

Manager's Commentary

Amar Pandya, CFA

Dear Unitholders,

The Pender Alternative Arbitrage Fund and the Pender Alternative Arbitrage Plus Fund were up 1.0% and 1.5%¹ respectively in April 2025 while the HFRI ED: Merger Arbitrage Index (USD) returned 0.22%².

Portfolio Update

In what was one of the most volatile months in markets since the inception of the Fund, the strategy performed well delivering on its goal of generating non-correlated, absolute returns. As discussed in [last month's commentary](#), during key market events where there is a large drawdown in equity markets, merger arbitrage spreads widen driven by selling pressure from both passive and active investors. However, in the days and weeks that follow, as deals progress and achieve key approvals and other deal milestones, the spread tightens. This dynamic played out in the month. Spreads widened in the days that followed Liberation Day and we took advantage of this by actively adding to merger deal positions.

Subsequently many of those deal spreads tightened and were fully captured in the weeks that followed as deals progressed to closing. In addition to the contribution from this large portion of the Fund's merger arbitrage deals closing, the Fund's SPAC exposure also benefitted performance during the month. Several of the Fund's SPAC positions announced a SPAC merger that was well received by the market resulting in those SPACs and their warrants trading higher. We exited our positions in several SPACs which traded at modest and in some cases material premiums to their value held in trust, fully capturing those returns.

While there was little new deal activity with the Fund initiating positions in seven new merger deals during the month, it was quite active on the closing side with 23 deals held within the Fund closing during the month. With the ongoing tariff uncertainty and increased volatility in markets, we remain focused on smaller merger deals as smaller companies with domestic operations in niche industries are less likely to be impacted by tariffs and are likely to see increased acquisition interest as scale becomes more critical in an evolving trade environment. At the end of April 2025, the Fund had 22 investments in small cap deals under \$2 billion, 14 of which were valued at under \$1 billion.

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. Standard Performance Information for the Funds may be found [here: penderfund.com/liquid-alternative-funds](https://penderfund.com/liquid-alternative-funds)

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

SPAC Market Update

It certainly feels like “The SPAC is Back” with the SPAC sector showing encouraging signs of activity after several years of pain and malaise. There was over \$2.7 billion of SPAC IPO's in April, the highest level since February 2022, and filings for future SPAC IPOs are also on the rise. More than half of registrations for new SPACs have come from repeat sponsors who have demonstrated a track record of finding and closing a deal with a target even if the subsequent de-SPAC performance has been poor. It is notable that while capital markets face significant headwinds including the drought of traditional IPO's, we believe the SPAC sector is experiencing a boom with optimism and speculation on the rise. Sentiment has quickly shifted in the SPAC sector with improving conditions for SPAC sponsors and solid performance for SPAC investors. Cantor Equity Partners Inc (NASDAQ: CEP), which was a holding in the Fund and IPO'd last fall, announced a deal during the month to merge with Twenty One Capital, a crypto company backed by Tether, Bitfinex and Softbank. The shares of the SPAC spiked immediately after the deal was announced before going parabolic as speculation in the name reached a fever pitch, with the share price peaking at a 420% gain. We exited our position immediately after the SPAC traded at a modest premium to the NAV held in trust, but we are seeing the stunning returns exhibited in that SPAC benefitting the broader SPAC sector as it attracts investors and speculators hoping to win big on the next deal. With SPACs largely focused on early stage, negative cash-flow and concept-based companies, there is a large pool of targets in industries like nuclear technology, AI, crypto and EVs which are sure to attract speculators.

At the end of April there were 207 active SPACs in the market, with a total value of \$18.7 billion, with 111 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 4.28%³. With SPAC arbitrage effectively equivalent to acquiring a Treasury Bill at a discount plus a call option, 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. With the resurgence of SPAC IPOs and robust trading performance of new issues, as well as the warrants received in most deals, we have increased the SPAC exposure in the Fund and expect to continue selectively adding exposure through new SPAC IPOs with favorable deal attributes.

M&A Market Update

Merger activity cratered in April, falling to the lowest level in 20 years, including the Great Recession and the COVID-19 pandemic. Dealmakers hit the brakes on activity following President Trump's sweeping tariff announcements resulting in a significant shift in the global fundamental and economic outlook and raising fears of the potential for a global trade war. Given the uncertainty of what felt like a constantly shifting tariff policy through the month, it is understandable that many companies in the midst of negotiating a deal decided to pause activity. Acquirers are likely waiting for greater clarity on the scope and implementation timeline of tariffs while lobbying the administration on behalf of their

³ <https://www.spacinsider.com/>

respective industries for potential exemptions. The market for deal financing has also been disrupted with several loan sales for leverage buyouts being pulled as lenders failed to syndicate the debt in the midst of market uncertainty. Still, despite the breadth and severity proposed tariffs and high market volatility there is clear evidence of pent-up M&A demand. By the end of the month, with markets having an opportunity to digest the delayed tariffs and see further progress on negotiations, deal activity picked up with a mix of strategic and financial deals. We anticipate more activity to materialize in the months and quarters ahead as savvy dealmakers take advantage of valuation dislocations with target company shareholders more amenable to accept a deal rather than risk the uncertain path ahead.

Outlook

The first 100 days of President Trump's second term have brought widespread changes disrupting the natural state of many practices, protocols and long-held beliefs. The uncertainty and constantly evolving nature of these changes are likely to result in an elevated risk environment for the foreseeable future. The short duration and the non-correlation benefits of merger arbitrage are two key attributes of the strategy which we believe will be valuable in the current environment. As the market absorbs the impact of tariffs, dealmakers have and will continue to return to the market, driving a healthy flow of M&A activity, while the SPAC sector continues to see a rebound in new issuance performance. With a favorable backdrop for both of the key arbitrage strategies employed by the Fund, we have a constructive outlook for returns through the year. As correlation between equities and bonds increases, investors would be well advised to consider diversifying into a non-correlated and absolute return focused alternative investment strategy like arbitrage.

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