

Manager's Commentary

Justin Jacobsen, CFA

The Pender Alternative Absolute Return Fund finished November with a return of -0.5% bringing year-to-date return to 5.5%¹.

The election of Donald Trump awakened a speculative frenzy for risk assets which caused our short book to outpace our longs in November, resulting in the Fund's first negative month of 2024. Spreads hit multi-decade lows in both high yield and investment grade markets. The HFRI Credit Index returned 1.8% in November, bringing year-to-date returns to 10.1%.

Portfolio & Market Update

The riskiest segments of the high yield market performed the best in November, continuing a trend that started in July. This is consistent with a trend we have seen in equities where capital has rotated out of large caps and into the Russell 2000.

July through November return

ICE BofA US High Yield Index	5.9%
ICE BofA CCC & Lower US High Yield Index	14.1%

Source: ICE/Bloomberg

We suspect that the current reach for yield likely has limited room to run, given absolute valuations are approaching levels that will likely be difficult to sustain. While there are individual companies that are positioned to do well going forward, the return from the Russell 2000 over the past year has been driven by multiple expansion rather than earnings growth.

	P/E Ratio			Dividend yield	
	Trailing 11/29/2024	Trailing Year ago	Forward Estimated	11/29/2024	Year ago
Russell 2000 Index	36.0x	24.2x	31.2x	1.29%	1.71%
Nasdaq 100 Index	32.3x	28.8x	28.7x	0.77%	0.82%
S&P 500 Index	25.2x	21.7x	23.0x	1.23%	1.57%

Source: Barron's/Birinyi Associates, as of November 29, 2024.

Equity values matter a lot to the riskier segments of the high yield universe. Higher multiples can effectively bail out overleveraged issuers if management teams and boards make smart tactical decisions about raising capital when market windows open.

In an expensive market driven by sentiment and technical factors we focused on finding individual mispriced securities and participating in well priced new issues. **In liquid US high yield, the value is the worst I have seen in my career, last month BB spreads hit a low of 157bp Govt OAS, which is the lowest value since 1997.** That same year, the average yield on

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.

the 5-year treasury bond was over 6%, so all-in yields are materially lower now than they were then.

Our large position in Xenia Hotels Inc 6.375% 2025 bond (NYSE: XHR) was called in November, which was funded by a new issue with a 6.625% coupon due in 2030. We participated in this transaction as we viewed it as attractively priced relative to other hotel REIT credits. As the issue traded above par and converged to our estimate of fair value we reduced exposure, preferring the bonds of larger, higher quality issuers like Hilton (NYSE: HLT) with a much larger market cap, lower leverage and capital-light business model. We view the basis between low and high quality as exceptionally tight currently and therefore prefer to stick with the highest quality issuers.

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We added to our holdings in Wolf Midstream Canada LP (private) in early December as they brought a new issue rated just one notch away from investment grade by DBRS at a spread of almost 300bp. It is our view that the company will likely be upgraded to investment grade within the next two years and there is potential for significant spread compression from current levels.

We are not expecting any material increase in volatility until early 2025. There are many market participants like hedge fund “pods” whose time frames are driven by calendar year ends. As the calendar rolls over into a new year this causes traders’ time frames to extend out twelve months. We saw this phenomenon play out in January 2022 when on the first trading day of the year the US treasury market sold off significantly on no news. We would not be surprised if credit was a target of short sellers early in 2025 given the historically expensive valuations, it would not take a major event to cause high yield spreads to move 100-150bp wider from current levels at some point next year. We suspect that macro products like CDX or ETFs would likely be preferred vehicles to express bearish views on credit.

Portfolio metrics:

The Fund finished November with long positions of 116.1% (excluding cash and T-bills). 35.9% of these positions are in our Current Income strategy, 74.4% in Relative Value and 5.8% in Event Driven positions. The Fund had a 54.1% short exposure that included 4.1% in government bonds, 33.0% in credit and 17.0% in equities. The Option Adjusted Duration was 1.10 years.

Excluding positions that trade at spreads of more than 500bp and positions that trade to call or maturity dates that are 2026 and earlier, Option Adjusted Duration declined to 0.78 years. The duration figure include an Event Driven position where we believe duration does not accurately reflect the option value embedded in the security.

The fund’s current yield was 5.16% while yield to maturity was 5.99%

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