credit quality such as government bonds would be the preferred course of action.

Current Backdrop and Positioning

Perhaps you have curled up on a recent rainy October day to ponder the level of the term premium over the last 60 years. If you have, you would have noticed a fairly consistent positive reading for most of this time. However, focusing in on the period from inception of the Fund in January 2020 to today, the term premium has remained below zero for most of this period. In response to this, fund duration has maintained a relatively shorter bias.

With the term premium moving into positive territory over the last few months, we are now keeping an eye on movements in terms of duration positioning; though with the level moderating somewhat over the last few weeks, there is nothing currently in this picture that suggests a compelling argument for extending duration.

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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.*

[2] *CreditSights, March 26, 2021.*

Other indicators we consider that may help to inform decisions regarding duration positioning include the net futures position of the US 10-Year Treasury, with a high short interest potentially signaling that institutions consider inflation to be on the horizon. We saw a high short interest here in the second half of 2018 and also over the period from 2008-2009. Both were time periods where CPI decreased. Although we have seen a net short position here materialize recently, the reading has hovered around zero for most of this year, not committing to consistent moves higher or lower, with the current recent negative reading therefore providing a weak contrarian indication at best, and certainly nothing similar to the conviction seen in 2018.

We have spoken previously about trends relating to the rate of change of the money supply and also the velocity of money. Towards the beginning of this year, unprecedented levels of quantitative easing in response to COVID-19 had pushed the money supply to all-time highs, with the velocity of money showing an opposite trend as it plummeted to all-time lows. Taking a fresh look at this relationship reveals little change to the velocity of money and a drastic decrease in the rate of money supply growth as emergency government spending has waned.

With somewhat noncommittal signals from a modestly positive term premium, a net futures position on the US 10-Year Treasury waffling around zero, a money supply vs velocity of money picture showing velocity has not increased, and the growth of the money supply having fallen somewhat significantly, we are seeing little that is compelling enough to alter duration materially at this time.

The Fund continues to hold a combination of Canadian issuers and Canadian dollar denominated US issuers in the Investment Grade space. Added to this is a weight in Pender Corporate Bond Fund units which represent 32.2% of the portfolio at October 31 and which provide an allocation to non-investment grade credit in the amount of 24.4% of the overall fund currently. The duration of the Fund at month end was 4.2 years with a yield to maturity of 3.1%. Cash represented 2.7% of the portfolio.

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