

Manager's Commentary

Amar Pandya, CFA

Dear Unitholders,

The Pender Alternative Arbitrage Fund and the Pender Alternative Arbitrage Plus Fund were up 0.6% and 0.9%¹ respectively in January 2025. The HFRI ED: Merger Arbitrage Index (USD) returned 0.6%².

Portfolio Update

M&A markets are off to a bang in 2025, driving an active month with the Fund initiating positions in 13 new merger deals in January while nine deals held within the Fund closed. Many key deals held within the Fund achieved final or milestone approvals during the month with their spreads closing resulting in the Fund realizing those returns. With over a dozen merger deals announced during the month and several high-quality small-cap merger deals announced in late December, the market continues to offer a wide set of opportunities in which to redeploy capital.

While the Trump administration's unpredictable executive orders are sure to cause volatility in equity markets, the core policy agenda and key appointees should provide a constructive environment for US small-cap M&A. We believe Trump's pro-domestic, pro-business and anti-regulation agenda is set to be a major catalyst for M&A activity in the US. In last month's commentary we discussed the recent resurgence of horizontal mergers post-election, as management teams seek to secure a competitive advantage and strengthen their competitive positioning through acquiring competitors. We have remained on the sidelines for many of these transactions but are following them closely to see how regulators respond to these deals. If approved, these successful mergers would likely demonstrate a clear shift in the regulatory environment, establish new precedents for similar mergers and unleash a potential wave of consolidation in the US.

North of the border, the weakness in the Canadian dollar is making our universe of Canadian companies which are already trading at a discount to their US peers an even better bargain for acquirers. This is most evident in the Canadian IT service space where we have seen several acquisitions in recent weeks. Quisitive Technology Solutions, Inc. (TSXV: QUIS), Softchoice Corporation (TSX: SFTC) and most recently Converge Technology Solutions Corp. (TSX: CTS) have all received acquisition offers from US acquirers. Softchoice, a Canadian cloud-focused IT solutions provider is being acquired in a strategic transaction to merge with World Wide Technology Holding Co., LLC. Quistive and Converge are both being acquired by the same private equity manager, H.I.G. Capital in go-private transactions where current management and insiders will maintain equity in the privatized companies. This

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. HFRI ED: Merger Arbitrage Index (Hedged to CAD).

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

structure of what we consider private equity backed management buyouts continues to drive acquisition activity in Canada as insiders and financial acquirers seek to capitalize on discounted valuations amongst Canadian companies. For the Fund, this represents a high-quality source of deal-flow with increased activity within Pender's core small cap and technology focused universe allowing the Fund to leverage the insights, analysis and trading expertise from Pender's equity team. At the end of January 2025, the Fund had 37 investments in small cap deals under \$2 billion, 28 of which were valued at under \$1 billion.

M&A Market Update

Global M&A activity was over \$230 billion in January down 20% over the same period last year.³ While activity one month in is down from last year, dealmakers anticipate a surge of activity this year as falling interest rates, a strong economic expansion, ample capital and favorable regulatory conditions support deal activity. The materials, energy & power and financials sector led M&A activity during the month indicating a wide-breadth of acquisition appetite across market sectors. Andrew N. Ferguson was appointed Chair of the Federal Trade Commission (FTC) during the month, replacing Lina M. Khan who had chaired the FTC through one of its most hostile periods over the past four years. Advisors, bankers and corporations appear optimistic about the prospects for M&A under the new regulatory regime with improved visibility on securing regulatory approval removing a key obstacle for deal making.

SPAC Market Update

There were eight SPAC IPOs in January raising \$1.1 billion with four SPAC deals closing during the month and one SPAC liquidation⁴. SPAC IPOs accounted for nearly 20% of US listed IPO volume during the month of January. Certain key events reinforce the sentiment that the new Trump administration will be a far more supportive regulatory environment for SPACs. Notably, one of the SPACs that went public during the month was Cantor Equity Partners I, Inc., a SPAC sponsored by investment bank Cantor Fitzgerald which led SPAC new issuance in 2024. Furthermore, Cantor's CEO Howard Lutnick was nominated by President Trump as Secretary of Commerce. Finally, Trump Media & Technology Group (Nasdaq: DJT), owner of social-media platform Truth Social, went public via a merger with a SPAC. At the end of the month, SPACs searching for targets were trading at a discount-to-trust value, which provided a yield-to-maturity of 4.56%⁵. With SPAC arbitrage effectively equivalent to acquiring a Treasury Bill at a discount, SPACs currently provide a similar yield to US Corporate Investment Grade Bonds with lower credit risk, shorter duration and a tax advantage as SPAC returns are primarily capital gains. Given the decline in SPAC yields and less favorable terms for new SPAC IPOs, the Fund anticipates prioritizing new and recycled capital into merger arbitrage deals for the foreseeable future.

³ <https://www.mofo.com/resources/insights/250109-m-a-in-2024-and-trends-for-2025>

⁴ <https://www.spacresearch.com/>

⁵ <https://www.spacinsider.com/>



Outlook

Markets were off to a strong start in 2025 with the S&P 500 up 2.8%, the Nasdaq advancing 1.7%, the S&P/TSX composite rising 3.5% and the Russell 2000 up 2.6%. With the Trump administration expected to be active and unpredictable on trade and economic policy, there is likely to be increased volatility for the foreseeable future. Despite added economic uncertainty, credit markets have been resilient with credit spreads at historically tight levels. This is in sharp contrast to merger arbitrage spreads, which remain in the mid-to-high single-digits for a large part of the Fund's investible universe. With wide spreads and tailwinds for both deal activity and regulatory approval, we have a positive outlook for merger arbitrage returns this year on a relative and absolute basis. Investors seeking to diversify their portfolio with a low-risk, non-correlated and tax-efficient investment strategy should consider an allocation to merger arb in 2025.

Amar Pandya, CFA*February 21, 2025*