

Manager's Commentary

Emily Wheeler, CFA

The three-month return of the Class F units of the Bond Universe Fund was 4.3% to the end of September 2024. The Fund's benchmark, the FTSE Canada Universe Bond Index, returned 4.7% over the same period. Strength in the quarter was driven by individual risk positions and an overall bond market rally in the context of rate cuts north and south of the border¹.

Third Quarter Portfolio Highlights

As inflation moved into their target range, Q3 saw two further 25-basis-point rate cuts by the Bank of Canada. Bringing the total so far to three, this quarter the Governor of the Bank of Canada, Tiff Macklem, signaled more cuts to come. In the US, we saw rates come down by 50 basis points in August – the first move lower by the United States Federal Reserve since 2020. With yields declining across the curve in both the US and Canada, nearly every holding within the Fund priced higher at the end of the quarter than the start of Q3.

A significant contributor to performance this period was the Fund's position in the OPKO Health Inc 3.75% 2029 convertible bond that represented a 2.4% weight at the beginning of Q3. With the stock price having moved through the \$1.15 strike in March, the bonds continued to rally from our original purchase price of \$100 in January, finishing the quarter up over 16%. A bit of background on this position is therefore worth a mention here.

In January of this year, the company refinanced a 2025 convertible bond into a 2029 new issue that we purchased, adding an approximate weighting of 2% to the Fund. Our team knew the company well as the 2025 issue had been a holding of the Corporate Bond Fund for some time. Given our fundamental view on valuation was significantly higher than the \$1.15 strike the new issue would sport, we found it to be an attractive opportunity for an individual line item within the non-IG portion of this Fund.

Although the Pender Bond Universe Fund gains the majority of its credit exposure through holding Pender Corporate Bond Fund units, having high conviction in an individual investment may warrant the allocation of some non-IG Fund weight to an individual issue. The OPKO converts presented just such an opportunity in January. However, having rallied significantly during Q3, we trimmed our holding above \$141 allowing us to reduce the weight that had crept up on price appreciation and take some profits 41% above where we initiated the position less than eight months previous.

Another bright spot in the current period was our recently added TXNM Energy Inc 5.75% 2054 convert that has rallied approximately 10% since initiation. A search for high quality businesses in the relatively undervalued utility space led us to these bonds at the end of last

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.

quarter. TXNM Energy (formerly PNM Resources) is an Investment Grade issuer that refinanced a portion of their term loan debt at the end of June through the issuance of these convertible bonds. Swapping term loan debt for converts provided them with a lower cost of capital and 50% equity credit with the rating agencies. Highlights over the quarter included strong Q2 earnings and the announcement of a name change from PNM Resources to TXNM Energy. Having added the Texas utility to the previously existing New Mexico only asset, the firm felt TXNM better reflected the nature of current operations and shareholders agreed – unanimously approving the name change in August. We started building a position at slightly below \$98 at the end of June and as of this writing, the converts have rallied to over \$107 in around three months.

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Duration Positioning

In the context of a positive term premium, financial conditions indices recently reaching near all-time highs and North American central banks signaling more rate cuts to come, we extended duration slightly this quarter from 4.74 at June 30 to 5.14 at quarter-end. This was achieved by rolling shorter dated Real Return Bonds, Ontario Power Generation and a MacDonald’s Maple into longer dated lines of these issuers along with National Grid and Verisign.

Credit Positioning

Fund strategy has not changed regarding credit positioning. It’s a simple strategy - we add exposure when spreads widen and subtract from it when they narrow. As the ICE BofA US High Yield Index Option-Adjusted Spread tightened further through the quarter (although marginally so), from 3.21% to 3.03% at Sept 30, no exposure here was added. The Fund’s Non-Investment Grade holdings represented 21% at quarter-end, which remains below the maximum allowable of 25%. The remaining 79% of the portfolio is currently comprised of Investment Grade securities and cash.

The yield to maturity of the Bond Universe Fund was 4.69% at Sept 30, 2024. Duration of the Fund was 5.14 and cash represented 6% of the portfolio at quarter-end.

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