PenderFund Capital Management Ltd.

SIMPLIFIED PROSPECTUS

For

ALTERNATIVE MUTUAL FUNDS

Pender Alternative Absolute Return Fund

Offering Class A, Class AF, Class F, Class FF, Class H, Class I, Class N, and Class O Units

Pender Alternative Arbitrage Fund

Offering Class A, Class AF, Class F, Class FF, Class H, Class I, Class N, and Class O Units

August 25, 2021

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PART A – GENERAL DISCLOSURE

Introduction

This simplified prospectus contains selected important information to help you make an informed investment decision and to help you understand your rights as an investor in the Funds. Throughout this document:

- *We, us, the Manager, or Pender* refers to PenderFund Capital Management Ltd., the Manager of the Funds.
- *Funds* or *Pender Funds* refers to all of the alternative mutual funds listed on the front cover of this document and *Fund* refers to any one of those Funds or a specific Fund, as the context requires.
- *You* refers to you, as an investor in one or more of the Funds.
- *Dealer* refers to both the dealer and the representative registered in your jurisdiction who advises you on your investment.
- *Unitholders* refers to the holders of a class of units of a Fund.

Unless otherwise noted, all currency amounts in this simplified prospectus are stated in Canadian dollars.

This simplified prospectus contains information about the Funds and the risks of investing in mutual funds generally, as well as the name of the firm responsible for management of the Funds.

This simplified prospectus is divided into two parts. *Part A – General Disclosure* contains general information applicable to the Funds. *Part B – Specific Information About the Mutual Funds Described in this Document* contains specific information about each of the Funds described in this simplified prospectus.

Additional information about the Funds is available in the following documents (as and when filed):

- the opening statement of financial position of the Funds;
- the most recently filed Annual Information Form ("AIF") of the Funds;
- the most recently filed fund facts for each class of the Funds;
- the most recently filed annual financial statements;
- any interim financial statements filed after the annual statements of the Funds referred to above;
- the most recently filed annual management report of fund performance of the Funds; and
- any interim management report of fund performance of the Funds filed after the annual management report of fund performance.

These documents as and when filed are incorporated by reference into this simplified prospectus, which means that legally they form part of this document just as if printed as part of this document.

You may obtain a copy of these documents as and when filed, at your request, and at no cost, by calling toll-free at **1-866-377-4743** or by sending us an e-mail at **info@penderfund.com**, or from your Dealer. These documents, as and when filed, and other information about the Funds are available on our website at **www.penderfund.com** or on the SEDAR website at **www.sedar.com**.

What is a Mutual Fund and What are the Risks of Investing in a Mutual Fund?

What is a mutual fund?

A mutual fund is a pool of money contributed by people with similar investment objectives. People who contribute money become unitholders of the mutual fund. Unitholders share the mutual fund's income, expenses, and any gains and losses the mutual fund makes on its investment portfolio, generally in proportion to the number of units they own. The value of an investment in a mutual fund is realized by redeeming the units held. Where a mutual fund issues more than one class of units, the unitholders share in the mutual fund's income, expenses and any gains and losses allocated to the particular class of units held by the unitholder in proportion to the units they own as of that date.

In Canada, a mutual fund can be established either as a mutual fund trust or as a mutual fund corporation. Each Fund described in this simplified prospectus is established as a mutual fund trust.

What are the general advantages of mutual funds?

Investing in a mutual fund may have several advantages over investing in individual stocks, bonds and money market instruments on your own:

- **Professional money management**. Professional portfolio advisers have the skills and the time to do research and make decisions about which investments to buy, hold or sell.
- **Diversification.** Investment values are always changing. Owning several investments can improve long-term results because the ones that increase in value can compensate for those that do not. For example, certain mutual funds typically hold 30 or more different investments depending on the mutual fund's fundamental investment objectives and investment strategies.
- **Accessibility**. You can sell your investment back to the mutual fund at any time, subject to certain exceptional circumstances. This is called a "*redemption*", and in some cases may result in a redemption fee or a short-term trading fee. With many other investments, your money is locked-in or you have to find a specific buyer before you can sell. For more information, see "*Redemptions*".
- **Record keeping and reporting**. Mutual fund companies use sophisticated record keeping systems and send you regular financial statements, tax slips and reports.

What are the general risks of investing in a mutual fund?

Mutual funds may own different types of investments depending on their investment objectives. The value of these investments will change from day to day, reflecting changes in interest rates, foreign exchange rates, economic conditions, and market and corporate news. As a result, the value of a mutual fund's units may go up or down, and the value of your investment in a mutual fund may be more or less when you redeem it than when you originally purchased it.

The full amount of your investment in any one of the Funds is not guaranteed. Unlike bank accounts or GICs, mutual fund units are not covered by the Canada Deposit Insurance Corporation or any other government deposit insurer.

Under exceptional circumstances, a mutual fund may not allow you to redeem your mutual fund units. See "*Redemptions*".

Different kinds of mutual funds have different kinds of risks

A mutual fund may own securities of different types, depending on the mutual fund's investment objectives.

Different investments have different types of investment risks. Mutual funds also have different kinds of risks, depending on the investments they make. Below is a summary of the various types of investment risks that may be applicable to mutual funds generally, including the Funds. Part B of this document will describe the specific and most relevant risks that apply to each of the Funds.

Individuals have different risk tolerances. You need to take into account your own risk tolerance as well as the amount of risk suitable for your investment goals.

Investment in the Funds is speculative due to the nature of the Funds' business and involves certain risk factors. There is no guarantee that an investment in the Funds will earn any positive return in the short or long term and investors must be able to bear the risk of a complete loss of their investment. The following risks should be carefully evaluated by prospective investors.

Each Fund is considered an "alternative mutual fund" which means that, under National Instrument 81-102 Investment Funds ("NI 81-102"), it is permitted to invest in asset classes and use strategies that are generally prohibited for conventional mutual funds, such as, among other things, the ability to invest up to 20% of its net asset value ("NAV") in securities of a single issuer (rather than 10% for conventional mutual funds), the ability to borrow cash, when aggregated with the value of all outstanding borrowing, of up to 50% of its NAV to use for investment purposes, the ability to sell securities short (provided that the aggregate market value of the securities of a single issuer sold short, other than government securities, does not exceed 10% of its NAV and the aggregate market value of the securities sold short does not exceed 50% of its NAV), the ability to use cleared specified derivatives without limit and with zero cash required and the ability to invest up to 100% or more of its NAV in physical commodities, either directly or through the use of specified derivatives. Notwithstanding the foregoing, the combined level of cash borrowing and short selling is limited to 50% of its NAV and the gross aggregate exposure to cash borrowing, short selling and the notional value of specified derivatives is limited to 300% of its NAV. For more information regarding the risks associated with these strategies, please see the detailed risk descriptions below.

Arbitrage Risk

Arbitrage investing involves the risk that an expected corporate transaction will not be consummated or will not be consummated as expected and the Fund will experience a loss.

Business risk

There can be no guarantee against losses resulting from an investment in units of a mutual fund and there can be no assurance that a mutual fund's investment approach will be successful or that its investment objectives will be attained. A mutual fund can realize substantial losses rather than gains, from some or all of the investments within its investment portfolio. Income trusts or companies that pay a significant amount of their income as dividends may have difficulty in maintaining their distribution of income or dividends and consequently the income to the mutual fund and the price of their securities may decline and part or all of the amount of distributions by the mutual fund may be treated as a return of capital rather than income for tax purposes for its investors.

Call risk

A mutual fund may invest, directly or indirectly, in callable securities. During periods of falling interest rates, an issuer of a callable security may "call" or repay a security before its stated maturity, which may result in a mutual fund having to reinvest the proceeds at lower interest rates, resulting in a decline in their respective income.

Capacity constraints

There is a risk that the Manager may not be able to access sufficient investment opportunities to enable the Fund to deploy all of its investible assets in accordance with the investment objective and strategies of the Fund. This risk increases as the total size of the Fund increases. To mitigate this risk, the Manager may temporarily or permanently suspend new subscriptions for units of the Fund from new investors, or all together, during times when the Manager believes that the Fund is almost at its capacity.

Changes in legislation risk

There can be no assurance that applicable laws, or other legislation, legal and statutory rights will not be changed in a manner which adversely affects a mutual fund and its unitholders. There can be no assurance that income tax, securities, and other laws or the interpretation and application of such laws by courts or government authorities will not be changed in a manner which adversely affects the distributions received by a mutual fund or by its unitholders.

Class risk

A mutual fund may offer more than one class of units. Each class typically has its own fees and expenses, which an investment fund manager tracks separately. If the expenses of one class cannot be paid using that class' proportionate share of the mutual fund's assets, the mutual fund will be required to pay these expenses out of the other classes' proportionate share of the mutual fund's assets. This could reduce the investment return of the other classes.

Commodity risk

If a mutual fund invests in natural resource companies or in income or royalty trusts based on commodities such as oil and gas, it will be affected by changes in commodity prices. The Funds are permitted to invest up to 100% of their NAV in physical commodities, either directly or through the use of specified derivatives. Commodity prices tend to be cyclical and can move dramatically in short periods of time. In addition, new discoveries or changes in government regulations can affect the price of commodities.

Concentration risk

There are risks associated with any mutual fund that concentrates its investments in a particular company or a few companies. As alternative mutual funds, the Funds are permitted under NI 81-102 to invest up to 20% of their NAV in securities of a single issuer. Concentrating investments allows the fund to focus on a particular company's potential, but it also means that the value of the fund tends to be more volatile than the value of a more diversified fund because a concentrated fund's value is affected more by the performance of the companies in which it has concentrated its investments.

Counterparty Risk

A fund may enter into customized financial instrument transactions that are subject to the risk of credit failure or the inability of, or refusal by, the counterparty to perform its obligations with respect to such customized financial instrument transactions, which could subject a fund to substantial losses.

Credit risk

Credit risk is the possibility that an issuer of a bond or other fixed income investment may not be able to pay interest or to repay the principal at maturity. The risk of this occurring is greater with some issuers than with others. For example, the risk of default is generally low for government and high-quality corporate securities. Where the risk is considered greater, the interest rate that must be paid by the company on its fixed income securities is generally higher than for a company where the risk is considered to be lower.

Credit risk is comprised of default risk, credit spread risk, downgrade risk and collateral risk. Each can have a negative impact on the value of a debt security.

Default risk is the risk that the issuer will not be able to pay the obligation, either on time or at all. Generally, lower quality debt securities involve a greater risk of default on interest and/or principal payments.

Credit spread risk is the risk that there will be an increase in the difference between the interest rate of an issuer's bond and the interest rate of a bond that is considered to have little associated risk (such as a government guaranteed bond or treasury bill). The difference between these interest rates is called a "credit spread". Credit spreads are based on macroeconomic events in the domestic or global financial markets. An increase in credit spread will decrease the value of debt securities.

Downgrade risk is the risk that a specialized credit rating agency, such as DBRS (Dominion Bond Rating Services), Standard & Poor's or Moody's Investors Services, will reduce the credit rating of an issuer's securities. Downgrades in credit rating will decrease the value of those debt securities.

Collateral risk is the risk that the value of any assets securing an issuer's obligation may be deficient or difficult to liquidate. As a result, the value of those debt securities may decline significantly in value.

Currency, foreign exchange and hedging risk

Currency risk - The value of investments denominated in a currency other than Canadian dollars is affected by changes in the value of the Canadian dollar in relation to the value of the currency in which the investment is denominated. When the value of the Canadian dollar falls in relation to foreign currencies, then the value of foreign investments rises. When the value of the Canadian dollar rises, the value of foreign investments falls. A mutual fund may convert its Canadian dollars to foreign currency to buy a foreign security and when it sells the foreign security, may convert the foreign currency to Canadian dollars. As a result, if the value of the Canadian dollar has risen and the market value of the security stayed the same, the mutual fund will lose money on that investment.

Foreign currency exposure risk - Securities included in a mutual fund may be valued in or have exposure to currencies other than the Canadian dollar and, accordingly, each class net asset value will, when measured in Canadian dollars, be affected by fluctuations in the value of such currencies relative to the Canadian dollar.

***Hedging risk* -** Various hedging techniques may be used in an attempt to reduce certain risks, including hedging options as a means to reduce the risks of both short-selling and taking long positions in certain transactions and hedging currency risks associated with investments denominated in foreign currencies. An investment fund manager may hedge the Canadian dollar exposure to the foreign currency in whole or in part. There can be no assurance that gains or losses on currency hedging transactions will be matched in timing or characterization with losses and gains on the securities valued in foreign currencies in which a mutual fund invests. The use of currency hedging could result in a mutual fund incurring losses as a result of the imposition of exchange controls, suspension of settlements, or the inability to deliver or receipt a specified currency.

Recalculations and adjustments to specific position hedges will be performed as market conditions warrant. However, such position hedges entail risks of their own. For example, unanticipated changes in currency exchange rates may result in an overall poorer performance than if currency risks had not been hedged. If market conditions are analyzed incorrectly or a risk reduction strategy is employed that does not correlate well with a mutual fund's investments, a mutual fund's risk reduction techniques could result in a loss, regardless of whether the intent was to reduce risk or increase return.

Cybersecurity and business continuity risk

The information and technology systems of an investment fund manager and a fund administrator may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although an investment fund manager may have implemented, and/or fund administrator may maintain, various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, an investment fund manager and/or a fund administrator may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in an investment fund manager, a mutual funds' and a fund administrator's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm an investment fund manager's and/or a fund administrator's reputation, subject any such entity and their respective affiliates to legal claims and otherwise affect their business and financial performance.

Derivative risk

A derivative is a contract or security whose value and cash flow pattern is derived from another underlying security, such as a stock or bond, or from an economic indicator such as an interest rate or stock market index. For example, two of the most common derivatives are forward contracts and options, which are described below.

A forward contract is an agreement to buy and sell currency, commodities or securities at an agreed price for future delivery.

An option gives the buyer the right, but not the obligation, to buy or sell the currency, commodities or securities at an agreed price within a certain period of time.

Mutual funds may use derivatives to limit potential losses associated with currencies, stock markets and interest rates. This process is called hedging. Mutual funds may also use derivatives for non-hedging purposes – to reduce transaction costs, achieve greater liquidity, create effective exposure to international financial markets or increase speed and flexibility in making portfolio changes. Although derivatives are often used by funds to reduce risk, they have their own kinds of risk including the following:

- The use of derivatives for hedging may not be effective;
- Some derivatives, such as call options, may limit a mutual fund's potential for gain;
- Options and futures contracts may be more volatile and result in higher costs than an investment in the underlying security and may involve an initial investment that is small relative to the risk involved.
- The cost of entering into and maintaining derivative contracts may reduce a mutual fund's total return to investors;
- The price of a derivative may not accurately reflect the value of the underlying currency or security;
- There is no guarantee that a market will exist when a mutual fund wants to buy or sell the derivative contract. This could prevent the fund from realizing a profit or limiting its losses;
- If the other party (the counterparty) to a derivative contract is unable to meet its obligations, a fund may not realize the benefit intended to be secured by the investment and the fund may experience a loss; and
- Stock exchanges may set daily trading limits on derivatives. This could prevent a mutual fund from closing a contract.

As alternative mutual funds, the Funds are permitted under NI 81-102 to use cleared specified derivatives without limit and with zero cash required.

Derivative agreement risk - Regulatory changes or market conditions may, in the future, limit a mutual fund's ability to increase its exposure through existing derivative agreements or to enter into new derivative agreements, and may require that a mutual fund reduce or eliminate its existing exposure, possibly to an extent that is prohibitively expensive, in which case the mutual fund may determine that it is in the best interest of the mutual fund to terminate the derivative agreement. There is no assurance that a mutual fund will be able to maintain or increase its exposure under derivative agreements on acceptable terms with a counterparty or any other substitute counterparty.

Derivative counterparty risk - A mutual fund may pledge cash up to the value of the amount payable by the fund under a derivative agreement as security in order to secure its obligations under each of the derivative agreements that a mutual fund is a party to. The counterparty will pledge securities to the mutual fund (which may include units of a reference fund) or enter into another collateral arrangement to fully secure its obligations to the fund under derivative agreements.

The possibility exists that the counterparty will default on its obligations under a derivative agreement in which case a mutual fund will not receive delivery of units of the reference fund or the return of collateral pledged as security.

Emerging market risk

In emerging market countries, securities markets may be smaller than in more developed countries, making it more difficult to sell securities in order to take profits or avoid losses. The value of mutual funds that buy these investments may rise and fall substantially and fluctuate greatly from time to time.

Equity risk

Companies issue equities, or stocks, to help finance their operations and future growth. Mutual funds that purchase equities become part owners in these companies. The price of a stock is influenced by the company's performance outlook, market activity and the larger economic picture. When the economy is expanding, the outlook for many companies will generally be good and the value of their stocks should rise. The opposite may also be true. Usually, the greater the potential reward, the greater the risk.

For small companies, start-ups, resource companies and companies in emerging sectors, the risks and potential rewards are usually greater. The share price of such companies is often more volatile than the share price of larger, more established companies. Some of the products and services offered by technology companies, for example, can become obsolete as science and technology advance. Certain convertible securities may also be subject to interest rate risk. See "*Interest rate risk*".

Fixed income risk

Fixed income securities are subject to risks resulting from changes in interest rates and from credit risk. See "*Interest rate risk*" and "*Credit risk*".

Floating rate instruments risk

A floating rate instrument is one whose terms provide for the adjustment of its interest rate whenever a specified benchmark changes. Floating rate instruments are frequently not rated by credit rating agencies. There may be no active secondary market with respect to a particular floating rate instrument purchased by a fund. The absence of such an active secondary market could make it difficult for a fund to dispose of the floating rate instrument involved in the event the issuer of the instrument defaulted on its payment obligations, and the fund could, for this or other reasons, suffer a loss in the event of a default by the issuer. Floating rate instruments may be secured by assets of the issuer, bank letters of credit or other assets. To the extent that a fund holds floating rate instruments, the fund's yield may decline, and it may forego the opportunity for capital appreciation during periods when interest rates decline; however, during periods when interest rates increase, a fund's yield may increase, and the fund may have reduced risk of capital depreciation. Please see "Interest rate risk" for additional risks related to investing in floating rate instruments.

Foreign market risk

The value of foreign investments may be affected by factors not typically associated with investments in Canada. For example, there may be less information about foreign companies, lower standards of government supervision and regulation, and different accounting and financial reporting standards in foreign financial markets. In addition, foreign investments sometimes cannot be sold as quickly or as easily as similar investments in Canada. Political, social and economic developments can also negatively affect the value of foreign investments. Investments in foreign markets may be subject to changes in currency exchange rates or exchange restrictions, the imposition of taxes or the expropriation of assets, all of which can affect the value of these investments.

Fund-on-fund risk

Some funds invest in other mutual funds (called "Underlying Funds"). Upon making such an investment, the Fund becomes subject to the risk of the Underlying Fund. A change in the investment objective strategy or holdings in one mutual fund may have an impact on the performance or management of the other fund. For example, if the top fund makes a significant investment or divestment in an Underlying Fund, the underlying fund may have to alter its portfolio significantly which may affect the net asset value, performance or diversification of the Underlying Fund. Although a fund-on-fund strategy may appear as a more passive investment strategy for a top fund, a change in the investment objective, strategy or holdings in an Underlying Fund may necessitate that an investment fund manager of the top fund engages- in a rebalancing or reallocation of that fund, which could have an effect on its performance, or diversification, or give rise to a taxable gain or loss. If the Underlying Funds do not perform as expected, a loss may be incurred by the top fund. If an Underlying Fund suspends redemptions, the Fund may be unable to value part of its portfolio and may be unable to redeem its units of the Underlying Fund which may have an adverse impact on the Fund.

Global pandemic risk

Business, operations and the financial condition of the issuers of securities that a mutual fund invests in could be materially adversely affected by the outbreak of epidemics, pandemics or other health crises, such as the novel coronavirus COVID-19 that started in 2019. The international response to the spread of COVID-19 has resulted in the implementation of measures to contain the virus including quarantines, travel restrictions, and restrictions on the operation of stores and facilities in most of the world, including temporary closures in respect thereof. The negative economic impact of these measures together with the uncertainty of the situation led to significant volatility in equity markets, increasing the exposure of a fund, to risk, particularly liquidity risk, market risk and investment risk. While governmental initiatives to reduce the economic impact, ongoing research and development of vaccines, and the progress of vaccine rollouts may mitigate volatility, exposure to investment risk and financial results will depend, to a large extent, on future developments and new information that may emerge regarding COVID-19, including in respect of any variants of COVID-19, which factors are beyond a mutual fund's control. Given the extent of and the evolving nature of the crisis, it is difficult to estimate the ultimate impact or duration of the situation on a mutual fund or the entities in which it invests.

High yield securities risk

A mutual fund may invest in high yield securities that are, at the time of purchase, rated below investment grade. High yield securities risk is the risk that securities rated below investment grade by a rating agency and/or determined by an investment fund manager may be more volatile than higher-quality securities of similar maturity. High yield securities may also be subject to greater levels of credit or default risk and may be traded on markets that are less liquid as compared to higher-quality securities. The value of high yield securities may be adversely affected by overall economic conditions such as an economic downturn or a period of rising interest rates, and high yield securities may be less liquid and more difficult to sell at an advantageous time or price, and more difficult to value than higher-rated securities. In particular, high yield securities are often issued by smaller, less creditworthy companies, or by highly leveraged (indebted) firms, which are generally less able than more financially stable firms to make scheduled payments of interest and principal. High yield securities may also be issued by sovereign governments of countries with economies, political systems, and/or financial markets that are not well developed.

Income trust and REIT risk

An income trust generally holds debt and/or equity securities of an underlying active business or is entitled to receive a royalty on revenues generated by such business. Distributions and returns on income trusts are neither fixed nor guaranteed. In addition, mutual funds that invest in income trusts such as oil, gas and other commodity-based royalty trusts, real estate investment trusts ("REITs") and pipeline and power trusts will have other varying degrees of risk depending on the sector and the underlying asset or business. These may include business developments such as a decision to expand into a new type of business, the entering into of an unfavourable supply contract, the cancellation by a major customer of its contract or significant litigation.

Many income trusts, including REITs are governed by laws of a province of Canada or of a state of the United States that limit the liability of unitholders of the income trust from a particular date. A mutual fund may also invest in income trusts, including REITs, in Canada, the US and other countries that are not governed by similar laws. There is a risk that unitholders of an income trust, which may include a mutual fund, could be held liable for any claims against the income trust that are not covered under these laws. This could reduce the value of a mutual fund. Income trusts generally try to minimize this risk by including provisions in their agreements that their obligations will not be personally binding on unitholders. However, the income trust still has exposure to damage claims not arising from contracts, such as personal injury and environmental claims in the case of REITs.

Interest rate risk

The values of fixed income securities, such as bonds, debentures or mortgages, are affected by interest rates. When interest rates fall, bond prices rise. That is because existing bonds pay higher rates than newly issued ones, and so are worth more. When interest rates rise, bond prices fall, and so will the unit value of mutual funds that hold them. In addition, if interest rates are relatively low, an issuer of a fixed income security may decide to prepay principal and the funds may have to reinvest this money in securities that have lower interest rates. The income earned by a mutual fund and the income paid by mutual funds to unitholders may also be affected by changes in interest rates. The value of equities is also influenced by interest rates in a similar manner as fixed income securities, but for different reasons. As interest rates fall the lower available return on fixed income securities tends to cause investors to migrate to equity securities. Reduced interest rates also allow companies to obtain financing at a lower cost, which can positively impact earnings. The opposite consequences tend to occur as interest rates rise.

Lack of separate counsel risk

Counsel for a fund in connection with its offering may also be counsel to the investment fund manager. The Unitholders, as a group, may not have been represented by separate counsel and counsel for the mutual fund and the investment fund manager would not purport to have acted for the Unitholders or to have conducted any investigation or review on their behalf.

Large transaction risk

Any large transaction made by an institutional or individual investor could significantly impact a mutual fund's cash flow. If the investor buys large amounts of units of a particular mutual fund, the mutual fund could temporarily have a high cash balance. Conversely, if the investor redeems large amounts of units of a particular mutual fund, the mutual fund may be required to fund the redemption by selling securities at an inopportune time. These liquidations may cause the mutual fund to incur losses if the mutual fund is required to sell investments at unfavourable prices and could substantially reduce the value of the fund if numerous redemptions are made at the same time. Such asset liquidation may also trigger tax consequences, such as the characterization of certain profits as ordinary income or losses rather than as capital gains or capital losses.

Leverage risk

As alternative mutual funds, the Funds are permitted under NI 81-102 to leverage their assets through borrowing, short sales and/or specified derivatives. Investment decisions may be made for the assets of the Funds that exceed the net asset value of the Funds. As a result, if these investment decisions are incorrect, the resulting losses will be more than if investments were made solely in an unleveraged long portfolio as is the case in most conventional equity mutual funds. In addition, leveraged investment strategies can also be expected to increase a Fund's turnover, transaction and market impact costs, interest and other costs and expenses.

Under the investment restrictions applicable to alternative mutual funds in NI 81-102, each Fund's aggregate gross exposure, calculated as the sum of the following, must not exceed three times the Fund's net asset value: (i) the aggregate value of outstanding indebtedness under any borrowing agreements; (ii) the aggregate market value of all securities sold short; and (iii) the aggregate notional value of the Fund's specified derivatives positions excluding any specified derivatives used for hedging purposes. If the Fund's aggregate gross exposure exceeds three times the Fund's net asset value, the Fund must, as quickly as is commercially reasonable, take all necessary steps to reduce the aggregate gross exposure to three times the Fund's net asset value or less.

Liquidity risk

Liquidity risk is the possibility that investments in a mutual fund cannot be readily converted into cash when required. An investment fund manager may invest in small and medium-sized companies whose securities typically trade in much lower volumes than larger companies. In such cases, if an investment fund manager needs or wants to sell such securities promptly, they may not be able to on a timely basis. As a result, in order to sell this type of holding, a mutual fund may need to discount the securities from recent prices or dispose of the securities over a long period of time. Accordingly, the value of such securities is subject to greater fluctuation since they may not trade on a regular basis.

Market risk

The value of most investments, and in particular equity securities, is affected by changes in general market conditions. These changes may be caused by corporate developments, general market sentiment, changes in interest rates, changes in the level of inflation, and other political and economic developments.

Net asset value risk

The net asset value of each class of units that comprise a mutual fund may fluctuate with changes in the market value of the investments attributable to that class. Such changes in market value may occur as a result of various factors, including those factors identified above with respect to international investments and emerging market securities and material changes in the intrinsic value of an issuer whose securities are held by the mutual fund.

No assurance of return risk

Although a fund manager will use its best efforts to achieve superior rates of return for a mutual fund, no assurance can be given in this regard. An investment in units should

be considered speculative and investors must be able to bear the risk of a complete loss of their investment.

Performance fee risk

The investment fund manager of a mutual fund and/or certain Underlying Funds may receive a performance fee in respect of certain units of the mutual fund. Theoretically, the performance fee may create an incentive for the investment fund manager to make investments that are riskier than would be the case if such fee did not exist. In addition, if the performance fee is calculated on a basis that includes unrealized appreciation of a mutual fund's assets, it may be greater than if such compensation were based solely on realized gains.

Portfolio manager risk

All mutual funds are dependent on their portfolio management team to select individual securities and are therefore subject to the risk that poor security selection will cause a fund to underperform relative to other funds with similar investment objectives.

Portfolio turnover risk

The operation of a mutual fund may result in a high annual portfolio turnover rate. A mutual fund may not place any limit on the rate of portfolio turnover and portfolio securities may be sold without regard to the time they have been held when, in the opinion of the investment fund manager, investment considerations warrant such action. A high rate of portfolio turnover generally results in correspondingly greater expenses than a lower rate (e.g., greater transaction costs such as brokerage fees). The higher a mutual fund's portfolio turnover rate in a year, the greater the chance that a distribution from the mutual fund must be included in computing your income tax for tax purposes for that year.

Potential conflicts of interest risk

A mutual fund may be subject to various conflicts of interest due to the fact that an investment fund manager is engaged in a wide variety of management, advisory and other business activities. An investment fund manager's investment decisions for each mutual fund will be made independently of those made for the other funds managed by an investment fund manager and other clients of an investment fund manager and independently of its own investments. However, on occasion, an investment fund manager may make the same investment for a mutual fund and one or more of the other funds managed by an investment fund manager or its other clients. Where the particular mutual fund and one or more of the other funds managed by an investment fund manager or clients of an investment fund manager are engaged in the purchase or sale of the same security, the transaction will be effected on an equitable basis. An investment fund manager will allocate opportunities to make and dispose of investments equitably among clients with similar investment objectives having regard to whether the security is currently held in any of the relevant investment portfolios, the relative size and rate of growth of the particular mutual fund and the other funds managed by an investment fund manager or clients under common management and such other factors as an investment fund manager considers relevant in the circumstances.

Prepayment risk

Many types of debt securities, including some mortgage backed securities and floating rate debt instruments, allow the issuer to prepay the principal prior to maturity. Debt securities subject to prepayment risk can offer less income and/or potential for capital gains.

Prime broker risk

Because a Fund may borrow cash for investment purposes, sell securities short and post margin as collateral for specified derivatives transactions, some of its assets may be held in one or more margin accounts from time to time. The margin accounts may provide less segregation of customer assets than would be the case with a more conventional custody arrangement. As a result, the assets of a Fund could be frozen and inaccessible for withdrawal or subsequent trading for an extended period of time if a prime broker experiences financial difficulty. In such case, a Fund may experience losses due to insufficient assets of the prime broker to satisfy the claims of its creditors. In addition, the possibility of adverse market movements while its positions cannot be traded could adversely affect the total return to a Fund.

Private company risk

There are risks associated with investing in private company securities. There is typically much less available information concerning private companies than for public companies. The valuation of private company securities is also more subjective and such securities are very illiquid as there are no established markets for the securities of these companies. As a result, in order to sell this type of holding, a fund may need to discount the securities from recent prices or dispose of the securities over a relatively long period of time.

Rebalancing risk

Rebalancing risk arises when the weights of two or more components of an overall portfolio are to be kept in a specific ratio, but the independent movement of each in the market demands that some of the components be bought or sold in order to restore the ratio back to its desired level. The greater the volatility of the components the greater the potential rebalancing required, and this leads to performance degradation over time.

Regulatory risk

Some industries, such as financial services, health care, telecommunications and resources, are heavily regulated and may receive government funding. Investments in these sectors may be substantially affected by changes in government policy, such as increased regulation, ownership restrictions, deregulation or reduced government funding. The value of a mutual fund that buys these investments may rise and fall substantially due to changes in these factors.

Short selling risk

A short sale by a mutual fund involves securities that it borrows from a lender that are then sold by the mutual fund in the open market. At a future date, the securities are repurchased by the mutual fund and returned to the lender. While the securities are borrowed, the proceeds from the sale are deposited with the lender and the mutual fund pays interest to the lender. If the value of the securities declines between the time that the mutual fund borrows the securities and the time it repurchases and returns the securities to the lender, the mutual fund realizes a profit on the difference (less any interest the mutual fund is required to pay to the lender). Short selling involves risk. There is no assurance that securities will decline in value during the period of the short sale and result in a profit for a mutual fund. Securities sold short may instead appreciate in value, resulting in a loss for a mutual fund. Unlike a purchase of a share where the maximum amount of the loss is the amount invested, the size of the loss in respect of a short sale is unlimited as there is no limit on the amount a security sold short may increase in value. A mutual fund may experience difficulties repurchasing and returning the borrowed securities if a liquid market for the securities does not exist. The lender may also recall borrowed securities at any time. The lender from whom a mutual fund has borrowed securities may go bankrupt and a mutual fund may lose the collateral it has deposited with the lender. As an alternative mutual fund, the Funds are permitted under NI 81-102 to sell securities short (provided that, among other things, the aggregate market value of the securities of the issuer of the securities sold short, other than government securities, does not exceed 10% of its NAV and the aggregate market value of the securities sold short does not exceed 50% of its NAV). See *"Short Selling Risk Management"* in Part B of this document.

Small company risk

The investment risk associated with small companies may be higher than that associated with larger, more established companies due to various factors, which may include the greater business risks associated with the small size of the company, relative inexperience of the company, limited product lines, distribution channels, financial or managerial resources. Further, there is typically less publicly available information concerning smaller companies than for larger, more established companies. The securities of small companies are often traded on junior markets such as the TSX Venture Exchange or over-the-counter markets and may not be traded in the volumes typical of trading on a major stock exchange and therefore there is greater liquidity risk – see "*Liquidity risk*" above. The prices of this type of security may be more volatile than those of larger companies.

Special-purpose acquisition company risk

A mutual fund may invest a portion of its assets in the stock, warrants, and other securities of special-purpose acquisition companies ("SPACs") or similar special purpose entities that raise funds for the sole purpose of seeking potential acquisition opportunities. All assets (net of operating expenses) of the SPAC are invested in U.S. Government securities, money market fund securities and/or cash until an acquisition transaction is completed. Once the SPAC identifies a transaction, common holders have the right to vote on the transaction and also to decide whether to roll their equity in the transaction or redeem shares for their pro rata share of the escrow account holdings. Should the SPAC be unable to complete an acquisition that meets its defined requirements within a pre-established period of time, the invested funds are returned to the entity's shareholders. SPACs may have specific risks, including increased volatility, associated with the regions or industries for which they pursue an acquisition. Since a SPAC is a new entity created for the purpose of acquiring another company or entity, it may have limited or no business operating history; this makes the pricing and liquidity of the security dependent on management's ability to source and complete a profitable acquisition. Furthermore, these securities may trade in the over-the-counter market which may have associated issues with price sourcing and illiquidity.

Style risk

Each mutual fund is managed in accordance with a particular investment style. Focusing primarily on one particular investment style (e.g., value-oriented) to the exclusion of others may create risk in certain circumstances.

Tax loss restriction event risk

If a mutual fund experiences a "loss restriction event", (i) the fund will be deemed to have a year-end for tax purposes (which could result in the fund being subject to tax unless it distributes its income and capital gains prior to such year-end), and (ii) the fund will become subject to the loss restriction rules generally applicable to corporations that experience an acquisition of control, including a deemed realization of any unrealized capital losses and restrictions on their ability to carry forward losses. Generally, a fund will be subject to a loss restriction event when a person becomes a "majority-interest beneficiary" of the fund, or a group of persons becomes a "majority-interest group of beneficiaries" of the fund, as those terms are defined in the affiliated persons rules contained in the *Income Tax Act* (Canada) (the "Tax Act"), with appropriate modifications. Generally, a majority-interest beneficiary of a fund will be a beneficiary who, together with the beneficial interests of persons and partnerships with whom the beneficiary is affiliated, has a beneficial interest in the fund that is greater than 50% of the fair market value of all the interests in the income or capital, respectively, in the fund. Generally, a person is deemed not to become a majority-interest beneficiary, and a group of persons is deemed not to be a majority-interest group of beneficiaries of a fund as the result of an acquisition or disposition of units of the fund if the fund qualifies as an "investment fund" under the rules, including that the fund meets certain investment requirements.

Taxation policy risk

The value of investments and the proceeds from investments are affected significantly by the taxation laws and policies applicable to the investment. Taxation laws are set by government and are subject to change from time to time without notice and such changes are beyond the control of an investment fund manager.

U.S. regulation and tax risk

If the offering and sale of units of a mutual fund have not been registered under the U.S. Securities Act or any similar United States state law, in reliance upon various exemptions therefrom and a fund may not be required to be registered under the United States Investment Company Act of 1940, as amended (the "U.S. Investment Company Act"). Accordingly, unitholders would not have the benefits afforded generally by the provisions of the U.S. Investment Company Act (which, among other matters, require investment companies to have a majority of disinterested directors, require securities held in custody at all times to be individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company and regulate the relationship between the adviser and the investment company). A fund manager may be exempt from registration with the United States Securities and Exchange Commission pursuant to the United States Investment Advisers Act of 1940, as amended, and would therefore not be subject to the recordkeeping and other requirements thereunder.

An investment in a mutual fund by a person subject to taxation under the United States Internal Revenue Code of 1986, as amended, may have United States tax consequences. Such taxpayers should consult their tax advisors about the income tax consequences of acquiring or holding units.

Volatility risk

The value of securities in a Fund's portfolio may fluctuate, sometimes rapidly and unpredictably. The value of a security may fluctuate due to factors affecting markets generally or certain industries in particular. This volatility may impact a Fund's net asset value and the market price of the units of a Fund. Securities in a Fund's portfolio may be subject to price volatility and the prices may be more volatile than the market as a whole. Events or financial circumstances affecting individual securities or sectors may increase the volatility of a Fund.

Organization and Management of the Funds

MANAGER PenderFund Capital Management Ltd. 1830 – 1066 West Hastings St. Vancouver, BC V6E 3X2	The Manager is responsible for the overall business and operations of the Funds. The Manager engages arm's length third parties to perform certain services on behalf of the Funds as outlined in the table below.
TRUSTEE PenderFund Capital Management Ltd. Vancouver, BC	The Funds are organized as trusts. When you invest in units of a Fund, you are buying units of a trust. The Trustee is the legal owner of the securities acquired by the Funds and holds them on behalf of Unitholders.
ADMINISTRATOR, REGISTRAR AND TRANSFER AGENT CIBC Mellon Trust Company Toronto, ON	The administrator produces and maintains the records that are the basis for the calculation of the net asset value of the Funds and provides financial data to assist in completion of the Funds' audited financial statements. The registrar and transfer agent keeps track of the owners of units of the Funds, processes purchases and redemption orders and issues investor account statements and annual tax reporting information.
PORTFOLIO ADVISOR PenderFund Capital Management Ltd. Vancouver, BC	The portfolio advisor of each Fund manages the investment portfolio or a component of the investment portfolio of the Fund, provides analysis and makes decisions relating to the investment of the assets of the Fund.
CUSTODIAN The Bank of Nova Scotia Toronto, Ontario	The custodian ensures that the assets of the Funds are safely held.
PRIME BROKER The Bank of Nova Scotia Toronto, Ontario	The prime broker provides prime brokerage services to the Funds, including trade execution, margin financing, clearing, settlement, stock borrowing, options, cash sweeps into accounts and foreign exchange facilities, under the terms of a Prime Broker Agreement. The Funds may also utilize other brokers and dealers for the purpose of executing transactions for the Funds.
AUDITOR KPMG LLP Vancouver, BC	The auditor performs the required audit of the opening statement of financial position and annual financial statements of the Funds. Under applicable securities laws, the auditor of the Funds may be changed without the approval of Unitholders provided that the Independent Review Committee of the Funds has approved the proposed change and we provide you with at least 60 days' notice of the proposed change.

Formation and History of Manager

The Manager was incorporated under the *Company Act* (British Columbia) (replaced by the *Business Corporations Act* (British Columbia)) on November 18, 2002 under the name 658761 B.C. Ltd. The Manager changed its name to PenderFund Capital Management Ltd. in April 2003.

The Manager may start other mutual funds, investment funds or venture funds in the future. For more information about the Manager, see "*Responsibility for Fund Operations*" in the Funds' AIF.

The Funds may invest in securities of other mutual funds, including other mutual funds managed by the Manager. The proportions and types of mutual funds held by a Fund will vary according to the risk and investment objective of the Fund. Pursuant to the requirements of applicable securities legislation, the Funds will not exercise their vote on any of the securities they hold in mutual funds managed by us or any of our affiliates and associates. However, we may, in our sole discretion, arrange for you to vote your share of those securities of the mutual funds. To the extent that a Fund invests in other mutual funds, the Fund has the same risks as those mutual funds.

Independent Review Committee

The Funds have an Independent Review Committee that oversees all decisions involving an actual or perceived conflict of interest faced by the Manager in the operation of the Pender Funds. The Independent Review Committee is responsible for reviewing and providing input on the Manager's written policies and procedures, which deal with conflict of interest matters for the Manager and reviewing such conflict of interest matters.

The Independent Review Committee is currently made up of Kerry Ho (Chair), John Webster and Robin Mahood.

The Independent Review Committee prepares, at least annually, a report of its activities for security holders that is available on the SEDAR website at www.sedar.com, or on **www.penderfund.com** or, at a Unitholder's request at no cost, by contacting the Manager by telephone toll free at **1-866-377-4743** or by email at **info@penderfund.com**.

Additional information about the Independent Review Committee is available in the Funds' AIF.

Certain Changes Without Unitholder Approval

A Fund may: (i) engage in a reorganization or transfer of assets with another investment fund managed by us or an affiliate that meets certain criteria set out in NI 81-102; or (ii) change its auditors, each without the approval of Unitholders, if the reorganization or transfer, or the change in auditors, as the case may be, is approved by the Independent Review Committee and the Fund sends written notice of the change to its Unitholders at least 60 days prior to making the change.

The consent of Unitholders will be obtained if (i) any change is made in the basis of the calculation of a fee or expense charged to a Fund or a unit class of a Fund, or directly to you by us or a Fund in connection with the holding of units of a Fund, in a way that could result in an increase in charges to a Fund or the unit classes or you, or (ii) a fee or expense is introduced that is charged to a Fund or a unit class, or directly to you by us or a Fund in connection with the holding of units of a Fund, that would result in an increase in charges to a Fund, a unit class or you, in each case unless the change is a result of a change made by a third party at arm's length to the Fund or unless applicable securities laws do not require the consent of Unitholders to be obtained. In which case, Unitholders will be sent a written notice at least 60 days before the effective date of the change, if required under applicable securities laws.

Purchases, Changing Classes, Switches and Redemptions

Description of Units

The Funds are authorized to have an unlimited number of classes of units and may issue an unlimited number of units of each class. The classes authorized by the Funds are set forth under the heading "*Fund Details*" of each Fund in Part B of this document.

This simplified prospectus only qualifies the distribution of each of the units of the Funds set forth on the cover of this document.

Without your consent or notice to you, the Manager may establish additional classes of units of the Funds and may determine the rights as between those classes. The principal differences between the classes of units of each of the Funds relate to the management fees payable to Pender. These are described under "*Fees and Expenses*" and "*Dealer Compensation*". There may also be differences between classes of units relating to the currency in which the units are denominated and/or whether or not the classes are hedged, as described below.

All units of each Fund are entitled to participate in that respective Fund's assets on liquidation on a class basis. All classes of units are issued as fully paid and non-assessable and are redeemable at their net asset value at the time of redemption.

Class A and Class AF units

Class A and Class AF units are available to all investors, subject to certain minimum initial and purchase requirements, which can be found under the "*Purchases*" section. The management fees and performance fees relating to a class of units of the Funds are described under *"Fees and Expenses Payable by the Mutual Funds"* as well as under the Fund profiles contained in "*Part B – Specific Information About the Mutual Funds Described in this Document*".

We may discontinue the sale of Class AF units at any time following the initial offering of the Funds.

Class F and Class FF Units

Class F and Class FF units are for investors who are participants in a fee-for-service or wrap account program sponsored by certain registered dealers. Class F and Class FF units can be purchased under this simplified prospectus only through an investment advisor who has obtained the consent of Pender to offer units of these classes.

We may discontinue the sale of Class FF units at any time following the initial offering of the Funds.

If Pender is notified that you no longer meet the eligibility criteria, we will sell or reclassify your Class F or Class FF units in accordance with the instructions from your investment advisor. In the absence of instructions, we may automatically sell or reclassify your Class F to Class A units and/or your Class FF units to Class AF units. There may be tax implications arising from any sale. See *"Income Tax Considerations for Investors"* for more details. It is important to note that there is no unhedged class available to investors who do not participate in a fee-for-service or wrap account program sponsored by certain registered dealers.

Pender charges a lower management fee on the Class F and FF units because our distribution and servicing costs are reduced for that class. The management fees and performance fees relating to a class of units of the Funds are described under *"Fees and Expenses Payable by the Mutual Funds"* as well as under the Fund profiles contained in "*Part B – Specific Information About the Mutual Funds Described in this Document*".

Class H Units

Class H units are available to all investors, subject to certain minimum initial and purchase requirements, which can be found under the "*Purchases*" section.

If Pender is notified that you no longer meet the eligibility criteria, we will sell or reclassify your Class H units in accordance with the instructions from your investment advisor. In the absence of instructions, we may automatically sell your Class H units or reclassify them to Class A units. There may be tax implications arising from any sale. See *"Income Tax Considerations for Investors"* for more details.

Pender charges a lower management fee on the Class H units because our distribution and servicing costs are reduced for that class.

The management fees and performance fees relating to a class of units of the Funds are described under *"Fees and Expenses Payable by the Mutual Funds"* as well as under the Fund profiles contained in "*Part B – Specific Information About the Mutual Funds Described in this Document*".

Class I Units

Class I units are for investors who are participants in a fee-for-service or wrap account program sponsored by certain registered dealers, subject to certain minimum initial and purchase requirements, which can be found under the "*Purchases*" section. Class I units can be purchased under this simplified prospectus only through your investment advisor who has obtained the consent of Pender to offer these classes of units.

If Pender is notified that you no longer meet the eligibility criteria, we will sell or reclassify your Class I units in accordance with the instructions from your investment advisor. In the absence of instructions, we may automatically sell your Class I units or reclassify them to Class F units. There may be tax implications arising from any sale. See *"Income Tax Considerations for Investors"* for more details.

Pender charges a lower management fee on the Class I units because our distribution and servicing costs are reduced for that class. The management fees and performance fees relating to a class of units of the Funds are described under *"Fees and Expenses Payable by the Mutual Funds"* as well as under the Fund profiles contained in "*Part B – Specific Information About the Mutual Funds Described in this Document*".

Class N Units

Class N units are available to institutional investors and other qualified investors, subject to certain minimum initial and purchase requirements, which can be found under the "*Purchases*" section. Units of these classes are not sold to the general public.

Pender charges a lower management fee on the Class N units because our distribution and servicing costs are reduced for that class. The management fees and performance fees relating to a class of units of the Funds are described under *"Fees and Expenses Payable by the Mutual Funds"* as well as under the Fund profiles contained in "*Part B – Specific Information About the Mutual Funds Described in this Document*".

Class O Units

Class O units are available to institutional investors and other qualified investors and are not sold to the general public.

The management fees and performance fees relating to a class of units of the Funds are described under *"Fees and Expenses Payable by the Mutual Funds"* as well as under the Fund profiles contained in "*Part B – Specific Information About the Mutual Funds Described in this Document*".

The Price of a Unit

The price per unit for each Fund will be the net asset value per unit of that class of units as determined on a daily basis. The Funds are valued only on a day that the Toronto Stock Exchange (the "TSX") is open for trading or such other time as the Manager determines appropriate (a "Valuation Date"). On each Valuation Date, we calculate a separate net asset value per unit for each class of units of the Funds based on the market value of the class' proportionate share of the net assets of a Fund, less any liabilities specific to that class of units, divided by the total number of units of that class held by Unitholders. The net asset value per unit will fluctuate with the value of a Fund's investments.

If a Fund receives your order for the purchase or redemption of units before 4:00 p.m. ET on the Valuation Date and all required monies and documents are received in good order, the order will be processed at the applicable net asset value per unit on that date. Otherwise, the order will be processed at the applicable net asset value per unit on the next Valuation Date. If the TSX closes earlier than 4:00 p.m. ET, we may impose an earlier deadline at our discretion.

Purchases

You may only buy Class A, Class AF, and Class H units via the front-end load sales charge method.

There are no sales charges on the purchase or redemption of any other class of units.

Class F, Class FF, and Class I units may be purchased under this simplified prospectus only through an investment advisor who has obtained the consent of Pender to offer these classes.

Class N, and Class O units may be purchased under this simplified prospectus by qualified investors by contacting us.

We may discontinue the sale of Class AF and Class FF units at any time following the initial offering of the Funds.

Units of the Funds are distributed by authorized registered Dealers. You may purchase units by sending the purchase amount to your Dealer. The price of a unit of a Fund is the applicable net asset value per unit next determined after receipt by the Fund of an order to purchase. On the same day your order is received, your Dealer will forward the order to the Fund's head office by telecommunications facility, courier, facsimile or priority post without cost to you. Certificates will not be issued for units purchased.

The classes of the Funds are substantially hedged against changes in the US currency relative to the Canadian currency. In hedging, the Funds attempt to reduce the impact on the Fund's performance of fluctuations in the exchange rates between Canadian and US currencies. These classes will be substantially hedged using derivative instruments such as foreign currency forward contracts although there may be circumstances, from time to time, in which the Fund may not or may not be able to fully hedge its Canadian or US dollar exposure, as the case may be, in respect of these classes.

Your initial investment in any class of units other than Class H, Class I, Class N and Class O units of the Funds, must be at least $5,000. After your initial investment, you can make further investments of at least $100 per investment. With respect to Class H, and Class I units of the Funds, your initial investment must be at least $100,000 and your subsequent purchases must be a minimum of $100. With respect to Class N units for institutional investors and other qualified investors, your initial investment must be at least $5,000,000 and your subsequent purchase must be a minimum of $100. With respect to Class O units, minimum initial investment amounts are to be negotiated between the Unitholder and the Manager. We will determine, and from time to time may change, the minimum amounts for initial and subsequent investments in any class.

If we do not receive payment within two business days of processing your purchase order for units of a Fund, we must redeem your units on the next business day. If the proceeds are greater than the payment you owe, the Fund will keep the difference. If the proceeds are less than the payment you owe, we will pay the difference to the Fund on your behalf and collect this amount from your Dealer, who may collect the amount from you.

We may reject your purchase order within one business day of receiving it. Any monies sent with your order will be returned immediately without interest.

Changing Classes

You may change between classes of units of the same Fund if you are eligible. A class change is called a "conversion". You may convert units of one class into units of another class of the same Fund. When you convert units between classes, the value of your investment will not change (except in respect of any fees you may pay to convert), but the number of units you hold may change. This is because each class of units may have a different unit price. When changing classes, a short-term trading fee may apply if the units are changed within 30 days from the date of purchase. See "*Fees and Expenses*" regarding short-term trading charges. Your Dealer may charge you a fee for doing a change. See "*Fees and Expenses*" regarding switch fees. In general, a conversion between classes in the same Fund is not considered a sale for tax purposes, so no capital gain or loss will result for tax purposes. However, any redemption of units to pay for a change fee charged by your Dealer will be considered a sale for tax purposes. For a further discussion of the tax consequences, see "*Income Tax Considerations for Investors*".

You may change units of a particular class into units of another class of the same Fund if you are an eligible investor for the class of units into which you are changing. See "*Description of Units*".

If you cease to be eligible to hold units of a particular class, we may change your units into a different class after giving you 30 days' prior notice, unless you notify us during the notice period and we agree that you are once again eligible to hold that class of units. Your Dealer may charge you a fee for changing classes.

Switches

You can redeem all or a portion of your units of one Fund to buy units of another Pender Fund, as long as you meet the minimum initial investment requirement. This is called a switch. Depending on the class of units and the purchase option you are switching from and to, and the length of time you have owned the units, your switch may affect the fees you pay and the compensation your Dealer receives, including the following:

- A short-term trading fee may apply if the units are switched within 30 days from the date of purchase. See "*Fees and Expenses*" regarding short-term trading charges.
- Your Dealer may charge you a fee for doing a switch. See "*Fees and Expenses*" regarding switch fees.
- Depending on the Fund, class of unit and purchase option you switch between, your Dealer may be paid a higher or lower trailing commission. See "*Dealer Compensation*".

When we receive your order to switch, we will redeem your units in the original Fund and use the proceeds to buy units of the same class of another Pender Fund. There may be tax consequences for the sale or redemption of units for a switch. For a further discussion of the tax consequences, see "*Income Tax Considerations for Investors*".

Redemptions

You can redeem your units for cash at any time, subject to certain specific Fund redemption restrictions and suspensions of redemption rights described below. Your Dealer will forward your redemption order to us on the same day the Dealer receives it from you.

A Fund will redeem units for the redemption price, which is equal to the total of the net asset value per class as at the end of the Valuation Date that falls on or occurs immediately after the date on which a fully completed redemption request is received by the Fund (with any redemption request received after 4:00 p.m. ET on a Valuation Date being deemed, for such purpose, to be received on the following Valuation Date).

Redemptions of all Fund classes will be paid in Canadian dollars.

For wire order redemptions requested via wire order, if we do not receive all the documentation we need from you to complete the redemption order within 10 business days, we must repurchase your units. If the purchase price is less than the redemption price for the units, the Fund will keep the difference. If the purchase price is greater than the redemption price for the units, your Dealer will be responsible for paying this difference and the associated costs. Your Dealer may require you to reimburse the amount paid. If at any time you request a partial redemption of your units so that the aggregate net asset value of your units of a Fund would be less than $5,000, we may require that all such units of the Fund be redeemed after we provide you with at least 30 days' written notice.

Under certain circumstances, your right to redeem may be suspended in accordance with securities legislation. For example, your right to redeem units of a Fund may be suspended if trading is suspended on stock exchanges on which over 50% of the investments of the Fund trade. We may also suspend your right to redeem units of a Fund, with the consent of applicable securities regulatory authorities, if we cannot determine the value of the net assets of the Fund.

Under the terms of the Trust Agreement, the Trustee is permitted to allocate capital gains it has realized to fund a redemption to redeeming Unitholders. The Tax Act limits this amount to the redeeming Unitholder's capital gain that would otherwise be realized on the redemption of their units.

Optional Services

Pre-Authorized Chequing Plan ("PAC")

You can purchase units of a Fund by making regular investments through a PAC.

Your initial investment in any class of units other than Class H, Class I, Class N, and Class O units of the Funds, must be at least $5,000. With respect to Class H, and Class I units of the Funds, your initial investment must be at least $100,000. With respect to Class N units of the Funds, for institutional investors and other qualified investors, your initial investment must be at least $5,000,000. With respect to Class O units of the Funds, minimum initial investment amounts are to be negotiated between the Unitholder and the Manager. We will determine, and from time to time may change, the minimum amounts for initial and subsequent investments in any class.

After your initial investment, you can make further investments via a PAC on a regular basis of at least $100 per investment. We will determine, and from time to time may change, the minimum amounts for initial and subsequent investments in any class. You can invest semi-monthly, monthly, quarterly, semi-annually or annually. We may stop your PAC if a payment is not made when due. We may change or discontinue this service at any time.

When you enroll in a PAC, your Dealer will send you the current simplified prospectus and any amendments that have been made. Subject to regulatory approval, you will not be sent a copy of any subsequent simplified prospectus renewals (and any amendments to that simplified prospectus) unless you request that it be sent to you at the time you enroll in a PAC or subsequently request it from your Dealer. You can obtain copies of these documents from your Dealer or by calling us toll free at **1-866-377-4743** or sending us an e-mail at **info@penderfund.com**. The documents can also be found on our website at **www.penderfund.com** or on the SEDAR website at **www.sedar.com**.

You may exercise your statutory right to withdraw from the initial purchase under the PAC. This right does not apply in respect of any subsequent purchase under the plan, but you continue to have all other statutory rights under securities law, including rights arising from any misrepresentations that may have been made, irrespective of whether you request or receive a copy of subsequent simplified prospectus renewals. See "*What are your Legal Rights?*".

Automatic Regular Withdrawals

Automatic regular withdrawals from the Fund available for investors through certain financial institutions is provided as an optional service through pre-authorized redemptions of units. The redemption value is deposited to a pre-determined financial institution or bank account and can be made monthly, quarterly, semi-annually or annually. The minimum amount for each pre-authorized redemption transaction is $100 per transaction. Automatic regular withdrawals cannot be set up in respect of units held by way of a RRSP account. If the amount of your withdrawals exceeds the growth of your investment and any income it is earning, your investment will eventually be exhausted. No fees are payable for participating in an automatic regular withdrawals program. For more information on how to participate in automatic regular withdrawals from the Fund, please consult your professional advisor.

Short-Term Trading

The interests of Unitholders and the ability of the Funds to manage their investments may be adversely affected by inappropriate or excessive short-term trading because, among other things, these types of trading activities can dilute the value of the Funds' securities, can interfere with the efficient management of the Funds' portfolios and can result in increased brokerage and administrative costs.

If you redeem units of a Fund within 30 days of buying them, we may, at the discretion of the Manager, reduce the amount otherwise payable to you on the redemption by imposing a short-term trading fee of up to 2% of the net asset value of the units redeemed. The fee will be retained by the Fund. See "*Fees and Expenses*" regarding short-term trading charges. We may also restrict purchases if you engage in such short-term trading.

Automatic Reinvestment of Distributions

As described under the subheading "*Distribution Policy*" contained in each Fund profile under "*Part B - Specific Information About the Mutual Funds Described in this Document*", unless you indicate that you would like to receive your distribution in cash, we will automatically reinvest your distributions from a particular class of units of a Fund into additional units of the same class of the same Fund at the next net asset value per unit of that class calculated on the date of distribution.

Information You Will Receive

When you make your initial purchase, you will receive a confirmation indicating the purchase price per unit and the number and class of units you purchased. Similarly, at the time of any additional purchase, change of class, switch or redemption of units, you will receive a confirmation giving details of the transaction and a summary of the units you hold. If you make your initial purchase from a Dealer, you will receive the above information from your Dealer directly. Upon your request, as and when filed, you will also receive audited annual financial statements, unaudited interim financial statements, the annual management report of fund performance and the interim management report of fund performance, in respect of a Fund.

Fees and Expenses

The table below lists the fees and expenses that you may have to pay if you invest in a Fund. You may have to pay some of these fees and expenses directly. A Fund may have to pay some of these fees and expenses, which will therefore reduce the value of your investment in that Fund. The consent of Unitholders will be obtained if (i) any change is made in the basis of the calculation of a fee or expense charged to a Fund or a unit class of a Fund, or directly to you by us or a Fund in connection with the holding of units of a Fund, in a way that could result in an increase in charges to a Fund or the unit classes or you, or (ii) a fee or expense is introduced that is charged to a Fund or a unit class, or directly to you by us or a Fund in connection with the holding of units of a Fund, that would result in an increase in charges to a Fund, a unit class or you, unless the change is a result of a change made by a third party at arm's length to the Fund or unless applicable securities laws do not require the consent of Unitholders to be obtained. In that case, Unitholders will be sent a written notice at least 60 days before the effective date of the change, if required under applicable securities laws.

If a Fund holds units of another mutual fund:

- there are fees and expenses payable by the other mutual fund in addition to the fees and expenses payable by the Fund;

- no management fees, administration fees or incentive/performance fees are payable by the Fund that, to a reasonable person, would be considered a duplicate a fee payable by the other mutual fund for the same service;

- no sales fees or redemption fees are payable by the Fund in relation to its purchases or redemptions of the securities of the other mutual fund if the other mutual fund is managed by Pender or its affiliate or associate; and

- no sales fees or redemption fees are payable by the Fund in relation to its purchases or redemptions of securities of the other mutual fund that, to a reasonable person, would be considered a duplicate a fee payable by an investor in the Fund.

Fees and Expenses Payable by the Mutual Fund

Management Fees

The management fees vary by unit class. See the management fee information for each Fund under "*Fund Details*". For Class O, this fee is separately negotiated and charged directly to the Unitholders. For Class O Unitholders the management fee (exclusive of GST or HST) will not exceed the following rates:

- Pender Alternative Absolute Return Fund – 1.80%
- Pender Alternative Arbitrage Fund – 1.80%

The management fees charged to the Funds by the Manager are intended to cover, among other things, investment management costs, including any portfolio advisory fees, as well as distribution, marketing and promotion of the Funds. The management fee is based on the net asset value of each unit class, calculated daily, and payable monthly. Certain units have a lower management fee due to lower servicing costs incurred by the Manager. Management fees are subject to applicable taxes such as GST or HST. The Manager may, at its discretion, reduce or waive management fees.

Performance Fees

A performance fee applies to all classes of units of the Funds.

Pender Alternative Absolute Return Fund will pay to the Manager a performance fee in relation to each class of units that is equal to 15% of the amount by which the total return of the class of units exceeds a 3% hurdle rate, for the period since the performance fee was last paid, provided that the total return of the relevant class of units for such period exceeds the previous high-water mark (as described below).

Pender Alternative Arbitrage Fund will pay to the Manager a performance fee in relation to each class of units that is equal to 15% of the amount by which the total return of the class of units exceeds the previous high-water mark (as described below) for each applicable class of units for the period since the performance fee was last paid.

Performance fees will be calculated and accrued daily, and such accrued fees will be paid by the Fund at the end of each year. The Manager has reserved the right to change the period for which any performance fee may be paid by a Fund. Performance fees are subject to applicable taxes such as GST or HST. The Manager may, at its discretion, reduce or waive performance fees.

The high-water mark is the net asset value of the applicable class of units to which it applies as at the most recent determination date on which a performance fee was payable. The initial high-water mark for each unit class of the Fund is set at $10 per unit on inception of the class of units.

Operating Expenses

Each unit class will be charged an administration fee equal to 0.50% of its net asset value. For Class O, this fee is separately negotiated and charged directly to the Unitholders, and will not exceed 0.50% of the class' value. In exchange for the fee, the Manager will pay for the operating costs of each Fund (including administrative and operating expenses, registrar and transfer agency fees, custody fees, Unitholder servicing costs, costs of prospectuses and reports, regulatory fees and audit and legal fees) other than taxes, brokerage commissions, transaction costs and Independent Review Committee fees. The Manager may reimburse each Fund for the Independent Review Committee fees**.** The Chair of the Independent Review Committee receives an annual retainer of $15,000 and a fee of $1,500 for each meeting the Chair attends. With the exception of the Chair, each member of the Independent Review Committee receives an annual retainer of $10,000 and a fee of $1,000 for each meeting that the member attends. The members of the Independent Review Committee are also reimbursed for certain out-of-pocket costs associated with the performance of their duties. Administration fees are subject to applicable taxes such as GST or HST. The Manager, at its discretion, may reduce or waive administration fees.

Fee Distribution

From time to time, the Manager may offer a reduced fee to select investors. The Manager negotiates a separate agreement with each investor that sets out the basis (such as size of holdings or competitive rates charged in the industry) on which the fee reduction is calculated. The fees for these select investors are the same as for other Unitholders in the same unit class, but these investors receive a distribution (a "Fee Distribution") equal to the amount of the fee reduction. Fee Distributions are reinvested in additional units on behalf of those select investors unless otherwise negotiated.

Fees and Expenses Paid Directly by You

Management and Administration Fees

Management fees for Class O are separately negotiated and are charged directly to the Unitholders. For Class O Unitholders the management fee will not exceed rates as noted above in "*Fees and Expenses Payable by the Mutual Fund*". Administration fees for Class O are separately negotiated and charged directly to the Unitholders and will not exceed 0.50% of the class' value.

Front-End Sales Charge

For Class A, Class AF and Class H units, your Dealer may charge a maximum commission of 5% ($50 on a $1,000 investment). There are no sales charges on the purchase of Class N or Class O units. There are no front-end sales charges on the purchases of Class F, Class FF or Class I units. Instead, you may pay a fee directly to your Dealer under its "fee for service" or "wrap account" program.

Switch Fee

Your Dealer may charge you up to 2% of the net asset value of the units you switch to a different Fund or convert to a different class of the same Fund.

Short-Term Trading Fee

The Fund may, at its sole discretion, charge you up to 2% of the net asset value of the units you redeem if you switch or redeem within 30 days of purchase. The short-term trading fee will be retained by the Fund.

Bank Charges

You will be charged any amounts levied by a bank or other financial institution for any of your cheques that are dishonoured and returned to a Fund or for any charge related to electronic fund transfers.

Impact of Sales Charges

Class A / Class AF / Class H

The following table shows the amount of fees that you would have to pay under the front-end load option available to you if you made an investment of $1,000 in Class A, Class AF or Class H units and you held that investment for one, three, five or 10 years and redeemed immediately before the end of that period.

	At Time of Purchase	1 Year	3 Year	5 Year	10 Year
Class A / Class AF / Class H (Maximum 5% commission)	$50	Nil	Nil	Nil	Nil

Class F / Class FF / Class I / Class N / Class O Units

There are no sales charges on the purchase of Class N or Class O units. There are also no sales charges on the purchase of Class F, Class FF, or Class I units – instead you pay a fee directly to your Dealer under its "fee for service" or "wrap account" program.

Dealer Compensation

Sales Commissions

You may purchase Class A, Class AF or Class H units under the front-end sales charge method. Your Dealer is entitled to receive from you a negotiable sales commission of up to 5% (or up to $50 per $1,000) of the net asset value of the units purchased, as described in the previous section. The commission is deducted from your gross investment amount and the remainder is used to purchase units at the applicable net asset value per unit.

Trailing Commissions

The Manager makes payments to your Dealer to assist in providing you with continuing advice and service. Annual trailing commissions payable on Class A, Class AF and Class H units of the Funds, payable on a monthly basis, are set out in the table below.

Trailing Commissions Paid by Manager	Class A / Class AF	Class H
Pender Alternative Absolute Return Fund	1.00%	0.85%
Pender Alternative Arbitrage Fund	1.00%	0.85%

No trailing commissions are paid in respect of Class F, Class FF, Class I, Class N, and Class O units.

The Manager may pay a portion of its management fee to a Dealer as additional compensation at the Manager's discretion. The Manager expects that your Dealer will pay a portion of the trailing commission to your advisor for the services and advice they provide to you.

Other Dealer Compensation from Management Fees

We may assist Dealers with certain of their direct costs associated with marketing the Funds and providing educational investor conferences and seminars about the Funds. We may also pay Dealers a portion of the costs of educational conferences, seminars or courses that provide information about financial planning, investing in securities, mutual fund industry matters or mutual funds generally. We may provide Dealers with marketing materials about the Funds and other investment literature. We may provide Dealers with non-monetary benefits of a promotional nature and of minimal value and we may engage in business promotion activities that result in Dealers receiving non-monetary benefits. We review the assistance we will provide under these programs on an individual basis.

Subject to compliance with securities regulatory authorities' mutual fund sales practice rules, we may change the terms and conditions of these trailing commissions and programs, or may stop them, at any time.

Equity Interests of Members of the Organization of the Funds

The Manager does not hold any ownership interest in any Dealer that sells the Funds' units.

Income Tax Considerations for Investors

This section provides a general summary of the federal income tax considerations applicable to the Funds and to an investor who is an individual (other than a trust), is resident in Canada, deals at arm's length with the Funds, and holds units as capital property. This summary is not exhaustive of all tax considerations and is not intended to be legal advice or tax advice. We have tried to make this discussion easy to understand. As a result, we cannot be technically precise, or cover all the tax consequences that may apply. You should consult your own tax advisor about your personal circumstances when you consider purchasing, switching or redeeming securities of a Fund.

The summary is based on the current provisions of the Tax Act, regulations under the Tax Act, the proposals for specific amendments to the Tax Act, the regulations that have been publicly announced by the Minister of Finance (Canada) before the date hereof and our understanding of the current published administrative practices and assessing policies of the Canada Revenue Agency (CRA). Except for the foregoing, this summary does not take into account or anticipate any change in law, whether by legislative, regulatory, administrative or judicial action. Furthermore, this summary does not take into account provincial, territorial, or foreign income tax legislation or considerations.

This summary assumes that each of the Funds is expected to qualify, and will continue to be, at all material times, a mutual fund trust for the purposes of the Tax Act. This summary also assumes that none of the Funds is or will become a specified investment flow-through trust ("SIFT trust"). Investors should seek independent advice regarding the tax consequences of investing in units, based on the investors' own particular circumstances.

Taxation of the Funds

Each of the Funds is expected to qualify, and will continue to be, at all material times, a "mutual fund trust" under the Tax Act and intends to maintain such status. None of the Funds is a SIFT trust for purposes of the Tax Act. This summary is based on the assumption that each of the Funds will qualify as a mutual fund trust under the Tax Act at all material times. If a Fund were not to so qualify, the income tax consequences would differ materially from those described below.

If a Fund ceases to be a mutual fund trust for purposes of the Tax Act, the Fund may be subject to different tax consequences than described below including being subject to Part XII.2 tax, alternative minimum tax and penalty tax if it holds any investments that are not qualified investments for Registered Retirement Savings Plans (RRSP), Registered Retirement Income Funds (RRIF), Deferred Profit Sharing Plans (DPSP), Registered Disability Savings Plans (RDSP), Registered Education Saving Plans (RESP) and Tax Free Savings Accounts (TFSA) ("Registered Plans"). Investors should seek independent advice regarding the tax consequences of investing in units, based on the investors' own particular circumstances.

All of a Fund's deductible expenses, including expenses common to all classes of the Fund and management fees and other expenses specific to a particular class of the Fund, will be taken into account in determining the income or loss of the Fund as a whole. Each of the Funds intends to make sufficient distributions in each taxation year that the Fund will not generally be liable for Part I income tax under the Tax Act.

For Units Not Held in a Registered Plan

If you hold units of a Fund outside of a Registered Plan, you will be required to include in computing your income for tax purposes the amount (computed in Canadian dollars) of the Fund's net income and the taxable portion of the net capital gains paid or payable to you by the Fund in the year (including by way of Fee Distributions), whether you receive these distributions in cash or they are reinvested in additional units. Provided the appropriate designations are made by the Fund, distributions of net taxable capital gains and taxable dividends (including eligible dividends) on shares of taxable Canadian corporations held by the Fund will effectively retain their character and be treated as such in your hands. Taxable dividends received from Canadian corporations are subject to a gross-up and credit regime the effect of which is to make them subject to lower tax rates than ordinary income. Taxable dividends that are eligible dividends are subject to an enhanced regime and thus lower tax rates. Generally, gains from cash settled derivative transactions entered into for non-hedging purposes and “short sales” will be treated as ordinary income rather than capital gains.

To the extent that the distributions (including by way of Fee Distributions) paid to you by a Fund in any year exceed your share of the net income and net realized capital gains of the Fund allocated to you for that year, those distributions (except to the extent that they are proceeds of disposition) will be a return of capital and will not be taxable to you but will reduce the adjusted cost base of your units of the Fund. Where the adjusted cost base of a unit in the Fund would be reduced below zero, a capital gain is realized to the extent the adjusted cost base would otherwise become negative.

Subject to a return of capital, you will be taxed on distributions of income and capital gains from a Fund, even if the income and capital gains accrued to the Fund or were realized by the Fund before you acquired the units and were reflected in the purchase price of the units. In many cases, the most significant distributions of income and capital gains of a Fund occur in December. However, distributions (including Fee Distributions) can be made at any time in the year at the discretion of the Manager.

The Funds may invest in debt or shares of foreign corporations. Interest income and dividends paid to a Fund by a foreign corporation may be subject to a withholding tax payable to a foreign government. To the extent that the Fund so designates in accordance with the Tax Act, you will be deemed to have received income from the foreign country and, for the purpose of computing foreign tax credits, be deemed to have paid a portion of the taxes withheld as foreign taxes paid to that country. You will be required to include in your income the foreign source income gross of withholding taxes. Foreign source income is taxed as regular income for the purposes of the Tax Act. The Canadian tax payable by you on such foreign source income may be reduced by a foreign credit in respect of the foreign taxes deemed paid on that income. Capital gains on the sale of foreign securities will generally not be subject to withholding taxes.

As part of their investment strategy, the Funds may invest in US corporate bonds. Under the US – Canada tax treaty, interest paid on such bonds will not be subject to withholding taxes. Capital gains from the sale of US securities will also generally not be subject to withholding taxes while US earned dividends are subject to a 15% withholding tax.

The Funds may invest in units of mutual funds, income trusts and other trusts. Net income and taxable capital gains that are allocated to the Funds by these investments will be included in computing the net income and taxable capital gains of the Funds, which in turn will be allocated to Unitholders in the manner set out above.

If a Fund is subject to a “loss restriction event” as the result of a person becoming a “majority-interest beneficiary” or a group of persons becoming a “majority interest group of beneficiaries” of the Fund (as those terms are defined in the Tax Act) it will have a deemed year-end for tax purposes and may be liable to tax unless it distributes its net taxable income and net capital gains for the shortened year. If it has net accrued or realized losses at that time, certain of its accrued and realized losses may be extinguished, which could adversely affect the tax treatment of a person holding or acquiring units; see “*Tax loss restriction event risk*”.

If you dispose of a unit (including a switch of a unit of one Fund for a unit of another Fund), whether by redemption or otherwise, a capital gain (or a capital loss) will be realized to the extent that the proceeds of disposition, less any costs of disposition, are greater (or less) than the adjusted cost base to you of the unit. One-half of a capital gain (or a capital loss) is generally included in determining your taxable capital gain (or allowable capital loss). The allowable capital loss may be deducted against your taxable capital gains for the year. Generally, any excess of your allowable capital loss over your taxable capital gains for the year may be carried back up to three taxation years or forward indefinitely and deducted against taxable capital gains in other years. A change of units of a class of a Fund into units of a different class of the Fund is generally not considered to be a sale for tax purposes, so no capital gain or loss will result. To the extent a change in units results in a disposition of the original units then either a capital gain or a capital loss will be realized or suffered.

If you dispose of units of a Fund and you, or your spouse or another person affiliated with you (including a corporation controlled by you) has acquired units of the same Fund within 30 days before or after you dispose of the units (such newly acquired units being considered "substituted property"), your capital loss may be deemed to be a "superficial loss". If so, your loss will be deemed to be nil, and the amount of your loss will instead be added to the adjusted cost base of the units which are "substituted property".

If you redeem a unit of a Fund, the Fund may, to the maximum extent permitted by the Tax Act, allocate to you such amount of capital gains that result from the disposition of assets of the Fund undertaken to permit or facilitate such redemption of unit. In such cases, for the purposes of the Tax Act, the taxable portion (i.e., 50%) of such capital gains allocated to you by the Fund will be included in your income and the full amount of such capital gains will be excluded from your proceeds of disposition of the unit.

In general, the aggregate adjusted cost base of your units of a particular class of a Fund equals:

- your initial investment in the class (including any sales charges paid)
- **plus** the cost of any additional investments in the class (including any sales charges paid)
- **plus** the adjusted cost base of any units of other classes of the Fund that were changed into units of the particular class of the Fund
- **plus** reinvested distributions
- **minus** the capital returned in any distributions
- **minus** the adjusted cost base to you, at the time of any previous redemptions, of the units redeemed at that time
- **minus** the adjusted cost base to you, at the time any units of the particular class of the Fund were changed into units of other classes of the Fund, of the units so converted.

The adjusted cost base to you of a unit at a particular time will generally be the average adjusted cost base to you of all units of that class of that Fund at that time. If the adjusted cost base of your units is reduced to less than zero, you will be deemed to have realized a capital gain equal to, and the adjusted cost base to you of your units will be increased by, such negative amount.

Under the alternative minimum tax provisions of the Tax Act, an individual may be required to pay a minimum tax computed by reference to the individual's "adjusted taxable income" for that year. In computing adjusted taxable income, an individual must generally include all taxable dividends (without application of the gross-up and credit treatment normally applied to such dividends) and 80% of capital gains. Whether and to what extent the tax liability of a Unitholder may be increased by the alternative minimum tax will depend on the amount of the Unitholder's income, the sources from which it is derived, and the nature and amount of any deductions claimed. Any additional tax payable by a Unitholder for a year which results from the application of the minimum tax provisions may generally be carried forward and applied by the Unitholder against his or her Part I tax otherwise payable in any of the seven immediately following taxation years.

We will generally issue a tax statement to you each year identifying the distributions made to you in the previous year. You should keep detailed records of the purchase costs, sales charges and distributions related to your units as this is the only way to accurately calculate the adjusted cost base of those units. Determination of adjusted cost base can involve complex issues and we recommend that you obtain legal and/or tax advice to assist you with those calculations.

For Units Held in a Registered Plan

It is expected that each of the Funds will qualify as a "mutual fund trust" for purposes of the Tax Act and intends to remain so qualified. Accordingly, units of the Funds will be qualified investments under the Tax Act for Registered Plans. If units of a Fund are held in a Registered Plan, distributions from the Fund and capital gains from a disposition of the units will generally not be subject to tax under the Tax Act until withdrawals are made from the plan. Withdrawals from a TFSA are generally not subject to tax.

Notwithstanding that units of the Funds may, at a particular time, be qualified investments for a trust governed by a RRSP, RRIF, RDSP, TFSA or RESP, the annuitant of the RRSP or RRIF, holder of the RDSP or TFSA or subscriber of the RESP, as the case may be (such annuitant, holder or subscriber being a "Controlling Individual" of the RRSP, RRIF, RDSP, TFSA or RESP), will be subject to a penalty tax with respect to units held in the RRSP, RRIF, RDSP, TFSA or RESP if such units are "prohibited investments" for the RRSP, RRIF, RDSP, TFSA or RESP within the meaning of the Tax Act. Provided that the Controlling Individual of a RRSP, RRIF, RDSP, TFSA or RESP does not hold a "significant interest" (as defined in the Tax Act) in a Fund and provided that such holder deals at arm's length with the Fund for the purposes of the Tax Act, units of the Fund will not be "prohibited investments" for the RRSP, RRIF, RDSP, TFSA or RESP. In general terms, a Controlling Individual of a RRSP, RRIF, RDSP, TFSA or RESP will have a significant interest in a Fund if the Controlling Individual, together with any other persons and partnerships with which the Controlling Individual does not deal at arm's length, hold, directly or indirectly through one or more trusts (including Registered Plans), 10% or more of the value of the outstanding units of the Fund. You should consult with your own tax advisor as to whether units of the Fund would be a prohibited investment if held in your RRSP, RRIF, RDSP, TFSA or RESP, having regard to your own particular circumstances.

Information Exchange

Pursuant to the Intergovernmental Agreement for the Enhanced Exchange of Tax Information under the Canada-US Tax Convention entered into between Canada and the United States (the "IGA"), and related Canadian legislation, the Funds and the Manager are required to report certain information with respect to Unitholders who are US tax residents and/or US citizens (including US citizens who are residents or citizens of Canada), and certain other "US Persons" as defined under the IGA (excluding registered plans such as RRSPs), to the CRA. The CRA will then exchange the information with the US Internal Revenue Service.

Pursuant to the implementation, under Part XIX of the Tax Act, of the Common Reporting Standard ("CRS") developed by the Organisation for Economic Co-operation and Development, the Funds and the Manager may be required to report certain information with respect to Unitholders who are tax residents in a jurisdiction other than Canada or the US, and certain other reportable persons, to the CRA. The CRA will then exchange this information with each CRS participating jurisdiction.

What are your Legal Rights?

Securities legislation in some provinces and territories gives you the right to withdraw from an agreement to buy mutual funds within two business days of receiving the simplified prospectus or fund facts, or to cancel your purchase within 48 hours of receiving confirmation of your order.

Securities legislation of some provinces and territories also allows you to cancel an agreement to buy mutual fund units and to get your money back, or to make a claim for damages, if the simplified prospectus, AIF, fund facts, management report of fund performance or financial statements misrepresent any facts about the Funds. These rights must usually be exercised within certain time limits.

For more information, refer to securities legislation of your province or territory or consult your lawyer.

PART B – SPECIFIC INFORMATION ABOUT THE MUTUAL FUNDS DESCRIBED IN THIS DOCUMENT

General Information

The following explanations are provided to help you more easily understand the specific information about the Funds.

Derivatives Trading

Depending on the investment strategies of a Fund, it may use derivatives, directly or indirectly. Even if a Fund does not directly engage in derivatives, it may, as part of its investment strategy, invest in units of mutual funds that may engage in derivatives as part of their strategies. Derivatives will be used in compliance with all applicable securities legislation and regulation and as disclosed in this simplified prospectus.

Oversight of derivatives trading is undertaken by the Manager. The written policies and procedures relating to the use of these derivatives are developed with the custodian of the Funds and are reviewed annually by the Manager.

Derivatives transactions on behalf of the Funds may be initiated only by the portfolio advisor responsible for the Funds' investments. The portfolio advisor ensures that the individuals who make decisions with respect to derivatives transactions have the necessary proficiency and experience to use derivatives. As in the case of other portfolio transactions, all derivatives transactions made on behalf of the Funds must be recorded on a timely basis and promptly reflected in the Funds' portfolio management records. Derivative positions are monitored to ensure compliance with all regulatory requirements, including cash cover requirements.

Short Selling Risk Management

The Funds may engage in short selling as part of their investment strategies. Even if they do not directly engage in short selling, they may, as part of their investment strategy, invest in units of mutual funds that may engage in short selling as part of their strategies. The Funds will engage in short selling in compliance with all applicable securities legislation and regulations and as disclosed in this simplified prospectus.

Short selling involves borrowing securities from a lender and then selling them in the open market (or "selling short"). At a later date, the same number of securities are repurchased by the Funds and returned to the lender. In the interim, the proceeds from the first sale are deposited with the lender and the Funds pay interest to the lender. If the value of the securities declines between the time that the Funds borrow the securities and the time the Funds repurchase and return the securities, the Funds make a profit for the difference (less any interest the Funds are required to pay to the lender). In this way, the Funds may have more opportunities for gains when markets are generally volatile or declining.

The Funds will engage in short selling only within certain controls and limitations. Securities will be sold short only for cash and the Funds will receive the cash proceeds within normal trading settlement periods for the market in which the short sale is made. All short sales will be effected only through market facilities through which those securities are normally bought and sold.

The Funds may short sell equity securities, index participation units, corporate debentures, corporate bonds, government bonds and other fixed and floating-rate income securities that are traded in a liquid market. If the security sold short is an equity security, the security must be listed for trading on a stock exchange and the issuer of the security must have a market capitalization of not less than $100 million at the time the short sale is made.

At the time securities of a particular issuer are sold short by a Fund, the aggregate market value of all securities of that issuer sold short, other than government securities, will not exceed 10% of the net assets of the Fund. The aggregate market value of all securities sold short by a Fund may not exceed 50% of the Fund's net assets.

The Funds may deposit assets with lenders in accordance with industry practice in relation to their obligations arising under short sale transactions.

Where a short sale is effected in Canada, every dealer that holds the Funds' assets as security in connection with a short sale must be a registered dealer and a member of a self-regulatory organization that is a participating member of the Canadian Investor Protection Fund. Where a short sale is effected outside of Canada, every dealer that holds the Funds' assets as security in connection with a short sale must be a member of a stock exchange (and, as a result, be subject to regulatory audits) and have a net worth in excess of the equivalent of $50 million, determined from its most recent audited financial statements. The aggregate assets deposited by the Funds with any single dealer as security in connection with short sales will not exceed 25% of each Fund's total net assets, taken at market value as at the time of the deposit.

The portfolio advisor of each Fund must maintain appropriate internal controls regarding its short sales, including written policies and procedures, risk management controls and proper books and records. Any short sale by the Funds is subject to compliance with the investment objectives of each Fund. The portfolio advisor will review open short positions not less than once every week. The Manager is responsible for setting and reviewing such policies and procedures annually. The Trustee has delegated responsibility for setting and reviewing such procedures to the Manager and is not involved in the risk management process.

Investment Risk Classification Methodology

We assign an investment risk level to each of the Funds as an additional guide to help you decide whether a Fund is right for you. The investment risk level of the Funds is required to be determined in accordance with a standardized risk classification methodology that is based on each Fund's historical volatility as measured by the 10-year standard deviation of the returns of the Fund, assuming the reinvestment of all income and capital gains distributions in additional units of the Fund. However, you should be aware that other types of risk, both measurable and non-measurable, may exist. It is also important to note that a Fund's historical volatility may not be indicative of its future volatility.

Using this methodology, we assign each Fund an investment risk level in one of the following categories: low, low to medium, medium, medium to high, or high risk. However, we may increase the investment risk level of a Fund determined by reference to the Fund's standard deviation if we believe that doing so is reasonable in the circumstances by taking into account other qualitative factors, including, but not limited to, economic climate, portfolio management styles, sector concentration and types of investments made by a Fund and the liquidity of those investments.

For the Funds that have less than a 10-year performance history, the standardized methodology requires the use of the standard deviation of a reference mutual fund or reference index that reasonably approximates or, for a newly established fund, is reasonably expected to approximate, the standard deviation of the Fund. The reference mutual fund or reference index used to determine the risk rating of a Fund is specified in Part B of this document for each Fund under the section "*Who should invest in this Fund?*"

The investment risk level assigned to a Fund is based on the standard deviation ranges set out in NI 81-102 and reproduced below:

Standard Deviation Range (%)	Investment Risk Level
0 to less than 6	Low
6 to less than 11	Low to Medium
11 to less than 16	Medium
16 to less than 20	Medium to High
20 or greater	High

The investment risk level of each Fund is reviewed at least annually and anytime we determine that the current investment risk level is no longer reasonable in the circumstances.

A copy of the standardized risk classification methodology that we use to identify the investment risk level of the Funds is available on request and at no cost, by calling **1-866-377-4743**, by emailing **info@penderfund.com**, or by writing to us at the address of our head office in Vancouver, British Columbia, noted on the back cover of this document.

Pender Alternative Absolute Return Fund

Fund Details

Fund Type	Alternative Absolute Return
Investment Risk Level	Low
Benchmark	HFRI Credit Index (Hedged to CAD)
Eligible for Registered Plans?	The units are expected to be eligible investments for Registered Plans

Securities Offered	Start Date	Management Fee (exclusive of GST/HST)
Class A units	August 25, 2021	1.80%
Class AF units	August 25, 2021	1.15%
Class F units	August 25, 2021	0.80%
Class FF units	August 25, 2021	0.15%
Class H units	August 25, 2021	1.50%
Class I units	August 25, 2021	0.65%
Class N units	August 25, 2021	0.30%
Class O units	August 25, 2021	Negotiable – maximum 1.80%
Performance fee (exclusive of GST/HST)	Performance fees apply to all classes of units. Performance fees equal 15% of the amount by which the total return of the class of units exceeds a 3% hurdle rate, for the period since the performance fee was last paid, provided that the total return of the relevant class of units for such period exceeds the previous high-water mark.	

What Does the Fund Invest In?

Investment Objectives

The objective of the Pender Alternative Absolute Return Fund is to maximize absolute returns over a complete market cycle by providing long-term capital growth and income, with low volatility of returns. The Fund will invest primarily in a portfolio of North American fixed income securities but may also invest in foreign and other securities.

As mentioned above, the Fund falls within the definition of an “alternative mutual fund” set out in NI 81-102 as it is permitted to invest in asset classes such as physical commodities and specified derivatives and to use strategies generally prohibited for other types of mutual funds, such as, among other things, the ability to invest up to 20% of its net asset value (“NAV”) in securities of a single issuer (rather than 10% for conventional mutual funds), the ability to borrow cash of up to 50% of its NAV to use for investment purposes, the ability to sell securities short (provided that the aggregate market value of the securities of the issuer of the securities sold short, other than government securities, does not exceed 10% of its NAV and the aggregate market value of the securities sold short does not exceed 50% of its NAV), and the ability to use leverage through the use of cash borrowing, short selling and specified derivatives. Notwithstanding the foregoing, the combined level of cash borrowing and short selling is limited to 50% of its NAV in aggregate and the maximum aggregate exposure to the foregoing sources of leverage, as calculated in accordance with section 2.9.1 of NI 81-102, shall not exceed 300% of the Fund’s NAV.

The fundamental investment objective of the Fund may only be changed with the approval of the Independent Review Committee and a simple majority of the votes cast by the Unitholders of all classes of units of the Fund at a meeting called for that purpose.

Investment Strategies

To achieve the Fund's investment objectives, the Manager will utilize fundamental research to identify attractive risk adjusted return opportunities in individual investments within a diversified portfolio.

The Fund will invest primarily in North American fixed income and credit securities as well as other instruments. This can include, but is not limited to high yield bonds, investment grade corporate bonds, government bonds, syndicated loans, structured products, preferred shares, convertible bonds & debentures, common shares, exchange traded funds, derivative products and other income generating securities.

The Manager may choose to sell a security short if, in the opinion of the Manager, the risk adjusted return potential of selling that security short offers an attractive opportunity. Short selling can be an effective tool to generate absolute returns and to hedge unwanted market risk. The Manager may also short sell securities with unattractive fundamental characteristics.

The Manager will, from time to time, and among other strategies:

- Utilize fundamental credit research to identify securities believed to offer attractive risk adjusted returns based on the Manager's view of an issuer's ability to maintain and/or improve its credit metrics.
- Invest in corporate bonds, while short selling Government Securities to reduce interest rate sensitivity.
- Invest in fundamental long positions in equity securities that offer attractive risk adjusted return potential.
- Employ event driven strategies to capture attractive opportunities related to a company specific action or market event.
- Combine a long and a short position in an issuer's senior debt, junior debt, common stock or preferred stock.
- Combine a long position in particular issuer, index, sector, or segment of the market with a short position in the debt of the same issuer, index, sector or segment of the market.
- Combine a long position in an issuer's convertible securities, including convertible bonds/debentures, warrants, and convertible preferred shares, with a short position in its common stock.

To execute these strategies, the Manager may use warrants, exchange traded funds and derivatives such as options, forward contracts, futures contracts and swaps to hedge against losses from changes in the prices of the Fund's investments and from exposure to foreign currencies, gain exposure to individual securities and markets instead of buying the securities directly, and/or generate income. The gross aggregate amount of the notional amount of the Fund's exposure under its specified derivatives positions, together with the Fund's cash borrowing and short selling is limited to 300% of its NAV.

The Manager may invest the majority of assets of the Fund in cash or cash equivalents, depending on the investment opportunities available.

The Fund may borrow cash of up to a maximum of 50% of its NAV when aggregated with the value of all outstanding borrowing, and the Fund's gross aggregate exposure to cash borrowing, short selling and the notional value of specified derivatives is limited to 300% of its NAV.

The Fund may carry out all or part of its strategy by investing up to 100% of its assets in Funds managed by the Manager and/or its affiliates or associates, and/or units of other investment funds, as selected by the Manager in its sole discretion.

The Fund's investment strategies involve active and frequent trading of portfolio securities. In any year, the higher a fund's portfolio turnover rate, the greater the trading costs payable by the fund in the year and the larger the capital gains distribution may be. There is not necessarily a relationship between a high portfolio turnover rate and the performance of a fund.

Assets of the Fund

Over time, the assets of the Fund are expected to be, or could be, comprised of the following securities:

Cash and cash equivalents

The Fund may hold significant cash and cash equivalents when the Manager considers it desirable as a result of market conditions.

Cash borrowing

The Fund may borrow cash of up to a maximum of 50% of its NAV when aggregated with the value of all outstanding borrowing, and the Fund's gross aggregate exposure to cash borrowing, short selling and the notional value of specified derivatives is limited to 300% of its NAV.

Closed end funds

In purchasing units of Funds managed by the Manager and/or units of other investment funds, the Fund may also invest in closed end funds that trade on major North American stock exchanges.

Debt securities

The Fund may invest in non-investment grade and investment grade corporate debt, convertible debt in public companies, and securities issued by government entities either directly or indirectly by virtue of its purchasing units of Funds managed by the Manager and/or units of other investment funds.

Derivatives

Subject to the restriction described in the section entitled "*Derivatives Trading*", the portfolio advisor may, in its discretion, invest the Fund's assets in or use derivative instruments from time to time for hedging and non-hedging purposes. When derivatives are used for hedging purposes, they are used as a means of hedging currency exposure and risk in the securities and businesses in which the portfolio advisor has invested to protect against losses.

The Fund may hedge against the impact of currency fluctuations, using derivative instruments such as foreign currency forward contracts.

Where derivatives are used for non-hedging purposes, they are used either to substitute for direct investment or to generate income. The portfolio advisor may make use of clearing corporation options, futures contracts, listed warrants, options on futures, over-the-counter options, forward contracts, debt-like securities and listed warrants for hedging, and non-hedging purposes. Investing in and using derivative instruments are subject to certain risks. Further details on these risks are described below in the section entitled "*What are the risks of investing in the Fund?*"

Even if the Fund does not engage directly in derivatives the Fund may gain exposure to derivatives by virtue of its purchasing units of Funds managed by the Manager and/or units of other investment funds.

Marketable securities

The Fund may also invest in marketable securities such as common shares, preferred shares, publicly-traded units of investment trusts, including, but not limited to, mutual fund trusts and REITs, stock warrants and rights that are consistent with the Fund's investment objectives and strategies.

Mutual funds

The Fund may carry out all or part of its strategy by investing up to 100% of its assets in Funds managed by the Manager and/or its affiliates or associates, and/or units of other investment funds, as selected by the Manager in its sole discretion.

Other investments

The Fund's investments may also include, either directly or by virtue of its purchasing units of Funds managed by the Manager and/or units of other investment funds, long or short positions in foreign common stocks, trust units, securities of private issuers, syndicated loans and other securities or financial instruments, including those of investment companies.

Private unlisted investments

The Fund's investments may also include, either directly or by virtue of its purchasing units of Funds managed by the Manager and/or units of other investment funds, private unlisted investments but will limit the amount invested in private unlisted investments to a maximum of up of 10% of the net assets of the Fund.

Risk arbitrage

The Fund may engage in risk arbitrage investing. Risk arbitrage investing involves the pursuit of profits from an announced corporate event, such as the sale of a company, a merger, a recapitalization, a reorganization, a liquidation or a self-tender. The financial results from this type of investment approach depend more on corporate action than on overall stock market behaviour.

Short selling

The Fund may also engage in short selling securities. For more information on short selling and the limits within which the Fund may engage in short selling, see the section *"Short Selling Risk Management".*

What are the Risks of Investing in the Fund?

As noted above, the Fund is considered an "alternative mutual fund" which means that, under NI 81-102, it is permitted to invest in asset classes and use investment strategies that are not permitted for other types of mutual funds. As a result of such investment strategies, the Fund is subject to the following key risks as described in Part A of this document:

- Business risk
- Call risk
- Changes in legislation risk
- Class risk
- Commodity risk
- Concentration risk
- Counterparty risk
- Credit risk
- Currency, foreign exchange and hedging risk
- Cybersecurity and business continuity risk
- Derivative risk
- Emerging markets risk
- Equity risk
- Leverage risk
- Liquidity risk
- Market risk
- Net asset value risk
- No assurance of return risk
- Performance fee risk
- Portfolio manager risk
- Portfolio turnover risk
- Potential conflicts of interest risk
- Prepayment risk
- Prime broker risk
- Private company risk
- Rebalancing risk

- Fixed income risk
- Floating rate instrument risk
- Foreign market risk
- Fund-on-fund risk
- Global pandemic risk
- High yield securities risk
- Income trust and REIT risk
- Interest rate risk
- Lack of separate counsel risk
- Large transaction risk
- Regulatory risk
- Short selling risk
- Small company risk
- Special-purpose acquisition company risk
- Style risk
- Tax loss restriction event risk
- Taxation policy risk
- U.S. regulation and tax risk
- Volatility risk

As part of its investment strategy, the Fund may invest in units of Funds also managed by the Manager and/or units of other investment funds. See the "*Fund-on-fund risk*" section for more information.

As at August 25, 2021, one unitholder held units representing approximately 100% of the net asset value of the Fund. See the "*Large transaction risk*" section for more information.

Who Should Invest in this Fund?

This Fund is suitable for investors who want to maximize the long-term growth potential of their capital.

Investors in this Fund should have a long-term investment time horizon and a low tolerance for investment risk. This Fund is not suitable for those who have a short or medium time horizon for their investment.

Because this Fund has less than a 10-year performance history, a reference index that reasonably approximates the standard deviation of the Fund has been used to approximate the returns for the purposes of determining the investment risk level, as described in the "*Investment Risk Classification Methodology*" section. The reference index used is the HFRI Credit Index (Hedged to CAD).

Reference Index	Description
HFRI Credit Index (Hedged to CAD)	HFRI Credit Index is a composite index of strategies trading primarily in credit markets. It is an equal-weighted aggregation of following 7 HFRI sub strategy indices. HFRI ED: Credit Arbitrage Index, HFRI ED: Distressed/Restructuring Index, HFRI ED: Multi-Strategy Index, HFRI RV: Fixed Income-Asset Backed Index, HFRI RV: Fixed Income-Convertible Arbitrage Index, HFRI RV: Fixed Income-Corporate Index, and HFRI RV: Multi-Strategy Index.

Distribution Policy

The Fund distributes its net investment income monthly and its net realized capital gains annually in December of each year. The Manager may make distributions from the Fund to Unitholders in the amount of a target annualized distribution rate of the net asset value of each class of units of the Fund annually. The Manager may change the target annualized distribution rate at any time. Distributions may consist of net investment income, net realized capital gains and/or a return of capital. Distributions are automatically reinvested in additional units of the Fund at no charge or, upon request, paid out in cash to the Unitholder.

Fund Expenses Borne Indirectly by Investors

The Management Expense Ratio ("MER") is the cost of managing and operating the fund, expressed as a percentage of the net asset value of each unit class of the Fund. The Fund pays management fees and operating expenses as described under "*Fees and Expenses*" of this simplified prospectus. This means that Unitholders indirectly pay for these expenses through lower returns. Please see "*Fees and Expenses Paid Directly by You*" about items not included in the calculation of the MER.

The table below is intended to help you compare the cumulative cost of investing in this Fund with the cost of investing in other mutual funds. This example assumes that: (i) you invest $1,000 in units of the Fund for the time periods indicated; (ii) your investment has an annual 5% return; and (iii) the Fund's MER for the units during the 10-year period is the unit class management fee plus an administration fee of 0.50%. The Fund's MER disclosed below does not include applicable taxes, such as GST or HST. Management fees and administration fees for Class O units are negotiated between the Unitholder and the Manager and paid outside of the Fund.

Class of Units	MER	1 year	3 years	5 years	10 years
Class A	2.30%	$23.36	$72.00	$123.33	$264.41
Class AF	1.65%	$16.80	$52.14	$89.91	$196.17
Class F	1.30%	$13.26	$41.29	$71.46	$157.41
Class FF	0.65%	$6.65	$20.84	$36.32	$81.43
Class H	2.00%	$20.33	$62.88	$108.04	$233.51
Class I	1.15%	$11.73	$36.60	$63.45	$140.34
Class N	0.80%	$8.18	$25.59	$44.53	$99.44

Pender Alternative Arbitrage Fund

Fund Details

Fund Type	Alternative Merger Arbitrage
Investment Risk Level	Low
Benchmark	HFRI ED: Merger Arbitrage Index (Hedged to CAD)
Eligible for Registered Plans?	The units are expected to be eligible investments for Registered Plans

Securities Offered	Start Date	Management Fee (exclusive of GST/HST)
Class A units	August 25, 2021	1.80%
Class AF units	August 25, 2021	1.15%
Class F units	August 25, 2021	0.80%
Class FF units	August 25, 2021	0.15%
Class H units	August 25, 2021	1.50%
Class I units	August 25, 2021	0.65%
Class N units	August 25, 2021	0.30%
Class O units	August 25, 2021	Negotiable – maximum 1.80%
Performance fee (exclusive of GST/HST)	Performance fees apply to all classes of units. Performance fees equal 15% of the amount by which the total return of the class of units exceeds its high-water mark for the period since the performance fee was last paid.	

What Does the Fund Invest In?

Investment Objectives

The investment objective of the Fund is to generate consistent, positive returns, with low volatility and low correlation to equity markets by investing primarily in North American securities. The Fund may also invest in foreign and other securities.

As mentioned above, the Fund falls within the definition of an “alternative mutual fund” set out in NI 81-102 as it is permitted to invest in asset classes such as physical commodities and specified derivatives and to use strategies generally prohibited for other types of mutual funds, such as, among other things, the ability to invest up to 20% of its net asset value (“NAV”) in securities of a single issuer (rather than 10% for conventional mutual funds), the ability to borrow cash, when aggregated with the value of all outstanding borrowing, up to 50% of its NAV to use for investment purposes, the ability to sell securities short (provided that the aggregate market value of the securities of the issuer of the securities sold short, other than government securities, does not exceed 10% of its NAV and the aggregate market value of the securities sold short does not exceed 50% of its NAV), and the ability to use leverage through the use of cash borrowing, short selling and specified derivatives. Notwithstanding the foregoing, the combined level of cash borrowing and short selling is limited to 50% of its NAV in aggregate and the maximum aggregate exposure to the foregoing sources of leverage, as calculated in accordance with section 2.9.1 of NI 81-102, shall not exceed 300% of the Fund’s NAV.

The fundamental investment objective of the Fund may only be changed with the approval of the Independent Review Committee and a simple majority of the votes cast by the Unitholders of all classes of units of the Fund at a meeting called for that purpose.

Investment Strategies

To achieve the Fund's investment objectives, the Manager intends that the Fund will primarily employ arbitrage strategies, which are specialized investment techniques designed to profit from the successful completion of mergers, take-overs, tender offers, leveraged buyouts, spin-offs, liquidations, and other corporate reorganizations.

In seeking to achieve its investment objective, the Manager may also employ a variety of additional investment strategies which are permitted within an alternative mutual fund but may be limited or prohibited within other types of mutual funds to take advantage of potentially profitable opportunities in the capital markets, including but not limited to investing in SPACs, closed end funds, Master Limited Partnerships, equity options, convertible securities, preferred shares, private companies and corporate or sovereign debt securities.

The most common arbitrage activity the Manager intends to use is merger arbitrage, which involves purchasing the shares of an announced acquisition target company at a discount to the expected acquisition price. When a transaction is announced, the value of the cash and/or securities to be received is typically higher than the market price of the target company. The discount that the target security trades at is called the merger arbitrage "spread." If the Manager believes that it is probable that the proposed transaction, or a higher value transaction, will be consummated in a time frame that makes the spread an attractive rate of return, the Fund may purchase shares of the target company. Alternatively, the Fund may engage in short selling of the target company's shares if the Manager determines that there is a likelihood that the transaction will fail to be consummated or if the spread is considered inadequate for the risks.

The Manager may engage in selling securities short when the terms of a proposed acquisition call for the exchange of common shares of the acquirer and/or other securities. If the transaction is consummated, the Fund will then exchange the securities of the target company which it has accumulated for the securities issued by the acquiring company and may cover its short position, if any, with the securities so received.

The Manager may use listed put or call options to hedge positions.

The Fund may invest in derivative instruments to (i) reduce transaction costs, (ii) increase liquidity and efficiency of trading, (iii) gain exposure to equity markets in a more efficient manner, (iv) reduce risk, (v) generate yield, (vi) hedge currency exposure, and (vii) provide leverage. The Fund will only use derivatives as permitted by securities regulators. The gross aggregate of the notional amount of the Fund's exposure under its specified derivatives positions, together with the Fund's cash borrowing and short selling is limited to 300% of its NAV.

The Manager may invest the majority of assets of the Fund in cash or cash equivalents, depending on the investment opportunities available.

The Fund may borrow cash of up to a maximum of 50% of its NAV when aggregated with the value of all outstanding borrowing, and the Fund's gross aggregate exposure to cash borrowing, short selling and the notional value of specified derivatives is limited to 300% of its NAV.

The Fund may carry out all or part of its strategy by investing up to 100% of its assets in Funds managed by the Manager and/or its affiliates or associates, and/or units of other investment funds, as selected by the Manager in its sole discretion.

The Fund's investment strategies involve active and frequent trading of portfolio securities. In any year, the higher a fund's portfolio turnover rate, the greater the trading costs payable by the fund in the year and the larger the capital gains distribution may be. There is not necessarily a relationship between a high portfolio turnover rate and the performance of a fund.

Assets of the Fund

Over time, the assets of the Fund are expected to be, or could be, comprised of the following securities:

Cash and cash equivalents

The Fund may hold significant cash and cash equivalents when the Manager considers it desirable as a result of market conditions.

Cash borrowing

The Fund may borrow cash of up to a maximum of 50% of its NAV when aggregated with the value of all outstanding borrowing, and the gross aggregate exposure to cash borrowing, short selling and the notional value of specified derivatives is limited to 300% of its NAV.

Closed end funds

In purchasing units of Funds managed by the Manager and/or units of other investment funds, the Fund may also invest in closed end funds that trade on major North American stock exchanges.

Debt securities

The Fund may also invest in investment grade and non-investment grade corporate debt, convertible debt in public companies, and securities issued by government entities either directly or indirectly by virtue of its purchasing units of Funds managed by the Manager and/or units of other investment funds.

Derivatives

Subject to the restriction described in the section entitled *"Derivatives Trading"*, the portfolio advisor may, in its discretion, invest the Fund's assets in or use derivative instruments from time to time for hedging and non-hedging purposes. When derivatives are used for hedging purposes, they are used as a means of hedging currency exposure and risk in the securities and businesses in which the portfolio advisor has invested to protect against losses.

The Fund may hedge against the impact of fluctuations between the Canadian and US currencies on performance, using derivative instruments such as foreign currency forward contracts.

Where derivatives are used for non-hedging purposes, they are used either to substitute for direct investment or to generate income. The portfolio advisor may make use of clearing corporation options, futures contracts, listed warrants, options on futures, over-the-counter options, forward contracts, debt-like securities and listed warrants for hedging, and non-hedging purposes. Investing in and using derivative instruments are subject to certain risks. Further details on these risks are described below in the section entitled "*What are the risks of investing in the Fund?*"

Even if the Fund does not engage directly in derivatives the Fund may gain exposure to derivatives by virtue of its purchasing units of Funds managed by the Manager and/or units of other investment funds.

Marketable securities

The Fund may also invest in marketable securities such as common shares, preferred shares, closed end funds, exchange traded funds, publicly traded units of investment trusts, including but not limited to, mutual fund trusts and REITs, stock warrants and rights that are consistent with the Fund's investment objectives and strategies.

Mutual funds

The Fund may carry out all or part of its strategy by purchasing units of Funds managed by the Manager and/or units of other investment funds.

Other investments

The Fund's investments may also include, either directly or by virtue of its purchasing units of Funds managed by the Manager and/or units of other investment funds, long or short positions in foreign common stocks, trust units, securities of private issuers, and other securities or financial instruments including those of investment companies.

Private unlisted investments

The Fund's investments may also include, either directly or by virtue of its purchasing units of Funds managed by the Manager and/or units of other investment funds, private unlisted investments but will limit the amount invested in private unlisted investments to a maximum of up of 10% of the net assets of the Fund.

Risk arbitrage

The Fund may engage in risk arbitrage investing. Risk arbitrage investing involves the pursuit of profits from an announced corporate event, such as the sale of a company, a merger, a recapitalization, a reorganization, a liquidation or a self-tender. The financial results from this type of investment approach depend more on corporate action than on overall stock market behaviour.

Short selling

The Fund may also engage in short selling securities. For more information on short selling and the limits within which the Fund may engage in short selling, see the section *"Short Selling Risk Management".*

What are the Risks of Investing in the Fund?

As noted above, the Fund is considered an "alternative mutual fund" which means that, under NI 81-102, it is permitted to invest in asset classes and use investment strategies that are not permitted for other types of mutual funds. As a result of such investment strategies, the Fund is subject to the following key risks as described in Part A of this document:

- Arbitrage risk
- Business risk
- Call risk
- Capacity constraints
- Changes in legislation risk
- Class risk
- Commodity risk
- Concentration risk
- Counterparty risk
- Credit risk
- Currency, foreign exchange and hedging risk
- Cybersecurity and business continuity risk
- Derivative risk
- Emerging markets risk
- Leverage risk
- Liquidity risk
- Market risk
- Net asset value risk
- No assurance of return risk
- Performance fee risk
- Portfolio manager risk
- Portfolio turnover risk
- Potential conflicts of interest risk
- Prepayment risk
- Prime broker risk
- Private company risk
- Rebalancing risk
- Regulatory risk

- Equity risk
- Fixed income risk
- Foreign market risk
- Fund-on-fund risk
- Global pandemic risk
- High yield securities risk
- Income trust and REIT risk
- Interest rate risk
- Lack of separate counsel risk
- Large transaction risk
- Short selling risk
- Small company risk
- Special-purpose acquisition company risk
- Style risk
- Tax loss restriction event risk
- Taxation policy risk
- U.S. regulation and tax risk
- Volatility

As part of its investment strategy, the Fund may invest in units of Funds also managed by the Manager and/or units of other investment funds. See the "*Fund-on-fund risk*" section for more information.

As at August 25, 2021, one Unitholder held units representing approximately 100% of the net asset value of the Fund. See the "*Large transaction risk*" section for more information.

Who Should Invest in this Fund?

This Fund is suitable for investors who want to maximize the long-term growth potential of their capital.

Investors in this Fund should have a long-term investment time horizon and a low tolerance for investment risk. This Fund is not suitable for those who have a short or medium time horizon for their investment.

Because this Fund has less than a 10-year performance history, a reference index that reasonably approximates the standard deviation of the Fund has been used to approximate the returns for the purposes of determining the investment risk level, as described in the "*Investment Risk Classification Methodology*" section. The reference index used is the HFRI ED: Merger Arbitrage Index (Hedged to CAD).

Reference Index	Description
HFRI ED: Merger Arbitrage Index (Hedged to CAD)	Merger Arbitrage strategies which employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are currently engaged in a corporate transaction. Merger Arbitrage involves primarily announced transactions, typically with limited or no exposure to situations which pre-, post-date or situations in which no formal announcement is expected to occur. Opportunities are frequently presented in cross border, collared and international transactions which incorporate multiple geographic regulatory institutions, with typically involve minimal exposure to corporate credits. Merger arbitrage strategies typically have over 75% of positions in announced transactions over a given market cycle.

Distribution Policy

The Fund distributes its net investment income and its net realized capital gains annually in December of each year. Distributions are automatically reinvested in additional units of the Fund at no charge or, upon request, paid out in cash to the Unitholder.

Fund Expenses Borne Indirectly by Investors

The MER is the cost of managing and operating the fund, expressed as a percentage of the net asset value of each class of the Fund. The Fund pays management fees and operating expenses as described under *"Fees and Expenses"* of this simplified prospectus. This means that Unitholders indirectly pay for these expenses through lower returns. Please see *"Fees and Expenses Paid Directly by You"* about items not included in the calculation of the MER.

The table below is intended to help you compare the cumulative cost of investing in this Fund with the cost of investing in other mutual funds. This example assumes that: (i) you invest $1,000 in units of the Fund for the time periods indicated, (ii) your investment has an annual 5% return and (iii) the Fund's MER for the units during the 10-year period is the unit class management fee plus an administration fee of 0.50%. The Fund's MER disclosed below does not include applicable taxes, such as GST or HST. Management fees and administration fees for Class O units are negotiated between the Unitholder and the Manager and paid outside of the Fund.

Class of Units	MER	1 year	3 years	5 years	10 years
Class A	2.30%	$23.36	$72.00	$123.33	$264.41
Class AF	1.65%	$16.80	$52.14	$89.91	$196.17
Class F	1.30%	$13.26	$41.29	$71.46	$157.41
Class FF	0.65%	$6.65	$20.84	$36.32	$81.43
Class H	2.00%	$20.33	$62.88	$108.04	$233.51
Class I	1.15%	$11.73	$36.60	$63.45	$140.34
Class N	0.80%	$8.18	$25.59	$44.53	$99.44

PENDER

<u>**ALTERNATIVE MUTUAL FUNDS**</u>

Pender Alternative Absolute Return Fund

Pender Alternative Arbitrage Fund

Managed by:
PenderFund Capital Management Ltd.
1830 – 1066 West Hastings St.
Vancouver, BC V6E 3X2
1-866-377-4743

ADDITIONAL INFORMATION

Additional information about the Funds is available in the Funds' annual information form, fund facts, management reports of fund performance, opening statement of financial position and financial statements (as and when filed). These documents (as and when filed) are incorporated by reference into this simplified prospectus, which means that they form part of this document just as if they were printed as a part of this document.

You can get a copy of these documents (as and when filed), at your request and at no cost, by calling us toll free at **1-866-377-4743** or by emailing us at **info@penderfund.com**, or from your Dealer.

These documents (as and when filed) and other information about the Funds, such as information circulars and material contracts, are also available on the website of PenderFund Capital Management Ltd. at **www.penderfund.com** or at **www.sedar.com**.