

Manager's Commentary

Geoff Castle

The Pender Corporate Bond Fund returned 0.8% in February¹, with strength in deeply discounted credits providing a performance tailwind.

Positive contributors in the period included our position in Esperion Therapeutics, Inc. converts, which continued rallying on an improved balance sheet and stronger prescription activity. Bandwidth Inc convertible notes also rallied on a very strong earnings report from the communications software company. Further strength came from our position in Lucid Group as investors refocused their attention from weaker current period earnings to the company's ample asset coverage of credit obligations.

While most lines advanced in February, there were a few areas of weakness. Most notably, our position in credit of SSR Mining was impacted by operational challenges at that company's Copley mine in Turkey. While the unfortunate incident does impact the company's current year earnings profile, we believe the credit coverage of the 2039 notes is not significantly affected and therefore we added to our position.

Thoughtful Underwriting Catches a Bid?

One of the peculiarities of the credit markets over the last year was a widening gulf between valuations of on-the-run indexed high yield bonds and some of the wider spread off-the-run credits. In theory, both sets of issues should have responded to the relatively strong risk sentiment that has existed, but in practice the names in indices did much better. Possibly this situation results from the popularity of passive instruments or of similar index-oriented strategies. We don't know why so many capital allocators insist that credit dollars are assigned to mandates where thinking is officially discouraged. But there's no accounting for taste.

However, in February we did notice a change in the market. Suddenly a number of head-scratchingly cheap bonds switched from being offered but not bid, to being bid and offered, and then to bid-only. And prices have started to move higher in the land of the unfairly discounted. Let us provide some examples.

One of the curiosities of early 2024 has been the tiny price of Lucid Group's 2026 convertible notes, which were trading at less than 40 cents on the dollar to yield over 35% to a maturity less than three years away. We recognize that Lucid is not currently profitable, but this pricing seemed to imply that the company's majority owner, the Saudi Public Investment Fund (PIF) was set to walk away from its investment. We see no such indications. Indeed, it would be most surprising to us that having invested \$26.4 billion in an entity that forms a key part of that country's strategy to diversify away from fossil fuels, that the Saudis

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.

would walk away without helping Lucid satisfy this \$2 billion maturity. And Lucid, we note, still has more than \$4 billion of balance sheet cash. Finally, late in February, bullishness on Lucid credit became a little more popular and Lucid bonds began March bid at a still cheap 46 cents per dollar.

Another credit whose plunged to the 30s was ignored by investors chasing an index rally was Emergent Biosolutions Inc. 3.875% notes maturing in 2028. To be fair, Emergent did face some challenges over the past two years including the struggles of a moribund contract manufacturing division and the death of the company's founder. But we were surprised at the degree to which this company's fairly evident strengths, such as its entrenched position as a provider of emergency stockpile medications for the US government, and its critical status as the producer of opioid overdose medication Narcan, were ignored by the market. Finally, in the latter half of February we saw bids emerge from a sea of indifference. No longer offered in the 30s without uptake, Emergent begins March bid in the 40s without offers.

Do one or two songbirds make a spring? Is thoughtful underwriting in vogue again? Only time will tell.

New Positions

In February we initiated a position in the 2026 floating rate notes of electric vehicle maker Rivian Automotive Inc., which are now priced to deliver approximately 13% yield to maturity. We recognize that the excitement surrounding Rivian and other electric vehicle companies has faded considerably in the past couple of years. However, Rivian's credit positives are not insignificant. To begin, the company's cash pile exceeds \$9 billion, almost nine times as much as this secured obligation, which is Rivian's only secured bond. In addition, the company enjoys substantial implicit support from Amazon.com Inc. which is both a key customer and 16% owner. We believe this comparatively short-term obligation appears likely to be successfully repaid or refinanced on maturity.

Also in February, we participated in the extension and amendment of Cineplex's 2025 convertible bond to a 2029 maturity. The exchange transaction provides us with both a higher coupon and longer runway for equity convertibility. We like the prospect for the continued recovery of the cinema business in the wake of the resolution of industry strikes and post-pandemic reopening. Moreover, we believe Cineplex's commanding market share in Canadian theatre exhibition bodes well for the company's ability to improve cash returns on expanding revenue.

Fund Positioning

The Corporate Bond Fund yield to maturity at February 29 was 8.2% with current yield of 5.4% and average duration of maturity-based instruments of 3.6 years. There is a 5.2% weight in distressed securities held for workout value whose notional yield is not included in the foregoing calculation. Cash represented 2.8% of the total portfolio at February 29.

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