

Manager's Commentary

Greg Taylor, CFA

Market Update

The month of May felt an awful lot like April, and it's not just the weather. April was a positive month that saw equity markets recover most, if not all, of the March losses stemming from the US-Iran war concerns. Turning the calendar over to May, many market observers were calling for more of a pause. The conditions that led to the March selloff (higher oil prices and bond yields) had not gone away and were accelerating higher. Yet, as is often the case, the equity market did what makes most people wrong and again 'climbed the wall of worry,' to finish the month at all-time high levels.

What did change was an acceleration of corporate earnings. Heading into the Q1 reporting season there was a lot of uncertainty. The impact of AI on software companies and white-collar employment was a fear that hit markets earlier in the year. Add to that the surge in energy prices, combined with the breakdown of the global supply chain, and it seemed like the perfect backdrop for corporate executives to give cautious guidance. However, that wasn't the case. Outside of some retailers that commented on a slowdown at the lower end of the consumer, broadly earnings were stronger than expected.

Of course, energy companies surprised to the upside given the surge in related commodity prices but other sectors also showed surprising gains. Technology continued its leadership. Spending on AI related projects shows no signs of slowing down and given the record amount of capital raised in the high yield market, it doesn't look to pause in the near term. Semiconductor companies have risen, up 70% in two months, but its different names within the group that are moving higher. NVIDIA Corporation (NVDA) continues to put out record financial results, but other companies such as ARM Holdings PLC (ARM) and Micron Technology Inc. (MU) are seeing their share prices move higher.

It was also a positive to see software companies recover. At least for now, in our view, fears of the effects of AI appear to be overstated. Most companies reported little or no impact on demand during the quarter. The shares of many of these companies surged on these reports potentially on short covering. Dramatic price moves like these are often associated with 'late cycle' behaviour. It's too soon to determine if that is the case once again, but bears watching. Narrow markets such as we are witnessing can turn quickly.

One theme that does seem ready to take hold is an increase in corporate activity. Mergers and acquisitions were near a record last year and appear to be continuing that trend this year. Activist investors are aggressively targeting smaller companies that have seen their valuations fall. There is also a push to see deals announced and approved before there is a potential change to a less business friendly administration in Washington later this year.

We are also getting ready for what should be the largest IPO in history, SpaceX. This issue has the potential to set all sorts of records for hype and scale. It also has been able to circumvent the inclusion rules of several index providers to be added sooner than it usually would, which could make the broader market even more volatile. Given the attention around this deal and what is at stake for many investment dealers, there is a huge incentive to hold markets near record levels until it has closed. Once that is done who knows what will happen?

One pattern that is being increasingly pointed out is that during US mid-term election years there has been a tendency for a summer correction. Will this year be any different? Of course, the sitting President has all the incentive in the world to try to show market gains heading into the vote, and Trump won't be any different. There is also the added push to have everyone happy for the 250th birthday celebrations on July 4th. But that isn't always completely in one person's hands.

With markets at all-time highs, the risk is always that we are missing something and might be pricing in all the good news while ignoring some risks? There remains an expectation there will be a deal shortly to end the conflict with Iran and with that a normalization of shipments from the Strait of Hormuz. The new Chair of the FOMC is also saying all the right things about being market friendly and pushing back on rate hikes. Add to that the optimism around earnings strength and it's difficult to come up with what could be even better news?

Given that setup, the risk/reward for equity markets remains concerning. Warning lights are flashing but that alone isn't enough to say it's time to step away. There remains the potential for further gains, and seeing a broadening out of the rally to include other sectors would be a positive. Yet the setup for a volatile summer remains and must be watched. Hopefully during some warmer weather.

Performance

As the Fund has not yet reached its one-year performance mark, we are unable to include granular performance data. However, we can comment on the individual fund performance that makes up the Multi-Strategy Growth Fund.

The Pender Small Cap Opportunities Fund (PSCOF) increased 3.7%¹ in May and is now up 19.9% year-to-date. The Fund has a long history of adding value in this space and will be a core component of the strategy. Central to this allocation is a conviction in the attractive risk/reward profile of small cap companies.

To complement PSCOF, the Pender Alternative Multi-Strategy Growth Fund also holds the Pender Alternative Select Equity Fund (PASEF), a thematic absolute return equity strategy. PASEF offers a natural counterbalance to PSCOF: where PSCOF skews toward technology, PASEF has carried more resource exposure. For May, the Fund gained 2.4%² and is now up 22.7% year-to-date, versus a S&P/TSX Composite Index return of 2.5%³ for the month and 10.6% year-to-date.

Market neutral and merger arbitrage exposure comes through the Pender Alternative Arbitrage Plus Fund (PAAPF). PAAPF was down 0.7%⁴ in May and is now higher by 0.3% year-to-date. The Fund's benchmark returned 0.2%⁵ and 3.1% for the same period. Corporate activity in the United States reached record levels last year, and conditions appear constructive for that momentum to carry into 2026.

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 Fund may be found here: <https://penderfund.com/fund/pender-small-cap-opportunities-fund/>

² 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 Fund may be found here: <https://penderfund.com/fund/pender-alternative-select-equity-fund/>

³ Benchmark S&P/TSX Composite Index (CAD)

⁴ 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 Fund may be found here: <https://penderfund.com/fund/pender-alternative-arbitrage-plus-fund/>

⁵ Benchmark HFRI Credit Index (Hedged to CAD)

Portfolio Positioning

We continue to monitor correlations across Fund exposures and will make tactical shifts as opportunities arise. Looking ahead, we expect M&A activity to increase, a potential catalyst for holdings within both PAAPF and PSCOF. As we move into the summer months, our portfolio managers are actively seeking opportunities to add exposure to oversold sectors and capitalize on market dislocations in areas where we have the deepest expertise. Cash remains available as a component of the asset mix but is not material at this point in time.

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