Manager's Commentary

Geoff Castle

The Pender Corporate Bond Fund returned -0.4% in March, which was a modest loss in the context of the credit market of that specific period. However, subsequent events, in particular the impact of the April 2 US tariff announcement, render a detailed discussion of March results somewhat insignificant in comparison to addressing developments in recent days.

April Month-to-Date Performance Discussion

A general driver of corporate credit returns is the overall market's valuation of businesses and any period with an approximate 10% drop in global equity markets within the timespan of a week is likely also to see an impact on corporate bond prices. That being said, the Fund experienced some specific impacts in early April which warrant discussion.

The largest single issuer impact in the wake of the tariff announcement was in **Spirit Airlines**, where the Fund did hold, ex ante, a 2.7% weight in a combination of takeback first lien bonds and re-org equity. Although, if measured on a dollars-per-aircraft basis, the Spirit structure represents the cheapest valuation in its industry (by far), that did not stop panicked sellers selling. And so, we sustained a greater than 0.5% impact on this issuer alone.

A second area of challenge was in a pair of issuers that had a front-end note refinancing process underway. In the case of recently acquired bonds of **New Fortress Energy Inc.** and **Wolfspeed, Inc.**, the turbulence related to the tariff announcement could not have come at a more awkward moment. And so a weight of around 2.5% sustained markdowns in the mid-teens or more than 0.3% to the Fund. We expect a positive result on these re-financings eventually, but the ticker tape does not lie about today's price mark.

The third specific impact came from the Fund's holdings of convertible bonds, which in total amount to approximately a 30% weighting. There are many yield-vs-risk and company-specific valuation arguments we can make in favour of these positions. Such points, however, are not going to win an argument with a margin clerk indiscriminately selling the related equities. A dozen larger lines, some of which trade on a relatively high "delta" in relation to the issuer's common stock, contributed a further impact of over 0.5% to the Fund at April month-to-date.

There have been, of course, positive offsets. In fact, more than 90 holdings which account for over 35% of the Fund's weight, are positive contributors month-to-date. Largely speaking these include our holdings in government bonds and high grade fixed rate securities.

Positioning and Outlook

It seems trite to say, but in the world of fixed income securities, lower prices in the moment tend to raise forward looking returns. Prices may be down, but yields are up. Thus, the current correction underway should be a good thing for money put to work in the midst of the panic. But where we see opportunity is definitely evolving.

Our main thought about the Trump Administration II is that it should be viewed as a generally negative factor for the real value, but not necessarily the nominal value, of US business assets. It is not just the tariff uncertainty that contributes, but, in our opinion, the Administration's wholesale assault on institutions such as the judiciary, the legislative branch, the Federal Reserve and on a framework of international trade and security relationships that provided, heretofore, a degree of business certainty and economic stability.

But wherever a door is closed, somewhere a window opens and so the path of American misadventure appears to create opportunity in several areas:

- The precious metals complex;
- The regulated utility sector, where earnings are highly predictable;
- Inflation-linked securities, such as TIPS and Canadian real return bonds;
- Secured senior debt in oil and gas producers that sit atop decent equity cushions;
- Distressed credit, which can offer a much superior value proposition versus equities on a risk-to-reward basis; and
- Securities linked to companies in a variety of international markets that have underperformed versus US-based assets.

What we end up actually doing is often a little less thematic. Putting actual dollars to work depends on the particulars of the issuers we study and the debt securities they issue. But, from a big picture point of view, we see enormous opportunities in the areas mentioned above.

Where we end up returns-wise for the coming quarter or coming year is difficult to estimate. What we do know is that many of our Fund's best performance periods have come in the aftermath of market declines such as the one underway at present. Things are getting interesting.

New Positions

In March we initiated a position in the first lien bonds of **New Fortress Energy**, which operates LNG shipment and energy infrastructure in a number of markets, principally in Latin America and the Caribbean. New Fortress has a very valuable asset base but faces a cash crunch as it completes the commissioning of key projects. As such, its 2026 and 2029 first lien notes ended the month each yielding more than 17%. A recently announced $1 billion asset sale of the company's Jamaican operations should eventually create confidence in the company's ability to meet upcoming maturities. Completion of facilities under construction in the next two years is expected to increase cash generation by 50%.

Also in March, we initiated a position in the secured 2028 bonds of Alberta-based **Greenfire Resources**. Greenfire, which has oil sands operations in the Athabasca region is controlled by storied Canadian energy investor Adam Waterous. Waterous's eponymous fund management group recently raised $1.4 billion to fund Canadian oil acquisitions, creating takeout potential here. On a standalone basis, Greenfire's economics are strong, with EBITDA covering interest over 4x. The secured 12% notes enjoy a cash sweep amortization at 105% of face value, and yield over 10.8% to maturity. We view Greenfire's one year default probability at less than 0.6%

Fund Positioning

The Pender Corporate Bond Fund yield to maturity at March 31 was 6.99% with current yield of 5.42% and average modified duration of maturity-based instruments of 3.85 years. The Fund holds a 4.19% 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.

Geoff Castle
April 7, 2025