



# Pender Alternative Arbitrage Fund

Six months ended June 30, 2022

## Semi-Annual Management Report of Fund Performance

This interim Management Report of Fund Performance contains financial highlights but does not contain either the interim financial statements or annual financial statements of the investment fund. You may obtain a copy of the interim financial statements or 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.

# Pender Alternative Arbitrage Fund

Six months ended June 30, 2022

---

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Results of Operations

The net assets of the Pender Alternative Arbitrage Fund (the "Fund") were \$25,432,959 as at June 30, 2022 versus \$11,885,352 as at December 31, 2021. Of this \$13,547,607 increase, \$246,546 is attributable to positive investment performance and \$13,301,061 is attributable to net purchases of Fund units.

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 June 30, 2022. Please read the caution regarding forward-looking statements located on the last page of this document.

We are pleased to report positive fund flows for the six months ended June 30, 2022 (the "period") and we are optimistic that the Fund will see a continuation of positive fund flows as investment advisors assess the Fund's strategy and 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 with the goal of profiting 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 investment process that aims to identify attractive arbitrage opportunities, particularly in merger deals. In general, we added positions to the portfolio that we felt offered an attractive spread relative to the probability that a merger deal closed. The strategy seeks to exploit this return opportunity and deliver a relatively low volatility return to unitholders. We are constantly looking for new investment ideas and examples of new investments during the period included Points.com Inc., and Alleghany Corporation. 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 Atlantic Capital Bancshares, Inc. and Casper Sleep Inc.

As at the end of the period, the Fund was 101.5% invested in long positions, -12.4% invested in short positions. The geographic positioning of the Fund remains predominantly tilted towards the US with 83.3% of net exposure in this jurisdiction. The Fund remains broadly diversified across various industries and skewed to smaller companies. As at June 30, 2022, the Fund had a net exposure of 78.1% invested in small, mid and micro-cap businesses. We feel this smaller market cap size is less exposed to the regulatory risk faced by larger merger deals and leverages the broader equity investment process at the Manager with its extensive research relating to smaller companies.

The overall sector exposure of the Fund is determined by stock selection decisions and may shift from time to time. As at June 30, 2022, we were weighted toward long position holdings in Diversified financials, Information technology and Health care sectors, because those are the sectors where we believe we are finding the best investment opportunities currently. These top three sectors accounted for 53.6% (long positions) of the Fund at the end of the period.

### Recent Developments

We have seen the record pace of M&A activity from 2021 slow somewhat in 2022 with the evolving risk appetite of the market. Macro events, including the conflict between Russia and Ukraine, the ongoing COVID-19 pandemic and central banks raising interest rates to tame inflation, have sapped investor confidence. Risk of slower economic growth and a recession on the horizon have risen and driven spreads wider across merger deals. This has created opportunities for the Fund to invest in merger deals from a financially strong sponsor and where we see a high probability of closing, particularly in small and mid-sized companies where we are focused.

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.

## Pender Alternative Arbitrage Fund

Six months ended June 30, 2022

---

Another opportunity we see today is in SPACs. 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 SPACs 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 offer a favorable and low risk investment opportunity. Our focus for the Fund is investing 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.

Investment results may be affected by future developments and new information that may emerge regarding geopolitical events; COVID-19, its variants and the pandemic; inflation and the impact of central bank measures, and other global events, factors that are beyond the Fund's control.

### 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 Enhanced Income Fund, Pender Income Advantage Fund and Pender Strategic Growth and Income Fund, funds also managed by the Manager, collectively held 18% 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 pays the operating costs of the Fund. During the period from January 1, 2022 through to March 31, 2022, 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 24% 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. For Class O units, this fee is or will be charged directly to Unitholders, as applicable. 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. During the period from January 1, 2022 through to March 31, 2022, the Manager waived performance fees for the Fund.

# Pender Alternative Arbitrage Fund

Six months ended June 30, 2022

## 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 and the calendar year indicated.

### Fund's Net Assets Per Unit (a)

	2022 (\$)	2021 (\$)
<b>Class A</b>		
Net Assets, beginning of period	10.19	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.02	-
Total expenses	(0.19)	(0.01)
Realized gains (losses)	0.19	(0.03)
Unrealized gains (losses)	0.57	0.25
<b>Total increase (decrease) from operations (b)</b>	<b>0.59</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 distributions (b), (c)</b>	<b>-</b>	<b>(0.02)</b>
<b>Net Assets, end of period</b>	<b>10.26</b>	<b>10.19</b>
<b>Class AF</b>		
Net Assets, beginning of period	10.19	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.01	-
Total expenses	(0.08)	(0.02)
Realized gains (losses)	0.21	(0.06)
Unrealized gains (losses)	(0.05)	0.29
<b>Total increase (decrease) from operations (b)</b>	<b>0.09</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 distributions (b), (c)</b>	<b>-</b>	<b>(0.02)</b>
<b>Net Assets, end of period</b>	<b>10.28</b>	<b>10.19</b>

# Pender Alternative Arbitrage Fund

Six months ended June 30, 2022

## Fund's Net Assets Per Unit (a) (cont'd)

	2022 (\$)	2021 (\$)
<b>Class F</b>		
Net Assets, beginning of period	10.19	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.01	0.01
Total expenses	(0.14)	(0.04)
Realized gains (losses)	0.14	(0.04)
Unrealized gains (losses)	(0.03)	0.21
<b>Total increase (decrease) from operations (b)</b>	<b>(0.02)</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 distributions (b), (c)</b>	<b>-</b>	<b>(0.02)</b>
<b>Net Assets, end of period</b>	<b>10.27</b>	<b>10.19</b>
<b>Class FF</b>		
Net Assets, beginning of period	10.19	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.01	0.01
Total expenses	(0.05)	(0.02)
Realized gains (losses)	0.20	(0.07)
Unrealized gains (losses)	(0.04)	0.30
<b>Total increase (decrease) from operations (b)</b>	<b>0.12</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 distributions (b), (c)</b>	<b>-</b>	<b>(0.02)</b>
<b>Net Assets, end of period</b>	<b>10.30</b>	<b>10.19</b>
<b>Class H</b>		
Net Assets, beginning of period	10.19	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.01	-
Total expenses	(0.16)	(0.01)
Realized gains (losses)	0.16	(0.03)
Unrealized gains (losses)	0.09	0.25
<b>Total increase (decrease) from operations (b)</b>	<b>0.10</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 distributions (b), (c)</b>	<b>-</b>	<b>(0.02)</b>
<b>Net Assets, end of period</b>	<b>10.26</b>	<b>10.19</b>

## Pender Alternative Arbitrage Fund

Six months ended June 30, 2022

### Fund's Net Assets Per Unit (a) (cont'd)

	2022 (\$)	2021 (\$)
<b>Class I</b>		
Net Assets, beginning of period	10.19	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	-	-
Total expenses	(0.11)	(0.01)
Realized gains (losses)	0.10	(0.03)
Unrealized gains (losses)	0.23	0.25
<b>Total increase (decrease) from operations (b)</b>	<b>0.22</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 distributions (b), (c)</b>	<b>-</b>	<b>(0.02)</b>
<b>Net Assets, end of period</b>	<b>10.29</b>	<b>10.19</b>
<b>Class N</b>		
Net Assets, beginning of period	10.19	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.01	-
Total expenses	(0.05)	(0.01)
Realized gains (losses)	0.22	(0.03)
Unrealized gains (losses)	(0.06)	0.25
<b>Total increase (decrease) from operations (b)</b>	<b>0.12</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 distributions (b), (c)</b>	<b>-</b>	<b>(0.02)</b>
<b>Net Assets, end of period</b>	<b>10.30</b>	<b>10.19</b>

# Pender Alternative Arbitrage Fund

Six months ended June 30, 2022

## Fund's Net Assets Per Unit (a) (cont'd)

	2022 (\$)	2021 (\$)
<b>Class O</b>		
Net Assets, beginning of period	10.19	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.01	-
Total expenses	(0.03)	(0.01)
Realized gains (losses)	0.14	(0.03)
Unrealized gains (losses)	0.21	0.25
<b>Total increase (decrease) from operations (b)</b>	<b>0.33</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 distributions (b), (c)</b>	<b>-</b>	<b>(0.02)</b>
<b>Net Assets, end of period</b>	<b>10.33</b>	<b>10.19</b>

(a) This information is derived from the Fund's unaudited semi-annual financial statements as at June 30 and audited annual financial statements as at December 31 for the period stated, prepared under International Financial Reporting Standards.

(b) 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.

(c) Distributions were paid in cash and/or reinvested in additional units of the Fund.

## Ratios and Supplemental Data

	2022	2021
<b>Class A</b>		
Total net asset value (\$000s) (a)	56	5
Number of units outstanding (a)	5,463	501
Management expense ratio (b)	1.97%	0.00%
Management expense ratio before absorptions (c)	2.42%	2.47%
Trading expense ratio (d)	0.47%	0.69%
Portfolio turnover rate (e)	74.19%	43.18%
Net asset value per unit (\$) (a)	10.26	10.19
<b>Class AF</b>		
Total net asset value (\$000s) (a)	2,505	1,782
Number of units outstanding (a)	243,660	174,924
Management expense ratio (b)	1.00%	0.00%
Management expense ratio before absorptions (c)	1.81%	1.74%
Trading expense ratio (d)	0.47%	0.69%
Portfolio turnover rate (e)	74.19%	43.18%
Net asset value per unit (\$) (a)	10.28	10.19
<b>Class F</b>		
Total net asset value (\$000s) (a)	621	5
Number of units outstanding (a)	60,483	501
Management expense ratio (b)	1.35%	0.00%
Management expense ratio before absorptions (c)	1.37%	1.38%
Trading expense ratio (d)	0.47%	0.69%
Portfolio turnover rate (e)	74.19%	43.18%
Net asset value per unit (\$) (a)	10.27	10.19

# Pender Alternative Arbitrage Fund

Six months ended June 30, 2022

## Ratios and Supplemental Data (cont'd)

	2022	2021
<b>Class FF</b>		
Total net asset value (\$000s) (a)	16,865	9,910
Number of units outstanding (a)	1,636,880	972,836
Management expense ratio (b)	0.43%	0.00%
Management expense ratio before absorptions (c)	0.71%	0.69%
Trading expense ratio (d)	0.47%	0.69%
Portfolio turnover rate (e)	74.19%	43.18%
Net asset value per unit (\$) (a)	10.30	10.19
<b>Class H</b>		
Total net asset value (\$000s) (a)	63	5
Number of units outstanding (a)	6,175	501
Management expense ratio (b)	1.89%	0.00%
Management expense ratio before absorptions (c)	2.10%	2.11%
Trading expense ratio (d)	0.47%	0.69%
Portfolio turnover rate (e)	74.19%	43.18%
Net asset value per unit (\$) (a)	10.26	10.19
<b>Class I</b>		
Total net asset value (\$000s) (a)	655	5
Number of units outstanding (a)	63,689	501
Management expense ratio (b)	1.11%	0.00%
Management expense ratio before absorptions (c)	1.21%	1.24%
Trading expense ratio (d)	0.47%	0.69%
Portfolio turnover rate (e)	74.19%	43.18%
Net asset value per unit (\$) (a)	10.29	10.19
<b>Class N</b>		
Total net asset value (\$000s) (a)	5	5
Number of units outstanding (a)	501	501
Management expense ratio (b)	0.44%	0.00%
Management expense ratio before absorptions (c)	1.09%	0.88%
Trading expense ratio (d)	0.47%	0.69%
Portfolio turnover rate (e)	74.19%	43.18%
Net asset value per unit (\$) (a)	10.30	10.19



## Pender Alternative Arbitrage Fund

Six months ended June 30, 2022

### Ratios and Supplemental Data (cont'd)

	2022	2021
<b>Class O</b>		
Total net asset value (\$000s) (a)	4,662	168
Number of units outstanding (a)	451,420	16,528
Management expense ratio (b)	0.00%	0.00%
Management expense ratio before absorptions (c)	0.00%	0.00%
Trading expense ratio (d)	0.47%	0.69%
Portfolio turnover rate (e)	74.19%	43.18%
Net asset value per unit (\$) (a)	10.33	10.19

(a) This information is derived from the Fund's unaudited semi-annual financial statements as at June 30 and audited annual financial statements as at December 31 for the period stated, prepared under International Financial Reporting Standards.

(b) 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.

(c) 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.

(d) 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.

(e) 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.

# Pender Alternative Arbitrage Fund

Six months ended June 30, 2022

## 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.

### Top 25 Holdings

	% of Net Assets
<b>LONG POSITIONS</b>	
Intertape Polymer Group Inc.	3.0
Points.com Inc.	3.0
Bluerock Residential Growth REIT, Inc. Pershing	2.9
Square Tontine Holdings, Ltd. Alleghany Corporation	2.9
Citrix Systems, Inc.	2.6
GTY Technology Holdings Inc.	2.5
Hemisphere Media Group, Inc.	2.5
NeoPhotonics Corporation	2.4
Nielsen Holdings Plc	2.4
Saturn Oil & Gas Inc., Subscription Receipts	2.3
Shaw Communications Inc., Class 'B'	2.3
American Campus Communities, Inc.	2.2
StoneMor Inc.	2.2
Exterran Corporation	2.1
MoneyGram International, Inc.	2.1
Blueknight Energy Partners, L.P.	2.0
Turning Point Therapeutics, Inc.	2.0
Meritor, Inc.	1.9
Rogers Corporation	1.9
SailPoint Technologies Holdings, Inc.	1.9
TCW Special Purpose Acquisition Corp., Class 'A'	1.9
Coherent, Inc.	1.8
Prudential Bancorp, Inc.	1.8
<b>SHORT POSITIONS</b>	
Enerflex Ltd.	(2.4)

## Pender Alternative Arbitrage Fund

Six months ended June 30, 2022

### Composition of the Portfolio

	% of Net Assets
<b>LONG POSITIONS</b>	
Diversified financials	23.4
Information technology	21.4
Health care	8.8
Energy	8.4
Real estate	7.0
Consumer discretionary	6.8
Industrials	6.1
Communication services	5.4
Insurance	4.9
Banks	3.9
Materials	3.0
Utilities	1.4
Consumer staples	0.9
Warrants	0.1
<b>Total Long Positions</b>	<b>101.5</b>
<b>SHORT POSITIONS</b>	
Banks	(3.3)
Energy	(3.1)
Health care	(3.1)
Insurance	(1.3)
Information technology	(0.8)
Real estate	(0.8)
<b>Total Short Positions</b>	<b>(12.4)</b>
<b>Total investments</b>	<b>89.1</b>
Derivative liabilities	(1.6)
<b>Total investment portfolio</b>	<b>87.5</b>
Cash	10.9
Other assets less liabilities	1.6
<b>Total net assets</b>	<b>100.0</b>

## Pender Alternative Arbitrage Fund

Six months ended June 30, 2022

---

### **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: geopolitical events, general economic, political and market factors in North America and internationally; interest and foreign exchange rates and the measures taken by central banks to manage inflation; 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 Alternative Arbitrage Fund**

MANAGED BY:  
PENDERFUND CAPITAL MANAGEMENT LTD.  
1830 – 1066 West Hastings St. Vancouver, BC V6E 3X2  
TELEPHONE 604 688-1511 FACSIMILE 604 563-3199 TOLL FREE 1 866 377-4743  
[www.penderfund.com](http://www.penderfund.com)