Manager's Commentary

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Dear Unitholders,

The Pender Alternative Arbitrage Fund and the Pender Alternative Arbitrage Plus Fund were up 0.2% respectively[1] in December 2025 while the HFRI ED: Merger Arbitrage Index (USD) returned 1.3%[2]. For the full year of 2025 the Funds were up 5.0% and 5.9% respectively while the HFRI ED: Merger Arbitrage Index (USD) returned 10.3%.

M&A Market Update

Global M&A activity strengthened materially through 2025, marking a clear inflection point following two years of subdued volumes. Full-year announced deal value surged to $4.6 trillion representing a sharp year-over-year increase and positioning 2025 among the strongest M&A years in history[3]. The recovery was led by a resurgence in large-scale transactions, with mega-cap deals once again accounting for a disproportionate share of total value. Strategic acquirers drove much of this activity, particularly in technology, industrials, and financial services, as corporations leaned into consolidation, vertical integration, and capability-driven acquisitions to reinforce competitive positioning amid a slower but more predictable macroeconomic environment.

A defining feature of the 2025 M&A landscape was the interplay between shareholder activism, balance-sheet optimization, and portfolio transformation. Activist campaigns remained elevated, contributing to increased divestiture activity, spin-offs, and carve-outs that both generated transaction flow and created acquisition currency for larger platforms. At the same time, improved financing availability and greater clarity around interest-rate policy reduced execution risk, while a more permissive regulatory tone supported the completion of larger and more complex transactions. Financial sponsors also re-engaged selectively, supported by substantial dry powder and improving debt market conditions, though activity remained more disciplined and focused on high-conviction opportunities with clear operational upside.

Regulatory policy was an important and underappreciated tailwind for M&A activity in 2025. The shift in leadership at the US Department of Justice and Federal Trade Commission resulted in a materially more pragmatic approach to antitrust enforcement, with new Trump-appointed officials signaling a willingness to engage constructively with acquirers rather than reflexively challenge scale-driven transactions. The administration's decision to rescind former President Biden's executive order on competition further reduced headline regulatory risk and improved deal certainty, particularly for larger and more complex

[1] *All Pender performance data points are for Class F of the funds. Other classes are available. Fees and performance may differ in those other classes. Standard performance information for the funds can be found here: https://penderfund.com/fund/pender-alternative-arbitrage-fund/*

[2] *The benchmark for both funds is the HFRI ED: Merger Arbitrage Index (Hedged to CAD).*

[3] *LSEG: Deal Intelligence – M&A Monthly Snapshot*

combinations that would have faced heightened scrutiny in prior years. Importantly, the regulatory posture became more transactional in nature, with agencies demonstrating openness to remedies, divestitures, and behavioral commitments when appropriate. This collaborative framework encouraged strategic buyers and sponsors alike to pursue transactions with greater confidence that workable solutions could be reached, helping unlock pent-up deal supply across a range of industries.

Looking ahead to 2026, we believe the outlook for M&A remains favorable as these regulatory dynamics persist alongside supportive capital markets and strong strategic incentives. Corporate balance sheets remain well capitalized, private equity dry powder is substantial, and management teams continue to face pressure to drive growth, optimize portfolios, and deploy excess capital efficiently. With regulatory agencies signaling flexibility and a willingness to facilitate transactions that advance economic and strategic objectives, we expect dealmakers to remain active, particularly in sectors where scale, technology investment, and operational efficiency are critical competitive advantages. Taken together, improved regulatory visibility, abundant capital, and enduring strategic rationale underpin our view that the current M&A cycle has further room to run in 2026.

SPAC Market Update

2025 saw a clear resurgence in the SPAC market with 144 SPAC IPOs completed in the year raising over $30 billion in trust capital[4]. The trust capital raised in 2025 was triple the capital raised in 2024 and more than seven times the capital raised in 2023 reflecting the increased sponsor and investor demand for SPACs. At year end the SPAC sector was composed of 287 SPACs with over $40 billion in trust with 181 of those SPACs actively searching for deals. December capped the year with 13 SPAC IPOs raising over $2.5 billion of capital with four SPACs closing and one liquidation during the month. A defining feature of the 2025 SPAC rebound was where deal-flow concentrated. In contrast to the prior cycle's EV/consumer-tech emphasis, this year's "SPACs are back" narrative was increasingly driven by frontier and infrastructure-adjacent themes most notably crypto and digital assets, nuclear and advanced energy, quantum computing, and AI/data-center infrastructure. For SPAC arbitrage investors, this backdrop remains constructive: the expanding set of newly issued SPACs increases opportunity, while the dispersion in sponsor quality and deal terms continues to reward selectivity and disciplined underwriting.

At the end of the month, SPACs searching for targets were trading at a discount-to-trust value, which provided a yield-to-maturity of 3.99%[5]. The rebound in SPAC IPO activity over the course of 2025 has meaningfully refreshed the sector, with aggregate trust balances rebuilding to levels more consistent with historical norms. This reset has reshaped the opportunity set and altered the return profile across the market. Looking ahead to 2026, the SPAC universe now presents a bifurcated set of opportunities: newly issued SPACs offer exposure to embedded optionality across common shares, warrants, and right. Particularly where sponsors have demonstrated sourcing capability and access to differentiated deal

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[4] *SPAC Research*
[5] *https://www.spacinsider.com/*

flow. While an aging cohort of SPACs approaching maturity provides a parallel opportunity to invest for yield as liquidation timelines come into focus. With capital protection anchored by cash held in trust, the SPAC structure continues to support a compelling balance between downside protection and return potential in the current environment.

Portfolio Update

December was another highly active and constructive month for the Fund, reflecting the continued strength in M&A markets and a healthy pace of deal completions. During the month, the Fund initiated positions in 32 new merger transactions while 16 deals held in the portfolio successfully closed, allowing capital to be efficiently recycled into new opportunities. Deal activity within the Fund remained concentrated in small- and mid-cap transactions, consistent with our focus on shorter-duration deals with lower regulatory complexity and more attractive risk-adjusted return profiles. At the end of December 2025, the Fund held 52 active investments in small-cap deals under $2 billion, including 42 transactions valued at under $1 billion, highlighting the breadth and depth of opportunity within our core investment universe. We remain encouraged by the opportunity set within small and mid-cap merger arbitrage, which remain underfollowed and more mispriced creating more opportunities to generate an attractive yield. The persistent gap between small-cap and large-cap valuations provides a supportive backdrop for consolidation, particularly as smaller companies with solid fundamentals and strategic assets remain natural acquisition targets.

Outlook

The market backdrop entering 2026 remains broadly supportive of M&A activity and well suited to non-correlated, event-driven investment strategies. While inflation pressures have continued to ease and policy rates have begun to normalize, uncertainty around the longer-term rate path persists, particularly at the long end of the curve. Long-duration assets remain sensitive to fiscal dynamics, supply-demand imbalances, and shifting expectations around growth and inflation, contributing to periodic volatility across both equity and fixed income markets. Against this environment, M&A activity has shown notable durability, underpinned by healthy corporate balance sheets, improved access to financing, and a regulatory landscape that has become more navigable for both strategic acquirers and financial sponsors.

Equity market concentration remains a key consideration as leadership continues to be driven by a narrow group of mega-cap technology and AI-oriented companies. This concentration has supported headline index performance while obscuring more modest returns across the broader market, leaving valuations exposed to changes in sentiment, earnings expectations, or policy developments. In contrast, valuation differentials between large-cap and small and mid-cap companies continue to support consolidation activity, particularly as acquirers seek growth, efficiency, and strategic repositioning. For merger arbitrage investors, this dynamic contributes to a steady pipeline of transactions and an investable universe characterized by attractive spreads and increasing dispersion driven by deal-specific factors rather than market beta.

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Looking ahead, we remain constructive on the outlook for both merger arbitrage and SPAC arbitrage strategies. A consistent cadence of deal announcements, improving regulatory clarity, and more predictable approval timelines support efficient capital deployment and recycling across merger positions. At the same time, renewed momentum in the SPAC market has expanded the arbitrage opportunity set, combining trust-backed downside protection with multiple sources of optionality across capital structures. In an environment where correlations across traditional asset classes remain elevated and market leadership remains concentrated, arbitrage strategies continue to offer a compelling source of differentiated, absolute returns. We enter 2026 with a constructive view, supported by an active deal pipeline and a market environment that continues to reward disciplined, risk-controlled, event-driven investing.

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