

Manager's Commentary

Geoff Castle

The Pender Corporate Bond Fund returned 1.4%¹ in January, which was a generally benign period in both the credit market and high-grade bonds markets.

Top contributors to the month's return included our position in Spirit Airlines Inc 8% notes, which rallied over 20% on a renewed takeover bid for the discount carrier, still in Chapter 11 restructuring. Also performing positively for the Fund were the convertible notes of Equinox Gold Corporation and Sibanye Stillwater Ltd, each of which gained about 10% on stronger precious metals pricing and a more buoyant market for the related equities. Canadian Real Return bonds were a further area of strength.

Offsetting the generally positive performance, to a degree, was weakness in our position in Jervois Global Ltd bonds. This Australian-based cobalt refiner and mine developer announced a pre-packaged Chapter 11 restructuring in late January. Cobalt prices over the past year have plumbed 20-year lows, due in part to Chinese dumping activity. Although a restructuring was not part of our original plan for this position, we remain confident of a good eventual outcome in this case.

On Foxes and Hedgehogs and the chaos of the moment

"The fox knows many things," opined the Greek poet, Archilochus, "but the hedgehog knows one big thing."

We pause to reflect on this idea amidst the flurry of incoming "information" relating to the change of regime in Washington. The foxes of the markets have been busy scurrying around determining winners and losers from announced or anticipated diktats from the new sheriff. However implausible it might seem that the United States is set to embark on an import substitution program reminiscent of Latin America in the 1970s, or that simultaneously, the country will actually deport millions of productive agricultural workers due to inadequate paperwork, such are the pronouncements of the moment. Focusing on the twists and turns of this "news" is enough to induce dizziness in even the most level-headed investor.

Approaching the current market environment as a hedgehog is more calming. We know one big thing: **capital earns higher returns where it is scarce**. And so, we continue to look for assets and companies of enduring usefulness which are temporarily written off by investors due to transitory factors. Consequently, we focus somewhat less on all the details behind the various panics and more on the extremity of the price dislocations that result.

In fact, the data that attracts **our** attention in the midst of this month's chaos is not, perhaps, what one might expect. We notice for example:

- Aircraft owned by Spirit Airlines are valued at less than half of the per aircraft value versus aircraft in similar entities not currently restructuring;

¹ All Pender performance data points are for Class F of the Fund unless otherwise stated. Other classes are available. Fees and performance may differ in those other classes.

- Platinum mine production in 2025 is expected to be approximately 10% less than industrial demand for the metal, yet the miners are priced in the market at record low multiples; and
- The real interest rate embedded in long-dated US TIPS continues to hover near 20-year highs.

And we look at **these types of facts** because, while all the news about the White House may be exciting, the information that helps us make money for our clients is more price-oriented and actionable.

New Positions

In January we underwrote a \$20 million investment in a newly issued convertible bond from Vancouver-based B2Gold Corporation. B2, the second act of onetime Bema Gold CEO Clive Johnson's career, is a multi-property gold producer with operations in Mali, Namibia and the Philippines, as well as a project under construction in northern Canada. We like our chances in the B2Gold convert as, from a credit perspective, the entity is relatively unlevered, with this \$460 million bond sitting atop a market capitalization in excess of \$3 billion. We expect the startup of the company's Nunavut-domiciled Goose mine in 2025 will serve as a de-risking catalyst for the company, whose common shares were recently languishing at a decade low.

Also in January, we added weight to a few longer duration positions in order to take advantage of some of the highest long bond yields of the past 20 years and also a relatively high term premium. Amongst lines we added were a 20-year US Treasury bond, a Comcast Corporation 2056 note, as well as a buy of 2052 US TIPS, which extended our position in that line.

Fund Positioning

The Pender Corporate Bond Fund yield to maturity at January 31 was 7.3% with current yield of 5.2% and average duration of maturity-based instruments of 3.7 years. The Fund holds a 2.9% weight in distressed credit instruments where positions are held for a target value lower than par, and therefore the headline yields of these securities are not included in the foregoing calculation. Cash represented -0.2% of the total portfolio at January 31.

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