Manager's Commentary

Parul Garg

Dear Co-investors,

Thank you for your continued partnership in the Pender Credit Opportunities Fund. The past quarter was highly dynamic, marked by unexpected tariff proposals, rising capital costs, and increased market volatility. While the Fund is mark-to-market and subject to short-term fluctuations, we see volatility as a source of opportunity—not risk. In this letter, we provide a closer look at why some of our holdings were detractors and share our perspective on the attractive opportunities ahead.

Fund At A Glance (since inception)

- Pender Credit Opportunities Fund Class F returned -6.0%[1] for the quarter (-7.3% since inception)
- Benchmark[2] returned 3.6% for the quarter.
- Yield to Maturity: 9.11% ; Current Yield: 5.76%
- Total Invested Assets: 94% ; Total number of securities invested: 32 among 24 issuers

Detractors

Four issuers were the primary drivers of the Fund's recent underperformance. While short-term volatility has impacted valuations, we remain confident in the long-term value of these investments.

New Fortress Energy (NFE) is a vertically integrated LNG infrastructure platform. Its assets are strategically located in high-demand markets like Puerto Rico, Mexico, Brazil and Nicaragua, providing essential energy solutions supported by long-term contracts. The company's aggressive growth strategy, funded with over $8.9 billion in debt, has created near-term distress. Project delays in Brazil and Nicaragua, combined with regulatory setbacks in Puerto Rico, drove a sharp deterioration in financials[3]. As a result, our 2026 secured notes have dropped from 92 cents to ~50 cents on the dollar, implying distressed yields above 50%, while the 2029 notes are trading even more cheaply.

We like our position because NFE owns valuable, hard-to-replicate energy infrastructure with strong long-term contracts. The recent $1.05 billion[4] Jamaica asset sale shows that the assets have real value. Key projects in Brazil and Nicaragua are nearing completion. We believe these could push EBITDA back to over $1 billion. At current prices, the bonds are trading at bankruptcy levels, but hard assets and insider alignment (NFE has 40% insider ownership), make this an asymmetric opportunity.

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[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/*

[2] *ICE BofA US High Yield TR*

[3] *Company filings*

[4] *Company filings*

Wolfspeed, Inc., a US-based semiconductor leader in silicon carbide (SiC) technology, delivers superior efficiency, thermal stability and high-voltage performance, which are all critical for advanced electric vehicles, renewable energy systems and AI data centers. Despite its strong market position, Wolfspeed's aggressive $8 billion expansion strained its balance sheet. A slower yield ramp and this sustained cash burn created significant liquidity pressure, leading to a pre-packaged bankruptcy filing on June 30, 2025. Under the plan, $4.6 billion of debt will be eliminated, reducing total debt to approximately $1.3 billion. Alongside other creditors and Renesas, we aim to convert debt claims into an equity stake exceeding 80%.

We view this position favorably as the restructuring values Wolfspeed at an enterprise value of about $2.5 billion—well below its historical $8–10 billion peak. Post-bankruptcy, the company will operate with a leaner balance sheet, and will increase fabrication utilization from 30% toward full capacity which should drive substantial margin expansion. With a $12 billion backlog already in place, scaling revenue margins offers significant potential upside from the current bond value[5].

Spirit Aviation is an ultra-low-cost carrier (ULCC) serving price-sensitive travelers across the US, Caribbean and Latin America. Spirit was at the center of a bidding war in 2022–2023, with JetBlue offering $7.6 billion in enterprise value. However, in 2023- 2024, Spirit faced surging fuel costs, labor inflation and major fleet disruptions. When regulators blocked the JetBlue deal, Spirit entered a severe cash crunch. In November 2024, Spirit filed for a pre-packaged Chapter 11, eliminating old equity and reducing debt. The restructuring valued the new equity at $804 million versus a current market cap of roughly $192 million—an extremely low valuation relative to past bids and asset worth. At around $5 per share, the stock trades at only 0.24x book value, implying no strategic significance. Yet Spirit owns modern Airbus A320 aircraft with an average age of just five years—highly desirable assets for competitors.

With a likely pro-M&A regulatory backdrop, Spirit could again emerge as an attractive consolidation candidate. We own both second-lien debt and post-bankruptcy equity, acquired at steep discounts.

Beyond Meat, a leading name in plant-based protein, offers widely recognized products like Beyond Burger and Beyond Sausage. Despite its strong brand, the company is facing severe financial stress due to years of strategic missteps—locking in costly manufacturing deals, heavy discounting and sustained negative gross margins. As a result, cash burn worsened, leaving liquidity tight and a $1.15 billion debt maturity looming in 2027. That debt now trades near 8.5 c/$ (our cost was 16 c/$), with the company's market value under $150 million, reflecting near-zero recovery expectations. Yet, the brand retains significant value in a category with long-term growth potential. At current distressed levels—where bonds trade at single-digit cents— we believe the upside from a turnaround or restructuring is highly asymmetric, offering substantial recovery potential for patient investors.

Opportunities - Three Key Themes

Let's shift our focus to the opportunities. We are broadly investing across three themes in today's credit landscape that we believe offer compelling risk-reward:

[5] *Company filings*

1. Clean Energy and Related Industries: The global shift to clean energy remains intact, but recent US policy uncertainty has created volatility. In Q1 2025 alone, $6.9 billion of planned clean energy projects were canceled, reflecting the sector's sensitivity to tax credit changes and tariff threats. This disruption has created attractive entry points for us in energy storage, a critical enabler of renewable adoption as AI-driven power demand rises, straining an already aging grid. We have invested in credits of Fluence Energy and Stem, leaders in grid-scale storage and AI optimization. Fluence's 2030 convertible bonds still yield over 10%, despite a ~19% price gain from our cost. The storage market is projected to surpass $120 billion by 2030[6], positioning these companies for long-term growth.

2. Underfollowed Small and Mid-Cap Companies with Improving Fundamentals: Another compelling theme is small- to mid-cap US companies outside major indexes, where fundamentals are improving but valuations remain deeply discounted. A prime example is Esperion Therapeutics, a US-based biopharma firm addressing a critical gap in cardiovascular care. The company targets approximately 30% of the 90 million US cholesterol patients who are statin-intolerant. Despite this vast opportunity, the company is valued at just 2.2x 2025E sales, compared to 4–6x for peers. Management is guiding profitability targeted for Q1 2026[7]. Esperion offers potential strong returns on 2030 converts and equity—an off-index inefficiency we are exploiting.

3. Companies in Heavy Capex Cycles: We see significant value in companies coming out of heavy capex cycles. These are firms that have stretched their balance sheets to fund transformative projects but are now close to turning cash-flow positive. These businesses often trade at distressed valuations and wide credit spreads because the market focuses on short-term liquidity risk rather than the long-term earnings potential once assets are operational. This creates a compelling setup for us to capture double-digit yields with strong upside as leverage normalizes. Our positions in Viasat, Wolfspeed and New Fortress Energy reflect this theme, as all three are transitioning from peak investment to monetization

Fund Positioning

From a risk perspective, volatility is inherent in stressed and distressed investing, and we approach this reality with discipline and an established risk assessment framework. Our investments start from entry points that already price in severe downside scenarios. Today, 13 securities trade at spreads above 1,000 bps, 18 bonds are below 80 cents on the dollar, and 14 are under 60 cents, alongside 4 re-org equity positions. These situations represent temporary dislocations and deep mispricing where fundamentals and asset value remain strong, creating opportunities for the Fund to capitalize on. Such conditions may provide a favorable setup for improved outcomes if catalysts develop and spreads on those securities normalize. Our focus remains identifying opportunities that, in our view, offer asymmetric risk-reward potential while maintaining a prudent approach to portfolio construction.

Parul Garg
July 24, 2025

[6] *McKinsey & Company – Enabling renewable energy with battery energy storage systems – August 2, 2025*
[7] *Company filings*