PENDER
CORPORATE BOND FUND

January 2024

Manager's Commentary
Geoff Castle

The Pender Corporate Bond Fund generated a moderate return of 0.3%[1] in January, a period that saw a selloff in Canadian investment grade bonds and limited gains in high yield indices.

Our top performing positions this month included our holding in Esperion Therapeutics Inc. 4% notes, as outlined further below. Also contributing to returns was our longtime holding of Fannie Mae and Freddie Mac preferred shares, which continued their rally on hopes of capital reorganization after the 2024 US elections. Canadian preferred shares also staged a strong rally across the board, with our positions in some near-term resets, such as Enbridge Inc. preferred series "J" up more than 10%.

Despite overall positive performance, several lines were weaker, particularly those related to companies with ongoing cash requirements such as the EchoStar Corp/Dish Network Corp structure and Accelerate Diagnostics Inc. Certain investment grade bonds were also lower on the month as benchmark yields rose in Canada.

The Patience of Job… and the Patients of Nexletol

There are times in the market when the cheapest distressed credit and reorganized debt securities gain in value very quickly. We have not been in such times. Recent markets have really emphasized the "work" part of workouts. Beaten up capital structures have languished, unwanted, notwithstanding their evident low prices.

We view the modern distressed capital structure investor as needing to channel the spirit of Job of the Old Testament. A man of abiding faith, Job suffered the loss of livestock, the destruction of his home and even the loss of his children in a series of brutal misfortunes. But famously, his faith remained unshaken. Confronted with his own incomprehensible suffering, Job doubled-down on his confidence in the almighty. "Though he slay me," declares Job, "yet will I trust in him." [2] He was, in a way, the original "diamond-hands hodler."

We think of Job whenever we revisit our investment in our number one holding, the 4% notes of Esperion Therapeutics due in April 2025. Esperion has developed a novel cholesterol lowering therapy called bempedoic acid, marketed variously as Nexletol and Nexlizet. Based on clinical studies done after the drug's 2021 FDA approval, the drug is shown to reduce all types of cardiac events by 20% in patients compared to a control group. Those who remember the massive earnings of Pfizer's now-generic former blockbuster, Lipitor, will understand the economic potential of being the world's state-of-the art cholesterol lowering therapy.

[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.*
[2] (Job 13:15)

While we believe Esperion's product has much merit, the company originally struggled to gain commercial traction, due in large part to Nexletol's launch during the height of the pandemic. It is difficult to get the ball rolling on a new drug therapy when few patients were consulting doctors for reasons other than COVID-19.

Esperion's management subsequently made a bold move and bet most of the company's available cash resources on a study to demonstrate their drug's effectiveness, the so-called 'Clear Outcomes' study. By most measures, the study's results, released in March 2023, showed the data that management hoped it would. The drug worked well in both the specific sense of lowering cholesterol and in the general sense of improving overall patient outcomes. Yet the company's marketing partner, Japanese pharma major Daiichi Sankyo, refused to immediately pay a promised $300 million milestone payment, claiming that certain specific performance thresholds were not met. A lawsuit was subsequently filed. Nervous investors became even more nervous.

"Recent markets have really emphasized the "work" part of workouts."

And so it was that our investment in Esperion's convertible 4% notes of 2025, which we first bought in the $80s back in 2021, drifted continually lower and bottomed out as low as $39 in April 2023. Along the way, our conviction grew and we added weight. Our average cost reduced to the $50s. We are convinced that the company is worth far more than all financial liabilities and our notes should be worth $100 par.

In recent weeks, the promise of Nexletol has finally begun to materialize in the mind of investors as catalysts have appeared. Accelerating prescription growth through late 2023 was already helping sentiment, which was further aided on January 3 by a $125 million cash settlement between Esperion and Daiichi for the milestone. The company then successfully raised over $85 million in a stock offering on January 19. Esperion's 4% notes have now rallied from the low below $40 to a recent price of $68. At month-end, this position has emerged as our top holding, getting there through our preferred way - price appreciation. But with a yield of 28% to its April 2025 maturity, this 2.5% weight still offers much future contribution potential to our Fund.

Portfolio Activity

Through December and January, we initiated a position in bonds of Sibanye Stillwater Ltd. which is the largest pure-play company engaged in the mining and refining of platinum group metals worldwide. Platinum is uniquely depressed, in part due to expectations of fading demand from industrial use (such as in catalytic converters) and in part due to limited investor demand. The World Platinum Investment Council recently noted that the year 2023 saw a record supply deficit in the metal, with demand exceeding production by a record one million ounces[3]. We feel this long relative decline by platinum is due to end because of

[3] *https://www.mining.com/the-great-platinum-deficit-council-forecasts-record-demand-in-2023/*

stronger prospective industrial demand from new applications such as hydrogen fuel cells as well as potentially renewed investor interest.

Johannesburg-based Sibanye operates some of the largest low-cost platinum mines in the world. The BB- rated Sibanye enjoys total debt to capitalization below 50%. It has generated positive cash from operations every year since its 2011 listing and has generated free cash flow in all but two of those years. We own both the company's 4.5% notes of 2029, which currently yield over 9%, and its 4.25% 2028 convertible notes which have a strike price less than 15% above current trading levels of the stock. We view one year default probability of Sibanye at less than 0.3%.

Fund Positioning

The Corporate Bond Fund yield to maturity at January was 8.1% with current yield of 5.3% and average duration of maturity-based instruments of 3.8 years. There is a 5.0% weight in distressed securities held for workout value whose notional yield is not included in the foregoing calculation. Cash represented 4.1% of the total portfolio at January 31.

Geoff Castle
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