

Manager's Commentary

Geoff Castle

The Pender Corporate Bond Fund enjoyed a strong August, gaining 2.4%¹, within the context of a favorable return environment.

August saw broad-based strength from our positions in the precious metals sector. Leading the way was our stake in **Equinox Gold Corp.** converts, which gained more than 20% on a strong earnings report and continuing upward movement in the gold price. We have made small trims, and we have written some covered calls against precious metals equity-linked positions, but we remain constructive on the complex as a whole and believe more upward revaluation awaits.

Other specific lines in the Fund generated outsized impacts in August, including our positions in the capital structure of cardiac drugmaker, **Esperion Therapeutics, Inc.** Esperion continued to shine in August as earnings overtook estimates, and our 2030 convertible notes rose 17 points, while our small equity stake rose over 50%. Finally, our position in the busted convertible notes of Chinese electric vehicle maker **NIO Inc.**, rallied over 15% on enthusiasm for the company's progress towards profitability. We trimmed our NIO position as forward looking yields declined with the price move.

There were not many weak lines in August, but one spot of difficulty was our holding of **Spirit Aviation Holdings Inc.** debt and re-organized equity, which declined precipitously. On August 29, Spirit filed for Chapter 11 bankruptcy protection after one of its aircraft lessors issued a notice of default aimed at preventing Spirit from taking delivery of dozens of future aircraft deliveries. We believe our position in Spirit Loyalty 1st lien notes has adequate asset coverage, although the new filing creates a degree of uncertainty as to our potential outcome. As of August 29, our holdings of Spirit securities represented a 1.3% weight in the Fund, with the vast majority of that total being in the 1st lien notes.

How is the Fund Positioned?

As a general statement, this Fund's composition is usually split between **safety** holdings, which are priced to deliver modest but steady returns, and **value-at risk** holdings. The value-at risk part of the portfolio, these days, is further split between one-off "**credit value**" holdings, which are typically sourced in a bottom-up fashion, and "**global rotation**" securities which, although still evaluated carefully as individual credits, are generally aligned with the themes of a weakening US dollar and positive upward revaluation of markets outside of the United States.

This year's strongest performance has come from the **global rotation** bucket as deeply undervalued commodities and international markets have sprung to life. And we believe the trend, now established, has significant further room to roll. We enter the fall with approximately 10% weight exposed to strength in precious metals through convertible bonds of gold miners **Equinox Gold**, **SSR Mining Inc.** and **B2Gold Corp.**, amongst other holdings. We also hold in excess of 10% weight in wide-spread bonds of emerging markets-domiciled issuers including **Petroleos Mexicanos (Pemex)** and **Total Play Telecomunicaciones** in Mexico and **StoneCo Ltd.** in Brazil.

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/>

So, to the extent that a market rotation favours emerging market companies or precious metals miners, we are well positioned for such a move.

We also hold a number of bespoke “**credit value**” situations. What they have in common is our belief that, in the event of default, the collateral and business assets which back up the credit are worth far more than the value implied by where the bonds are priced. In this category, 2025 has seen decent performance out of long-dormant holding **McDermott International Ltd**, the once bankrupt, now resurgent engineering and construction firm focused on offshore infrastructure. Esperion, mentioned above, is a US-based pharmaceutical developer, which doesn't particularly fit thematically, but is far too cheap to sell.

The outperformance this year of Esperion underlines an inconvenient truth – often we make money **despite our strategy**, rather than because of it. Given the choice between being strategically pure or making money, we'll go with making money every time!

New Positions

Recently, we initiated a position in the 1st lien secured bonds of **Total Play Telecomunicaciones**. Total Play provides the highest available quality fiber optic internet, digital television and related services to residential and business customers across Mexico. Part of the Grupo Salinas, which also owns several large Mexican businesses such as TV Azteca, Total Play is competitively well-positioned with an attractive growth runway. The bonds' 11% yield is a function of a slightly stretched corporate balance sheet as management balances the competing demands of capitalizing on the growth opportunity while maintaining sufficient cash flow coverage of fixed charges. A recent upgrade by Moody's to a positive credit outlook from its B3 rating aligns with our view that Total Play offers strong risk reward.

Also in August we purchased a position in the 2032 senior unsecured notes of Brazilian-headquartered **Adecoagro S.A.** Adecoagro is one of the world's largest owners of farmland, possessing more than 240,000 hectares of actively farmed property in Argentina, Brazil and Uruguay. We like these notes, which yielded approximately 7.6% at month-end, due to the company's strong and consistent history of profitability combined with its enormous inflation-resistant asset base. Our expectation of higher future returns from tough conditions for field crop agriculture also supports our investment thesis with respect to this issuer whose 1-year default probability we view as less than 0.4%.

Fund Positioning

The Pender Corporate Bond Fund yield to maturity at August 31 was 5.93% with current yield of 5.17% and average duration of maturity-based instruments of 3.91 years. The Fund holds a 5.12% 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 1.97% of the total portfolio at August 31.

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