PENDER
CORPORATE BOND FUND

April 2024

Manager's Commentary

Geoff Castle

After an exhilarating start to the year, the Pender Corporate Bond Fund consolidated a bit in April, ending with a modest decline of -0.1%[1]. Higher risk-free rates this month essentially offset line-item strength in the credit portfolio.

This period did see positive performance in a few areas, including cinemas, where better than expected box office results of "Dune: Part Two" and "Godzilla x Kong: The New Empire" helped our positions in Cineworld Group PLC and Cineplex Inc securities. Continuing enthusiasm for the leadership change at Emergent BioSolutions Inc also drove our position in the 2028 notes up five points.

However, the Fund faced headwinds from a much higher US Treasury curve. Longer-dated investment grade securities were pressured as the 10-year US Treasury fell more than three points on a nearly half-point increase in yields in April. On the credit side, our positions in the busted convertible bonds of Lucid Group Inc and Stem Inc fell as sentiment towards clean energy and electric vehicles remained more negative than the fundamental picture should warrant.

Lots of Ways to Win… A Playbook of Opportunities in the Bond Market

The bullish bond fund manager on the make spends a lot of time these days promoting the idea that after nearly four years of surging yields, a slowing economy will lead to lower inflation and a sustainable bond market rally. Fair enough. We are inclined to agree.

But where we disagree with that bond fund manager is whether we should be satisfied with pursuing only that one opportunity. What if it takes longer for that falling-rates trade to materialize or their decline is less fulsome than anticipated? What else do you have? Well, we have a lot more. And it comes from looking beyond that single macro idea to a broad array of very interesting other options that can allow us to generate excess returns from corporate credit. Let us enumerate a few.

Implicit Support: Often, we look beyond the specific credit strengths of an issuer to seek support from a related entity that would be inconvenienced or embarrassed by the failure of a connected but non-guaranteed entity. For example, the Fund's historic success in SunPower Corp bonds was due in part to our confidence in the implicit support that entity had from its controlling shareholder Total SA, which brandished SunPower Corp as its renewable energy "fig leaf" in the heyday of ESG investing. Similarly in the current market context, we can look past some of the more stretched credit ratios of Pemex to see a Mexican state that, while not the formal guarantor of Pemex, essentially shares the company's P&L statement. If a borrowed US dollar costs the Mexican sovereign only 6%,

[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.*

why should it not lend a hand to its troubled energy monopoly Pemex for whom the same borrowed dollar costs 11%.

Unrated but Fireproof: On other occasions a bond may be either un-rated or perhaps poorly rated, yet on closer inspection default risk is de minimis. One might expect an efficient market to adjust pricing for low-risk bonds without high ratings, but in this era of passive investing there just are not enough people doing the work. Consider Centrus Energy's 8.25% notes due in 2027. Providing enriched uranium to power plants in North America, this issuer is a highly profitable monopoly. Centrus' balance sheet cash is 3x debt outstanding and its trailing operating income covers interest charges by 40 times[2]. A yield of 8.8% seems too high for an issue of this quality, but we will take it.

Equity-linked at the Lows: A delightful opportunity can materialize when a fundamentally undervalued company is required to refinance or extend a convertible bond at a time when its equity is trading at a steep discount. Recently we have seen several of these opportunities in issuers such as OPKO Health Inc, Cineplex Inc and Equinox Gold Corp. Equity investors may be blasé about return potentials of 50 to 100 percent, but in the world of fixed income, these modeled opportunities are really special, considering that par can provide a critical floor to a well-covered credit.

Better Mousetraps: As any bond market veteran will attest, traditional credit analysis involves wearing a heavily starched white dress shirt and looking backwards into the long history of a company's financial performance. While we are not ones to question things that have worked, a market that leans too heavily on this approach tends to miss certain opportunities. What of the company with stretchy credit metrics that has developed a better mousetrap and is poised to grow strongly in the coming years? That company will produce increasingly stronger financial results and its bond prices ought to improve accordingly. Here, we point to the 2028 0.5% convertible bonds of Stem Inc., which we believe will appreciate far above their current trading level in the mid-40s as the company's important position in the emerging field of utility-scale battery operating systems becomes more widely appreciated.

The world has more than one type of opportunity. And in a field as wide and as varied as corporate credit, we find that there are many ways to win.

Portfolio Activity

Recently we initiated a position in the 2027 convertible bonds of Revance Therapeutics Inc (Revance). Revance is the maker of a competitive skincare treatment DAXXIFY, which is similar in nature to the blockbuster Botox skincare product from AbbVie Inc. Due to its somewhat longer-acting nature DAXXIFY has been able to gain market share and we note that gross margin dollars at Revance have more than doubled in the past two years[3]. We

[2] *Source: Centrus Energy company report.*
[3] *Source: Revance Therapeutics Inc company report.*

believe that the company is worth far more than its $287 million in debt, which currently trades around 67 to yield approximately 17%.

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We also recently initiated a position in the secured bonds of Porch Group Inc. Porch is the provider of a software platform that connects to home transaction services such as home inspection and moving services. The company stumbled a bit in the last couple of years due to a misadventure in home insurance underwriting. With that situation now in the rear-view mirror, and with strong cash position and management alignment we expect a recovery in the company's bonds which are priced to yield approximately 18% on a secured basis.

Fund Positioning

The Corporate Bond Fund yield to maturity at April 30 was 8.7% with current yield of 5.4% and average duration of maturity-based instruments of 3.8 years. There is a 4.4% weight in distressed securities held for workout value whose notional yield is not included in the foregoing calculation. Cash represented 0.5% of the total portfolio at April 30.

Geoff Castle
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