

Manager's Commentary

Justin Jacobsen, CFA

The Pender Alternative Absolute Return Fund finished December with a return of 1.5% bringing year-to-date return to 7.1%¹.

The market euphoria of November faded in December as momentum turned, driven by a more hawkish than expected Federal Reserve and year end pension rebalancing out of equities. The high yield market put up its third negative month of 2024 in December, returning -0.4% driven by increasing treasury yields as well as widening spreads, which moved out 18bp to finish the year at 292bp. The HFRI credit index returned -0.03% in December, bringing year-to-date returns to 9.5%.

We were pleased that the Fund delivered a return above 7% in 2024 despite very defensive positioning and negative beta-to-risk assets all year. With that being said, we do not believe that one year is an appropriate time horizon to judge investment performance. There are plenty of examples of investment funds that post spectacular one-year returns following unacceptably large drawdowns. We believe that a longer time horizon of three years or more combined with a measure of risk is a better approach to evaluating investment performance.

Fund/Index	1-year	3-year*	Standard Deviation*
Pender Alternative Absolute Return Class F	7.1%	7.0%	2.4%
HFRI Credit Index	9.5%	4.8%	3.4%
ICE BofA US High Yield Index CAD hedged	7.3%	2.1%	8.6%
iShares Core Canadian Universe Bond (TSX: XBB)	4.0%	-0.7%	7.4%
Average 1-year GIC rate	4.0%	3.2%	N/A

Source: Morningstar and Bloomberg, as at December 31, 2024. *3-year annualized return/standard deviation

Portfolio Update

The Fund was well positioned for market weakness which helped generate a positive December. We also found opportunities in new issue markets in both Canada and the US, with the most notable deals being Wolf Midstream Canada LP (private) in Canada and Diebold Nixdorf Incorporated (NYSE: DBD) in the US market.

Our event-driven position in Neiman Marcus Group's bond was called in late December at a price of \$101.78 with the consummation of their merger with Saks Fifth Avenue. Between capital gains and income this position generated an IRR of more than 10% since we established our position in July 2024. With this position rolling off the books, we now have no event-driven trades in the Fund.

We actively managed our cash position by adding to short dated positions in government securities and high-quality corporate credit. We expect there will be better opportunities to buy

¹ 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.

risk assets at some point in 2025 so limited the term of most of our cash substitute positions to maturity dates within the next four months.

Market Outlook

In 2025 high yield spreads will begin a year with the market spread below 300bp for the first time since 2007. While spreads hit multi cycle lows in 2024, the low volatility grinding market environment was similar to 2017 and 2021, in both cases volatility picked up the following year. The same was also true for 2007: the market started the year with spread levels in the high 200s and finished at almost 600bp following a very bumpy second half of the year. There is no certainty that volatility will return in a meaningful way in 2025, but history has shown that periods of low volatility and compressed risk premiums tend to get upended by something that the market didn't see coming. At current spread levels, there is little room for the market to absorb unexpected negative events.

ICE BofA US High Yield Index

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Peak Spread, bp	571	733	887	416	538	544	1087	393	599	522	393
Average Spread, bp	404	536	598	377	363	408	554	332	440	421	315
Low Spread, bp	335	438	411	338	316	351	338	301	305	332	260

Source: Bloomberg, as at December 31, 2024.

We can point to many examples of excessive liquidity in markets today. Retail favorite stocks like Tesla are experiencing massive gains that are detached from fundamentals. Over the past year analyst expectations for Tesla's 2025 EBITDA have declined by about 30%. During this same period the stock returned over 60%. There are several other examples in markets where individual investor sentiment appears to be driving outsized returns. While likely not quite as unpegged from fundamental value as some individual equities, there are also examples in credit markets. We participated in a new issue Commercial Mortgage-Backed Securities (CMBS) transaction in early January for the Spiral, a trophy office tower located at Hudson Yards in Manhattan. We bought the F tranche which priced at a spread of 310bp. In this same transaction, both the D and E tranches were more than forty times oversubscribed at initial price point. The F tranche priced at a level we thought was fundamentally cheap to the D & E tranches because it had a high yield rating while all other tranches in the structure were rated investment grade.

There are multiple potential catalysts for a risk reset in 2025. It seems likely that tariffs will be a focus for markets in the coming months, which is unlikely to be a positive development. Another concern could be the unsustainable fiscal position that many developed economies find themselves in, particularly the United States and France. Conditions could be ripe for a return of bond vigilantes to push back on the supply of securities required to fund deficits in excess of 6% of GDP.

With so much optimism priced into markets going into 2025 it will be a high bar to clear for reality to live up to expectations this year. We believe that the Fund is well positioned for the return of volatility and hope to deploy capital into the market at better risk premiums this year than we saw in 2024.

Portfolio Metrics

The Fund finished December with long positions of 126.2% (excluding cash and T-bills). 41.7% of these positions are in our Current Income strategy, 84.5% in Relative Value and 0.0% in Event-Driven positions. The Fund had a 56.8% short exposure that included 4.4% in government bonds, 35.1% in credit and 17.3% in equities. The Option Adjusted Duration was 1.4 years.

Excluding positions that trade at spreads of more than 500bp and positions that trade to call or maturity dates that are 2027 and earlier, Option Adjusted Duration declined to 0.99 years.

The Fund's current yield was 5.8% while yield to maturity was 6.0%

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