PENDER
CORPORATE BOND FUND

December 2023

Manager's Commentary

Geoff Castle

The Pender Corporate Bond Fund returned 3.2%[1] in December, bringing the annual return for 2023 to a respectable 7.6%. Our primarily investment grade offering, the Pender Bond Universe Fund, returned 3.2%[2] in December and 6.9% for the year. Pender Bond Universe Fund's notable performance in its category continued in 2023, with that mandate achieving its third consecutive top quartile year as measured by Morningstar.

Pender Corporate Bond Fund's outperformance in December was driven by some extremely cheap, off-the-run and distressed lines. Our position in the preferred shares of Fannie Mae and Freddie Mac rallied more than 30% as investors reassessed the prospects of reorganization of those entities. Esperion Therapeutics convertible notes gained 11 points on the company's accelerating prescription volumes and expectations of FDA-approved label expansions. Two distressed telecom credits, Lumen Technologies Inc. and GTT Communications Inc., both rallied strongly on improving sentiment in a sector which is demonstrating newfound capital spending discipline.

There weren't many negative lines in the portfolio in December, but one area of weakness was our longstanding investment in the distressed capital structure of McDermott International Ltd. McDermott continues to face the fallout of its messy Chapter 15 filing of a subsidiary exposed to an Ecuadorian arbitration claim. It's a position only a mother could love, but we bought more at depressed prices in December.

The Awakening – January 2024

It's a sound at first that causes you to open your eyes… but then, oohhh, the brightness of the light… and, gradually, the outline of the room comes into focus. Everything is white. The room is warm and safe, and calm.

"Hey, there you are, sport… you were really lights out there for a while," says a friendly voice coming from behind your head. Suddenly, your thoughts ignite… you can remember looking at a screen full of red lights. There was this negative seven-point-three flashing somewhere… and then you remember buying that GIC… no… there were more, there were dozens of GICs! What the heck? And all that fur… why was there fur?

"Doc!" you exclaim, your throat aching from disuse. "Doc, what happened?"

"It was a bear, sport… a real fixed income bear. But don't worry, we got him."

[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.*
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It is morning again in corporate credit. After the better part of two years battling a persistent, negative trend, financial conditions have eased markedly since late October. The losses of the fixed income bear market have been erased.

Like our awakening friend above, we find ourselves in a place where the signs of investor panic and price dislocation are still very much apparent. Although the high yield index has soared higher, as hot money jammed index spreads towards two-year lows, the same can't be said for off-the-run and unrated bonds. Here, there is still a fairly ample supply of bonds trading in the 50s and 60s percent of face value, where the value of the issuing companies appears to be clearly in excess of total debt outstanding. 10% yields are still very much a thing. And most investors are still nervous.

We have no clairvoyant powers, but if you've been waiting for an entry point, this looks to be a moment with some potential.

Some Cheap and Timely Credits (Not Available in Passive)

We lead this section off with the 4% notes of **Esperion Therapeutics, Inc.**, due in November 2025. The Esperion 2025's, still priced in the 50s, create one of the fastest growing junior pharma companies at an enterprise value at less than 1x 2024 estimated sales. That multiple could reasonably be 4x. Esperion's common stock has quadrupled from an October low and yet the bonds have only moved 11%. Catalysts abound. Currently yielding over 36%, this bond is a 2% weight for us, and we believe its price is likely headed higher.

Another catalyst-rich line is the busted 0.5% convertible notes of **Bandwidth Inc.**, one of the leading players in software that interfaces between telephone networks and web-based applications. Due in April, 2028, this bond traded in late December at 63.75 to yield approximately 11.5%. Cash margins are increasing, and the business stands to grow quickly in an election year as modern campaign fundraising depends on bombarding databases of donors with text messages.

Trulieve Cannabis Corp. is another issuer whose credit has not yet been swept up in the wave of excitement that has accompanied the Fed's apparent pivot. It has been a long and difficult five years in the pot business as bubble euphoria has been shaken out of the system and financial discipline has been restored. Trulieve, a survivor, has generated more than $125 million in cash from operations in the past 12 months. There is a strong likelihood of recreational use in its key market of Florida being on the ballot in November. And yet, Trulieve's 8% 1st lien notes of 2026 still trade to yield 15%. We like these.

The availability of credit bargains like the foregoing names stems in part from the fact that none of the above securities are rated. And unrated bonds do not make their way into indices. And if a bond is not part of an index, it can't be included in a passive instrument. But all the above issuers are public companies with readily accessible financial information and management that we can approach for clarification. Our value to you, our investor, is doing the specific credit work that allows us to underwrite these credits with confidence.

Fund Positioning

The Corporate Bond Fund yield to maturity at December 31 was 7.9% with current yield of 5.4% and average duration of maturity-based instruments of 4.0years. There is a 4.9% weight in distressed securities and reorganization equities held for workout value whose notional yield is not included in the foregoing calculation. Cash represented 3.8% of the total portfolio at December 31.

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