



# Pender Alternative Absolute Return 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 Absolute Return Fund

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## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Results of Operations

The net assets of the Pender Alternative Absolute Return Fund (the “Fund”) were \$126,122,696 as at June 30, 2022 versus \$40,746,406 as at December 31, 2021. Of this \$85,376,290 increase, \$86,460,153 is attributable to net unitholder purchases of Fund units, which was partially offset by \$1,083,863 of negative 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 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 maximizing absolute returns with low volatility, the Fund uses fundamental research to identify what we see as 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.

The Fund has been focused on preserving capital in this environment, with an emphasis on its current income strategy. The portfolio has had significant hedges in place through the period, consistent with that goal of preserving capital. Specifically, the Fund has been short government bonds to hedge out the risk of rising interest rates and maintained a short duration position over the last six months. Also, the strategy has mitigated its exposure to spread widening by shorting high yield ETFs and equity ETFs. This has helped insulate the portfolio from the risk-off environment during the first six months of 2022. These hedges have worked effectively to help deliver to the Fund’s objective of maximizing absolute returns with low volatility.

### Recent Developments

The credit market evolved dramatically over the first six months of the 2022. This was driven by macro events and rising levels of uncertainty regarding the growth outlook going forward. Extremely easy monetary policy from 2021 was replaced with monetary tightening and rising interest rates by the Federal Reserve and other central bankers around the world. This has been driven by inflation which has risen to its highest levels in decades across many developed markets globally.

Against this backdrop of rising macro uncertainty, the Fund has remained conservatively positioned and focused on current income generation within its holdings. The opportunity set has evolved and we are starting to see better absolute return levels in high yield bonds and are able to reposition the portfolio when better opportunities arise. High yield spreads have widened and are, in our opinion, offering better value with the Option-Adjusted Spread on the ICE reaching 5.87% as of June 30, 2022, up from 3.10% at the end of December 2021. While spreads could continue to widen if the economy falls into a recession, we believe the rising rate environment coupled with spread widening has created a better setup for long term returns.

Overall, the Fund is positioned defensively with modest leverage and duration and risk hedges intended to protect capital in the event of either further spread widening or higher underlying yields. The Fund will adjust exposures dynamically in response to valuations.

Investment results may be affected by future developments and new information that may emerge regarding inflation and the impact of central bank measures, geopolitical events, COVID-19 and its variants 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 less than 1% of the Fund’s units. In addition, the Pender Enhanced Income Fund, Pender Strategic Growth and Income Fund, Pender Value Fund and Pender Value Fund II, funds also managed by the Manager, collectively held 5% of the Fund’s outstanding units.

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## 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 to January 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 a 3% hurdle rate, for the period since the performance fee was last paid, subject to accumulation in years where no performance fee is 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 and the calendar year indicated.

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

	2022 (\$)	2021 (\$)
<b>Class A</b>		
Net Assets, beginning of period	9.99	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.35	0.48
Total expenses	(0.16)	(0.01)
Realized gains (losses)	0.02	(0.28)
Unrealized gains (losses)	(0.70)	0.03
<b>Total increase (decrease) from operations (b)</b>	<b>(0.49)</b>	<b>0.22</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.25)	(0.24)
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total distributions (b), (c)</b>	<b>(0.25)</b>	<b>(0.24)</b>
<b>Net Assets, end of period</b>	<b>9.68</b>	<b>9.99</b>

# Pender Alternative Absolute Return Fund

Six months ended June 30, 2022

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

	2022 (\$)	2021 (\$)
<b>Class AF</b>		
Net Assets, beginning of period	9.99	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.27	0.07
Total expenses	(0.11)	-
Realized gains (losses)	0.01	(0.01)
Unrealized gains (losses)	(0.30)	0.13
<b>Total increase (decrease) from operations (b)</b>	<b>(0.13)</b>	<b>0.19</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.24)	(0.23)
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total distributions (b), (c)</b>	<b>(0.24)</b>	<b>(0.23)</b>
<b>Net Assets, end of period</b>	<b>9.72</b>	<b>9.99</b>
<b>Class F</b>		
Net Assets, beginning of period	9.99	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.34	0.47
Total expenses	(0.11)	(0.01)
Realized gains (losses)	(0.05)	(0.28)
Unrealized gains (losses)	(0.65)	0.04
<b>Total increase (decrease) from operations (b)</b>	<b>(0.47)</b>	<b>0.22</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.27)	(0.24)
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total distributions (b), (c)</b>	<b>(0.27)</b>	<b>(0.24)</b>
<b>Net Assets, end of period</b>	<b>9.70</b>	<b>9.99</b>
<b>Class FF</b>		
Net Assets, beginning of period	10.00	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.26	0.07
Total expenses	(0.07)	-
Realized gains (losses)	0.01	(0.01)
Unrealized gains (losses)	(0.27)	0.14
<b>Total increase (decrease) from operations (b)</b>	<b>(0.07)</b>	<b>0.20</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.29)	(0.22)
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total distributions (b), (c)</b>	<b>(0.29)</b>	<b>(0.22)</b>
<b>Net Assets, end of period</b>	<b>9.73</b>	<b>10.00</b>

# Pender Alternative Absolute Return Fund

Six months ended June 30, 2022

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

	2022 (\$)	2021 (\$)
<b>Class H</b>		
Net Assets, beginning of period	9.99	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.26	0.47
Total expenses	(0.14)	(0.01)
Realized gains (losses)	(0.05)	(0.28)
Unrealized gains (losses)	(0.31)	0.04
<b>Total increase (decrease) from operations (b)</b>	<b>(0.24)</b>	<b>0.22</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.23)	(0.24)
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total distributions (b), (c)</b>	<b>(0.23)</b>	<b>(0.24)</b>
<b>Net Assets, end of period</b>	<b>9.71</b>	<b>9.99</b>
<b>Class I</b>		
Net Assets, beginning of period	9.99	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.37	(0.01)
Total expenses	(0.10)	-
Realized gains (losses)	0.02	0.02
Unrealized gains (losses)	(0.75)	0.15
<b>Total increase (decrease) from operations (b)</b>	<b>(0.46)</b>	<b>0.16</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.26)	(0.24)
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total distributions (b), (c)</b>	<b>(0.26)</b>	<b>(0.24)</b>
<b>Net Assets, end of period</b>	<b>9.72</b>	<b>9.99</b>
<b>Class N</b>		
Net Assets, beginning of period	9.99	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.27	0.47
Total expenses	(0.07)	(0.01)
Realized gains (losses)	(0.01)	(0.28)
Unrealized gains (losses)	(0.43)	0.04
<b>Total increase (decrease) from operations (b)</b>	<b>(0.24)</b>	<b>0.22</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.28)	(0.24)
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total distributions (b), (c)</b>	<b>(0.28)</b>	<b>(0.24)</b>
<b>Net Assets, end of period</b>	<b>9.71</b>	<b>9.99</b>

## Pender Alternative Absolute Return Fund

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

	2022 (\$)	2021 (\$)
<b>Class O</b>		
Net Assets, beginning of period	9.99	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.25	0.48
Total expenses	(0.03)	(0.01)
Realized gains (losses)	0.01	(0.29)
Unrealized gains (losses)	(0.21)	0.04
<b>Total increase (decrease) from operations (b)</b>	<b>0.02</b>	<b>0.22</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.31)	(0.24)
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total distributions (b), (c)</b>	<b>(0.31)</b>	<b>(0.24)</b>
<b>Net Assets, end of period</b>	<b>9.71</b>	<b>9.99</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)	2,001	5
Number of units outstanding (a)	206,756	512
Management expense ratio (b)	2.41%	0.00%
Management expense ratio before absorptions (c)	2.42%	2.46%
Trading expense ratio (d)	0.70%	0.16%
Portfolio turnover rate (e)	100.77%	122.86%
Net asset value per unit (\$) (a)	9.68	9.99
<b>Class AF</b>		
Total net asset value (\$000s) (a)	8,644	2,651
Number of units outstanding (a)	889,038	265,312
Management expense ratio (b)	1.63%	0.00%
Management expense ratio before absorptions (c)	1.78%	1.75%
Trading expense ratio (d)	0.70%	0.16%
Portfolio turnover rate (e)	100.77%	122.86%
Net asset value per unit (\$) (a)	9.72	9.99
<b>Class F</b>		
Total net asset value (\$000s) (a)	7,978	5
Number of units outstanding (a)	822,437	512
Management expense ratio (b)	1.38%	0.00%
Management expense ratio before absorptions (c)	1.39%	1.38%
Trading expense ratio (d)	0.70%	0.16%
Portfolio turnover rate (e)	100.77%	122.86%
Net asset value per unit (\$) (a)	9.70	9.99

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

	2022	2021
<b>Class FF</b>		
Total net asset value (\$000s) (a)	75,456	32,660
Number of units outstanding (a)	7,757,991	3,265,237
Management expense ratio (b)	0.64%	0.00%
Management expense ratio before absorptions (c)	0.71%	0.70%
Trading expense ratio (d)	0.70%	0.16%
Portfolio turnover rate (e)	100.77%	122.86%
Net asset value per unit (\$) (a)	9.73	10.00
<b>Class H</b>		
Total net asset value (\$000s) (a)	1,336	5
Number of units outstanding (a)	137,502	512
Management expense ratio (b)	2.09%	0.00%
Management expense ratio before absorptions (c)	2.10%	2.10%
Trading expense ratio (d)	0.70%	0.16%
Portfolio turnover rate (e)	100.77%	122.86%
Net asset value per unit (\$) (a)	9.71	9.99
<b>Class I</b>		
Total net asset value (\$000s) (a)	23,482	131
Number of units outstanding (a)	2,416,993	13,156
Management expense ratio (b)	1.15%	0.00%
Management expense ratio before absorptions (c)	1.19%	1.22%
Trading expense ratio (d)	0.70%	0.16%
Portfolio turnover rate (e)	100.77%	122.86%
Net asset value per unit (\$) (a)	9.72	9.99
<b>Class N</b>		
Total net asset value (\$000s) (a)	252	5
Number of units outstanding (a)	25,906	512
Management expense ratio (b)	0.85%	0.00%
Management expense ratio before absorptions (c)	0.86%	0.88%
Trading expense ratio (d)	0.70%	0.16%
Portfolio turnover rate (e)	100.77%	122.86%
Net asset value per unit (\$) (a)	9.71	9.99

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

	2022	2021
<b>Class O</b>		
Total net asset value (\$000s) (a)	6,973	5,283
Number of units outstanding (a)	717,878	528,823
Management expense ratio (b)	0.00%	0.00%
Management expense ratio before absorptions (c)	0.00%	0.00%
Trading expense ratio (d)	0.70%	0.16%
Portfolio turnover rate (e)	100.77%	122.86%
Net asset value per unit (\$) (a)	9.71	9.99

(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 1, 2021.



# Pender Alternative Absolute Return 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>	
Apple Inc., 0.75%, 2023/05/11	5.0
Videotron Ltd., 5.75%, 2026/01/15	5.0
Vermilion Energy Inc., 6.88%, 2030/05/01	4.6
Millennium Operations LLC, 6.50%, 2028/10/01	4.4
1011778 B.C. Unlimited Liability Company, 4.00%, 2030/10/15	4.1
TransDigm Inc., 8.00%, 2025/12/15	4.1
Greystar Real Estate Partners, LLC, 5.75%, 2025/12/01	3.7
Live Nation Entertainment, Inc., 6.50%, 2027/05/15	3.5
XHR LP, 6.38%, 2025/08/15	3.4
CCO Holdings, LLC, 4.50%, 2032/05/01	3.3
Peninsula Pacific Entertainment Finance Inc., 8.50%, 2027/11/15	3.2
Tamarack Valley Energy Ltd., 7.25%, 2027/05/10	3.2
Starbucks Corporation, 3.10%, 2023/03/01	3.0
Teine Energy Ltd., 6.88%, 2029/04/15	2.8
Park Intermediate Holdings LLC, 5.88%, 2028/10/01	2.7
SeaWorld Parks & Entertainment, Inc., 8.75%, 2025/05/01	2.7
PepsiCo Inc., 2.75%, 2023/03/01	2.5
Secure Energy Services Inc., 7.25%, 2026/12/30	2.5
<b>SHORT POSITIONS</b>	
United States Treasury Bond, 2.88%, 2032/05/15	(8.1)
iShares iBoxx High Yield Corporate Bond ETF	(6.0)
SPDR Bloomberg Barclays High Yield Bond ETF	(5.6)
United States Treasury Bond, 1.38%, 2031/11/15	(5.3)
iShares Russell 2000 ETF	(4.5)
SPDR S&P 500 ETF Trust	(4.2)
United States Treasury Bond, 1.88%, 2032/02/15	(2.8)

### Composition of the Portfolio

	% of Net Assets
<b>LONG POSITIONS</b>	
US corporate bonds and loans	77.7
Canadian corporate bonds and loans	26.3
Government bonds	5.0
Equities	0.2
<b>Total Long Positions</b>	<b>109.2</b>

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### Composition of the Portfolio (cont'd)

	% of Net Assets
<b>SHORT POSITIONS</b>	
Exchange-traded funds	(20.3)
Government bonds	(18.5)
US corporate bonds and loans	(1.7)
Equities	(1.1)
<b>Total Short Positions</b>	<b>(41.6)</b>
<b>Total investments</b>	<b>67.6</b>
Derivative liabilities	(1.1)
<b>Total investment portfolio</b>	<b>66.5</b>
Cash	43.5
Other assets less liabilities	(10.0)
<b>Total net assets</b>	<b>100.0</b>

## Pender Alternative Absolute Return Fund

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### **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 Absolute Return Fund**

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