

Manager's Commentary

Amar Pandya, CFA

Dear Unitholders,

The Pender Alternative Arbitrage Fund and the Pender Alternative Arbitrage Plus Fund were up 1.4% and 1.8%¹ respectively in May 2025 while the HFRI ED: Merger Arbitrage Index (USD) returned 3.04%².

Portfolio Update

May was another strong month for the Fund, benefiting from tightening spreads and bumps in deals initiated in the Fund during the volatility following Liberation Day. We have been actively adding to existing and new deals with 23 new deals initiated in the Fund during May while seven deals held within the Fund closed during the month. We continue to see a strong deal environment for M&A, particularly for small and mid-cap merger deals which are the core focus for the Fund. At the end of May 2025, the Fund had 32 investments in small cap deals under \$2 billion, 23 of which were valued at under \$1 billion. The SPAC sector continues to rebound with significant new issuances. The majority of SPAC IPOs are many times oversubscribed as investors pile into the opportunity set. We continue to selectively add to our SPAC exposure in the Fund, diligently managing our deal specific exposure and actively trading around positions in the Fund. With favorable tailwinds in both merger and SPAC arbitrage we maintain a high conviction portfolio of active deal positions.

Smaller companies typically have more domestic focused operations and benefit from synergies of scale, making them attractive targets in this environment. With investor confidence improving as the market fully digests the initial tariff salvo as a negotiating tactic, market conditions are supportive of a robust deal-making environment. Buyers are seeking to act quickly and take advantage of discounts before their competitors in order to gain a strategic advantage. This strategy can work most of the time but in some cases another party notices the dislocation between intrinsic value and acquisition consideration and decides to make their own bid for the target company. This leads to a bidding war forcing the initial acquirer to raise their offer price, in many cases substantially so as to win the prized target. We saw evidence of this in the Fund during the month with Fund holding SatixFy Communications Ltd. (NYSE: SATX) receiving a 43% increase in their acquisition offer from acquirer MDA Space Ltd. (TSX: MDA) after another bidder emerged during the company's go-shop period. Another Fund holding Servotronics Inc. (NYSE: SVT) received a 22% higher offer from acquirer Transdigm Group Incorporated (NYSE: TDG) after another

¹ All Pender performance data points are for Class F of the funds. Other classes are available. Fees and performance may differ in those other classes. Standard performance information for the funds can be found here: <https://www.penderfund.com/liquid-alternative-funds/>

² The benchmark for both funds is the HFRI ED: Merger Arbitrage Index (Hedged to CAD).

party made a counteroffer. We continue to see a pick-up of deals exploiting the valuation gap in smaller companies, which we believe should lead to further bidding wars emerging.

SPAC Market Update

May continued the strong momentum of new SPAC issuance activity with 22 SPAC IPOs completed during the month raising \$4.7 billion. New issuance in the first five months of 2025 has already surpassed IPO activity for all of 2024 with a robust pipeline of registrations for further new issues. With the market for traditional IPOs or direct listings muted, SPAC IPO volume represented nearly 70% of US-listed IPOs that began trading in May. Experienced sponsors have been leading the charge in this new cycle with serial sponsors accounting for 80% of Q1 SPAC IPOs³. These sponsors can leverage their experience, networks and perceived credibility to attract investors. The environment for SPAC sponsors has also improved significantly as yields have fallen, reducing investor return expectations with sponsors able to structure newly issued SPACs with more favorable terms for themselves. This is a development we are following closely as we evaluate new SPAC issuance and avoid investing in SPAC deals we deem unfavorable to investors.

At the end of May there were 230 active SPACs in the market with a total value of \$24.2 billion, with 135 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 4.16%⁴. 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. The pickup in SPAC new issuance has been supported by strong performance with many recent SPAC IPOs seeing a “pop” or trading higher post debut and SPACs that have announced a potential merger are also experiencing positive price performance. With a favorable environment for SPAC performance, we continue to selectively add exposure to SPACs largely through participating in new SPAC IPOs. We are conscious of the fact that the current favorability for SPACs could be short lived especially if SPAC issuance activity continues its strong pace without the requisite of successfully finding and closing a merger with a target company.

M&A Market Update

After merger activity stalled in April following “Liberation Day”, activity picked up in May with the bulk of announced tariffs reversed and the market having had time to absorb the initial shock. Global deal activity through early June was \$1.75 trillion, up 29% globally relative to the same period last year, with the US seeing a 4% increase and Canada experiencing an 82% increase in deal value⁵. While the market uncertainty likely derailed several prospective merger deals, especially those with multi-national operations which may have been directly impacted by tariffs, dealmakers have quickly recalibrated to the

³ <https://www.ainvest.com/news/spac-frenzy-returns-1-8-billion-floods-ipo-market-crashes-2504/>

⁴ <https://www.spacinsider.com/>

⁵ LSEG – Investment Banking Scorecard – Deal Intelligence

environment. This has led to an increase in domestic merger activity as well as mergers for scale and synergies particularly in the mining and metals, energy, power and industrial sectors. A clear sign of an improved dealmaking environment was the announcement of several mega-merger deals during the month. This includes the acquisition of electric utility company TXNM Energy Inc. (NYSE: TXNM) by private equity firm Blackstone Inc. and footwear and apparel company Skechers U.S.A. Inc. (NYSE: SKX) by PE firm 3G Capital. Not to be left out, north of the border there was a sizeable transaction announced with energy and retail company Parkland Corporation (TSX: PKI) receiving an acquisition offer from US competitor Sonoco LP. With a strong month of activity and improved confidence in the market, more dealmakers are likely to come off the sidelines and drive a pick-up in deal activity.

Outlook

The market environment remains incredibly challenging to navigate with valuations at all-time highs despite the uncertain path forward in light of tariffs, trade, geopolitics and the economy. The Fed's hesitation to cut rates despite supportive disinflationary data exemplifies the uncertainty present in markets today. These uncertainties could weigh on the market for the foreseeable future, adding volatility especially to companies with already overextended valuations or for those sectors most impacted by trade disruptions. Arbitrage strategies have performed well in this environment underpinned by a strong M&A and SPAC market. The non-correlated, absolute return profile of the strategy as well as its short duration makes it an attractive investment to hold in a diversified portfolio. We continue to see evidence of a supportive backdrop for M&A with a pick-up in deal activity while sentiment in the SPAC sector has clearly inflected to the positive given the dramatic pick-up in SPAC IPOs and price performance. The Fund has performed well in this environment and given the wide opportunity set, favorable tailwinds and attractive yields, we remain constructive on the outlook for returns in the Fund through the back half of the year.

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