

Manager's Commentary

Geoff Castle

The Pender Corporate Bond Fund returned -0.4%¹ in May. This performance was the result of a few significantly lower marks in distressed credits, offsetting a broadly positive movement across most of the Fund's holdings.

Performance Discussion

The Fund's loss in the period resulted from significant movements in holdings of **Wolfspeed, Inc.**, **New Fortress Energy Inc.** and **Spirit Aviation Holdings, Inc.**, which in combination resulted in more than 100 basis points of impact in May.

We have been surprised by the near complete immolation of value in the Wolfspeed capital structure. Wolfspeed, the world's largest and best established (ex China) supplier of silicon carbide waferboard, produces an absolutely necessary foundation for the next generation of semiconductors which need the high melting point that SiC delivers. While the company does find itself at the intersection of policy pressure on both trade and governmental support of clean energy technologies, we believe the price movement was still excessive. Unsecured bonds traded to as low as 17% of face value in May, cutting our position value in half. We have been adding to our position in multiple lines from this issuer and we expect our Wolfspeed position may deliver a very interesting forward-looking return once the company emerges from an ongoing credit restructuring process.

Similarly, we saw larger than 20% declines in our positions in both New Fortress Energy and Spirit Aviation. In the case of New Fortress, our principal position is in the 12% first lien 2029 notes which are secured against the company's best long-term assets, its Brazilian LNG/power operations. We have confidence that the collateral backing these notes is worth far more than the amount of the obligation, and have been adding opportunistically to this line, which has traded below 50% of face value. In the case of Spirit, the impact to our position came largely in the wake of the public listing of Spirit's common equity which seemed to prompt some former bondholders to sell their re-organized equity stake at levels which appeared to us to be far below enterprise liquidation value. We remain confident about the forward looking returns from Spirit.

Outside of those particular points of pressure, we saw positive performance from over one hundred individual positions. Our biggest gainer in May was the convertible notes of Johannesburg-based platinum group metals miner, **Sibanye Stillwater Ltd** which rallied on the emergence of platinum, perhaps, from its now 17-year sideways price movement.

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. Standard Performance Information for Pender's Fixed Income Funds may be found here: <https://www.penderfund.com/fixed-income/>

Although we made a small trim here, so as not to offend the gods, we remain optimistic about platinum as the most undervalued material in the precious metals complex. Another top performer in May was our position in bonds of **Emergent Biosolutions Inc.**, where management committed to credit strength with a new round of bond repurchases.

Clean Energy ... An Interesting Set-up

One area of particular interest right now is the “clean energy” sector, which covers such industries as electric vehicles, renewable energy, battery and storage and the related materials and minerals. We view this sector as generally possessing the pre-conditions of an interesting contrarian investing “set-up.” The companies in these industries are trading near or at all time low multiples, investor allocations to this area are extremely light in comparison to recent history, and investor sentiment has rarely been as bearish on the names. All that is needed to complete the set-up is a fundamental change that turns earnings momentum in a positive direction.

We believe that, regardless of the current mood in Washington, the ongoing and continuing evidence of climate impacts will provide part of this fundamental change. It is not only the headlines that recount the complete destruction of cities and towns - Lytton, Jasper, Lahaina, Pacific Palisades- but also the second order impacts on tourism, insurers and other aspects of the economy, which we believe will continue to focus governments on the necessity of addressing climate change. As greenhouse gases continue to accumulate in the atmosphere, we expect the prevalence of such incidents will increase exponentially and we will get plenty of reminders to continue the progress towards an energy transition.

The other part of the fundamental change is the economic progress that individual companies have made in lowering costs, increasing energy productivity of their assets, and pushing technologies from “bleeding edge” to full cost competitiveness. Many clean energy technologies have moved into the economic mainstream and can generate cash flow to service debts.

Therefore, though we are still invested in a number of conventional energy issuers, we see very attractive prospective returns in the deeply discounted credits of the clean energy sector. Our investments include positions in electric vehicle makers **Rivian Automotive, Inc.**, **NIO Inc**, **NFI Group Inc.**; battery technology companies **Fluence Energy, Inc.** and **Stem, Inc.**; renewable energy producer **Topaz Solar Farms, LLC**; and clean energy supply chain materials producers **Jervois Global Limited**, **MP Materials Corp.**, **Wolfspeed, Inc.** and **Sibanye Stillwater Ltd.** All told, our weight in this area amounts to approximately 8% of Fund holdings, encompassing many of the most discounted lines in the portfolio. We are bullish clean energy.

New Positions

In May we participated in the new issuance of second lien bonds from **NFI Group Inc.**, the parent of Winnipeg-based bus manufacturer New Flyer Holdings. NFI has made substantial progress over the past couple of years in recovering from the supply-chain induced

disruptions of 2022-23 that drove the company to distressed status. From a crisis low of just over \$7/share equity price and a default probability of over 7%, NFI shares have returned to over \$15/share and our view of 1 year default probability has reduced to less than 0.2%. On this basis, the new 9.25% 2030 notes of NFI offer very attractive risk/reward characteristics.

Also in May, we added to our position in the busted convertible bonds of **Magnite, Inc.**, bringing that issuer to one of the top ten corporate issuer weights in the Fund. Magnite's business benefits from continuing growth in advertising spend on streaming applications within services such as Netflix and Hulu. As the streaming industry's number two advertising supply player behind YouTube owner, Alphabet, Magnite has also benefited from a recent antitrust ruling, which found that YouTube acted in an anti-competitive manner. We believe the company is on a trajectory towards investment grade status, making the 5.3% yield on its 10-month paper and 7.5% yield on its secured 2031 term loan relatively attractive.

Fund Positioning

The Pender Corporate Bond Fund yield to maturity at May 31 was 6.38% with current yield of 5.17% and average duration of maturity-based instruments of 3.6years. The Fund holds a 4% 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 4.7% of the total portfolio at May 31.

Geoff Castle
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