

## Manager's Commentary

### Amar Pandya, CFA

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Dear Unitholders,

The Pender Alternative Arbitrage Fund and the Pender Alternative Arbitrage Plus Fund were 0.4% and 0.7%<sup>1</sup> respectively in May 2026 while the HFRI ED: Merger Arbitrage Index (USD) returned 0.2%<sup>2</sup>.

#### **M&A Market Update**

M&A activity remained robust through May despite ongoing geopolitical uncertainty, tariff negotiations and concerns about economic growth. According to LSEG Deals Intelligence, announced global M&A activity was running approximately 49% ahead of the prior year as of mid-June, reflecting one of the strongest starts to a year for dealmaking in history. The recovery has been broad-based across major regions, with strategic acquirers, private equity sponsors and corporate buyers increasingly willing to pursue transactions as financing markets stabilize and confidence in the regulatory environment appears to be improving. Unlike previous M&A cycles, the current recovery has been driven disproportionately by larger and more strategic transactions. Companies continue to pursue acquisitions to secure scale, strengthen competitive positioning and gain exposure to long-term secular growth themes including artificial intelligence, digital infrastructure, energy security and industrial reshoring.

LSEG has noted that the current wave of M&A is being driven less by traditional economic cycles and more by the need for businesses to reposition themselves amid rapid technological and structural change. The improving backdrop has also contributed to a growing sense of confidence among dealmakers. Several large investment banks have reported robust M&A pipelines while corporate executives have become increasingly optimistic that financing conditions, regulatory approvals and boardroom confidence appear supportive of additional deal activity through the remainder of the year. As uncertainty surrounding tariffs and trade policy has moderated relative to earlier in the year, many prospective acquirers appear more willing to pursue transactions that may have previously been delayed.

#### **SPAC Market Update**

SPAC issuance activity picked up again in May, with 20 SPAC IPOs announced during the month raising \$2.9 billion in value. There were four SPAC deals closed during the month and no liquidations. At month-end, there were 352 active SPACs with \$55.6 billion in trust value, including 245 SPACs actively searching for deals. Serial sponsors continued to dominate issuance activity as experienced teams leveraged established investor relationships and prior deal execution track records to continue raising capital. The market continues to favour sponsors with repeat issuance histories and specialized sector expertise, particularly in areas such as AI, crypto infrastructure, robotics, quantum computing and critical minerals. In our view,

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<sup>1</sup> 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/>

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

these higher-growth thematic sectors remain well suited to the SPAC structure given the flexibility around valuation negotiations, faster execution timelines and ability to raise additional PIPE financing alongside a transaction.

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 4.85%<sup>3</sup>. With new SPAC issuance continuing at a robust pace through the first five months of the year, signs of market saturation are beginning to emerge. While investor demand for new offerings remains strong, mature SPACs are increasingly trading at wider discounts to trust value as the number of active SPACs grows and redemption opportunities accumulate. This dynamic has driven SPAC arbitrage yields higher, particularly among older vintages approaching liquidation or extension deadlines. In response, we remain highly selective in new SPAC IPOs and are increasingly focused on shorter-duration SPACs trading at discounts to trust value, where we can capture attractive annualized returns with limited market risk. We expect the growing pipeline of redemption and liquidation opportunities may remain a compelling source of returns in the quarters ahead.

### Portfolio Update

During May, the Fund initiated positions in 13 new merger deals while 15 deals held within the portfolio successfully closed. We remain focused on smaller transactions where we believe the risk-adjusted return profile is most attractive, supported by shorter durations, less complex financing requirements and generally lower regulatory risk. At the end of May 2026, the Fund had 33 investments in small-cap merger deals under \$2 billion, 24 of which were valued at under \$1 billion. With a healthy pace of new deal announcements and a steady stream of deal completions, we continue to find ample opportunities to redeploy capital into attractive merger situations across our investment universe. The Fund was also active in the SPAC market during the month, selectively adding to existing and new SPAC positions. We continue to view SPAC arbitrage as an attractive complement to merger arbitrage, which we believe may provide downside protection through the cash held in trust while maintaining upside participation should a compelling merger transaction emerge.

We are also seeing a meaningful increase in M&A activity within our core small and mid-cap investment universe. Several companies owned or followed by Pender's equity Funds have received reported or rumored acquisition interest, activist investors have become increasingly involved in pushing for strategic alternatives and a growing number of companies have launched formal strategic reviews. We view these developments as evidence that private market participants are beginning to recognize the value embedded in many small and mid-cap public companies whose valuations remain disconnected from underlying fundamentals. This trend is particularly beneficial for the Fund as many of the most attractive merger opportunities originate from sectors and companies where Pender has deep research coverage and long-standing expertise. In many cases, our familiarity with a business, its industry dynamics, potential acquirers and strategic rationale allows us to evaluate transaction probabilities and downside risks with greater confidence. As M&A activity continues to broaden across the small and mid-cap market, we believe the opportunity set for merger arbitrage remains highly favorable.

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<sup>3</sup> <https://www.spacinsider.com/>

**Outlook**

The market environment remains increasingly nuanced as investors balance strong equity market performance against a backdrop of elevated valuations, geopolitical uncertainty and evolving economic conditions. While tensions involving Iran have eased from recent highs, the absence of a lasting resolution continues to create the potential for renewed volatility in energy markets and global supply chains. At the same time, equity market leadership remains highly concentrated, with a relatively small group of AI-related companies accounting for a disproportionate share of market gains while many small and mid-cap businesses continue to trade at more modest valuations. Despite these risks, investor sentiment has remained constructive and capital markets activity has accelerated meaningfully. After several years of limited activity, the IPO market has begun to reopen and new equity issuance has increased as companies seek to access public capital, marking a notable shift from the buyback-driven environment that characterized much of the post-pandemic period. Together, these developments suggest growing confidence among corporate executives, investors and capital providers, even as the broader macroeconomic outlook remains uncertain.

Against this backdrop, we continue to see an attractive environment for both merger and SPAC arbitrage. M&A activity has accelerated meaningfully over the past year with increasing evidence that strategic buyers, private equity firms and activist investors are targeting undervalued companies across the small and mid-cap market. The reopening of capital markets and improving financing conditions should further support acquisition activity and provide a favorable backdrop for SPAC merger transactions. At the same time, we believe merger arbitrage spreads remain attractive relative to many traditional fixed income alternatives, while SPACs continue to offer a unique combination of downside protection through cash held in trust and participation in potential upside from announced transactions. With a broad opportunity set across both strategies and a portfolio positioned to benefit from continued deal activity, we remain constructive on the outlook for the Fund and believe the current opportunity set may support attractive risk-adjusted returns while providing diversification benefits in an increasingly concentrated market environment.

**Amar Pandya, CFA***June 26, 2026*