

Manager's Commentary

Amar Pandya, CFA

Dear Unitholders,

The Pender Alternative Arbitrage Fund and the Pender Alternative Arbitrage Plus Fund were up 0.1% and 0.3%¹ in February 2026 while the HFRI ED: Merger Arbitrage Index (USD) returned 0.4%².

M&A Market Update

Global M&A continued to build on the momentum from last year with over \$850 billion of deal activity announced in the first two months of the year. This represents a more than 50% increase in volumes over last year led by the technology, energy and power, and financial sectors. Strategic acquirers continued to dominate deal flow in January, particularly in areas tied to structural growth themes such as artificial intelligence infrastructure, data platforms and financial technology. Advisory commentary across the investment banking community suggests that while mid-market volumes remain somewhat cautious amid geopolitical and macro uncertainty, the pipeline for larger transactions remains healthy. Private equity firms are also increasingly active participants in the market as sponsors seek to deploy significant levels of dry powder accumulated during the slower dealmaking period of the prior cycle. The improving availability of leveraged finance and broadly stable credit spreads have supported renewed willingness by both corporate and financial buyers to transact.

Overall, the tone of the M&A market entering 2026 appears constructive. Corporate balance sheets remain strong, capital markets conditions have improved relative to the past several years, and strategic urgency is rising as companies reposition portfolios in response to technological disruption and shifting global supply chains. While short-term volatility in macro conditions may periodically slow the pace of announcements, the underlying drivers of consolidation including scale efficiencies, technology investment and private equity capital deployment continue to support a favorable environment for deal activity through the year ahead.

SPAC Market Update

February extended the SPAC market's renewed momentum, with issuance tracking ahead of January's strong pace. There were 27 SPAC IPOs in the month raising \$5.2 billion of trust capital with two deals closing and two SPACs liquidating during the month. At the end of February there were 333 active SPACS with nearly \$51 billion in trust with 224 SPACs actively searching for targets. The rapid increase in SPAC IPO issuance this year without a

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/> and here: <https://penderfund.com/fund/pender-alternative-arbitrage-plus-fund/>

² The benchmark for both funds is the HFRI ED: Merger Arbitrage Index (USD) hedged to CAD

corresponding pace of new SPAC merger announcements is creating a growing imbalance between SPAC capital seeking targets and the supply of target companies. As competition for high-quality targets intensifies, the experience, network and execution track record of sponsors becomes increasingly important in sourcing and successfully completing transactions. In this environment, disciplined sponsor selection is critical, favoring teams that have demonstrated an ability to consistently originate and close attractive deals.

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 3.81%³. SPAC issuance remained robust in February, continuing the strong momentum seen at the start of the year and further rebuilding aggregate trust balances. However, the surge in new issuance has created an oversupply of SPAC IPOs, compressing the optionality available in newly issued deals. As a result, we are increasingly shifting our focus away from participating in SPAC IPOs and toward more mature SPACs where discounts to trust provide an opportunity to capture yield as liquidation timelines shorten. With downside protection anchored by cash held in trust, this approach continues to offer an attractive balance between capital preservation and return potential in the current environment.

Portfolio Update

February was marked by elevated volatility across equity markets, particularly within the technology and software sectors where concerns surrounding AI-related spending and software disruption triggered a broad sell-off. While this created short-term pressure across several merger arbitrage positions, the widening of spreads across a number of announced software transactions presented attractive opportunities to selectively add to positions. During the month, the Fund initiated positions in 12 new merger transactions while 16 deals held in the portfolio successfully closed, allowing capital to be recycled into newly widened spreads created by the market dislocation. Our investment process emphasizes disciplined underwriting during periods of volatility, and the repricing across several technology deals enabled us to add selectively to positions at improved risk-adjusted return profiles. At the end of February, the Fund held 36 active investments in small-cap deals under \$2 billion, including 26 transactions valued at under \$1 billion, reflecting the continued breadth of opportunity within our core focus on smaller, less complex transactions.

A notable area where we continue to increase exposure is the US regional banking sector, where the regulatory environment for mergers has improved materially under the current administration. Regulators including the Federal Trade Commission and Department of Justice have adopted a more facilitative stance toward consolidation, and bank merger approvals are now occurring at the fastest pace in more than three decades. According to S&P Global data, the average approval timeline for bank mergers has declined to roughly four months, compared with nearly seven months under the previous regulatory regime, significantly reducing execution risk and shortening deal duration for arbitrage investors⁴. This shift has contributed to a renewed wave of consolidation across regional lenders

³ <https://www.spacinsider.com/>

⁴ *US Bank Deals Surge as Trump-era Regulators Race Through Approvals, Financial Times*

seeking greater scale to compete with national banks. During the month, several regional bank transactions held by the Fund successfully closed, including **Comerica Incorporated (NYSE: CMA)**, **First Savings Financial Group, Inc. (NASDAQ: FSFG)**, **Cadence Bank (NYSE: CADE)**, and **MidWestOne Financial Group, Inc. (NASDAQ: MOFG)**. Historically, mergers involving regional banks could take extended periods to receive regulatory approval, but the current environment has resulted in meaningfully shorter closing timelines, making the sector an increasingly attractive source of merger arbitrage opportunities.

Outlook

Entering the spring, the macro backdrop remains supportive for event-driven strategies but is increasingly defined by rising geopolitical and technological uncertainty. Markets experienced notable volatility during the month, driven in part by disruption across the technology and software ecosystem as AI developments challenged business models and investor sentiment in the software sector. At the same time, geopolitical risk increased materially with the escalation of conflict and the start of bombing in Iran, adding another layer of uncertainty to an already fragile global backdrop. In environments characterized by abrupt shifts in sentiment and elevated macro risk, merger and SPAC arbitrage strategies can serve as an effective hedge given their deal-driven return profile and relatively low correlation to broader market movements.

Against this backdrop, we continue to see a constructive setup for arbitrage strategies. Corporate balance sheets remain healthy, private equity capital is abundant and a more predictable regulatory environment continues to support M&A activity. While episodic volatility may create short-term spread widening, these periods often provide attractive entry points for disciplined arbitrage investors. With a diversified portfolio of deal positions and the structural downside protection inherent in SPACs, we believe the strategy remains well positioned to generate stable absolute returns while providing diversification benefits during periods of market stress.

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