

Manager's Commentary

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Although outperforming its benchmark¹ by 0.2%² in Q2, the Class F units of the Pender Bond Universe Fund were down 0.4% over the period. Exposure to Non-Investment Grade securities through our Pender Corporate Bond Fund holdings and several individual credits held, negatively impacted performance this quarter. The Fund's High-Grade exposure was largely positive over the period.

Rates Backdrop

In a quarter that commenced just before "Liberation Day" and ended not long after the US strike on several Iranian nuclear sites, high-grade credit provided ballast to the portfolio over this period. In Canada, sovereign yields moved higher in tenors from 1 month to 30 years, with a more pronounced move in the longer end while in the US, Treasury yields fell in the 1-7 year range and ended the quarter higher in 10 year tenors and longer. Given that our US IG exposure falls largely in the 1-7 year range, this move in rates provided a tailwind to performance in this portion of the portfolio.

After having widened post "Liberation Day", BBB spreads ended Q2 tighter versus where they started the quarter. Therefore, a combination of favorable US rate moves in tenors where the fund is concentrated, marginally tighter spreads in general and several instances of credit-specific tightening meant that the vast majority of our Investment Grade holdings were net contributors to performance in Q2.

Portfolio Highlights

A positive contribution to performance this period came with the announcement in May that TXNM Energy had signed an agreement with Blackstone Infrastructure to be acquired for \$61.25 in cash. This announcement moved the TXNM 5.75%'54 convertible bonds we hold higher by ~ 7 points. Given the regulated nature of business operations, the path to final approval of this transaction may take some twists and turns however, the company has been down this road before. In 2020, Avengrid proposed to acquire what was then PNM Resources for \$50.30 in cash. After receiving the required approval of all other federal regulatory agencies, the New Mexico Public Regulation Commission rejected the merger which ultimately led to its termination at that time. Since then, this commission has gone through a fairly significant transition leaving us somewhat more confident in the likelihood of TXNM receiving all necessary approvals this time around. A number of points still remain between where these bonds currently trade vs their implied fair value at the \$61.25 deal price. When coupled with the 5.75% coupon, potential total return from here is therefore still very attractive. As a result, we continue to hold this position. With the bonds trading at approximately \$130 on June 30th versus \$125 at the beginning of the quarter, this holding provided one of the largest contributions to Fund performance in Q2.

¹ The Fund's benchmark is FTSE Canada Universe Bond Index

² 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/pender-bond-universe-fund/>

New to the Portfolio

During the quarter we added a 1.4% weight in Emera Inc.'s 6.75%'76 hybrids. Canadian-based Emera is an Investment Grade rated firm involved in the generation, transmission and distribution of electricity and natural gas primarily in Canada and the US. Regulated operations account for the vast majority of their business. In general, ample fair value and interest coverage, one year default probability of less than 0.01% and a largely non-cyclical industry back-drop all support our thesis here. These securities currently pay a 6.75% fixed rate coupon that resets to 3-month LIBOR plus a 544 bpts spread on June 15, 2026. They're also callable on that date at par. One of two possible outcomes is likely, both of which we're comfortable with. First, given the significant step up in coupon, these may be called by the company in June of next year and in this case, we would receive approximately a 5.8% yield to that date. However, if they are not called, the significant coupon increase provides an attractive 9.2% YTM. Having exposure to a company with a stable earnings profile and good coverage for one year at 5.8% or holding these longer term at a very attractive yield for credit profile seems to us like a bit of a heads we win, tails we don't, lose scenario.

The Bond Universe Fund can hold up to 25% in Non-Investment Grade securities and within this portion of the portfolio, we may add individual credits for which we have high conviction. This quarter we added a 1.3% weight in the convertible bonds of First Majestic.

First Majestic is a Vancouver based, primary silver producer with assets in Mexico and Nevada. Several factors make these converts attractive to us. First, the supply and demand backdrop for silver is favorable. Global supply remains in a deficit with few new mines coming online while demand continues to grow. In addition, the gold-to-silver ratio which represents the number of silver ounces necessary to buy an ounce of gold sits approximately 35% above the 25-year average, exceeded only during a brief spike through Covid in March of 2020. Silver is therefore currently relatively undervalued to gold and a reversion to the mean here could be supportive of the price of silver and therefore, the fundamentals of First Majestic. Coverage is also strong. Interest expense represents only a small fraction of EBITDA generated and both PP&E and Market Cap cover debt outstanding multiple times. We therefore feel these converts offer an attractive asymmetric return opportunity. On the one hand, strong credit fundamentals provide somewhat of a floor to the downside while the optionality of the conversion feature allows for upside potential.

Fund Positioning

The US 10-year term premium ended Q2 slightly higher versus the beginning of the period however, not materially so. No significant changes were made to duration this quarter. The duration of the Fund was 4.67 at June 30, 2025.

In terms of credit positioning, High Yield spreads spiked in March following "Liberation Day" however ended Q2 even lower than their relatively tight level at the start of the period. Non-Investment Grade credit exposure therefore remains below the Fund's maximum potential allocation. Investment Grade and cash accounted for 77% of the Fund at June 30, 2025.

The yield to maturity of the Fund was 4.2% at June 30, 2025.

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