PENDER
BOND UNIVERSE FUND

FEBRUARY - APRIL 2022

In the quarter ended April 30, 2022, the Fund outperformed its benchmark. With the FTSE/TMX Canada Universe Bond Index down 7.0% over the past three months, the Pender Bond Universe Fund's (PBUF) Class F return of negative 3.9%[1] showed relative strength over the period. Against a backdrop of rising yields along the curve in Canada and the US, Q1 2022 came in as the worst quarterly total return on record for US Investment Grade[2]. The relative outperformance of the Fund compared to its benchmark over this period was achieved through a combination of tight relative duration and exposure to the high yield market. The return of the Class F units of the Pender Corporate Bond Fund (PCBF) was negative 2.4%[1] over the last three months. Although High-Yield saw its own historic challenges through this period, it fared better on a relative basis to Investment Grade and, as a result, PBUF's exposure to PCBF units aided its performance through the period.

High Yields / Bargain Prices?

The BBB yield to worst (YTW) has risen from 2.6% at the end of Dec 2021 to 4.6% at the end of April 2022 - an increase of ~75% in only 4 months. For context, we have not seen it reach this level since the spike in yields during the trough of the COVID sell-off in March 2020 when it reached a high of 5.6%. Prior to that date, we would need to go back to the beginning of 2019 to see a YTW in the current context.

CreditSights recently noted that towards the end of April, the US Investment Grade Index was trading at the lowest level on a dollar price basis since the recovery from the Financial Crisis in 2009 and almost in-line with levels seen during the dot-com sell-off in 2000. On a relative value basis, the High Yield Index, although trading lower than the post Financial Crisis median on a dollar price basis, still sits well above the downturns we saw due to COVID in March 2020, the 2008 Financial Crisis, the 2015-2016 commodities-related sell-off and also the early 2000s default cycle[3]. The current period has therefore been historic, and it got us thinking about what we can expect as we move forward…

We have recently looked at some of the most significant Investment Grade drawdowns from the Financial Crisis to the current day, along with the rebound over the one-year period immediately following, versus the prevailing 1-yr GIC rate at the time. Using an average of the XBB (the iShares Core Canadian Universe Bond Index ETF) and LQD (the iShares iBoxx Investment Grade Bond ETF) returns as a proxy for Investment Grade, the rebound that followed the XBB low in 2008, 2013 and 2020 averaged approximately 13.8% over the following 12-month periods. Given that the 1-yr GIC rates available at the trough of each of these periods ranged from 0.75% to 1.78%, the Investment Grade rebounds following these significant drawdowns have dwarfed GIC returns. While past performance is no indicator of future returns, this exercise provides some context for the alternatives that may be considered at times as historic as these.

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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, April 4, 2022*

[3] *CreditSights, April 25, 2022*

A New Addition to the Fund

Given the current inflationary environment, a question we receive a lot relates to the tools we have to address this[4]. We recently added a position in Canadian Real Return Bonds. These became attractive to us given that not only are they a federal obligation and therefore of the highest credit quality, but they are also indexed to CPI in an environment characterized by eye-popping inflation prints. The US equivalent to Real Return Bonds are Treasury Inflation Protected Securities (TIPS). Over the last period, we had a look at TIP performance (the ETF that tracks Treasury Inflation Protected Securities) versus real 10-year yields over the past 15 years and what we noticed was a reasonable return in TIPS in the period that followed a low in real yields.

The most dramatic example of this occurred coming out of the Financial Crisis with the total return of the TIP ETF for the two years that followed the low in real yields at the time of positive 5.4%, with a total return of 15.2% over the three-year period following that low. Given that we are seeing an unprecedented low in real yields currently, these securities piqued our interest. We currently have approximately a 5.1% weight in Real Return Bonds in the Fund.

Fund Positioning

With Fund duration of 3. 6 years at April 30, 2022, we continue to maintain a short duration bias. The Fund had a 29.1% weight in Pender Corporate Bond Fund units at the end of the month, which remained largely unchanged from the beginning of the period. The yield to maturity of the Fund at April 30, 2022 was 4.6%. Cash represents 3.2% of the Fund currently.

Emily Wheeler & Geoff Castle
May 12, 2022

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PenderFund Capital Management Ltd.

[4] *Watch an excerpt from the 2021 Pender Investment Conference session on Money, Inflation & Credit Markets in an Age of Stimulus, starting at 32:30 for a refresher on Pender's inflation and disinflation toolkit.*