PENDER
ALTERNATIVE ARBITRAGE FUND

MANAGER'S COMMENTARY – OCTOBER 2021

Dear Unitholders,

The Pender Alternative Arbitrage Fund ended the month of October with a NAV of $10.10 per unit[1].

M&A is red-hot with a record level of global deal activity through the first ten months of the year of $4.7T[2], blowing past the $3.6T full-year total reached in 2020 and poised to smash the all-time highs of both deal volume and deal value[3]. Pent up demand from the pandemic and the digital acceleration which has taken place have created an environment conducive to M&A as management teams and boards focus on ensuring they have the right technology, infrastructure and capabilities in place to compete effectively. If they cannot develop these internally, many are choosing to obtain them externally through acquisitions. With record levels of net cash on corporate balance sheets, private-equity firm coffers, SPACs and other capital pools, this red-hot M&A market is expected to persist for the foreseeable future.

The record level of merger activity, the SPAC market continuing to provide investors with a competing arbitrage opportunity, along with a hostile regulatory environment all have widened out merger arbitrage spreads. The expected merger arbitrage spread for the 20 largest all-cash mergers in the US now exceeds 900bps, considerably more than double the current high yield bond spread[4]. President Biden's Executive Order on "Promoting Competition in the American Economy" has enabled the Department of Justice and the Federal Trade Commission (FTC) to scrutinize deals and block industry consolidation. The appointment of 32-year-old Lina M. Khan as FTC chair earlier this summer signals a shift in how one of the US government's most powerful antitrust watchdogs will curb the dominance of large companies. With elevated antitrust and regulatory risk on larger and mega-cap deals, our focus on smaller and mid-sized M&A transactions, where concentration is less of a factor, we believe this positions the Fund well to benefit from a higher spread environment, without taking on elevated approval risk.

The SPAC market, which is a smaller focus of our strategy, is experiencing more of an equilibrium, with the pace of SPAC IPO issuance increasing slightly but still well below the pace of the activity we saw earlier this year, and has been more than offset by successful deSPACs shrinking the current SPAC market size. With this increase in activity and investors remaining starved for yield, the discount to NAV for SPACs searching for targets has narrowed as their unit prices have increased. The average yield-to-maturity of SPACs seeking targets has fallen from ~2.5% in August to under 2% as of the end of October[5].

Portfolio Update

Pender equity portfolios continue to provide a steady stream of investment opportunities with 2021 being a record year for take-outs within our equity funds with eleven take-outs completed or announced. Even in the short period since launch, we are already seeing the benefits of the Fund being

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[1] *All Pender NAV data points are for Class F of the Fund. Other classes are available. Fees, NAV price and performance may differ in those other classes.*

[2] *https://money.usnews.com/investing/news/articles/2021-11-02/marketmind-aussie-cbank-caves-in-whos-next*

[3] *https://www.cnbc.com/2021/10/12/kpmg-on-global-ma-market-hitting-record-6-trillion-in-2021.html*

[4] *https://mergerarbitragelimited.com/spreads/*

[5] *https://spacinsider.com/stats/*

an organic extension of our equity ecosystem. The successfully closed acquisition of Cloudera, Inc. (CLDR) and recent investments in GreenSky, Inc. (GSKY), AgJunction Inc. (AJX) and WOW Unlimited Media Inc. (WOW) are examples of investments made by the Fund in companies that Pender's equity funds either hold or recently held a position. Pender's equity investment process, our 'private equity approach to public markets', where we, in part, seek to understand the expectations of current owners and potential acquirers and determine a private-market value for a company, is highly applicable to the analysis undertaken when evaluating a merger arbitrage investment. As Pender's equity portfolios reap the benefits of the elevated M&A environment, the Pender Alternative Arbitrage Fund will continue to leverage the due diligence, insights, expertise and private-market value estimates of many other deals involving investee companies in our funds.

Given Pender's background and experience investing in small and mid-sized companies, we have leveraged that competency and applied it to the Fund with 23 investments in merger deals under $2B in size with 14 of those falling under $1B, as of the end of October. Translate Bio Inc.'s, (TBIO) acquisition by Sanofi S.A. (SNY) was the first successfully completed merger deal for the Fund, with several recently closed acquisitions including Stamps.com Inc., Score Media and Gaming Inc. and WPT Industrial REIT. SPACs, which are a smaller focus for the Fund, continue to provide a low-risk arbitrage opportunity.

Outlook

With equity valuations near peak levels, interest rates near record lows and inflation rising, the low-risk, low-correlation and interest hedging benefits of merger arbitrage appear compelling in the current environment. Expanding merger arbitrage spreads and a steady stream of deal flow in this hot M&A environment provides us with a wide set of arbitrage opportunities, allowing us to be highly selective in the deals we choose to invest in, while diversifying our exposure across a broad portfolio of deals. With M&A animal spirts high, our focus remains centered on our risk management, and growing and preserving capital for our investors.

Amar Pandya, CFA
November 8, 2021

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PenderFund Capital Management Ltd.