

Manager's Commentary

Geoff Castle

The Pender Corporate Bond Fund returned 1.8%¹ in June amid market conditions that were generally favorable.

The biggest driver of performance in June was our position in entities exposed to platinum, including our holding of convertible bonds in South-African platinum metals group miner, **Sibanye Stillwater Limited**, and our position in **abrdn Physical Platinum Shares**, which gained over 25%. Although we trimmed these lines somewhat, we continue to believe that platinum is significantly undervalued, and that new metal supply requires prices significantly beyond current levels.

Another key performing line was our position in **Wolfspeed Inc.**'s capital structure, as the silicon carbide wafer maker announced a pre-packaged Chapter 11 restructuring plan that eliminates over \$4.6 billion in debt. With the plan now disclosed and awaiting court approval, our converts rallied more than 35%. We believe there is more good news to come on Wolfspeed.

There weren't many negative performers in the month, but one significant decline came in the **Spirit Aviation Holdings** capital structure where bond and equity prices both declined. We continue to like our prospects in this holding and added to both the 1st lien notes and the newly-reorganized equity in June.

Looking South of the Rio Grande for Opportunity

We believe there are two factors that support the proposition that Latin America stands poised to deliver excess returns to investors in both credit and equities in the coming months and years.

The first is that investors in Central and South America can access unusually high real interest rates (that is, interest rates minus local inflation).

Consider **Brazil**, where inflation for the past 18 months has been running around 5%, but short-term local interest rates are a stratospheric 15%. Or look at **Colombia**, where sovereign interest rates have recently been 5% above the prevailing rate of inflation. **Mexico** too, shows relatively fat 4-5% real interest rates along its government curve.

One of the hallmarks of a market that is poised for a sustained uptrend is a very wide real interest rate and there are many Latin American markets that meet this criteria. When was the last time that North America had sustainably wide real interest rates at or above 5%? Well, it happened to be in the early 1980s, which was at the end of a long 15 year equity market stagnation and just before the massive bull market that saw the S&P 500 return more than 10x over the ensuing 15 years.

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/>

The other factor which supports our thesis is simply the extended duration of the slump that has beset Latin American equities. In US dollar terms, the Mexican Bolsa stock index has gone nowhere in 18 years. Same for the Brazilian Bovespa index. But over that time, those economies have grown, valuation multiples have contracted, and earnings power has expanded significantly.

In short, the setup for Latin American bonds, credit, and, dare we say, equities looks extremely promising. And so, careful readers of these notes will notice our expanding presence in issuers in this region, including our largest corporate issuer weight which is **Pemex**, accounting for approximately 3.3% of the portfolio. Pemex bonds, where we see strong governmental support and improving fundamentals, still offer yields near 10% in the longer tenors, providing both income and capital appreciation potential.

In addition to Pemex, our combined Latam weight now represents approximately 5% of the fund and includes positions in Brazilian payments firm, **StoneCo Ltd** and Calgary-headquartered **Gran Tierra Energy Inc.** which is the owner and operator of energy assets in Colombia.

We like this region and continue to do work to grow our exposure in high potential capital structures.

New Positions

In June we initiated a position in the hybrid bonds of **BlueNord ASA**. BlueNord owns approximately 37% of the offshore oil and gas assets in the Danish North Sea as part of a consortium that also includes TotalEnergies and a Danish state-owned entity. We like BlueNord for many of the same reasons that we invested in Tenaz Energy Corp, which operates Dutch North Sea energy assets. In both BlueNord and Tenaz, we see a changing governmental priority towards offshore resources as European countries diversify their energy sources away from Russian gas. BlueNord's consortium is currently completing a large expansion at the Tyra field, which will more than double production and extend field life through 2042. We view the 12% yield from the BlueNord issue as attractive in the context of our view its 1-year default probability of less than 0.6%.

Also in June we initiated a new position in previously held 2026 **Lucid Group Inc.** convertible bonds. After having tendered our previous position at a price of \$88.50, we saw an opportunity to re-engage on this issue at a yield of more than 10%. We still view Lucid's stand-alone capacity as adequate to pay off this \$960 million maturity in less than 18 months, and are also considering the implicit support that has been shown by the company's majority owner, the Saudi Public Investment Fund.

Fund Positioning

The Pender Corporate Bond Fund yield to maturity at June 30 was 6.24% with current yield of 5.27% and average duration of maturity-based instruments of 3.75 years. 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 2.6% of the total portfolio at June 30.

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