PENDER
ALTERNATIVE ARBITRAGE FUND

June 2024

Manager's Commentary

Amar Pandya, CFA

Dear Unitholders,

The Pender Alternative Arbitrage Fund was up 0.86%[1] in June 2024. The Fund's benchmark, the HFRI ED: Merger Arbitrage Index (USD) returned 0.28% during the same period.

M&A Market Update

Global M&A totaled over $1.6 trillion through the first half of 2024 up 17% from the previous year. While broad M&A continues to recover, mega-mergers are also on the rise with 17 deals valued at over $10 billion announced through the year.[2] Dealmakers continue to affirm that there is a healthy backlog for M&A as rising market confidence on the back of improving inflation, expectations of interest rate cuts, improved deal financing conditions and narrowing valuation gaps unleash pent up deal demand. The pace of private equity led buyouts has increased by 41% from last year through the first half of 2024 driven by several take-private deals improving prospects of more LBO activity through the year.[3] While credit conditions and expectations of rate cuts has driven a recovery in financing conditions for acquirers, the growth of private credit which has taken a share from traditional bank loans in recent years is also a favorable tailwind. Large US corporations armed with bolstering balance sheets are moving forward in their pursuit of targets with the regulatory environment and economic backdrop showing signs of normalization.

There was a notable development with far reaching and potentially massive implications for the US regulatory environment at the end of June. With the conservative majority established in the US Supreme Court through the various appointments from the Trump administration, the Supreme court ruled on a case at the end of June which would overrule decades of legal precedent known as the "Chevron deference". The deference was established in 1984 involving the oil and gas company Chevron Corporation and gave federal agencies wide powers to interpret laws and decide how best to apply them. The deference has been used in more than 18,000 federal court decisions allocating authority to federal agencies.[4] With the overturn of the deference, the supreme court has slashed and weakened the power of regulatory agencies such as the Environmental Protection Agency and the US Food and Drug Administration. From an M&A perspective the hostile regulatory environment established under the Biden administration through heavy-handed enforcement from the Department of Justice and particularly the Federal Trade Commission (FTC) could be hindered with this ruling. The FTC proposed a new regulatory framework last

[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.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/large-global-m-a-deals-reached-2-year-high-in-h1-2024-82335463

[3] https://www.reuters.com/markets/deals/dealmakers-optimistic-global-ma-prospects-despite-sluggish-growth-2024-06-28/

[4] https://www.scotusblog.com/2024/06/supreme-court-strikes-down-chevron-curtailing-power-of-federal-agencies/

year establishing new guidelines that increased the scope of how mergers would be assessed and ultimately blocked. With the overturn of the deference, the FTC and other federal regulators will have far less latitude with less regulation burden being a potential tailwind for deal activity.

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SPAC Market Update

For the first time since 2022, there was a month over month increase in the trust value for all outstanding SPACs in June as the value raised in SPACs through new issuance outpaced the decline in value from SPACs closing deals or liquidating. This is a notable inflection as it suggests that the SPAC sector may finally have achieved an equilibrium with balanced demand and supply for SPACs. With the market for IPOs experiencing fits and starts of activity this year with an elusive IPO window, private companies desperate for capital are seeking partnerships with SPACs who have capital ready to deploy. We do not anticipate this renewed growth in SPAC issuance will be anything like the 2020-2021 SPAC bubble but we are investing in the odd SPAC IPO when the deal terms are favorable.

June saw a pickup in SPAC IPO activity with seven new SPAC debuts raising $1.14 billion in capital, there were also five SPAC deals closing during the month and one SPAC liquidating.[5] As of the end of June, there were 218 active SPACs in the market with assets of $13.1 billion with 102 of them actively searching for targets. The Fund's positioning in SPACs remains conservative, focused on SPACs liquidating or redeeming and targeting a yield in excess of 6.5%. With the summer months seeing a pickup in SPAC expirations, we are seeing elevated SPAC redemption and liquidation activity resulting in a widening of SPAC arbitrage yields. We are actively seeking to increase our SPAC exposure to take advantage of these temporary attractive yields.

At the end of June 2024, SPACs searching for targets were trading at a discount to trust value, which provided a yield-to-maturity of 8.35%.[6] With SPAC arbitrage effectively equivalent to acquiring a Treasury Bill at a discount, SPACs currently provide a higher 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

June was a strong month for Fund performance as several key deals held in the Fund closed during the month after gaining their final approvals. This included some of the Fund's largest positions such as: Indigo Books & Music Inc., Shockwave Medical, Inc., Model N, Inc and Secure Energy Services. In the weeks prior to quarter-end, several other active merger deals closed with the capital received from those deals being recycled by arbitrage investors into other deals held by the Fund tightening those spreads. During the month, the Fund initiated

[5] https://www.spacresearch.com/
[6] https://www.spacinsider.com/

positions in 13 new merger deals with 11 deals held within the Fund closing. We are actively finding new opportunities in which to redeploy capital with a mix of attractive financial and strategic mergers announced over the past several weeks. Our investment focus remains in high quality, small and mid-cap merger deals which offer shorter duration and a greater potential for mispricing. We are also seeing more opportunities for SPAC arbitrage both in the new issuance market with several SPAC IPOs which we have participated in and in SPAC redemption and liquidation activity as SPAC expirations pickup in the summer months. Given this improved investing environment for SPACs with low-risk, short duration and high yield returns, the SPAC exposure in the Fund is likely to increase in the short-term

A key benefit of our focus on small and mid-cap merger deals is our ability to take advantage of organic deal flow from Pender's equity portfolios and leverage Pender's existing insights, analysis and trade execution competencies in small and mid-cap equities. This was demonstrated during the month with the Fund initiating a position in Copperleaf Technologies Inc (TSX: CPLF). Copperleaf has been a key holding in several Pender equity funds since the company went public in October 2021. It was also privately held by Pender's venture funds prior to its IPO and has been followed by current Pender employees since 2011. Needless to say, over that period the firm has built up a significant amount of knowledge on the company and have developed a thorough understanding of its valuation and its value to a potential acquirer. On June 11, 2024 the company announced they had accepted an offer to be acquired by Swiss enterprise software company IFS AB for $12.00 per share. Leveraging our models and insights we were able to quickly build a position in what we believe is a high-quality deal with a potential short duration to closing. The arbitrage fund will continue to leverage Pender's existing insights, analysis and trade execution competencies in small and mid-cap equities, tactically adding value when opportunities are presented. At the end of June 2024, the Fund had 40 investments in small cap deals under $2 billion, 29 of which were valued at under $1 billion.

Outlook

Equities continued their positive streak through June with the S&P 500 advancing 3.6% and 15.3% through the first two quarters of the year while the NASDAQ surged by 6%. The US economy continues to fire as technology and the MAG 7 companies continue to lead equity market returns. US treasury yields fell during the month as May CPI indicated that prices were flat as inflation loosened its grip on the economy. The Fed has remained cautious as the labour market remains strong with the US unemployment rate at 4%. In Canada the S&P/TSX Composite (CAD) was down 1.4% as the economy showed mixed signs with unemployment increasing while CPI was increased driven by higher service costs.

We remain optimistic on the outlook for small and mid-cap M&A going into the second half of 2024. As evident in the acquisition in Copperleaf, acquirers are circling many high quality small-cap companies and as the gap between buyer and seller expectations narrows there is increased potential for a definitive deal to be struck. Our equity funds are involved with several companies with activists actively seeking to unlock value in the shares and urging management and boards to run a process to sell the company. As equity prices continue to rise and fixed income markets trade with tight spreads there is ample capital to finance deals. Shifting political dynamics with a US election this fall and Canadian election expected next year is also creating an incentive for acquirers to strike a deal at a bargain today given a more hostile regulatory environment on the hope that a change in the regulatory environment will allow that deal to be approved in the future.

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