

## Manager's Commentary

### Geoff Castle

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The Pender Corporate Bond Fund returned -3.0%<sup>1</sup> in April, a sobering result within the context of a turbulent market. Credit spreads reset significantly wider and yield curves steepened during the month.

#### Performance Discussion

Our single largest impact was in the Spirit Aviation Holdings, Inc. capital structure. Spirit's bonds and reorganized equity fell approximately 10% and 50% respectively as the company fully emerged as a listed public entity. Although newly emerging reorganized companies often face difficulty in their market debuts, the volatility in Spirit's case was probably amplified by travel boycotts and economic uncertainty that impacted markets in the wake of "Liberation Day." We believe that Spirit's bonds and reorganized equity are extremely cheap here and we are very optimistic about the future returns from this large position.

We were also hit by significantly lower marks in a handful of US based life sciences companies: Esperion Therapeutics, Inc., OPKO Health, Inc. and Emergent Biosolutions Inc. Beyond general market weakness, we believe these lines were affected by weakening sentiment due to the initial actions of Robert Kennedy Jr, Secretary of Health and Human Services, combined with funding uncertainty for Medicaid and Medicare. While there may be some possible policy-related impacts to these companies, we expect that, over time, valuations will recover and the profitability of these issuers will continue to grow.

Beyond these specific hits which, in combination, resulted in about forty percent of our April drawdown, the Fund had other areas that saw weakness. Some longer duration high grade positions were hit by a steepening yield curve, and a number of wider spread credits displayed an amplified impact as the credit market's "CCC" tier sold off broadly.

Notwithstanding the pelting rain of trouble we experienced in April, a few bright spots spoiled the otherwise perfect blackness of the sky above. Wolfsped, Inc. bonds began a recovery from deeply distressed levels as some optimism emerged regarding the company's ability to deal with its relatively small 2026 convertible bond maturity. Our position in the 2026 notes rose more than 10 points in April. And our position in the capital structure of StoneCo Ltd., which would be best described as the Square of Brazil, rallied strongly on very positive company-specific developments and strong earnings.

#### Some Coiled Springs to Drive a Next Leg Up

We do not know the future. But we do know prices. So, let us offer the source of our most sincere optimism – the dirt-cheap prices at which many of our core positions trade.

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<sup>1</sup> 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.

Let's start with **Esperion**, a position greater than 2% of the Fund. This company markets a novel cholesterol-lowering therapy that reduces cardiac events of all types by 20%, as proven by FDA-approved studies of real patients. Launched during the pandemic, its drugs Nexletol and Nexlizet were slow to gain traction, but in the most recent 12 months, prescription count has expanded by 50%. We expect 2025 sales of more than \$300 million and we think a fair multiple on sales for a high-margin company of this nature is at least 3X. Add its cash balance of \$144 million and you get a fair, not exuberant, value of more than \$1 billion. Today's enterprise value is roughly \$300 million<sup>2</sup>. We don't know the future. But, if this entity traded at that estimated fair value, our position of convertible bonds and a few equity shares of Esperion would be worth more than double what it is today.

Continuing, we turn to **Equinox Gold Corp.**, another top ten issuer weighting for us. Equinox, the brainchild of the extremely successful mining capitalist, Ross Beaty, is in the final stages of completing an announced merger with Calibre Mining which will create Canada's second largest gold producer. By 2026, we anticipate Equinox will be generating \$2 billion EBITDA assuming a gold price of \$2,650/oz, a level \$600/oz below today's spot. At an unchallenging 6x EBITDA, Equinox would be worth \$12 billion or more than 250% of current levels<sup>2</sup>. Our existing position in the convertible debt of Equinox, which offers wonderful downside protection, would be worth more than double under the scenario described above.

Keeping with top ten issuer weights, we review the case for **Spirit Aviation**. 2024 was particularly unlucky for Spirit creditors as an acquisition bid by US discount carrier Jet Blue was rejected in March 2024 by US competition authorities. A series of further sales attempts through 2024 fell apart and the company ended up filing a prepackaged chapter 11 in November 2024. Notwithstanding the failure of the 2024 sales attempts, we consider the assets and franchise of Spirit underpins a robust financial value. During its recent bankruptcy, Frontier Airlines bid \$1.7 billion on an enterprise value basis for Spirit. That deal was rejected by bankrupt Spirit as being too low. Now that Spirit has emerged, and the competition obstacles to acquisition have been removed, we would expect a robust bid to emerge, even in the context of weaker airline bookings. And a sale of Spirit at the level of the Frontier bid would still result in upside to our position in excess of 60%.

There are many more similar positions within the portfolio. We view small company capital structures as particularly inexpensive, along with those of certain foreign market-domiciled entities. In these solid valuation fundamentals, we find cause for excitement about the year to come.

### New Positions

In April we initiated a position in the convertible notes of **Alibaba Group Holding Limited**. The 0.5% notes of 2031 offer us strong underlying credit protection with inexpensive upside optionality. Alibaba, which operates within China in similar segments to Amazon in North America, trades at a deep discount to its Western peers. We believe the low valuation

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<sup>2</sup> Company filings; Bloomberg



to be a product of the recessionary conditions that have existed in the Middle Kingdom in the wake of the bursting of its real estate and construction bubble. Tariff threats and US de-listing chatter also contribute to a discount in many Chinese domiciled issuers, although we note that Alibaba's business primarily relates to domestic demand. From a credit perspective, A+ rated Alibaba has EBIT in excess of 14x interest charges and we view 1 year default probability at less than 0.02%.

Also in April we expanded our basket of non-North American currency liquidity-oriented securities. It is a sign of the times that we are even entertaining a "Plan B" that would be called into effect in the event that hostile overtures from the Trump administration towards Canada do not actually subside, as we expect they might, but actually increase in the months and years ahead. This is a relatively small basket of holdings but includes a weight in euros and Swiss francs and a position in silver bullion securities, notably the Sprott Physical Silver Trust.

### **Fund Positioning**

The Pender Corporate Bond Fund yield to maturity at April 30 was 6.9% with current yield of 5.3% and average modified duration of maturity-based instruments of 3.7 years. The Fund holds a 3.5% 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 3.4% of the total portfolio at April 30.

Geoff Castle  
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