

Dear Unitholders,

The Pender Alternative Arbitrage Fund (PAAF) ended the month of July 2022 with a NAV of \$10.30 per unit¹.

The first seven months of 2022 saw \$2.3T of deals announced globally, the fourth highest year-to-date total on record². M&A activity was down 62% in July, totalling \$200.8B of deals announced, likely driven by market participants pausing after higher volatility in Q2 and a pickup in post-COVID travel this summer.

Technology remained the most active sector for deal activity, continuing its leading streak for 31 consecutive months and accounting for 22% of deal activity year-to-date. Private equity-backed M&A transactions also took a pause, totalling just \$22.4B of deals for July, down 85% and representing the lowest level since April 2020.

Despite the slowdown in PE deals this month, they accounted for 25% of all M&A activity this year, the highest share on record. With trillions of dollars in private equity firm coffers and strong incentives for that capital to be deployed (as firms typically only collect fees on capital invested) we expect PE deal activity to remain high for the foreseeable future.

SPAC arbitrage yields continued their surge higher with SPAC yields hitting their highest level on record during July as they continued to trade at large discounts to NAV. Dozens of SPAC mergers have been cancelled this year, and this wave of breakups is adding more blows to an industry already struggling. Facing a proposed regulatory crackdown in an environment that is already challenging for dealmaking, given the economic uncertainty and rising interest rates, has limited SPAC sponsors' abilities to source and ultimately close a merger. The poor performance of "de-SPACs" and elevated competition from hundreds of SPACs nearing maturity and desperately seeking a deal has turned sentiment from bad to worse. This provides a favourable backdrop for SPAC arbitrage, with many SPACs that fail to close a merger choosing to liquidate early and return capital to investors.

We expect to see an acceleration of SPAC liquidations over the next few quarters as the industry faces an effective maturity cliff with SPACs that raised capital in the back-half of 2020 reaching their maturity dates. We expect the majority will fail to find a target for a business combination and liquidate, returning capital to investors. At the end of July, SPACs searching for targets were trading at a discount-to-trust which provides a yield-to-maturity in excess of 5.6%³. With SPAC arbitrage [effectively reflecting acquiring a treasury bill at a discount](#), SPACs currently provide a higher yield than US Corporate Investment Grade Bonds⁴ with lower credit risk through the trust value being held in cash or US treasuries while also offering shorter duration.

Portfolio Update

After widening out in June, merger arbitrage spreads tightened through July as market volatility, which was elevated the previous month, normalized, and several merger deals the market had priced as higher risk successfully closed. The Fund initiated positions in 13 new or previously announced merger deals, with 12 deals held within the Fund closing during the month. With a flurry of activity and spreads widening at the end of Q2, we were able to redeploy capital from closed mergers into several existing deals during July. Our focus remains on high-quality small and mid-cap merger arb deals, which we believe have a higher probability of success than implied by the market. We have a preference for mergers with a short, expected duration to closing.

The environment for merger arbitrage remains highly attractive with a large number of new and recently announced merger deals, a higher than historical success rate of mergers closing, and wider than historical relative and absolute spreads. With SPAC yields continuing their surge higher and SPAC redemption and liquidation opportunities expected to increase in the coming quarters as more SPACs meet their maturity dates, we see a compelling opportunity for

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

² <https://resourcehub.refinitiv.com/506633dealsintelinsight/506633-July2022MA?lx>

³ <https://spacinsider.com/stats/>

⁴ <https://fred.stlouisfed.org/series/BAMLCOA4CBBEY>

SPAC arbitrage. We continue to see a favourable environment for both SPAC and merger arbitrage relative to traditional bonds with the benefit of lower correlation, shorter duration and tax efficiency.

Randolph Bancorp, Inc. (NASDAQ: RNDB), Convey Health Solutions Holdings, Inc. (NYSE: CNVY), USA Truck, Inc. (NASDAQ: USAK), Resolute Forest Products Inc. (NYSE: RFP), Meridian Bioscience, Inc. (NASDAQ: VIVO), La Jolla Pharmaceutical Company (NASDAQ: LJPC), Great Bear Royalties Corp. (TSXV: GBRR), Sharps Compliance Corp. (NASDAQ: SMED), Manning & Napier, Inc. (NYSE: MN), ironSource Ltd. (NYSE: IS), IBI Group Inc. (TSX: IBG), 1Life Healthcare, Inc. (NASDAQ: ONEM), and Zymergen Inc. (NASDAQ: ZY) were among deals initiated in the Fund during the month.

Points.com Inc. (NASDAQ: PCOM), Prudential Bancorp, Inc. (NASDAQ: PBIP), The National Security Group, Inc. (NASDAQGM: NSEC), Coherent, Inc. (NASDAQ: COHR), CDK Global, Inc. (NASDAQ: CDK), GTY Technology Holdings Inc. (NASDAQ: GTYH), ServiceSource International, Inc. (NASDAQ: SREV), Healthcare Trust of America, Inc. (NYSE: HTA), Natus Medical Incorporated (NASDAQ: NTUS), Cornerstone Building Brands, Inc. (NYSE: CNR), Metromile, Inc. (NASDAQ: MILE) and Welbilt, Inc. (NYSE: WBT) were among the merger deals that closed during July.

At the end of July, the Fund had 30 investments in small-cap deals under \$2B with 27 of those deals valued at under \$1B. The Fund continues to benefit from leveraging the organic small and mid-cap focused deal flow from Pender's equity portfolios. IBI Group Inc. (TSX: IBG), a key position in the Pender Small/Mid Cap Dividend Fund (PSMCD), announced on July 18, 2022 that they had entered into an agreement to be acquired by global design firm Arcadis NV for C\$19.50/share.

As a long-term holding in the PSMCD, we were knowledgeable about the business, had existing research and due diligence we could leverage and had information on precedent transactions in the industry. Importantly, we also had a private market value assessment of the business. Our investment thesis was partly on a take-out catalyst as we believed the business was undervalued while the partnership group, comprised of employees of the firm who were the largest shareholders in the company, were seeking a liquidity event. Leveraging our knowledge and research about the business, we believe this merger has a high probability of closing and in a shorter timeframe than management's expectations. Based on this assessment, we initiated a position in IBI Group, which is among the largest holdings in the Fund.

Outlook

Markets stabilized in July after experiencing the worst first half-year in history for both equity and bonds. Inflation rose in both Canada and the US during June, although declining energy prices and a slowdown in parts the economy indicate a deceleration of inflation is likely. With the labour market remaining tight in the US and given the Fed's dual mandate, the path forward for rates is unclear. What is clear is that inflation is a greater consideration for monetary policymaking, making it more unpredictable than historical precedent.

Given this greater level of uncertainty, the path forward for investors will remain difficult to navigate. We continue to believe that a non-correlated event-driven investment strategy like merger arbitrage can provide investors with the potential to generate absolute returns through various market environments. With wider spreads, historically high levels of M&A activity and surging SPAC yields, the opportunity for both merger arbitrage and SPAC arbitrage is compelling.

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August 26, 2022



PENDER
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The Pender Alternative Arbitrage Fund was launched in September 2021. Standard Performance Information for this Fund will be available one year after inception. More information on the Fund can be found here: <https://www.penderfund.com/liquid-alternative-funds/>

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