

Manager's Commentary Amar Pandya, CFA

Dear Unitholders,

The Pender Alternative Arbitrage Fund and the Pender Alternative Arbitrage Plus Fund were up 0.4% and 0.6% respectively in February 2025 while the HFRI ED: Merger Arbitrage Index (USD) returned 0.7%².

M&A Market Update

Global M&A activity was over \$617 billion in early March in-line with the same period last year³. In the US however there was a 24% decline in M&A compared to the same time last year as market volatility and the unease around tariffs likely led to a pause in activity. February experienced a drought in mega-merger deals greater than \$10 billion for the first time since July 2024 as economic uncertainty and shifting market conditions made for a difficult environment to announce a deal of that size and scope. With a blitz of new policies, agency shakeups, tariff threats and subsequent postponements, dealmakers involved in larger deals will probably pause or delay M&A activity in the short-term until there is improved visibility to the Trump administration's agenda. Despite the lull in mega-merger deals, it was still an active month in the small and mid-cap space with the energy and power, industrials and high technology sectors leading activity.

SPAC Market Update

There were seven SPAC IPOs in February raising \$1.4 billion with four SPAC deals closing during the month and no SPAC liquidations⁴. The pace of SPAC IPOs has reached a four year high with 17 deals priced so far this year and several initial filings for new SPACs submitted. With the traditional IPO window still closed, SPAC sponsors are seeking to fill in the gap of taking private businesses public. At the end of February, there were 201 active SPACs in the market with a total value of \$17 billion with 109 SPAC actively searching for deals. 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 4.55%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 we expect to allocate new and recycled capital into merger arbitrage deals for the foreseeable future.

Portfolio Update

The Fund initiated positions in 14 new merger deals in February with 20 deals held within the Fund closing during the month. A significant portion of the Fund turned over 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. HFRI ED: Merger Arbitrage Index (Hedged to CAD).

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

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/

month as final approvals and closings were achieved for several merger deals held within the Fund. Despite the dampening effect from the Trump administration's tariff threats on M&A markets, several small and mid-cap merger deals were announced during the month providing opportunities to redeploy capital. With a pick-up in market volatility, we were also able to redeploy capital into existing deals where spreads had temporarily widened. We continue to watch several horizontal merger deals which we deem as bellwethers in determining how the new regulatory regime intends to enforce mergers. Regardless of a shift in regulatory policy, the environment for small and mid-cap merger deals remains favourable with a pick-up of technology sector deals in Canada and industrial acquisitions in the US, some of which are now core holdings in the Fund. At the end of February 2025, the Fund had 30 investments in small cap deals under \$2 billion, 20 of which were valued at under \$1 billion.

As discussed last month, Canadian companies are in the bargain bin for US buyers and that was made even more evident during the month as the Canadian dollar depreciated further while the valuation gap between US and Canadian companies widened. In response to the threat of tariffs the Canadian government announced they would be tweaking foreign-investment rules to protect companies from predatory investors. Canada's industry minister Francois-Philippe Champagne stated, "As a result of a rapidly shifting trade environment, some Canadian businesses could see their valuations decline, making them susceptible to opportunistic or predatory investment behavior by non-Canadians". While this does provide Canadian regulators with new latitude to block merger deals from foreign acquirers, we expect it to have a minimal impact as it would be directed at protecting companies deemed critical to the economic or national security of the country and we believe companies with this classification would have already faced significant regulatory scrutiny in the event of a foreign takeover.

Outlook

Markets shifted in February as escalating trade tensions increased investor fears of a weakening global economy. The S&P 500 fell 1.3% during the month while the NASDAQ tumbled 3.9%. The S&P/TSX composite declined by 0.4% and the Russell 2000 was down 5.4%. With numerous pronouncements made by President Trump and a steady blitz of sometimes conflicting policy and tariff announcements there has been a sharp increase in volatility with large drawdowns in several parts of the markets. The inflationary impact of tariffs and a decline in consumer sentiment is also adding uncertainty to the path of interest rates and the risk of a recession. While large cap M&A may see a pause in activity due to this uncertainty, small and mid-cap merger deals show no sign of slowing. In these uncertain times, non-correlated, absolute return focused alternative investment strategies like merger arbitrage can be a beneficial addition to help diversify investors' portfolios.

Amar Pandya, CFA March 27, 2025

