

Manager's Commentary

Amar Pandya, CFA

Dear Unitholders,

The Pender Alternative Arbitrage Fund and the Pender Alternative Arbitrage Plus Fund were 0.13% and -0.27%¹ respectively in March 2025 while the HFRI ED: Merger Arbitrage Index (USD) returned 0.41%².

M&A Market Update

Global M&A activity surged in the final month of Q1 before stalling due to the mounting trade war with \$885 billion of deal value announced through March³. There was a pick-up in mega-cap mergers during March with three deals announced bringing the first-quarter total to seven transactions greater than \$10 billion in size. Even with the end-of-quarter boost, mega-mergers were down compared with a year-ago while small cap M&A has had the best start to the year since 2021 with a 42% increase in deal value for transactions in the \$1 billion to \$10 billion size range. The strong initial run of merger activity is likely to stall as tariffs weigh on the market, but similar to most macro shocks, the impact will be greater for larger deals and we would expect to see a steady flow of small cap M&A.

When President Trump was elected in November, analysts and dealmakers were anticipating a rush of deal making following three years of stagnant activity. High interest rates, increased market volatility and a hostile regulatory environment previously weighed on M&A markets keeping many dealmakers on the sidelines waiting for a more conducive environment. With the Trump administration's pro-growth and anti-regulation agenda, the market was optimistic that the tide had turned for M&A, with new appointees at key regulatory touting a pro-business agenda. However the Trump administration's trade and tariff policy has quickly dampened those expectations with increased volatility, a lack of clarity on implementation and concerns that tariffs will lead to higher inflation, all creating an environment fraught with uncertainty. Strategic acquirers typically analyze a target company looking to determine the potential synergies that could be realized post integration, but that calculation is nearly impossible with shifting tariffs which might impact the target business. The market for deal financing is also struggling with the lenders of several leverage buyout deals who have committed to providing financing at a specific rate now unable to syndicate that debt, forcing them to hold them on their balance sheet and dampening the risk appetite for other lenders. With this added uncertainty in the markets, M&A activity has stalled, particularly for larger deals with global operations. However, for

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.

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

³ [M&A in 2024 and Trends for 2025](#)

savvy dealmakers willing to deal with some uncertainty or make a bet on where tariff rates will ultimately settle, this is a buyers' market with bargains abound.

SPAC Market Update

There were three SPAC IPOs in March raising just under \$300 million with one SPAC deal closing during the month and no SPAC liquidations⁴. The month provided clear examples of the upside and downside of investing in SPACs as a speculative investment, as opposed to an arbitrage vehicle. Nuclear reactor developer Terrestrial Energy and autonomous truck startup Kodiak Robotics both announced intentions to go public via a merger with a SPAC in March. These types of early stage, speculative, and cash consuming companies are the perfect target for a SPAC merger, which provides a cash injection and facilitates speculative investing by retail investors. Genomics and biotechnology company 23andMe Holding Co. which became a public company through a SPAC merger in 2021, filed for bankruptcy during the month exemplifying the higher risk of de-SPACs, the vast majority of which have lost investors' money. At the end of March there were 203 active SPACs in the market with a total value of \$17.2 billion, with 109 SPACs 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 4.49%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

After an active February with a significant portion of the Fund turning over as deals closed and capital was recycled into new mergers, March was a slower month. The Fund initiated positions in nine new merger deals with five deals held within the Fund closing during the month. Spreads widened towards the end of the month, continuing through "Liberation Day" and into April as market volatility picked up materially. In this environment our focus will be on smaller merger deals with a preference for companies with largely domestic operations, not heavily reliant on imports or exports and with a solid strategic rationale for being acquired. The downside protection present in SPACs especially when purchasing a SPAC at a discount to the cash held in trust also represents another attractive investment for the Fund in this environment. At the end of March 2025, the Fund had 32 investments in small cap deals under \$2 billion, 21 of which were valued at under \$1 billion.

In key market events where there is a large drawdown in equities, we typically see merger arbitrage spreads widen in the immediate term before subsequently tightening. This widening is largely driven by liquidity as active shareholders of target merger companies look to sell their shares to redeploy capital elsewhere or to meet redemptions, while passive

⁴ spacresearch.com

⁵ spacinsider.com



shareholders sell indiscriminately to meet the demands of outflows or rebalances. With the amount of capital held by merger arbitrage funds globally estimated to be only around \$60 billion⁶, arbitrage capital is a relative drop in the bucket and selling pressure from the recent market rout, which resulted in a \$10 trillion⁷ decline in global market value, far outmatches any incremental buying from arbitrage investors. Although a deal spread may widen temporarily driven by liquidity, as deal-closing milestones are achieved that spread will quickly narrow before being fully captured. Holding a portfolio of 40 to 50 non-correlated merger deals at various stages of closing and duration drives the non-correlated and absolute return nature of the Fund strategy making merger arb an effective portfolio hedge in volatile market environments.

Outlook

With a temporary cooling of new M&A activity we are focusing the Fund on high quality existing deals and adding to the Fund's SPAC exposure. Key merger deals continue to progress and the new issuance market for SPACs remains highly active, providing numerous opportunities to deploy new and recycled capital. Larger deals and leveraged buyouts will likely see a longer pause as credit markets have been disrupted, making it more difficult to syndicate larger debt deals. The inflationary impact of tariffs is also adding to uncertainty with the Fed in a tough spot as growth expectations decline while the risk of higher prices becomes a key concern. In these volatile market environments, investors would benefit from adding non-correlated alternative exposure like merger arbitrage which can complement or be a substitute for fixed income exposure with better tax efficiency. While we believe that the Trump administration is likely to capitulate and roll-back disruptive tariffs, it may prove difficult to restore confidence and with erratic announcements and an uncertain end-goal markets could remain turbulent for the foreseeable future.

Amar Pandya, CFA

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⁶ [Hedge Fund Industry Assets Under Management](#)

⁷ [10 days and a \\$10 trillion market swing: How Trump's tariffs changed the global economy, and what comes next](#)

