PENDER
ALTERNATIVE ARBITRAGE FUND

MANAGER'S COMMENTARY –NOVEMBER 2021

Dear Unitholders,

The Pender Alternative Arbitrage Fund (PAAF) ended the month of November with a NAV of $10.18 per unit[1].

M&A activity continues to set records, topping $5 trillion in global deal activity for the first time in history[2]. This figure is 40% higher than the deal value for the whole of 2020 and surpasses the previous record by a large and expanding margin. The US is leading the charge, representing nearly half of all global M&A deals, with the technology sector leading M&A activity. Another record on track to be surpassed is the private equity sector breaking its first trillion-dollar year of merger activity, highlighting the expanding role PE firms are playing in M&A markets[3]. This record volume of deal activity, combined with expectations of a more hostile regulatory environment, continues to widen already historically high merger arbitrage spreads, with the expected spread for the 20 largest all-cash mergers in the US now exceeding 1100bps[4]. Our positioning within the Fund is targeted to benefit from the current wide spread environment, while being selective in our holdings to minimize approval risk. We are also actively managing our position sizes to mitigate downside exposure.

Portfolio Update

November was a solid month in the arb space, with a steady stream of new deals, existing deals closing as expected, merger arbitrage spreads remaining at attractive levels and no deal breaks. The Fund started off the month with our first bumpitrage deal when Lithium Americas Corp. (TSX: LAC) made a $4.70 offer to acquire fund holding Millennial Lithium Corp. - a 22% premium to the existing $3.85 offer from Chinese battery maker Contemporary Amperex Technology Co., Ltd. This offer provided the dual benefit of being nicely accretive to returns while also decreasing deal risk, as we see a lower hurdle for regulatory approval from a merger between two Canadian-based lithium producers. As discussed in last month's commentary, with strong liquidity and pent-up demand from the pandemic, M&A animal spirits remain high. We see increased potential for bidding wars to emerge as management teams and boards look to ensure they have the right infrastructure and capabilities in place to grow their businesses, while preventing competitors from gaining an advantage.

The Pender ecosystem continues to feed new investment ideas into the Fund, leveraging the existing research, insights, private-market value estimates and analyst expertise on those holdings. PFB Corporation (PFB), which was the latest takeout on the equity side, and FTS International, Inc. (FTSI), which is a reorg equity holding in the Pender Corporate Bond Fund that entered into an agreement to be acquired, were both initiated in the PAAF. Rogers Corporation (ROG), Level One Bancorp, Inc. (LEVL), Zix Corporation (ZIXI) and Partners Bancorp (PTRS) were among several new holdings for the Fund in November. Severn Bancorp, Inc., VEREIT, Inc., Meridian Bancorp, Inc., Kadmon Holdings, Inc., CAI International, Inc., Acceleron Pharma Inc., Echo Global Logistics, Inc., Inovalon Holdings, Inc. and Domtar Corporation were among deals that closed during the month.

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

[2] https://www.investmentexecutive.com/news/research-and-markets/new-heights-for-global-ma-activity/

[3] https://www.institutionalinvestor.com/article/b1v9ssw2f2tl0w/

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

Our positioning continues to be concentrated in small and mid-sized merger deals. At the end of November, the Fund had 26 investments in small cap deals under $2B with 22 of those deals under $1B. We believe there are several advantages to focusing on mid and smaller cap mergers, including lower regulatory and antitrust risk, less coverage providing risk mispricing opportunities and the ability to leverage Pender's analysis and trade execution competencies in small-cap equities. The Fund had just under 25% long exposure to SPACs at month-end. While there were many SPAC business combinations announced during the month, the pace of SPAC IPOs has increased, with over $10B raised in new SPACs in November. The terms of new SPACs are also improving in order to drive more investor interest. Our SPAC investment focus is targeted towards SPACs seeking targets, trading at a discount to trust value with a fundamental assessment of the sponsor to identify SPACs and a high probability of announcing a well-received business combination. By purchasing a SPAC at a discount to trust value, we can elect to redeem for the full trust value at the vote for an announced business combination or upon maturity of the SPAC, while selling our SPAC position when it trades at a premium to trust value.

Outlook

Inflation was front of mind for many investors during November after the October US year-to-year inflation rate jumped to 6.2%, the highest level in over 30 years. It wasn't much better north of the border, with the October year-to-year rate inflation jumping to 4.7%, an 18-year high. The economic impact of the loss of purchasing power for consumers and businesses is certainly a focus for investors. However, it also presents the challenge of preserving capital in a rising rate environment with central bank tapering and expectations of higher rates and negative inflation-adjusted real returns for treasuries, investment grade and high-yield bonds. While fixed income yields hover near historic lows, merger arbitrage spreads are historically wide, providing investors with attractive relative and absolute returns. Moreover, arbitrage offers investors with the potential for exposure to an investment strategy that typically offers low correlation to traditional asset classes and a hedge to rising interest rates. Arbitrage provides a floating rate yield exposure and has historically delivered returns positively related to interest rates and changes to rates. We believe that the attractive spread, diversification benefits and positive relationship to rates make arbitrage a timely complement to equity and fixed income portfolios in a potentially volatile rising rate market.

Amar Pandya, CFA
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PenderFund Capital Management Ltd.