

**ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

# Pender Alternative Absolute Return Fund

For the period ended December 31, 2021



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 Absolute Return Fund's (the "Fund") objective 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.

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 Absolute Return Fund commenced operations on September 1, 2021. As at December 31, 2021 the net assets of the Fund were \$40,746,406, representing net unitholder purchases of \$40,374,408 (including seed capital of \$200,000) and \$371,998 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 maximizing absolute returns with low volatility, the Fund uses fundamental research to identify attractive risk adjusted return opportunities in individual investments within a diversified portfolio. We invest primarily in North American fixed income and credit securities as well as other instruments. We use short selling with the intention of both generating absolute returns and hedging unwanted market risk, or in situations where we believe securities have unattractive fundamental characteristics.

#### Long positions:

The Fund participated in new issues that we believed were attractively priced, notably from Ritchie Brothers Auctioneers and Allegheny Technologies Inc. We also participated in an event driven holding in Great Canadian Gaming Corp. that was "made whole" at a premium to our cost base in September. Positioning emphasized exposures to short duration callable bonds with the objective of generating income for the Fund with little price movement. Finally, we held a position in Carnival Corp. which we believed presented attractive value relative to the rest of their capital structure but fared poorly with the emergence of the Omicron COVID-19 variant in November.

#### Short positions:

The Fund benefitted from short positions in high yield exchange traded funds as well as equity index exchange traded funds, notably the iShares Russell 2000 short positions in government bonds produced mixed results in a volatile trading environment for interest rates late in the year. The Fund's short position in the SPDR S&P 500 ETF Trust that was established in late November was a negative contributor to performance as the S&P 500 finished the year close to an all-time high.

## Recent Developments

Credit markets traded to historically low yields in 2021, with the yield to worst on the Bloomberg USD High Yield Index hitting an all time low of 3.53% on July 6, 2021. Markets benefitted from strong economic growth combined with extremely accommodative monetary policy. As the year ended, global central banks had started to reduce accommodation in response to historically low real yields driven by the highest inflation readings in several decades in most advanced economies. There was a brief scare late in 2021 relating to the emergence of the Omicron COVID-19 variant, however markets took comfort from the relatively mild nature of most Omicron cases, suggesting that the acute phase of the pandemic could be ending in 2022.

With markets and central banks assessing the causes and implications of the highest inflation readings in decades we believe a strong duration hedge is appropriate. The 10-year US treasury yield ended 2021 at 1.51% which is below the average yield of 2.39% experienced in the 2010s decade.

With the potential for government bond yields to reset higher the Fund is mostly positioned in high quality, short duration high yield bonds. In addition, the Fund owns bonds further out the curve on a duration hedged basis which we believe have potential for spread compression and capital gains. Overall, the Fund is positioned defensively with modest leverage and duration and risk hedges intended to protect capital in the event of either spread widening or higher underlying yields. The Fund will adjust exposures dynamically in response to valuations.

## 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 1% of the Fund's units. In addition, the Pender Value Fund and Pender Value Fund II, funds also managed by the Manager, collectively held 13% of the Fund's outstanding 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 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. 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	0.48
Total expenses	(0.01)
Realized losses	(0.28)
Unrealized gains	0.03
<b>Total increase (decrease) from operations (c)</b>	<b>0.22</b>
<b>Distributions:</b>	
From income (excluding dividends)	0.24
From dividends	-
From capital gains	-
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>0.24</b>
<b>Net assets – end of period</b>	<b>\$9.99</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$5
Number of units outstanding (a)	512
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	2.46%
Trading expense ratio (g)	0.16%
Portfolio turnover rate (h)	122.86%
Net asset value per unit (a)	\$9.99

<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	0.07
Total expenses	-
Realized losses	(0.01)
Unrealized gains	0.13
<b>Total increase (decrease) from operations (c)</b>	<b>0.19</b>
<b>Distributions:</b>	
From income (excluding dividends)	0.23
From dividends	-
From capital gains	-
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>0.23</b>
<b>Net assets – end of period</b>	<b>\$9.99</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$2,651
Number of units outstanding (a)	265,312
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	1.75%
Trading expense ratio (g)	0.16%
Portfolio turnover rate (h)	122.86%
Net asset value per unit (a)	\$9.99

**FINANCIAL HIGHLIGHTS (CONTINUED)**

<b>CLASS F</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	0.47
Total expenses	(0.01)
Realized losses	(0.28)
Unrealized gains	0.04
<b>Total increase (decrease) from operations (c)</b>	<b>0.22</b>
<b>Distributions:</b>	
From income (excluding dividends)	0.24
From dividends	-
From capital gains	-
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>0.24</b>
<b>Net assets – end of period</b>	<b>\$9.99</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$5
Number of units outstanding (a)	512
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	1.38%
Trading expense ratio (g)	0.16%
Portfolio turnover rate (h)	122.86%
Net asset value per unit (a)	\$9.99

<b>CLASS FF</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	0.07
Total expenses	-
Realized losses	(0.01)
Unrealized gains	0.14
<b>Total increase (decrease) from operations (c)</b>	<b>0.20</b>
<b>Distributions:</b>	
From income (excluding dividends)	0.22
From dividends	-
From capital gains	-
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>0.22</b>
<b>Net assets – end of period</b>	<b>\$10.00</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$32,660
Number of units outstanding (a)	3,265,237
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	0.70%
Trading expense ratio (g)	0.16%
Portfolio turnover rate (h)	122.86%
Net asset value per unit (a)	\$10.00

**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	0.47
Total expenses	(0.01)
Realized losses	(0.28)
Unrealized gains	0.04
<b>Total increase (decrease) from operations (c)</b>	<b>0.22</b>
<b>Distributions:</b>	
From income (excluding dividends)	0.24
From dividends	-
From capital gains	-
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>0.24</b>
<b>Net assets – end of period</b>	<b>\$9.99</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$5
Number of units outstanding (a)	512
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	2.10%
Trading expense ratio (g)	0.16%
Portfolio turnover rate (h)	122.86%
Net asset value per unit (a)	\$9.99
<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	(0.01)
Total expenses	-
Realized gains	0.02
Unrealized gains	0.15
<b>Total increase (decrease) from operations (c)</b>	<b>0.16</b>
<b>Distributions:</b>	
From income (excluding dividends)	0.24
From dividends	-
From capital gains	-
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>0.24</b>
<b>Net assets – end of period</b>	<b>\$9.99</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$131
Number of units outstanding (a)	13,156
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	1.22%
Trading expense ratio (g)	0.16%
Portfolio turnover rate (h)	122.86%
Net asset value per unit (a)	\$9.99

**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	0.47
Total expenses	(0.01)
Realized losses	(0.28)
Unrealized gains	0.04
<b>Total increase (decrease) from operations (c)</b>	<b>0.22</b>
<b>Distributions:</b>	
From income (excluding dividends)	0.24
From dividends	-
From capital gains	-
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>0.24</b>
<b>Net assets – end of period</b>	<b>\$9.99</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$5
Number of units outstanding (a)	512
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	0.88%
Trading expense ratio (g)	0.16%
Portfolio turnover rate (h)	122.86%
Net asset value per unit (a)	\$9.99
<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	0.48
Total expenses	(0.01)
Realized losses	(0.29)
Unrealized gains	0.04
<b>Total increase (decrease) from operations (c)</b>	<b>0.22</b>
<b>Distributions:</b>	
From income (excluding dividends)	0.24
From dividends	-
From capital gains	-
Return of capital	-
<b>Total annual distributions (c), (d)</b>	<b>0.24</b>
<b>Net assets – end of period</b>	<b>\$9.99</b>
<b>Ratios and Supplemental Data</b>	
Total net asset value (\$000s) (a)	\$5,283
Number of units outstanding (a)	528,823
Management expense ratio (e)	0.00%
Management expense ratio before absorptions (f)	0.00%
Trading expense ratio (g)	0.16%
Portfolio turnover rate (h)	122.86%
Net asset value per unit (a)	\$9.99

**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 1, 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 1, 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>	
Ritchie Bros Holdings Ltd., 4.95%, 2029/12/15	9.4
Uber Technologies, Inc., 8.00%, 2026/11/01	9.1
Sally Beauty Holdings, Inc., 5.63%, 2025/12/01	7.1
Covanta Holding Corporation, 6.00%, 2027/01/01	6.4
Greystar Real Estate Partners, LLC, 5.75%, 2025/12/01	6.3
SS&C Technologies, Inc., 5.50%, 2027/09/30	5.7
Icahn Enterprises L.P., 6.38%, 2025/12/15	5.5
Hilton Worldwide Finance LLC, 4.88%, 2027/04/01	5.4
Park Intermediate Holdings LLC, 5.88%, 2028/10/01	5.2
MPT Operating Partnership, L.P., 5.25%, 2026/08/01	4.8
Live Nation Entertainment, Inc., 4.88%, 2024/11/01	3.8
Kratos Defense & Security Solutions, Inc., 6.50%, 2025/11/30	3.4
MEDNAX, Inc., 6.25%, 2027/01/15	3.3
Life Time Inc., 5.75%, 2026/01/15	3.2
Parkland Corporation, 4.63%, 2030/05/01	3.1
Teine Energy Ltd., 6.88%, 2029/04/15	3.0
Videotron Ltd., 5.75%, 2026/01/15	2.3
Simmons Foods, Inc., 4.63%, 2029/03/01	2.3
Tronox Holdings plc, 4.63%, 2029/03/15	1.9
<b>SHORT POSITIONS</b>	
US Treasury Note, 1.25%, 2031/08/15	(7.9)
Government of Canada, 2.25%, 2029/06/01	(5.2)
SPDR S&P 500 ETF Trust	(4.4)
US Treasury Note, 1.38%, 2031/11/15	(3.1)
iShares Russell 2000 ETF	(2.1)
Hilton Domestic Operating Company Inc., 4.88%, 2030/01/15	(2.0)

## Summary of Composition of the Portfolio

	% of Net Assets
<b>LONG POSITIONS</b>	
US corporate bonds and loans	82.6
Canadian corporate bonds and loans	25.2
Foreign corporate bonds and loans	1.6
Equities	1.2
<b>Total Long Positions</b>	<b>110.6</b>
<b>SHORT POSITIONS</b>	
Government bonds	(16.2)
Exchange-traded funds	(9.6)
US corporate bonds and loans	(2.0)
Equities	(1.4)
<b>Total Short Positions</b>	<b>(29.2)</b>
<b>TOTAL INVESTMENTS</b>	
	<b>81.4</b>
Derivative assets	0.8
<b>TOTAL INVESTMENT PORTFOLIO</b>	
	<b>82.2</b>
Cash	15.8
Other assets less liabilities	2.0
<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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