

Manager's Commentary

Amar Pandya, CFA

Dear Unitholders,

The Pender Alternative Arbitrage Fund was up 0.20%¹ in November 2024. The HFRI ED: Merger Arbitrage Index (USD) returned 1.43%² during the same period.

M&A Market Update

As the market absorbs the potential impact from the Trump election sweep, the regulatory environment for mergers and acquisitions is set to see a consequential change. The Biden-era regulatory watchdogs are out while a variety of Trump-appointed, pro-business policymakers are set to take over. In the summer of 2021, President Biden signed an Executive Order on Promoting Competition in the American Economy that provided the key US M&A regulators the Department of Justice (DOJ) and Federal Trade Commission (FTC) with a mandate to curb consolidation and challenge mergers. Lina Khan, Chair of the FTC and Jonathan Kanter, Assistant Attorney General for Antitrust at the DOJ used that mandate to enact one of the most hostile regulatory environments in years taking unprecedented actions to challenge and block merger deals. While this made for a challenging environment for merger arbitrage investors, the uncertainty of obtaining regulatory approval also left many dealmakers on the sidelines cooling overall M&A activity. With President-elect Trump announcing new appointees for both watchdog positions, the upcoming year could see a potential flood of pent-up M&A activity.

Global M&A activity totaled nearly \$2.9 trillion through November, up 10% from the same period last year.³ In Canada, deal activity is up 25% year over year while activity in the US has increased by 8%. Some early evidence of optimism for mergers under the new administration was present during November with three mega-merger deals in excess of \$10 billion announced. Two of these deals involved target companies in the materials sector, a sector that has had the fewest number of mega-merger deals since 2018. These acquisitions include the \$16.9 billion acquisition of package manufacturing company Berry Global Group Inc (NYSE: BERY) and the \$11.5 billion acquisition of construction materials company Summit Materials Inc (NYSE: SUM). In both of these mergers, the acquirer is a competitor in the same industry, typically a merger structure more likely to be challenged by regulators. Notably in early December there have been several announced or rumored merger deals involving competitors in the same industry seeking scale, cost efficiency and stronger competitive positioning through consolidation. These types of mergers would likely face high scrutiny under the current Biden administration regulatory regime and the

All Pender performance data points are for Class F of the Fund. Other classes are available. Fees and performance may differ in those other classes.

² The Fund's benchmark is the HFRI ED: Merger Arbitrage Index (Hedged to CAD).

³ LSEG Global Mergers & Acquisitions Review - First Nine Months 2024 | Financial Advisor

announcement of these deals is further evidence of the pent up M&A potential set to be unlocked under a more pro-business Trump regulatory regime.

SPAC Market Update

There were eight SPAC IPOs in November raising \$1.3 billion, with four SPAC deals closing during the month and six SPAC liquidations⁴. Despite markets rallying and animal spirits percolating, the dry spell in traditional initial public offerings continues to weigh on the markets with SPAC IPOs accounting for the majority of IPO trading volume during the month. Serial SPAC issuers with a history of success in raising capital and finding a target to merger with are opportunistically raising new SPACs in the hopes of being in a position to strike when the floodgates of private businesses seeking to go public bursts as some market participants are expecting could occur next year. As of the end of November there were 204 active SPACs in the market with assets of \$14.4 billion, 104 of which are actively searching for targets. SPACs searching for targets were trading at a discount-to-trust value, which provided a yield-to-maturity of 5.1%.⁵ Given the decline in SPAC yields, we anticipate new and recycled capital will be deployed into merger arbitrage deals. As a result, our SPAC exposure is expected to decrease in the coming months.

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Portfolio Update

November was an active month in the Fund, with a post-election pickup in deal activity as dealmakers waited for election result clarity before announcing a deal. The Fund initiated positions in 12 new merger deals in November, while 12 deals held within the Fund closed during the month. With an ample flow of new deal activity, we are redeploying capital from closed deals into a variety of new opportunities. Deals invested in by the Fund spanned a broad range of sectors, including healthcare, industrials, materials, energy and financials and real estate with a mix of strategic and financial acquirers. We expect to see several of our current key positions close in the weeks ahead as dealmakers, lawyers and advisors push to close transactions before the calendar year-end. A notable sector where we are currently adding exposure is among regional bank mergers, which were announced early in the year. Even amongst smaller regional banks merging, the regulatory burden is high, and delays are typical. Therefore, we usually avoid investing in these mergers until the late stages of approval where the spread is still wide, yet the duration is shorter, driving an attractive yield. We continue to focus the fund on small and mid-cap mergers and expect to see an acceleration of deal activity in the quarters ahead. At the end of November 2024, the Fund had 29 investments in small cap deals under \$2 billion, 21 of which were valued at under \$1 billion.

⁴ <https://www.spacresearch.com/>

⁵ <https://www.spacinsider.com/>



Outlook

Markets rallied following the 2024 US election. The S&P 500 advancing 5.9% in November with the Nasdaq and S&P/TSX up 6.3% and 6.2% respectively. Small cap companies saw the strongest rally with the Russell 2000 climbing 11% in the month. Market euphoria reached a fever pitch post-election as speculative investments from crypto currencies, meme stocks and anything in the periphery of Elon Musk have witnessed a parabolic rise in prices. With mega-cap valuations stretched, markets at all-time highs and animal spirits activated, many investors are questioning how much upside remains in markets. Fixed income markets have also had a strong year, with tightening spreads and positive rating actions outnumbering negative ones. Investors concerned about market uncertainty and looking for an alternative to short-duration fixed income would be well suited to consider a non-correlated alternative investment strategy like merger arbitrage to protect and diversify their portfolio.

We see an attractive setup for merger arbitrage going into next year, as many of the headwinds for M&A shift to tailwinds. Inflation continues to trend lower, and interest rates are expected to fall in the short term, despite concerns about the impact from tariffs on longer-term terminal rates. Investor confidence continues to rise, underpinned by strong markets providing management and boards with the confidence needed to make deals. As interest rates fall and credit conditions improve, acquirers flush with cash spanning public companies, investment managers to private equity firms are set to put capital to work. The Trump administration's pro-growth, pro-business and pro-America agenda is primed to act as a catalyst for smaller domestic focused companies. Most importantly the end of the Biden Administration's Executive Order on Promoting Competition, along with the replacement of key regulatory leaders is set to remove the biggest hurdles to deal making in the past three years. With all these favorable drivers in place we expect M&A activity to accelerate next year while spreads remain relatively wide, providing arbitrage investors with favorable, non-correlated and tax-efficient returns in the year to come.

Wishing you and all your families a happy holiday and a peaceful and prosperous new year!

Amar Pandya, CFA

December 17, 2024