Manager's Commentary

Justin Jacobsen, CFA

Dear Unitholders,

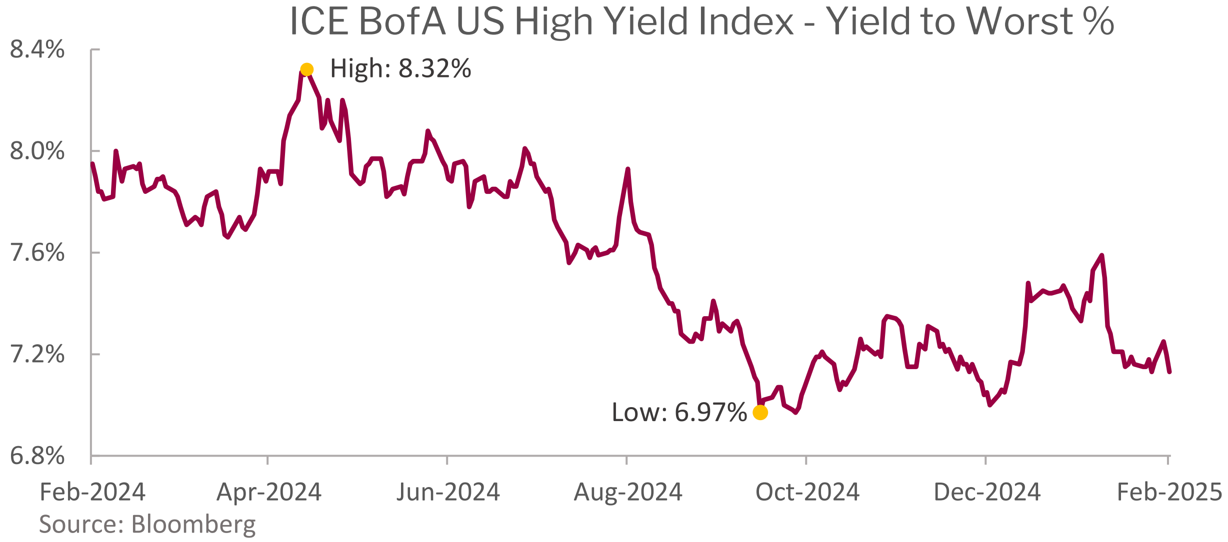
The Pender Alternative Absolute Return Fund finished January with a return of -0.1%[1].

Markets rebounded in January following a soft end to 2024. High yield spreads tightened 24bp in January to finish the month at 268bp Govt OAS, after hitting a multi-decade low of 259bp on January 22. The HFRI Credit Index, the Fund's benchmark returned 1.0% in January.

Portfolio & Market Update

With valuations at elevated levels in credit markets the Fund maintained a defensive posture in January. In the middle of the month, as the 10-year US Treasury yield approached 4.8% we found some limited opportunities to deploy capital based on all-in yields. Following a strong bounce in several of these securities, we made sales later in the month and finished January with our lowest net exposure to the market, excluding cash and equivalents in over a year. Technical factors appear to dominate the market for now as a relatively muted new issue calendar contributed to compressed risk premiums. We did see issuance pick up in late January and early February which hopefully will continue in the coming weeks. It is much easier for us to find securities to sell than to buy.

The all-in yield opportunity to buy high yield bonds in January did not last for long. Without lower treasury yields it will be difficult for the high yield market to rally much from current levels.



Source: Bloomberg

A great example of the market's enthusiasm for risk was the successful sale of $6.5 billion of loans backed by the LBO of Twitter (now X corp.) in late January and early February. These loans had sat on a syndicate of banks' balance sheets since late 2022, longer than any "hung" LBO during the

[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.*

Global Financial Crisis that lasted from 2008 until 2009[2]. The bulk of the loan sale occurred at just 3% below par, a stunning reversal following large markdowns from face value in previous years. Removing this once toxic asset from their balance sheets at effectively no loss must have been a huge relief to the banks involved. While the loan portion of the Twitter financing has been syndicated, the expected high yield bond component has yet to come to market. At a minimum, we expect the banking syndicate, led by Morgan Stanley, will look to sell the $3 billion secured bond in the near term to further reduce their exposure, while the unsecured bond component might require too steep of a haircut to face value for them to move forward. Although Twitter's financials are private, Bloomberg reported that Adjusted EBITDA for 2024 was $1.2 billion "with a heavy dose of adjustments" while the company's debt load is $13 billion, which based on the rate of SOFR + 660bp on the loan argues that the company's EBITDA doesn't even cover interest expense, and they are burning through cash.

We believe that it is a time to be focused on downside risks in the Fund and have been actively paring back positions where we do not believe that we get paid appropriately for either risk or (il)liquidity. With the spectre of tariffs being levied on Canada greatly reduced but not eliminated for now, it is worth evaluating what this might mean to our energy exposure.

The Canadian and US economies are tightly interconnected, particularly in energy infrastructure and automobile manufacturing. We do not see value in automotive credits presently and are not exposed, but the Fund does have a material exposure to the Canadian energy sector. The fact that the sector was given special consideration by the Trump administration and only would have been subject to a 10% tariff illustrates that they knew that US consumers would end up bearing a significant portion of the tariffs. The bulk of Canadian oil exports go to the upper Midwest, with some refineries effectively committed to importing Canadian crude oil. The cost of tariffs would likely be borne partially by producers, refiners and consumers. Producers would benefit from a weaker Canadian dollar, as well as higher oil prices. We believe that a 10% tariff would be roughly equivalent to a 5% decline in oil prices in terms of its impact on producers. With West Texas Intermediate (WTI) at around $70, this is well within their ability to absorb, following the vicious energy cycles in 2014-16 and 2020, leverage levels have been significantly reduced, with many producers stress testing their balance sheet to $50 WTI. We remain comfortable with our energy exposure and have not made significant adjustments in 2025.

As positive as sentiment and technicals appear to be in early 2025, history has shown that these valuation levels are difficult to hold.

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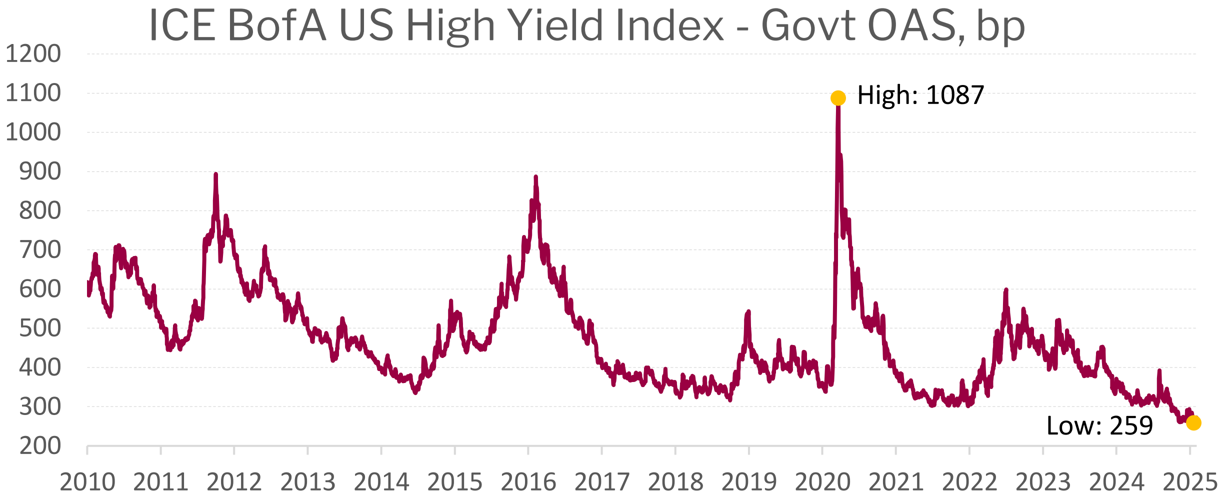
[2] *https://www.wsj.com/tech/elon-musks-twitter-takeover-is-now-the-worst-buyout-for-banks-since-the-financial-crisis-3f4272cb*



Source: Bloomberg

The emergence of DeepSeek as a credible threat to OpenAI and other LLM applications late in the month is a reminder that risk events can pop up unexpectedly, and that prevailing market consensus almost certainly contains some blind spots that will become apparent in the quarters and years ahead. We believe that it's a great time to be nimble and patient as it is likely that there will be better opportunities to deploy capital later this year.

Portfolio Metrics

The Fund finished January with long positions of 114.7% (excluding cash and T-bills). 36.8% of these positions are in our Current Income strategy, 77.9% in Relative Value and 0.0% in Event Driven positions. The Fund had a -55.0% short exposure that included -4.0% in government bonds, -34.3% in credit and -16.7% in equities. The Option Adjusted Duration was 1.16 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 0.84 years.

The Fund's current yield was 5.2% while yield to maturity was 5.0%.

Justin Jacobsen, CFA
February 12, 2025