Manager's Commentary

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Highlights

- Fund holding, Everbridge Inc (NASDAQ: EVBG, a critical event management enterprise software company) announced they had entered into an agreement to be acquired by private equity firm Thoma Bravo.
- The Fund initiated positions in 10 new merger deals with 9 deals held within the Fund closing.

Dear Unitholders,

The Pender Alternative Arbitrage Fund was up 0.7%[1] in March 2024. The Fund's benchmark, the HFRI ED: Merger Arbitrage Index (USD) returned 0.6% during the same period.

M&A Market Update

Global M&A is off to a strong start in Q1 2024 with $798 billion in deals announced through the first three months of the year, a 38% increase over the same period last year[2]. The rebound in M&A this year has been supported by improving confidence for deal making with strong equity markets, abundant access to capital, high investor confidence and compelling target company valuations. While the value of deals announced was up materially relative to last year, the volume of deals was down 31%, a nine-year low, indicating a willingness for acquirers to target larger deals. In fact, the first quarter saw the highest number of mega-deals greater than $10 billion in two years. The return of mega-mergers is another sign of improved market conditions as boards and CEO's typically require considerable confidence to pursue larger deals given the size, scope and risk associated with them. Private equity deal volumes remained slightly lower in Q1 2024 versus the same period last year. But, as many of last year's leverage buyouts get financed, private equity buyers are poised to return to the table and seek out new acquisition targets.

While a key hurdle for M&A last year was the regulatory environment with overzealous regulators using novel and aggressive approaches to stem merger activity, after a string of key losses last year, we are seeing regulators employ a new playbook this year. With Big Tech and Big Health centered in the cross-hairs of regulators given their perceived monopolistic positioning and significant market power we are seeing regulators take a more direct approach and target specific companies for monopolistic practices. The two key US regulatory watchdogs, the Federal Trade Commission (FTC), and the Department of Justice (DOJ) each have specific antitrust lawsuits targeted at different tech giants. The FTC brought about a lawsuit against Amazon.com Inc last fall alleging that the company is a monopolist that uses a set of interlocking, anticompetitive and unfair strategies to maintain monopoly power. In late March, the DOJ filed a lawsuit against Apple Inc. alleging that the company illegally maintains a monopoly over smartphones by selectively imposing

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

2 https://www.reuters.com/markets/deals/global-ma-picks-up-q1-after-flurry-large-deals-2024-03-28/

contractual restrictions on developers. With these two cases taking considerable resources and indicating that regulators are targeting bigger wins with more notable and measurable consumer impacts, smaller and non-disruptive merger deals are likely to see less regulatory pushback. In our view, this could clear the way for a further pick-up of M&A activity with strategic acquirers contemplating a horizonal for vertical merger having increased confidence to make the deal.

SPAC Market Update

The SPAC sector got some notable attention in March as special-purpose acquisition company, Digital World Acquisition Corp (DWAC) completed its merger with Trump Media & Technology Group (TMTG) listing on the NASDAQ under ticker DJT. With plans to target middle market and emerging growth technology-focused businesses in America, DWAC raised $250 million in its SPAC IPO in September 2021. Shortly after its public debut, the SPAC announced the merger with TMTG which owns Truth Social, an alt-tech social media platform in October 2021. Through a lengthy and complex process with multiple extensions, charges of illegal insider trading and an investigation into the SPAC by the SEC, which resulted in the SPAC settling by paying a fine, the merger was finally approved on March 22, 2024. Since announcing TMTG as the target of the SPAC merger, DWAC shares traded at a significant premium to trust value indicating the considerable halo effect of being associated with the former president and the optionality inherent in SPACs when merging with a company perceived as speculative. AltC Acquisition Corp. (NYSE: ALCC), a SPAC backed by Sam Altman, the founder and CEO of OpenAI, which is merging with Okla Inc, a developer of next-gen nuclear reactors also trades at a significant premium to trust value. As euphoria and speculative fervor returns to the market, SPACs backed by sponsor or merging with companies of notoriety could trade at significant premiums to trust leading to a more compelling SPAC arbitrage investment environment like the SPAC bubble of 2020/2021.

Outside of the fervor surrounding DJT it was a relatively slow month in the SPAC sector. There were two SPAC IPOs in March with 12 SPAC deals closing and five SPACs liquidating. With the SPAC liquidations and the end of the month, there were 235 active SPACs with 104 of them actively searching for targets. Our positioning in SPACs remains conservative, focused on SPACs liquidating or redeeming and targeting a yield in excess of 6.5%. As market euphoria returns and the IPO market reopening indicating a private to public company valuation gap we will also look to opportunistic SPAC IPO arbitrage investments.

At the end of March 2024, SPACs searching for targets were trading at a discount to trust value, which provided a yield-to-maturity of 5.80%.[3] With SPAC arbitrage effectively equivalent to acquiring a Treasury Bill at a discount, SPACs currently provide a similar yield to US Corporate Investment Grade Bonds with lower credit risk, shorter duration and a tax advantage, as SPAC returns are primarily capital gains.

Portfolio Update

[3] https://www.spacinsider.com/

March saw a healthy churn of activity with many merger deals which were among the largest positions in the Fund closing. We were active during the month to deploy the proceeds received from those captured spreads into a slew of new merger deals. Merger arbitrage spreads remain attractive on a relative and absolute basis with a wide range of merger deals allowing us to identify and invest in merger deals with superior risk-adjusted return potential. We continue to see a pickup of prerequisite merger activity including activist campaigns, strategic review announcements and expressions of interest for many companies held or followed by Pender's equity funds. We believe it is only a matter of time before some of this activity leads to definitive acquisitions which should provide a high quality source of deal-flow for the arb Fund. During the month, the Fund initiated positions in 10 new merger deals with nine deals held within the Fund closing.

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As investor confidence improves and market conditions support a robust deal-making environment we continue to see a pick-up of deals exploiting the valuation gap in smaller companies. Buyers are seeking to act quickly and take advantage of these discounts before their competitors to gain a strategic advantage. As discussed in last month's commentary, we believe this environment is primed to see more bidding wars and we saw further evidence of that in our Fund this month. Critical event management enterprise software company Everbridge, Inc. (NASDAQ: EVBG) announced they had entered into an agreement to be acquired by private equity firm Thoma Bravo on February 5, 2024 for $28.60 per share in cash. The agreement included a 25-day "go-shop" period which permitted Everbridge to solicit alternative proposals with the right to terminate the merger to accept a superior proposal. While go-shop periods typically do not result in another offer, in this case Everbridge received a superior offer from another party and Thoma Bravo amended their agreement increasing their offer price to $35 per share, a 22% premium to the initial offer. Deal bumps in cash deals such as this are a positive contributor to arbitrage returns and the Fund's position in Everbridge benefited performance during the month.

The benefits of our small and mid-cap focus, along with leveraging organic deal flow from Pender's equity portfolios was evident this month. TrueContext Corp (TSXV: TCXT), a core holding in several Pender equity funds announced they had accepted an offer to be acquired by Boston-based investment firm Battery Ventures for $1.07 per share which was a 40% premium. As a long-term holding within Pender's equity funds, we had considerable knowledge and research that could be quickly leveraged by the Fund. This included private market valuation analysis and a thorough understanding of shareholder expectations allowing us to quickly assess the risk factors pertinent to a merger approval. We concluded this was a high quality merger deal with duration upside to closing and have initiated a position in the Fund. Duration can be a key contributor to merger arbitrage performance as capital from closed merger can be redeployed into a new deal providing an attractive annualized return. With many large and mega mergers facing regulatory delays and extended periods to closing, we believe small and mid-caps can benefit from shorter relative duration and more opportunities to reinvest cash to drive returns. At the end of March 2024, the Fund had 37 investments in small cap deals under $2 billion, 29 of which were valued at under $1 billion.

Outlook

Euphoria has returned to markets with multiple assets from gold to equities to bitcoin at all-time highs. Markets continued their unwavering rally with the S&P 500 up 3.22% during the month and 10.55% for the first quarter with the NASDAQ up 1.85% and 9.32% and the S&P/TSX Composite Index up 4.14% and 6.62% respectively. The equity rally has been partly propelled by enthusiasm over AI technology and the growth of companies currently benefiting or expected to benefit from the rise in this technology. The expectation of rate cuts has been a key driver of investor confidence despite expectations tempering on the number of cuts likely to be announced this year. Inflation has remained quite persistent this year as geopolitical and disaster events like the Baltimore bridge collapse disrupt global supply chains. Labor markets remain strong, and many key commodities are trading higher putting pressure on manufacturing. The market entered 2024 expecting the Fed would deliver around six quarter-point cuts through the year but those expectations have been falling with around three cuts now expected. While the potential for a soft landing exists, it may be premature with many uncertainties and challenges persisting.

With the first quarter of the year behind us, we continue to see a compelling investment opportunity for merger arbitrage. Spreads remain wide on a relative and absolute basis; M&A activity is rising; we continue to see deal-making increase in our core small-cap universe and the regulators appear to be picking their battles more selectively allowing us to avoid those merger deals with higher risk. We continue to see increased activism on both sides of the border as activists target undervalued companies with frustrated shareholder and management teams who have underperformed or have been apathetic to the widening discount from intrinsic value. Investment bankers have been signaling that capital market activity is poised to rise through the year with the equity market backdrop supportive of IPOs and more deal-making. After a broad-based rally for equities and bonds to start the year, investors would be well suited to diversify with a non-correlated investment strategy.

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