

Manager's Commentary

Geoff Castle

The Pender Corporate Bond Fund gained 0.6%¹ in July, a period that was characterized by tightening credit spreads and rising risk-free rates.

Key contributors to the Fund's return included our position in the convertible notes of First Majestic Silver Corp., which rallied from multi-year lows, and our holdings of Liberty TripAdvisor Holdings, Inc. notes, which attracted bids due to their attractive double-digit yield to a 2025 put date. Several preferred share series were strong performers as well, including BCE Inc. preferred "Q," which is due to reset its dividend in September at a rate that, should the five-year Canada yield remain constant, would equate to a yield of almost 8%.

Offsetting a degree of the positive performance were several investment grade securities, which were influenced by higher risk-free rates. Line-item credit weakness included our position in US theatre operator, Cineworld, potentially reacting to technical factors related to its exit from bankruptcy. We like the prospects for the newly recapitalized Cineworld Group PLC, and look forward to a broader market discovering what we believe to be a highly attractive enterprise valuation.

Summer Specials

Some people spend their summers jumping into the water off a dock on a quiet lakefront or hiking mountain trails with a picnic lunch. We, however, find the slowness of summer makes a perfect season for scouring markets for price series that seem stretched to the downside. Good long-term outcomes often spring from our noticing a value equation that represents an outlier relationship between the price investors are paying for a security and the value they receive. Doing this in the summer of 2023, we are drawn to the following set of opportunities:

TIPS and Real Return Bonds: There was a time, not too long ago, when burgeoning post-pandemic inflation drove many investors toward TIPS, Real Return Bonds, and other inflation-protected securities. However, the Federal Reserve's sharp rate hiking program changed investors' estimates of future inflation and TIPS delivered a negative 13% total return between March and November 2022. Now that the dust has settled, and disappointed investors have punted their inflation protection, we look at a five-year TIPS priced to deliver an extraordinary 2% above breakeven inflation expectations. When priced at that level in late 2008, the five to 10-year TIPS Total Return Index delivered over 46% over the ensuing four years. TIPS, Real Return Bonds and closed-end funds that focus on this market all seem extremely cheap here.

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.

Gold Miners...Cheap vs Gold: Although there is some relationship between the price of gold and the valuation of gold mining companies, the two price series can diverge significantly. From a 2011 peak, the price of gold mining companies, as measured by the NYSE Arca Gold BUGS Index, has fallen by more than 60%, while the US Dollar gold price has risen slightly over the same timeframe. Numerous profitable, producing gold miners are trading well below book value and there appears to be enormous potential both in the straight bonds and convertibles of many of these issuers. Following the gold stock sell-off of 2015, the last time the miners were this discounted vs the metal, mining enterprise values subsequently soared and the NYSE Arca Gold BUGS Index nearly tripled over the next nine months. Our convertible positions in SSR Mining Inc. and First Majestic Silver Corp. are positively geared towards such an outcome yet enjoy robust credit coverage in the event that this re-valuation event takes a while to materialize.

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Emerging Markets Credit: Emerging markets bonds offer surprisingly high yields given relatively tame inflation and fairly good credit fundamentals. If one looks at the debt-to-GDP factor for Mexico, Brazil, Indonesia and Turkey, it recently averaged 53% of GDP. That compares positively to the United States, for which the same ratio recently read 127% of GDP. Inflation in Brazil recently printed at 3.2%, less than 0.2% higher than headline US inflation. And yet Brazilian 10-year bonds yield more than 10%, while the US 10-year yields approximately 4%. The level of real yields for both sovereigns and corporates in select markets like Mexico and Brazil is very attractive, particularly in comparison to some developed markets. And so, selectively, we have added exposure to issuers such as Mexico's Petroleos Mexicanos and Brazilian financial intermediary firm, StoneCo Ltd. (the "Square" of Brazil), at points where USD bonds yielded over 10%. We also like certain closed-end funds focused on emerging markets credit, such as Western Asset Emerging Market Debt Fund (NYSE: EMD), which offers a 10.3% payout and a discount to daily NAV that exceeded 15% in the latter part of July.

Portfolio Activity

In July, we initiated a position in the deeply discounted convertible notes of California-based electric vehicle manufacturer Lucid Group Inc., trading to yield over 14% to a 2026 maturity. A key consideration in our Lucid purchase was the controlling position in the company of the Saudi Public Investment Fund, which implies a degree of implicit credit support that more than compensates for the risks associated with Lucid's somewhat challenging cashflow profile. Recent large share purchases by the Saudi sovereign wealth fund would be inconsistent, in our view, with this company walking away from debt commitments within the timeframe of this bond's maturity. The company enjoys some other credit strengths, including a cash pile that exceeds total debt.

Also in July, we purchased a position in the 7% 2026 notes of Cimpress PLC, priced to yield approximately 9% to maturity or 14% to a 2024 call date. Cimpress is the owner of

Vistaprint, a leading purveyor of business cards and custom-designed printed merchandise. While Cimpress's industry suffers overall from declining volumes, the company has built an advantageous cost advantage through its leading market share in online fulfillment that has enabled the business to continue to generate strong cashflow. Cimpress management is focused on deleveraging. The company has recently made significant open market repurchases of the 2026 notes, including \$52 million in the most recent quarter. We expect further progress on debt reduction to lead to a potential upgrade of this bond's CCC rating.

Fund Positioning

The Pender Corporate Bond Fund yield to maturity at July 31 was 8.4% with current yield of 5.3% and average duration of maturity-based instruments of 3.3 years. There is a 3.1% weight in distressed securities held for workout value whose notional yield is not included in the foregoing calculation. Cash represented 4.5% of the total portfolio at July 31.

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