

## Manager's Commentary

Emily Wheeler, CFA

The Class F units of the Pender Bond Universe Fund were up 0.5% in the final three months of 2024. During a quarter characterized by headwinds on the rate side, the Fund relatively outperformed its benchmark, the FTSE Canada Universe Bond Index, by 0.5%. Strength in Q4 was driven by exposure to credit via its Pender Corporate Bond Fund holdings and also by individual credit lines held by the Fund<sup>1</sup>.

With the Class F units up 8.0% vs the benchmark's 4.2% for the 1-year period ending on December 31, 2024, it turned out to be a great year for the Fund on a relative and absolute basis.

### Rates Backdrop

Q4 was characterized by two 50 basis rate cuts by the Bank of Canada and two 25 basis point cuts by the US Federal Reserve. At their meeting in December, the Bank of Canada communicated that "monetary policy no longer needs to be clearly in restrictive territory"<sup>2</sup>. Further along the curve however, rates moved higher as the market grappled with the uncertainty around the potential for future inflationary policies in the US and a Federal Open Market Committee December dot plot showing median rate cut projections 50 basis points higher for 2025 and 2026 versus September projections.

The steepening US yield curve drove prices down significantly at the longer end. For instance, "TLT", an exchange traded fund that tracks the 20+ year US Treasury Index, posted a total return loss of nearly 10% in the 4th quarter.

### Portfolio Highlights

One of the unique features of the Pender Bond Universe Fund's strategy is overweighting a select number of credit ideas with high return potential from within the Pender Corporate Bond Fund mandate. In the fourth quarter, this strategy paid dividends with excellent contributions from two holdings, in particular.

The Fund's TXNM 5.75% '54 converts advanced further this quarter. Since reporting positive Q3 earnings along with respectable earnings growth targets on November 1, the company's stock has rallied approximately 16%. Having moved through the strike price in October of this period, our converts followed suit. These bonds were up approximately 8 points since the end of September. Between the combination of price appreciation and the relatively competitive coupon, this position provided a strong total return for the Fund in Q4.

Our OPKO Health 3.75% '29 convert continued to bolster performance this quarter, finishing the quarter 7 points higher versus the end of September. In Q4, the company completed the sale of certain assets related to their lab business which added \$237.5million in cash to their balance sheet, thereby increasing liquidity. At September 30, 2024, their holdings of

<sup>1</sup> 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.

<sup>2</sup> Bank of Canada Monetary Policy Decision Press Conference Opening Statement Dec 11, 2024.

GeneDX shares were worth \$92.2million however, with the share price of this position up over 70% in Q4, OPKO's holdings here provided a larger potential source of liquidity at year-end versus last quarter. The company continued to buy back their own stock and converts in Q4.

### **New To The Portfolio**

During Q4 we added a 1.8% weight in Duke Energy's 4.125% '26 convertible bond. From their headquarters in North Carolina, Duke runs regulated electric and gas utilities with approximately 95% of revenue coming from the electric utility side. Rated Investment Grade at the issuer level, and also at the level of these converts, the company has been generating uninterrupted positive annual EBITDA on a generally rising trajectory since the 1980s.

These converts are attractive to us for several reasons. The overall utility sector, although critical to society, has recently been as cheap relative to the market as it has been for almost 20 years. With over \$1.7billion outstanding, this issue is very liquid, and we see potential for upside here given growth targets and given the stock currently trades at only approximately 9% below the strike. One year default probability is considerably less than 1 basis point and given the company's projected \$73billion projected capex spend through 2028 the rate base and operating profits of the company are likely to continue to grow. PP&E and market cap both provide ample coverage of long-term debt outstanding.

Although yield to maturity is relatively modest, we like our risk-to-reward here given potential for upside in this near-the-money convert vs what we feel to be somewhat limited downside given the strength of the operating business and coverage of debt outstanding.

### **Duration Positioning**

The term premium ended the year higher than where it started Q4 however we made no material adjustments to duration this quarter. The duration of the Fund was 4.78 at December 31, 2024.



**Credit Positioning**

With US High Yield spreads significantly below average, we have a cautious disposition towards lower tier credit, notwithstanding the higher coupons these notes may bear. As a result, we did not add any material exposure here over the period. The Fund's allocation to Non-Investment Grade holdings, currently at 22%, continues to represent less than its maximum allowable weight. Cash and Investment Grade rated securities made up the remaining 78% of the Fund at December 31 2024.

The yield to maturity of the Pender Bond Universe Fund was 4.55% at December 31, 2024 and cash represented 2.7% of the portfolio at quarter-end.

**Emily Wheeler, CFA**

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