



Pender Alternative Multi-Strategy Income Fund (formerly Pender Value Fund II)

For the year ended December 31, 2022

Annual Management Report of Fund Performance

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 or the SEDAR website at 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.

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MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

Effective September 1, 2022, the objective of the Pender Alternative Multi-Strategy Income Fund (the “Fund”), formerly Pender Value Fund II, is to preserve capital and to generate returns through current income and capital appreciation, while being sufficiently diversified to mitigate volatility. The Fund will invest primarily in North American securities and may also invest in foreign 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 29, 2022. Effective September 1, 2022, Pender Value Fund II was converted from a conventional mutual fund to an alternative mutual fund and was renamed Pender Alternative Multi-Strategy Income Fund. In connection therewith, the Fund’s fundamental investment objectives and strategies changed and this changed its overall level of risk during the period, taking it from a high risk rating to a low risk rating.

The economic uncertainties around persistent inflation pressure, bank failures, geopolitical events and the lingering COVID-19 pandemic have the potential to slow growth in the global economy. Future developments in these challenging areas could impact the Funds’ results and financial condition and the full extent of that impact remains unknown.

As at December 31, 2022, the Fund had exposure to the banking sector. Subsequent to year-end, the Fund continues to have exposure to this sector. In certain cases, government agencies have assumed control or otherwise intervened in the operations of certain banks due to liquidity and solvency concerns. The extent of the situation remains uncertain and as such the Manager continues to assess across the broader financial sector and will take potential actions, as deemed necessary. The ultimate resolution of these liquidity and solvency concerns and the extent of the related impact to the Fund is uncertain and could be significant.

Results of Operations

The net assets of the Fund were \$5,914,427 as at December 31, 2022 versus \$15,800,542 as at December 31, 2021. Of this \$9,886,115 decrease, \$6,166,827 is attributable to net unitholder redemptions of Fund units and \$3,719,288 is attributable to negative investment performance.

Because the Fund has been in operation with its new objectives and strategies for less than one year, past performance data is not available for disclosure.

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

Recent Developments

The year of 2022, significant global macro events materialized and led to increased volatility in financial markets as risk was repriced. In particular, moves by central banks to raise interest rates and taper monetary stimulus to control inflation caused investors to reassess the growth outlook going forward. With these events as a backdrop, economic growth slowed and fears of a recession on the horizon sapped investor sentiment in 2022. This has been a challenging year for financial markets with equities and fixed income assets both experiencing significant drawdowns.

The portfolio was transitioned to a liquid alternative mandate in September 2022, with allocations to high yield, absolute return and merger arbitrage strategies. We believe these strategies are well positioned to benefit from the market volatility of 2022, capturing higher absolute yield in high yield and merger arbitrage as well as the ability to hedge interest rate and market risk. The portfolio ended 2022 with 33% invested in the Pender Alternative Absolute Return Fund, 33% invested in the Pender Corporate Bond Fund, 17.1% invested in the Pender Alternative Arbitrage Plus Fund and 16.1% invested in the Pender Alternative Arbitrage Fund.

From a geographic perspective, the portfolio is primarily exposed to companies based in North America. We believe the underlying strategies within the portfolio provide a diversified exposure that will deliver a combination of income and capital gains while delivering to the objective of the Fund.

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The underlying strategies within the portfolio allow the Fund to short securities. This would include hedging against rising interest rates or a widening of credit spreads for example. The Fund also has exposure to merger arbitrage strategies, where shorting allows the Fund to capture the deal spread when stock is offered as part of the announced merger acquisition. This allows the Fund to capture the merger arbitrage spread while heading out market volatility.

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, the lingering impact of COVID-19, 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 year, parties related to the Manager collectively held less than 1% of the Fund's units.

As part of the Fund's investment strategy, the Fund invests in Class O units of the Pender Alternative Absolute Return Fund, Pender Corporate Bond Fund, Pender Alternative Arbitrage Plus Fund and Pender Alternative Arbitrage Fund, funds that are also managed by the Manager. The Fund does not pay any duplicate management fees on its investment in these funds.

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.

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 year.

Performance Fees

The Manager is also entitled to a performance fee plus applicable taxes such as GST or HST on 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, 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 payable 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.

Pender Alternative Multi-Strategy Income Fund (formerly Pender Value Fund II)

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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 calendar years indicated.

Fund's Net Assets Per Unit (a)

	2022 (\$)	2021 (\$)	2020 (\$)	2019 (\$)	2018 (\$)
Class A					
Net Assets, beginning of year	16.26	16.57	14.22	16.77	27.54
Increase (decrease) from operations:					
Total revenue	0.26	0.22	0.22	0.29	0.20
Total expenses	(0.34)	(0.48)	(0.28)	(0.58)	(0.66)
Realized gains (losses)	(4.33)	2.99	(2.17)	(11.17)	(1.39)
Unrealized gains (losses)	(0.77)	(2.41)	3.16	8.58	(9.32)
Total increase (decrease) from operations (b)	(5.18)	0.32	0.93	(2.88)	(11.17)
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total distributions (b), (c)	-	-	-	-	-
Net Assets, end of year	11.53	16.26	16.57	14.22	16.77
Class A1					
Net Assets, beginning of year	11.49	11.71	10.00	10.00	
Increase (decrease) from operations:					
Total revenue	0.03	0.16	0.15	-	
Total expenses	(0.12)	(0.34)	(0.19)	-	
Realized gains (losses)	0.16	1.89	(0.93)	-	
Unrealized gains (losses)	(3.49)	(2.54)	4.20	-	
Total increase (decrease) from operations (b)	(3.42)	(0.83)	3.23	-	
Distributions:					
From income (excluding dividends)	-	-	-	-	
From dividends	-	-	-	-	
From capital gains	-	-	-	-	
Return of capital	-	-	-	-	
Total distributions (b), (c)	-	-	-	-	
Net Assets, end of year	-	11.49	11.71	10.00	

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

	2022 (\$)	2021 (\$)	2020 (\$)	2019 (\$)	2018 (\$)
Class E					
Net Assets, beginning of year	11.95	11.94	10.00	10.00	
Increase (decrease) from operations:					
Total revenue	0.21	0.16	0.15	-	
Total expenses	(0.06)	(0.09)	(0.02)	-	
Realized gains (losses)	(3.44)	2.07	(1.24)	-	
Unrealized gains (losses)	(0.01)	(2.12)	3.05	-	
Total increase (decrease) from operations (b)	(3.30)	0.02	1.94	-	
Distributions:					
From income (excluding dividends)	-	-	-	-	
From dividends	-	-	-	-	
From capital gains	-	-	-	-	
Return of capital	-	-	-	-	
Total distributions (b), (c)	-	-	-	-	
Net Assets, end of year	8.65	11.95	11.94	10.00	
Class F					
Net Assets, beginning of year	17.44	17.58	14.95	17.44	28.32
Increase (decrease) from operations:					
Total revenue	0.29	0.24	0.23	0.36	0.21
Total expenses	(0.22)	(0.31)	(0.16)	(0.42)	(0.71)
Realized gains (losses)	(5.14)	3.36	(2.54)	(10.41)	(1.43)
Unrealized gains (losses)	(0.06)	(2.12)	3.19	7.18	(9.89)
Total increase (decrease) from operations (b)	(5.13)	1.17	0.72	(3.29)	(11.51)
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total distributions (b), (c)	-	-	-	-	-
Net Assets, end of year	12.50	17.44	17.58	14.95	17.44
Class F1					
Net Assets, beginning of year	11.73	11.83	10.00	10.00	
Increase (decrease) from operations:					
Total revenue	0.04	0.16	0.15	-	
Total expenses	(0.07)	(0.21)	(0.10)	-	
Realized gains (losses)	0.06	2.12	(1.25)	-	
Unrealized gains (losses)	(3.87)	(2.29)	3.01	-	
Total increase (decrease) from operations (b)	(3.84)	(0.22)	1.81	-	
Distributions:					
From income (excluding dividends)	-	-	-	-	
From dividends	-	-	-	-	
From capital gains	-	-	-	-	
Return of capital	-	-	-	-	
Total distributions (b), (c)	-	-	-	-	
Net Assets, end of year	-	11.73	11.83	10.00	

Pender Alternative Multi-Strategy Income Fund (formerly Pender Value Fund II)

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

	2022 (\$)	2021 (\$)	2020 (\$)	2019 (\$)	2018 (\$)
Class H					
Net Assets, beginning of period (a)	10.00				
Increase (decrease) from operations:					
Total revenue	0.18				
Total expenses	(0.09)				
Realized gains (losses)	0.03				
Unrealized gains (losses)	0.02				
Total increase (decrease) from operations (b)	0.14				
Distributions:					
From income (excluding dividends)	-				
From dividends	-				
From capital gains	-				
Return of capital	-				
Total distributions (b), (c)	-				
Net Assets, end of period	10.15				
Class I					
Net Assets, beginning of year	11.78	11.86	10.00	10.00	
Increase (decrease) from operations:					
Total revenue	0.17	0.16	0.15	-	
Total expenses	(0.13)	(0.19)	(0.09)	-	
Realized gains (losses)	(2.79)	1.93	(1.60)	-	
Unrealized gains (losses)	(1.28)	(2.63)	2.51	-	
Total increase (decrease) from operations (b)	(4.03)	(0.73)	0.97	-	
Distributions:					
From income (excluding dividends)	-	-	-	-	
From dividends	-	-	-	-	
From capital gains	-	-	-	-	
Return of capital	-	-	-	-	
Total distributions (b), (c)	-	-	-	-	
Net Assets, end of year	8.46	11.78	11.86	10.00	
Class N					
Net Assets, beginning of year	11.86	11.89	10.00	10.00	
Increase (decrease) from operations:					
Total revenue	0.21	0.15	0.15	-	
Total expenses	(0.09)	(0.14)	(0.06)	-	
Realized gains (losses)	(3.41)	2.06	(1.24)	-	
Unrealized gains (losses)	(0.01)	(2.11)	3.03	-	
Total increase (decrease) from operations (b)	(3.30)	(0.04)	1.88	-	
Distributions:					
From income (excluding dividends)	-	-	-	-	
From dividends	-	-	-	-	
From capital gains	-	-	-	-	
Return of capital	-	-	-	-	
Total distributions (b), (c)	-	-	-	-	
Net Assets, end of year	8.56	11.86	11.89	10.00	

Pender Alternative Multi-Strategy Income Fund (formerly Pender Value Fund II)

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

	2022 (\$)	2021 (\$)	2020 (\$)	2019 (\$)	2018 (\$)
Class O					
Net Assets, beginning of year	12.07	12.00	10.00	10.00	
Increase (decrease) from operations:					
Total revenue	0.08	0.16	0.15	-	
Total expenses	-	(0.02)	0.03	-	
Realized gains (losses)	(0.80)	2.08	(1.41)	-	
Unrealized gains (losses)	(4.92)	(2.14)	4.37	-	
Total increase (decrease) from operations (b)	(5.64)	0.08	3.14	-	
Distributions:					
From income (excluding dividends)	-	-	-	-	
From dividends	-	-	-	-	
From capital gains	-	-	-	-	
Return of capital	-	-	-	-	
Total distributions (b), (c)	-	-	-	-	
Net Assets, end of year	8.78	12.07	12.00	10.00	

(a) This information is derived from the Fund's audited annual financial statements as at December 31 for the year/period stated, prepared under International Financial Reporting Standards. Effective September 1, 2022, the Fund's investment objectives and strategies were changed to reflect its conversion from a conventional mutual fund into an alternative mutual fund and in connection therewith, among other things, the name, fund type, risk level and fee structure of the Fund also changed. Class A1 and Class F1 were closed on June 24, 2022. Class H commenced operations on September 1, 2022.

(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 year/period.

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

Ratios and Supplemental Data

	2022	2021	2020	2019	2018
Class A					
Total net asset value (\$000s) (a)	3,288	7,173	11,344	16,941	49,409
Number of units outstanding (a)	285,161	441,165	684,695	1,190,982	2,945,589
Management expense ratio (b)	2.55%	2.47%	2.40%	2.77%	2.39%
Management expense ratio before absorptions (c)	2.55%	2.47%	2.40%	2.77%	2.39%
Trading expense ratio (d)	0.14%	0.16%	0.19%	0.69%	0.16%
Portfolio turnover rate (e)	79.88%	66.22%	86.43%	103.02%	34.40%
Net asset value per unit (\$) (a)	11.53	16.26	16.57	14.22	16.77
Class E					
Total net asset value (\$000s) (a)	4	6	6	5	
Number of units outstanding (a)	500	500	500	500	
Management expense ratio (b)	0.52%	0.51%	0.50%	0.00%	
Management expense ratio before absorptions (c)	0.52%	0.51%	0.50%	0.00%	
Trading expense ratio (d)	0.14%	0.16%	0.19%	0.69%	
Portfolio turnover rate (e)	79.88%	66.22%	86.43%	103.02%	
Net asset value per unit (\$) (a)	8.65	11.95	11.94	10.00	

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Ratios and Supplemental Data (cont'd)

	2022	2021	2020	2019	2018
Class F					
Total net asset value (\$000s) (a)	1,973	3,741	7,239	11,795	93,993
Number of units outstanding (a)	157,795	214,509	411,761	789,185	5,390,462
Management expense ratio (b)	1.48%	1.43%	1.40%	1.70%	1.30%
Management expense ratio before absorptions (c)	1.48%	1.43%	1.40%	1.70%	1.30%
Trading expense ratio (d)	0.14%	0.16%	0.19%	0.69%	0.16%
Portfolio turnover rate (e)	79.88%	66.22%	86.43%	103.02%	34.40%
Net asset value per unit (\$) (a)	12.50	17.44	17.58	14.95	17.44
Class H					
Total net asset value (\$000s) (a)	5.00				
Number of units outstanding (a)	500.00				
Management expense ratio (b)	2.16%				
Management expense ratio before absorptions (c)	2.16%				
Trading expense ratio (d)	0.14%				
Portfolio turnover rate (e)	79.88%				
Net asset value per unit (\$) (a)	10.15				
Class I					
Total net asset value (\$000s) (a)	636	2,177	2,077	50	
Number of units outstanding (a)	75,095	184,759	175,090	500	
Management expense ratio (b)	1.28%	1.26%	1.25%	0.00%	
Management expense ratio before absorptions (c)	1.28%	1.26%	1.25%	0.00%	
Trading expense ratio (d)	0.14%	0.16%	0.19%	0.69%	
Portfolio turnover rate (e)	79.88%	66.22%	86.43%	103.02%	
Net asset value per unit (\$) (a)	8.46	11.78	11.86	10.00	
Class N					
Total net asset value (\$000s) (a)	4	6	6	5	
Number of units outstanding (a)	500	500	500	500	
Management expense ratio (b)	0.82%	0.86%	0.85%	0.00%	
Management expense ratio before absorptions (c)	0.82%	0.86%	0.85%	0.00%	
Trading expense ratio (d)	0.14%	0.16%	0.19%	0.69%	
Portfolio turnover rate (e)	79.88%	66.22%	86.43%	103.02%	
Net asset value per unit (\$) (a)	8.56	11.86	11.89	10.00	

Pender Alternative Multi-Strategy Income Fund (formerly Pender Value Fund II)

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Ratios and Supplemental Data (cont'd)

	2022	2021	2020	2019	2018
Class O					
Total net asset value (\$000s) (a)	4	1,304	1,297	5	
Number of units outstanding (a)	500	108,089	108,089	500	
Management expense ratio (b)	0.00%	0.00%	0.00%	0.00%	
Management expense ratio before absorptions (c)	0.00%	0.00%	0.00%	0.00%	
Trading expense ratio (d)	0.00%	0.16%	0.19%	0.69%	
Portfolio turnover rate (e)	79.88%	66.22%	86.43%	103.02%	
Net asset value per unit (\$) (a)	8.78	12.07	12.00	10.00	

(a) This information is derived from the Fund's audited annual financial statements as at December 31 for the year/period stated, prepared under International Financial Reporting Standards. Effective September 1, 2022, the Fund's investment objectives and strategies were changed to reflect its conversion from a conventional mutual fund into an alternative mutual fund and in connection therewith, among other things, the name, fund type, risk level and fee structure of the Fund also changed. Class A1 and Class F1 were closed on June 24, 2022. Class H commenced operations on September 1, 2022.

(b) Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) for the year and is expressed as an annualized percentage of daily average net asset value during the year. 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 paid by the Fund.

(c) The Manager of the Fund has agreed to absorb sufficient expenses of the Fund, as necessary, so 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 year.

(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 year. In general, the higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. 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 underwent a performance reset following its conversion from a conventional mutual fund to an alternative mutual fund on September 1, 2022.

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Summary of Investment Portfolio

The largest holdings of the Fund as at the end of the year 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
Pender Alternative Absolute Return Fund, Class 'O'	33.0
Pender Corporate Bond Fund, Class 'O'	33.0
Pender Alternative Arbitrage Plus Fund, Class 'O'	17.1
Pender Alternative Arbitrage Fund, Class 'O'	16.1
SECURE Energy Services Inc.	0.0

Composition of the Portfolio

	% of Net Assets
Mutual funds	
Pender Alternative Absolute Return Fund, Class 'O'	33.0
Pender Corporate Bond Fund, Class 'O'	33.0
Pender Alternative Arbitrage Plus Fund, Class 'O'	17.1
Pender Alternative Arbitrage Fund, Class 'O'	16.1
Total mutual funds	99.2
Warrants	0.0
Total investments	99.2
Cash	1.1
Other assets less liabilities	(0.3)
Total net assets	100.0

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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; including the collapse of banks; 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 Multi-Strategy Income Fund (formerly Pender Value Fund II)

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