PENDER FIXED INCOME

MANAGER'S COMMENTARY – APRIL 2023

The Pender Corporate Bond Fund returned -0.4%[1] in May, a relatively modest loss within a market that saw larger drawdowns, which stemmed from a combination of wider credit spreads and higher sovereign rates. May's market action was centred around investors handicapping the probability of the United States Congress failing to amend the debt ceiling. That crisis now appears to have been averted.

Leading the way for the Pender Corporate Bond Fund were some severely discounted issues, notably our position in the Cineworld Group PLC term loan, which gained more than 25% in the month of May, the details of which we discuss below. Other strong gainers were positions in the discounted bonds of biotech holdings Paratek Pharmaceuticals Inc and Emergent BioSolutions Inc as catalysts emerged for these very cheap companies.

However, a combination of the debt ceiling drama and investor risk aversion drove most securities to negative returns in the month. One particular area of weakness for us was in the Canadian rate-reset preferred share market. This market has now returned to price and yield levels that we saw in both 2016 and 2020. Those prior occasions proved to be fantastic set-ups for future returns and we have again been adding weight to this area. Preferred securities now represent approximately 5% of the Fund.

Cineworld – Not Just Finding Value, But Fighting for It

Colleague and Associate Portfolio Manager Parul Garg and I, over several years on this mandate, have stickhandled through a great many workouts and Chapter 11 processes as we have sought to capitalize on the low-priced securities of companies undergoing restructuring. However, few of these have been as contentious as the recent creditor-on-creditor violence that unfolded in the Cineworld Group bankruptcy process. This month, we emerged slightly bloodied, but ultimately victorious, in our fight to regain value for our term loan position that had been threatened by another group of lenders.

The necessary backstory here is that we are invested in the Cineworld term loan, a $3.9 billion piece of secured debt that represents the fulcrum security in the capital structure of the owner of America's second-largest theatre chain. Following the company's bankruptcy filing in September 2022, the term loan traded to extremely discounted levels and we acquired a position at a cost of approximately 15% of face value. We are optimistic about recoveries for Cineworld as production houses have begun to unveil a much better slate of movies for theatrical release than had existed in the early post-COVID period, creating momentum that may ultimately see a near-full recovery of 2019 revenue levels.

However, in April, it was disclosed that a majority group of term loan holders had entered into a restructuring support agreement with Cineworld that included a backstopped rights issue. The backstop formula effectively diluted the value of minority holders of the term loan by as much as 80%. Market quotes for our term loan fell to as low as 6% of face value on the bid side.

We sought out other holders in the same situation and, collectively, a group of approximately 10% of the term loan holders engaged the services of a dynamic Wall Street law firm, Glenn Agre Bermann & Fuentes LLP. Our group challenged the predatory restructuring agreement in court and, ultimately, forced the

[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.*

majority to agree to negotiate with us a vastly improved rights allotment. In the end, we were able to undo most of our dilution and our term loan was recently indicated at a bid price of 17.5% of face. We believe that, once the company emerges from bankruptcy, and the rights issue is funded, the ultimate recovery value could be much higher than existing levels. But, for now, we are happy to have recovered lost value and have a position that is fairly valued above our cost.

Fund Activity

In May, we increased our weighting in Treasury Inflation-Protected Securities (TIPS) through the addition of weight in a 2032 TIPS issue that was priced to deliver a return of 1.4% above the breakeven inflation expectation. With the sell-off in TIPS and Canadian Real Return Bonds over the past 12 months, we now observe the highest premium to breakevens in inflation-protected securities since 2011. We consider these securities to offer relatively strong return potential within the investment grade portion of the portfolio.

Also in May, we added to our position in secured bonds in the DISH Network Corporation DBS capital structure. Parent entity DISH Network Corporation recently announced that it is in talks with Amazon to sell 5G wireless plans through Amazon's distribution network. While the marketing deal is not certain to deliver, the interest of Amazon does underscore the important utility of DISH's spectrum and network assets, highlighting the collateral value of DISH's asset base. We continue to like DISH and consider the secured DISH DBS bonds to be attractive when priced between 70 to 80 cents of par value and yield in excess of 12%.

A further addition in May was in the convertible notes of internet advertising marketer Magnite Inc. Magnite operates within a growing advertising segment of placing online video content, a niche that has enabled the company to expand revenue and EBITDA significantly over the past three years. We see some acquisition potential for Magnite, which could potentially result in quick repayment of the company's busted convertible bonds due in 2026, currently priced at 83% of face value to yield 6.6%. With strong cash generation, healthy cash balances and a relatively low default probability, we consider Magnite's convertible bonds to offer attractive risk/reward characteristics.

Fund Positioning

The Pender Corporate Bond Fund yield to maturity at May 31 was 8.2% with current yield of 5.4% and average duration of maturity-based instruments of 3.3 years. There is a 3.0% weight in distressed securities held for workout value whose notional yield is not included in the foregoing calculation. Cash represented 2.9% of the total portfolio at May 31.

Geoff Castle
June 7, 2023

PENDER
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