

Manager's Commentary

Emily Wheeler, CFA

The Class F units of the Pender Bond Universe Fund were up 2.2%¹ in the first quarter of 2025. The Fund outperformed its benchmark, FTSE/TMX Canada Universe Bond Index, by 0.2% over the period. Almost all of the Fund's holdings contributed positively in Q1 as the environment for both rates and line-item credit positions was broadly favourable.

Rates Backdrop

Evidenced by over a 90% increase in the Global Economic Policy Uncertainty Index since October 2024², tariff disputes and policy uncertainty in general impacted consumer confidence and investor sentiment in Q1. With the S&P 500 down 4.6% in the first three months of 2025, the Index saw its first quarterly drop since Q3 2023. "Risk-off" characterizes the market well so far in 2025. Through the period, the Bank of Canada decreased interest rates by 25 basis points on two occasions while the US Federal Reserve left rates unchanged.

With this as a backdrop, yields moved lower along the curve in both Canada and the US in Q1. In contrast to last quarter, where prices were down significantly at the longer end, Q1 saw a partial reversal here with the iShares 20+ Year Treasury Bond ETF (TLT), an ETF that tracks longer dated US Treasuries, posting a total return of approximately 5% this quarter.

Portfolio Highlights

The first quarter of 2025 was another strong period for the Fund's OPKO Health, Inc. (OPK) 3.75%'29 convertible bonds. During the quarter the company announced Q4 earnings. Highlights included the award of an additional \$51 million in funding from the Biomedical Advanced Research and Development Authority (BARDA) relating to COVID and flu treatment programs and they continued to reduce costs on the lab side of the business, targeting \$20 million in savings in 2025. Repurchases of the converts and common shares continued during the period with \$17 million and \$16.5 million respectively repurchased over the quarter. Also, in Q1 the company announced the sale of further non-core BioReference assets to Labcorp for an additional \$225 million, adding cash to the balance sheet and moving them closer to profitability in this segment. With a 1.2% weight in this position at the start of the period and price appreciation to the tune of ~26 points during the quarter, our holdings here provided a strong tailwind to performance in Q1.

Another key contributor over the period was the Fund's PNM³ 5.75%'54 convertible bonds. In response to plans for expansion of grid infrastructure to support growth and reliability, the company increased their long-term earnings growth target to 7%-9%. Coverage here is

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.

² Grant's Interest Rate Observer; Bloomberg; Baker Bloom & Davis

³ PNM Resources (PNM) completed the change of its holding company name to TXNM Energy, Inc. in August 2024 - [Press Release](#)

robust and business operations are somewhat agnostic to the market cycle. The underlying stock rallied this quarter on news that the company was weighing a sale after receiving takeover interest, with KKR & Co. Inc. apparently having been in discussions with TXNM in the weeks prior. The convertible bonds rallied ~10 points this quarter providing another source of strength in Q1.

New to the Portfolio

New to the Fund are the 2.875%'28 convertible bonds of PPL Corporation (PPL) which we added in February 2025. PPL aligns with our general thesis relating to utilities. We believe PPL is undervalued in general, that coverage is robust in this space and, due to the essential nature of the services provided, profitability does not vary much with the economy. Against the current backdrop of elevated levels of economic uncertainty, having some exposure in this area makes sense to us.

PPL Corporation was founded in 1920 and is a regulated utility providing electricity and natural gas to millions of customers in Kentucky, Pennsylvania and Rhode Island. Both the company and this convertible bond are rated investment grade. Coverage is strong from several perspectives. EBITDA generated by the business covers interest owed greater than four times, PP&E along with our estimate of valuation both cover debt ~2 times and market cap of \$25 billion provides a significant equity cushion of approximately \$17 billion in debt. One year default probability resides at the relatively comforting level of approximately 0.0005%.

The company guided to grid improvements and rate base expansion they suggest could lead to 6%-8% EPS growth through at least 2028. Given what we have discussed above, the fact that the implied fair value of the converts, even at the current stock price, sits several points higher than where they currently trade, and also given the converts went into the money in February, we believe there is potential for upside here. Considering this and given the defensive nature of the industry in which the company operates, we like the risk to reward profile these converts offer.

Fund Positioning

Although drifting somewhat lower over the quarter, the US term premium remains positive and relatively elevated. As a result, and considering the economic uncertainty posed by the current policy environment, no significant changes were made to duration this quarter. The duration of the Fund was 4.7 at March 31.

High yield spreads rose marginally over the period however remain in relatively expensive territory. The exposure of the Fund to non-investment grade credit therefore remains below its maximum allowable with 21% of the Fund allocated here currently. Investment grade and cash accounted for 79% of the Fund at March 31.

The yield to maturity of the Fund was 3.99% at March 31.

Emily Wheeler, CFA

April 16, 2025