Manager's Commentary

Justin Jacobsen, CFA

Dear Unitholders,

The Pender Alternative Absolute Return Fund returned 0.3% in June, bringing year to date return to 1.0%[1].

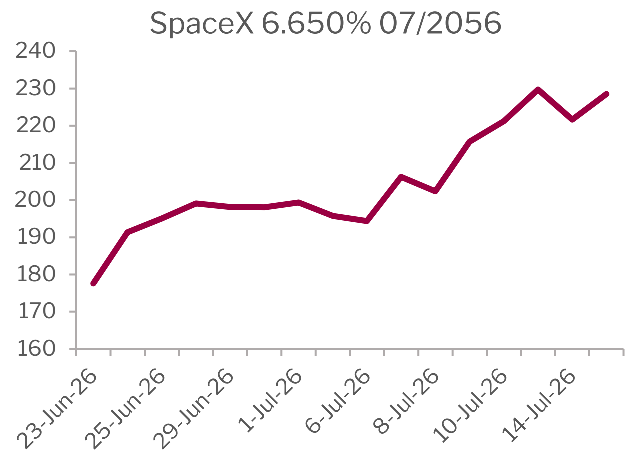
Credit markets hit resistance levels in June as high yield spreads touched 263bp, the lowest levels since January 2025 before widening modestly to close the month at 275bp Govt OAS, 1bp higher than the end of May. Favourable market technicals have supported risk as some higher beta segments of the markets have begun to show signs of weakness.

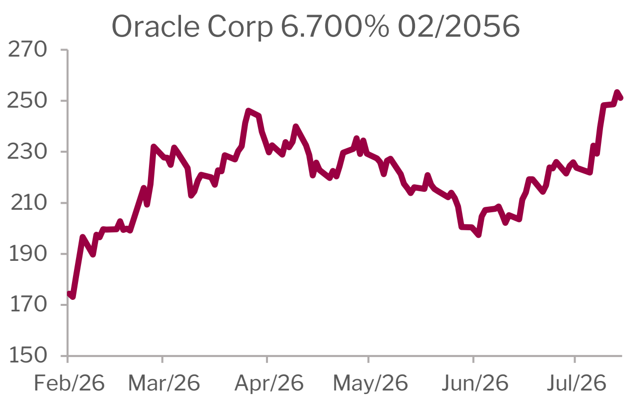
The HFRI Credit Index hedged to CAD, the Fund's benchmark, returned 0.8% in June, bringing year to date returns to 3.7%.

Portfolio & Market Update

Data center and hyperscaler issuance remain highly topical for credit markets. After significantly scaling back data center exposure in May and early June, the Fund began to add to some exposures on pullbacks in late June and early July. We have been focused on secured project bonds backed by leases with high-quality tenants; we are cautious about exposures to projects whose ultimate tenants have large funding gaps. We added a small data center specific hedge, a short position in an unsecured bond from a "neocloud" issuer that we view as likely to underperform our long positions if data center spreads widen.

Continued large AI related issuance from investment grade corporates along with concerns about AI competition and economics have weighed on some bellwether IG credits. Nowhere is this more apparent than in the long bonds issued earlier this year by Oracle and SpaceX, both of which have seen significant spread widening, resulting in mark to market losses for investors. We do not currently own IG technology bonds in the Fund as we suspect that there may be better opportunities to come, as we see room for sentiment to wane further.





Source: Bloomberg

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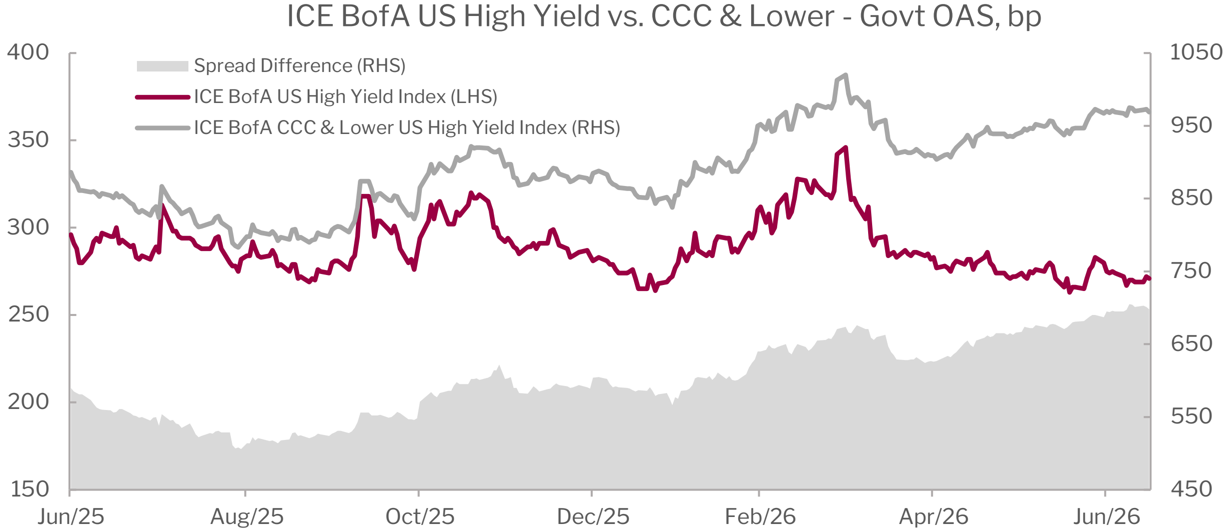
[1] *All Pender performance data points are for Class F of the Fund unless otherwise stated. Other classes are available. Fees and performance may differ in those other classes.*

We have seen some attractively priced Canadian high yield new issues in recent weeks, allowing us to deploy capital in the Fund, purchasing new issues from North American Construction (TSX: NOA) at 7% for a 5-year term, Well Health (TSX: WELL) at 6.875% for a 5-year term and NFI Group Inc. (TSX: NFI) at 6.625% for a 7-year term. We are expecting a few more interesting issues to come to market in the coming weeks, while we have seen relatively few opportunities in USD new issues which have largely been priced at tight spreads and limited new issue concessions.

With high yield spreads near cyclical lows in June, the Fund maintained a low exposure to the market. We see high levels of speculation in markets today, similar to early 2021, which set the market up for a significant increase in volatility in the quarters ahead.

Market Outlook

High beta segments of credit markets are underperforming, from CCCs to higher risk investment grade technology bonds. To date, generic risk assets have not been impacted. With credit markets being a critical funding source for the AI buildout, increasing risk premiums will have an impact on individual projects and capital spending. In mid-July a proposed high yield issue from Prime Data Centers was pulled due to lack of investor demand.



Source: Bloomberg

Risk aversion increasing in AI related credit in recent months stands in stark contrast to the parabolic move higher in semiconductor equities in recent weeks. While it remains to be seen whether the recent high in technology shares will be a market turning point or not, the move in semiconductor equities draws parallels to the final stages of the dot-com bubble.

With the S&P 500 index near record levels of concentration and almost all the largest companies exposed to the AI trade, a potential turning of the capital expenditure cycle is not something the market can overlook or rotate its way out of. We've seen periods this year both in January and July where the market for large cap technology shares has declined and paired with rallies in the Russell 2000 index despite no significant news that would support that index otherwise. While rotation might work for a time, the AI trade unwinding will impact all risk asset markets to different degrees.

Large corporations like Uber are showing more discipline around AI costs than even a quarter or two ago. Now that Chinese AI models are showing parity or near parity with US frontier models like those

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from OpenAI and Anthropic at a fraction of the cost, the business case for closed source, frontier models is uncertain. We don't doubt the long-term impact of AI, but we believe there are some sizable gaps in the value chain today that the market has been eager to gloss over. Just as the internet was the future of commerce in the year 2000, we believe AI can be both the future and in many individual cases, a poor near-term investment due to valuations today.

Portfolio Metrics

The Fund finished June with long positions of 132.3% (excluding cash and T-bills). 37.3% of these positions are in our Current Income strategy, 93.7% in Relative Value and 1.3% in Event Driven positions. The Fund had a -72.8% short exposure that included -4.0% in government bonds, -45.1% in credit and -23.7% in equities. The Option Adjusted Duration was 1.01 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 0.68 years.

The Fund's current yield was 6.18% while yield to maturity was 6.24%.

Justin Jacobsen, CFA
July 17, 2026