

**ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

# Pender Alternative Arbitrage Fund

For the period ended December 31, 2021

The logo for Pender, featuring the word "PENDER" in a bold, serif font. The letter "N" is stylized with a diagonal slash through it.

This annual Management Report of Fund Performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You may obtain a copy of the annual financial statements at your request, at no cost, by calling toll-free 1-866-377-4743, by writing to us at 1830 – 1066 West Hastings Street, Vancouver, BC V6E 3X2 or by visiting our website at [www.penderfund.com](http://www.penderfund.com) or the SEDAR website at [www.sedar.com](http://www.sedar.com).

You may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objective and Strategies

The Pender Alternative Arbitrage Fund's (the "Fund") objective 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.

PenderFund Capital Management Ltd. ("Pender") is the Manager and Portfolio Advisor of the Fund.

### Risks

The risks of investing in the Fund are outlined in the Simplified Prospectus dated August 25, 2021. There were no significant changes to the Fund's objectives and strategies that affected its overall level of risk during the period.

On February 24, 2022, Russia launched a large military invasion of Ukraine. This has resulted in a disruption in the supply of energy resources, a refugee crisis in Europe, global protests and the imposition of sanctions on Russia, which in turn triggered a financial crisis in Russia. The Russian president has placed Russia's nuclear forces on high alert, increasing tension between the West and Russia. The invasion has introduced a new source of uncertainty for financial markets.

The COVID-19 global health pandemic that began in 2019 continues today. In early 2020, it resulted in significant volatility and turmoil in World markets. The negative economic impact of measures taken to contain the virus have been mitigated to a certain extent by fiscal and monetary stimulus, measures taken to reopen world economies, and the development and rollout of vaccines. The situation has had an impact on many entities and the markets for the securities that they issue, and that impact may continue.

Investment results may be affected by future developments and new information that may emerge resulting from Russia's invasion of Ukraine, COVID-19, its variants and the pandemic, factors which are beyond the Fund's control.

### Results of Operations

The Pender Alternative Arbitrage Fund commenced operations on September 8, 2021. As at December 31, 2021 the net assets of the Fund were \$11,885,352, representing net unitholder purchases of \$11,753,492 (including seed capital of \$200,000) and \$131,860 attributable to positive investment performance. Because the Fund has been in operation for less than one year, past performance data is not available for disclosure.

The following comments and the comments under "Recent Developments" reflect the views of the portfolio management team and are based on information as at the end of the period. Please read the caution regarding forward-looking statements located on the last page of this document.

We are pleased to report positive fund flows during the period from inception to December 31, 2021, and we are optimistic that the Fund will see a continuation of positive fund flows as investment advisors assess the Fund's strategy and attractive risk/reward profile.

To achieve the Fund's objective of generating consistent, positive returns with low volatility and low correlation to equity markets, the Fund employs 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. We may also use a variety of additional investment strategies permitted within an alternative mutual fund, including but not limited to investing in special purpose acquisition companies ("SPACs"), convertible securities, and preferred shares.

Portfolio transactions during the period were made based on our stock selection process. In general, we increased weightings of individual stocks where we determined the margin of safety had increased and decreased their weightings as their traded market values moved closer to our estimates of their intrinsic values. We are constantly looking for new investment ideas and examples of new investments included New York Community Bancorp, Inc., Flagstar Bancorp, Inc. and Cominar Real Estate Investment Trust. We may liquidate our positions for various reasons, such as when share prices have reached our assessment of fair value, when an acquisition has occurred, or where we have changed our investment thesis. For example, during the period we sold B. Riley Principal 150 Merger Corp., and Sportsman's Warehouse Holdings, Inc.

As at the end of the period, the Fund was 68.2% invested in US long positions, -14.7% invested in US short positions, 10.6% invested in Canada long positions and 35.9% in cash. The Fund's cash position may change over time as a result of portfolio transactions. The Fund's investment portfolio is concentrated and not diversified in the conventional sense. The Fund's top 10 long and short position holdings account for 17.3% and 9.5% respectively of the Fund's net assets at the end of the period. This concentration may lead to varied results over any given period.

The overall sector exposure of the Fund is determined by stock selection decisions and may shift from time to time. As at December 31, 2021 we were weighted toward holdings in Diversified financials, Banks and Materials, because those are the sectors where we believe we are finding the best investment opportunities currently and, equally important, because they contain businesses for which we are best equipped to assess value. These top three sectors accounted for 49.8% (long position) of the Fund at the end of the period.

### Recent Developments

2021 was a record year for global M&A activity by both deal volume and deal value far surpassing 2020's level and the previous record set in 2007. This was driven by accommodative fiscal and monetary stimulus which flooded the market with cheap and abundant access to capital, corporate balance sheets being in a stronger position than pre-pandemic, pent up demand from the pandemic, large capital pools including private equity firms, pension funds and SPACs looking to deploy capital into acquisitions and high confidence driven by strong equity markets. Disruptive changes from the pandemic and the acceleration of digital adoption by consumers and businesses has resulted in many companies ensuring they have the right technology or infrastructure in place to compete effectively, driving many companies to acquire these capabilities through acquisitions. These conditions remain largely present today supporting strong M&A activity although rising rates and equity volatility have the potential to dampen M&A.

Merger arbitrage spreads expanded through 2021 and remain at historically high levels. The record volume of M&A deals, competition for capital and expectations for a more hostile regulatory environment may have all contribute to these wider spreads. The Biden administration's executive order to promote competition provides the US government's key regulators, the Federal Trade Commission and the Department of Justice, with greater ability to scrutinize mergers which may impact competition. We believe this will result in higher regulatory risk with a high probability of a merger being blocked for mega-cap and large cap companies in industries with high concentration. Given the higher regulatory scrutiny on larger deals, we have focused the Fund on small and mid-cap merger deals where competition risk is less of a factor and therefore the risk of facing regulatory issues is lower.

The SPAC industry raised a record amount of capital through SPAC IPO issuances in 2021, surpassing the previous record for issuance set in 2020. With the volume of SPAC issuances surpassing the number of announced business combinations, the average share value of SPAC's searching for target acquisitions has fallen below trust value. This provides a positive yield to maturity by either holding a SPAC to maturity or redeeming for trust value on vote of a proposed business combination. With the capital raised by a SPAC held in trust and invested in US treasury bills, we believe that many SPACs currently offers a favorable and low risk investment opportunity. Our focus in the Fund is to invest in SPACs with a positive yield to maturity with a sponsor that has an established track record of successful SPAC combinations, the ability to source unique or differentiated deal-flow and the access to funding should that SPAC see a high redemption rate.

We believe the Fund is positioned to benefit from a wide-spread environment for merger deals and a positive spread environment for SPACs while diversifying deal risk exposure and minimizing downside exposure through position sizing.

### Related Party Transactions

The Fund pays management and administration fees to the Manager for management and portfolio advisory services (see "Management Fees"). The Fund also pays the Manager performance fees (see "Performance Fees").

As at the end of the period, parties related to the Manager collectively held 2% of the Fund's units.

### Management Fees

The Fund pays management and administration fees calculated as a percentage of the net asset value of each respective class. The Management Expense Ratio ("MER") before applicable taxes such as GST or HST for each class does not exceed certain levels as set out in the Fund's offering documents. The fees are calculated at the close of business on each valuation day and are paid monthly. In exchange for the administration fee, the Manager will pay the operating costs of the Fund. . During the period from commencement of operations to December 31, 2021, the Manager waived management and administration fees and custody related transaction costs for the Fund.

Management fees are used by the Manager, in part, to pay sales commissions, trailer fees, marketing costs and other associated distribution costs relating to the sale of units of the Fund.

Such expenses represented approximately 23% of the management fees paid by the Fund to the Manager for the period.

### Performance Fees

The Manager is also entitled to a performance fee plus applicable taxes such as GST or HST to all classes of units of the Fund. The performance fee is equal to 15% of the amount by which the total return of the class of units exceeds the previous high-water mark for each applicable class of units for the period since the performance fee was last paid. 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. 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. The Manager, at its discretion, may reduce or waive performance fees.

**FINANCIAL HIGHLIGHTS**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the period ended December 31, 2021.

<b>CLASS A</b>	
<b>Fund's Net Assets Per Unit (a)</b>	<b>2021</b>
Net assets – beginning of period (b)	\$10.00
<b>Increase (decrease) from operations:</b>	
Total revenue	-
Total expenses	(0.01)
Realized losses	(0.03)
Unrealized gains	0.25
<b>Total increase (decrease) from operations (c)</b>	<b>0.21</b>
<b>Distributions:</b>	
From income (excluding dividends)	0.01
From dividends	0.01
From capital gains	-
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>0.02</b>
<b>Net assets – end of period</b>	<b>\$10.19</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$5
Number of units outstanding (a)	501
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	2.47%
Trading expense ratio (g)	0.69%
Portfolio turnover rate (h)	43.18%
Net asset value per unit (a)	\$10.19

<b>CLASS AF</b>	
<b>Fund's Net Assets Per Unit (a)</b>	<b>2021</b>
Net assets – beginning of period (b)	\$10.00
<b>Increase (decrease) from operations:</b>	
Total revenue	-
Total expenses	(0.02)
Realized losses	(0.06)
Unrealized gains	0.29
<b>Total increase (decrease) from operations (c)</b>	<b>0.21</b>
<b>Distributions:</b>	
From income (excluding dividends)	0.01
From dividends	0.01
From capital gains	-
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>0.02</b>
<b>Net assets – end of period</b>	<b>\$10.19</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$1,782
Number of units outstanding (a)	174,924
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	1.74%
Trading expense ratio (g)	0.69%
Portfolio turnover rate (h)	43.18%
Net asset value per unit (a)	\$10.19

**FINANCIAL HIGHLIGHTS (CONTINUED)****CLASS F**

<b>Fund's Net Assets Per Unit (a)</b>	<b>2021</b>
Net assets – beginning of period (b)	\$10.00
<b>Increase (decrease) from operations:</b>	
Total revenue	0.01
Total expenses	(0.04)
Realized losses	(0.04)
Unrealized gains	0.21
<b>Total increase (decrease) from operations (c)</b>	<b>0.14</b>
<b>Distributions:</b>	
From income (excluding dividends)	0.01
From dividends	0.01
From capital gains	-
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>0.02</b>
<b>Net assets – end of period</b>	<b>\$10.19</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$5
Number of units outstanding (a)	501
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	1.38%
Trading expense ratio (g)	0.69%
Portfolio turnover rate (h)	43.18%
Net asset value per unit (a)	\$10.19

**CLASS FF**

<b>Fund's Net Assets Per Unit (a)</b>	<b>2021</b>
Net assets – beginning of period (b)	\$10.00
<b>Increase (decrease) from operations:</b>	
Total revenue	0.01
Total expenses	(0.02)
Realized losses	(0.07)
Unrealized gains	0.30
<b>Total increase (decrease) from operations (c)</b>	<b>0.22</b>
<b>Distributions:</b>	
From income (excluding dividends)	0.01
From dividends	0.01
From capital gains	-
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>0.02</b>
<b>Net assets – end of period</b>	<b>\$10.19</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$9,910
Number of units outstanding (a)	972,836
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	0.69%
Trading expense ratio (g)	0.69%
Portfolio turnover rate (h)	43.18%
Net asset value per unit (a)	\$10.19

**FINANCIAL HIGHLIGHTS (CONTINUED)**

<b>CLASS H</b>	
<b>Fund's Net Assets Per Unit (a)</b>	<b>2021</b>
Net assets – beginning of period (b)	\$10.00
<b>Increase (decrease) from operations:</b>	
Total revenue	-
Total expenses	(0.01)
Realized losses	(0.03)
Unrealized gains	0.25
<b>Total increase (decrease) from operations (c)</b>	<b>0.21</b>
<b>Distributions:</b>	
From income (excluding dividends)	0.01
From dividends	0.01
From capital gains	-
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>0.02</b>
<b>Net assets – end of period</b>	<b>\$10.19</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$5
Number of units outstanding (a)	501
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	2.11%
Trading expense ratio (g)	0.69%
Portfolio turnover rate (h)	43.18%
Net asset value per unit (a)	\$10.19
<b>CLASS I</b>	
<b>Fund's Net Assets Per Unit (a)</b>	<b>2021</b>
Net assets – beginning of period (b)	\$10.00
<b>Increase (decrease) from operations:</b>	
Total revenue	-
Total expenses	(0.01)
Realized losses	(0.03)
Unrealized gains	0.25
<b>Total increase (decrease) from operations (c)</b>	<b>0.21</b>
<b>Distributions:</b>	
From income (excluding dividends)	0.01
From dividends	0.01
From capital gains	-
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>0.02</b>
<b>Net assets – end of period</b>	<b>\$10.19</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$5
Number of units outstanding (a)	501
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	1.24%
Trading expense ratio (g)	0.69%
Portfolio turnover rate (h)	43.18%
Net asset value per unit (a)	\$10.19

**FINANCIAL HIGHLIGHTS (CONTINUED)**

<b>CLASS N</b>	
<b>Fund's Net Assets Per Unit (a)</b>	<b>2021</b>
Net assets – beginning of period (b)	\$10.00
<b>Increase (decrease) from operations:</b>	
Total revenue	-
Total expenses	(0.01)
Realized losses	(0.03)
Unrealized gains	0.25
<b>Total increase (decrease) from operations (c)</b>	<b>0.21</b>
<b>Distributions:</b>	
From income (excluding dividends)	0.01
From dividends	0.01
From capital gains	-
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>0.02</b>
<b>Net assets – end of period</b>	<b>\$10.19</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$5
Number of units outstanding (a)	501
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	0.88%
Trading expense ratio (g)	0.69%
Portfolio turnover rate (h)	43.18%
Net asset value per unit (a)	\$10.19
<b>CLASS O</b>	
<b>Fund's Net Assets Per Unit (a)</b>	<b>2021</b>
Net assets – beginning of period (b)	\$10.00
<b>Increase (decrease) from operations:</b>	
Total revenue	-
Total expenses	(0.01)
Realized losses	(0.03)
Unrealized gains	0.25
<b>Total increase (decrease) from operations (c)</b>	<b>0.21</b>
<b>Distributions:</b>	
From income (excluding dividends)	0.01
From dividends	0.01
From capital gains	-
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>0.02</b>
<b>Net assets – end of period</b>	<b>\$10.19</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$168
Number of units outstanding (a)	16,528
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	0.00%
Trading expense ratio (g)	0.69%
Portfolio turnover rate (h)	43.18%
Net asset value per unit (a)	\$10.19

**FINANCIAL HIGHLIGHTS (CONTINUED)****Footnotes:**

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- (a) This information is derived from the Fund's audited annual financial statements as at December 31 for the period stated, prepared under International Financial Reporting Standards.
- (b) The Fund's information for each class is from the date each class commenced operations: September 8, 2021.
- (c) Net assets per unit and distributions per unit are based on the actual number of units for the relevant Fund class outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding during the period.
- (d) Distributions were paid in cash and/or reinvested in additional units of the Fund.
- (e) Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) for the period and is expressed as an annualized percentage of daily average net asset value during the period. The MER may vary from one class of units to another because of differences in the applicable management fees and certain fees and expenses may have been absorbed by the Manager which would otherwise be reflected in the Fund.
- (f) The Manager of the Fund has agreed to absorb sufficient expenses of the Fund, as necessary, such that the annual MER before applicable taxes such as GST or HST will not exceed certain limits as outlined in the Fund's Simplified Prospectus. The amount of expenses absorbed is at the discretion of the Manager as set out in the Fund's Simplified Prospectus and the Manager may in its sole discretion cease to absorb expenses.
- (g) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
- (h) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. In general, the higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

**PAST PERFORMANCE**

The past performance for the Fund is not available for disclosure because it has been in operation for less than one year. The Fund commenced operations on September 8, 2021.

**SUMMARY OF INVESTMENT PORTFOLIO**

The largest holdings of the Fund as at the end of the period and the major asset classes in which the Fund was invested are indicated below. Where the Fund has less than 25 holdings, the table will show the Fund's entire investment portfolio. The investment portfolio may change due to ongoing portfolio transactions. An update of the Fund's summary of investment portfolio as at the end of each calendar quarter is available from the Manager. Please see the front page of this document for information about how this can be obtained.

## Summary of Top 25 Holdings

	% of Net Assets
<b>LONG POSITIONS</b>	
Flagstar Bancorp, Inc.	2.0
Cominar Real Estate Investment Trust	1.8
Millennial Lithium Corp.	1.8
Welbilt, Inc.	1.8
Atlantic Capital Bancshares, Inc.	1.7
Bottomline Technologies, Inc.	1.7
Level One Bancorp, Inc.	1.7
Casper Sleep Inc.	1.6
PAE Incorporated	1.6
Phillips 66 Partners LP	1.6
Wow Unlimited Media Inc.	1.5
Aerojet Rocketdyne Holdings, Inc.	1.4
CIT Group Inc.	1.4
Corvus Gold Inc.	1.4
Elmira Savings Bank	1.4
Great Western Bancorp, Inc.	1.4
NeoPhotonics Corporation	1.4
Tristate Capital Holdings, Inc.	1.4
Verso Corporation	1.4
<b>SHORT POSITIONS</b>	
New York Community Bancorp, Inc.	(2.0)
SouthState Corporation	(1.7)
Phillips 66	(1.6)
First Citizens BancShares, Inc.	(1.4)
First Interstate BancSystem, Inc.	(1.4)
M&T Bank Corporation	(1.4)

## Summary of Composition of the Portfolio

	% of Net Assets
<b>LONG POSITIONS</b>	
Diversified financials	28.5
Banks	12.9
Materials	8.4
Information technology	7.5
Industrials	6.0
Communication services	2.7
Energy	2.7
Real estate	2.5
Insurance	2.2
Consumer staples	2.0
Consumer discretionary	1.9
Health care	0.7
<b>Total Long Positions</b>	<b>78.0</b>
<b>SHORT POSITIONS</b>	
Banks	(9.8)
Diversified financials	(2.4)
Energy	(1.6)
Consumer discretionary	(0.7)
<b>Total Short Positions</b>	<b>(14.5)</b>
<b>TOTAL EQUITIES</b>	<b>63.5</b>
Derivative assets	0.6
<b>TOTAL INVESTMENT PORTFOLIO</b>	<b>64.1</b>
Cash	35.9
Other assets less liabilities	0.0
<b>TOTAL NET ASSETS</b>	<b>100.0</b>

## Caution Regarding Forward-Looking Statements

This report contains forward-looking statements about the Fund, including its strategy, prospects and further actions. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates”, or negative versions thereof and similar expressions.

In addition, any statement made concerning future performance, strategies or prospects, and possible future Fund action is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to risks, uncertainties and assumptions about the Fund and economic factors, among other things.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements. Any number of important factors could contribute to these digressions, including, but not limited to: general economic, political and market factors in North America and internationally; interest and foreign exchange rates; global equity and capital markets; business competition; technological change; changes in government regulations; unexpected judicial or regulatory proceedings; pandemics and catastrophic events.

We stress that the above-mentioned list of important factors is not exhaustive. We encourage you to consider these and other factors carefully before making any investment decisions and we urge you to avoid placing undue reliance on forward-looking statements. Further, except as may be required under applicable law, the Manager has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance.

# PENDER

MANAGED BY:  
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