

Manager's Commentary

Amar Pandya, CFA

Dear Unitholders,

The Pender Alternative Arbitrage Fund and the Pender Alternative Arbitrage Plus Fund were up 0.6% and 0.9%¹ respectively in July 2025 while the HFRI ED: Merger Arbitrage Index (USD) returned 1.1%².

Portfolio Update

July saw another positive month of performance in the Fund as several key holdings achieved all required regulatory approvals and closed, allowing the Fund to capture those spreads. What initially started as a slow month, as is typical in the summer when dealmakers, advisors and bankers are on holiday, suddenly turned into a scramble with a flurry of activity. This was an ideal setup for the Fund as we were able to quickly redeploy capital from closed deals into a breadth of new, high-quality mergers announced during July. The end-of-month pickup in activity saw the Fund initiating positions in 17 new deals while 18 deals held within the Fund closing during the month. While there have been several mega merger deals announced, our focus remains on smaller deals with less risk, shorter duration and the potential to generate higher IRRs. At the end of July 2025, the Fund had 32 investments in small cap deals under \$2 billion, 25 of which were valued at under \$1 billion. It was also active on the SPAC side with the Fund participating or adding to positions in several SPAC IPOs as we remain constructive on the outlook for SPACs which provide upside potential with limited downside exposure as their valuations are underpinned by the value of cash held in trust. We continue to see tailwinds in both M&A and SPAC arbitrage with a strong setup for the back half of 2025 and high conviction in our portfolio of deals.

M&A Market Update

M&A activity accelerated in July, with over \$2 trillion of deals announced through the first seven months of the year up 30% from the previous year. There was a significant pick-up in M&A in the final weeks of July which drove activity in the month to the highest level in years. Two of the largest active merger deals at the time, Chevron Corp's (NYSE: CVX) ~\$60 billion acquisition of Hess Corporation (NYSE: HESS) and Synopsys Inc's ~\$36 billion acquisition of Ansys Inc (NASDAQ: ANSS) both cleared all required approvals and announced their respective closing during the month. We believe the successful closing of these deals signals a defining shift in the regulatory environment particularly for larger and mega-cap deals. With new Trump administration appointees at key US regulatory agencies and foreign governments fearing US retaliation for blocking a merger deal led by a US company we are seeing merger deals that would have faced significant regulatory scrutiny under the

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).

previous administration sail through regulatory approval requirements. While our focus on small and mid-cap merger deals makes regulatory risk less of an issue for our Fund, a more supportive regulatory environment should likely drive higher M&A across the market and bring more buyers off the sidelines to attempt larger and more complex deals. The evidence of the impact from this shift in regulatory policy was demonstrated at the end of the month with the \$85 billion acquisition announcement of Norfolk Southern Corporation (NYSE: NSC) by Union Pacific Corporation (NYSE: UNP). While this merger is likely to see an extended regulatory review period and potentially face regulatory scrutiny, the fact that both companies had the confidence to even consider and announce a merger in the highly concentrated rail sector signals a renewed confidence in the US regulatory environment in supporting consolidation. We believe the flood gates are set to open for M&A in the months ahead with dealmakers, bankers, consultants and management teams all indicating the M&A pipeline is bursting with activity.

SPAC Market Update

2025 has been the year of crypto SPAC deals with several of the largest and best performing SPAC mergers driven by activity in the digital asset space. Former Fund holding Cantor Equity Partners Inc announced a merger in the spring with Twenty One Capital launching a bitcoin-treasury company that is majority-owned by Tether and Bitfinex. ProCap BTC, a Bitcoin-native financial service firm also announced a merger with SPAC Columbus Circle Capital Corp I during the month to form a bitcoin-treasury company. While we don't expect the bitcoin-treasury party to last as the market gets saturated by different types and forms of these entities, the string of crypto deals highlights some of unique benefits of going public via a SPAC. The crypto space is particularly well suited to pair with SPACs as the quick access to capital, immediate liquidity for early investors and the ability to negotiate valuations while controlling the narrative, which is critical for momentum and achieving value maximization, are features inherent in SPACs. As the market takes notice of the bridge SPACs have formed between emerging digital finance and structured equity markets, other emerging industries may also start seeking out mergers with SPACs³.

There were 13 SPAC IPOs in July raising over \$2.5 billion of capital with four deals closed and one SPAC liquidated during the month⁴. At the end of July there were 241 active SPACs in the market with a total value of \$28 billion, with 148 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 3.76%⁵. With the rise of SPAC IPO activity over the past several quarters and the continued liquidation of mature SPACs, the average SPAC duration has shifted towards newer issues making the expected yield-to-maturity a less relevant metric to gauge potential performance. For newer SPACs the optionality inherent in the SPAC shares and the warrants and rights that are typically included in a SPAC unit are

³ JDSupra - SPAC Activity in Crypto: Revival, Risks & Rewards, <https://www.jdsupra.com/legalnews/spac-activity-in-crypto-revival-risks-4726840/>

⁴ SPAC Research

⁵ <https://www.spacinsider.com/>

the core drivers of potential returns. With the downside in a SPAC protected by the cash held in trust, SPACs are an attractive structural investment in the current market environment with favorable risk and reward characteristics.

Outlook

For all the uncertainty, volatility and confusion that the Trump administration has caused regarding their tariff and trade policy, they have proven to be clear and consistent when it comes to regulatory policy on mergers. With a notable shift in the regulatory environment and constructive, consistent and predictable regulatory oversight, dealmakers are expected to announce a flurry of acquisitions in the coming weeks and months. Smaller companies should continue to benefit from increased deal activity given their domestic focus and relative ease in financing. SPAC momentum continues to pick up with robust new issuances and a steady flow of deal merger announcements. Given the uncertain environment with the Fed in a tough spot on the future path of interest rates, equity markets at highs, market sentiment having shifted from fear to greed and valuations in certain parts of the market stretched, the short duration, absolute return nature of arbitrage could be a great addition to an investment portfolio.

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