

Manager's Commentary

Justin Jacobsen, CFA

Dear Unitholders,

The Pender Alternative Absolute Return Fund returned 1.8%¹ in March, bringing year to date returns to 3.1%.

The United States and Israel launching a war against Iran was the dominant market event, with inflation concerns pushing yields higher. Risk premiums also re-rated modestly higher, resulting in a negative month for risk assets including credit markets. The US high yield market returned -1.2% in the month, with spreads widening modestly to finish the month 328bp, still well below long run averages and far from recessionary pricing.

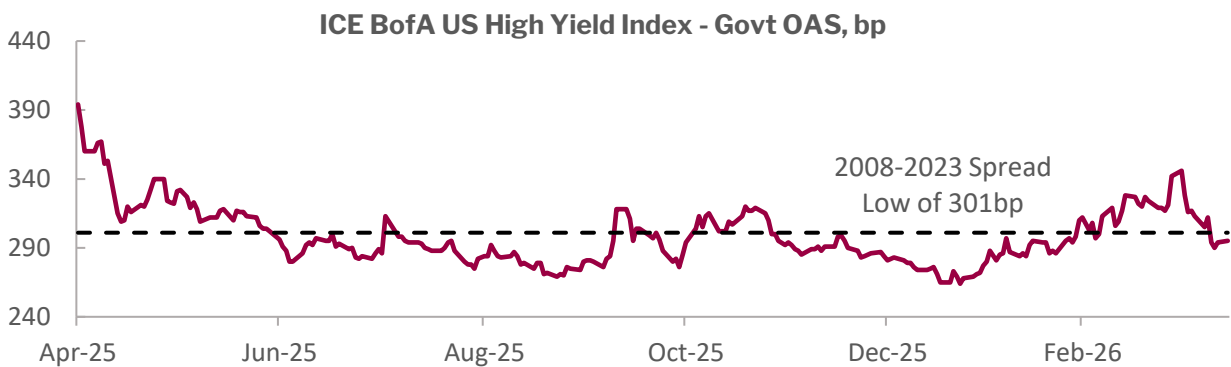
The HFRI Credit Index hedged to CAD, the Fund's benchmark returned -0.8% in March, bringing year to date returns to 0.6%.

Portfolio & Market Update

Risk assets handled the largest energy shock in at least the past fifty years quite well in March. Although there is risk that market confidence could be misplaced as physical markets show many more signs of stress than futures markets have indicated. With credit spreads only modestly higher than cyclical tight, we were measured where we added to risk positions in March. Recent new issues are often higher beta and we saw opportunities in bonds issued by Gee Automotive Holdings LLC (private) and Chemours Co (NYSE: CC).

Early in the month, market complacency about the US-Middle East conflict created opportunities on the short side where we were able to short high yield ETFs that were positive on the month and unsecured airline bonds which had barely reacted to the darkening macro backdrop, especially as it related to fuel costs.

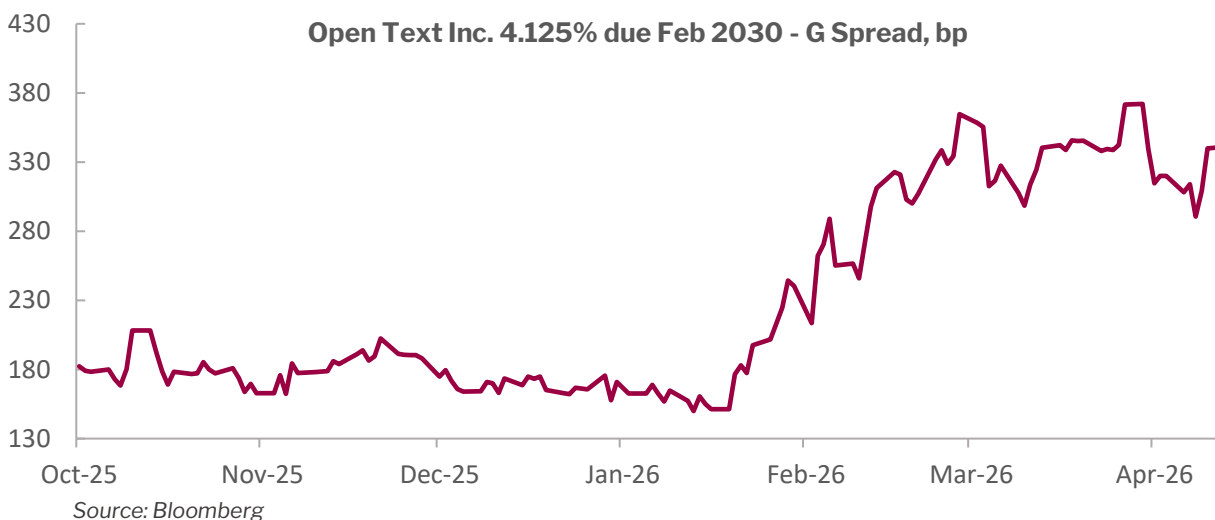
In mid-April, sentiment and technicals have driven high yield spreads to lower levels than they were before the war started and well below long run averages. Markets are currently pricing in something close to a best-case scenario for energy markets in our view.



Source: Bloomberg

¹ All Pender performance data points are for Class F of the Fund unless otherwise stated. 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-absolute-return-fund/>

Following the significant re-rating of high yield software credits earlier this year, we established a position in an Open Text Holdings Inc. (TSX: OTEX) 2030 bond. This bond has a maturity of February 2030 and would likely need to be addressed by mid-2029. We believe that we are taking a three-year view of the creditworthiness of the company. While AI will certainly have an impact on software broadly, we predict the impact will not be uniform or absolute. Open Text has been actively selling non-core assets to reduce leverage and expects to continue to do so. The company has been allocating much of its operating cash flow to share buybacks, which has evidently been a poor use of capital as their equity multiple has negatively re-rated, which we believe now accurately reflects growth and terminal value risks. Instead of turning one dollar of free cash flow into sixty cents by buying back stock near the highs last fall, our view is that the company would have been better off allocating capital to leverage reduction. We believe that over time the board will recognize that their multiple contraction is structural rather than temporary and will likely result in a lower leverage target over time, likely improving credit quality.



We expect the software sector to remain volatile in the coming months and are actively looking for opportunities to trade sentiment shifts so long as we are comfortable with underlying credit risk.

With credit spreads in mid-April now below long run averages and below bottoms of some prior cycles, the risk in credit spreads is heavily skewed wider, especially considering that the largest energy supply shock in half a century is ongoing with an uncertain resolution.

Market Outlook

What began as a short covering rally following de-escalation of the war against Iran has taken on a life of its own as higher prices for risk assets spur speculation, bringing even higher prices. From the market's perspective, the most important aspect of the war is clearly the flow of energy shipments from the region, which have been curtailed significantly. With alternative routes available for a portion of the pre-war volumes in Saudi Arabia and the UAE, the impact on energy flows is still dramatic, as roughly 10%² of global oil and refined products supplies have been curtailed based on sell side estimates. While inventories have cushioned the impact of this shock so far, time is not on the side of global energy

² [IEA Oil Market Report, April 2026](#)

consumers. Barring a sudden reversal in flows, our view is that the economic impact will become more acute in the next month or two as crude and refined product shortages force demand destruction.

We suspect that a lot of market participants current frameworks are driven by the Liberation Day sell off last spring in which a sharp market correction triggered by a Trump policy error was just as quickly erased following a "TACO" event. We think the current events present some significant differences for risk assets. The first and most obvious difference is that energy flows are more important to the global economy than US imported good prices, while there are inventory buffers in place for now, there will be no substitute for the missing energy molecules in the coming weeks. Secondly, the valuation starting point for the rally was far less attractive. In April 2025 the peak high yield spread was 461bp, the highest spreads reached last month was 346bp. Finally, the solution to the problem is more complex in that Trump could unilaterally fix the tariff problem while the US, Iran and Israel all effectively have a veto on the end of the current conflict.

Markets might be proven to have accurately predicted a swift and lasting resolution to the latest US-Middle East war, but there is clearly a risk that energy flows may not resume in the coming weeks, which could have a cascading impact on global economic activity and inflation, negatively impacting asset prices.

Portfolio Metrics

The Fund finished March with long positions of 122.4% (excluding cash and T-bills). 32.4% of these positions are in our Current Income strategy, 85.9% in Relative Value and 4.1% in Event Driven positions. The Fund had a -67.9% short exposure that included -3.7% in government bonds, -42.3% in credit and -21.9% in equities. The Option Adjusted Duration was 1.31 years.

Excluding positions that trade at spreads of more than 500bp and positions that trade to call or maturity dates that are 2028 and earlier, Option Adjusted Duration declined to 0.95 years.

The Fund's current yield was 5.79% while yield to maturity was 6.53%.

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