Manager's Commentary

Greg Taylor, CFA

Market Update

June 2026 was defined by a stark divergence between resilient global indices and localized volatility, driven by a shifting geopolitical landscape and a turn in the AI narrative. The month brought a meaningful "broadening" as investors rotated away from dominant mega-cap tech names and toward more defensive and cyclical sectors, with focus shifting from AI infrastructure "builders" to the "adopters" capable of scaling it. This shift in leadership tracks a building change in earnings growth expectations between the tech giants and the rest of the market.

That AI narrative flowed further into the market narrative on the capital raising side. SpaceX debuted at a $1.75 trillion valuation, but, with less than 5% of its shares publicly listed for the $86.2 billion offering, the real test of balance between fundamentals and valuation is still ahead. How that plays out could set the tone for the wave of high-profile AI-driven listings still to come. In addition, US IPOs and share sales totaled a record $251 billion through June, surpassing the previous half-year high set during the 2021 issuance boom. Alphabet also raised $85 billion in a stock sale, and Anthropic is reportedly considering a potential IPO, meanwhile, OpenAI is reportedly leaning toward waiting until 2027. Appetite for AI-linked equity issuance remains strong, even as questions about the underlying economics continue to grow.

The equity landscape was also shaped by the intersection of monetary policy and international conflict resolution. A US-Iran Memorandum of Understanding signed mid-month cooled geopolitical anxiety and triggered a reversal in oil prices, a welcome development, though the situation remained tenuous, as the two sides exchanged military strikes in late June before agreeing to halt fighting and resume talks. Brent and WTI both fell roughly 20% during the month, extending May's declines, with WTI finishing just below $70 and Brent in the low $70s, both back near pre-conflict levels. Gold fell roughly 12%, pressured by dollar strength and a hawkish repricing of Federal Reserve rate expectations. Still, the oil move wasn't enough to change the inflation picture policymakers continue to contend with.

If we can look back to the beginning of 2026, the consensus call was that the FOMC would cut rates, the Fed was among the last major central banks to normalize policy after the last few years' aggressive hikes, and it seemed time to correct course. Inflation was expected to fall and yields to follow. But as often happens when everyone agrees, that isn't what happened: inflationary pressures accelerated instead, and central banks are now watching closely for the longer-term impact before making any moves. The BoC, Fed, Bank of England, and Bank of Japan all held rates steady in June; the ECB was the outlier, raising rates 25 basis points to contain inflation. Looking to the second half of 2026, analysts flagged the US midterm elections as a potential source of volatility.

Summer markets are tricky to predict due to light attendance and lower trading volumes but are notoriously volatile. While investors should be thankful for the positive start to the year despite the various macroeconomic risks, this is not the time for complacency. These are the environments active management was built for.

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 Fund.

The Pender Small Cap Opportunities Fund (PSCOF) fell -3.8% in June however the Fund is still up 15.4%[1] year-to-date. PSCOF 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 came in lower by -2.8% for the month of June to finish the first half of the year up 19.2%[1]. This compares to the S&P/TSX Composite return of 0.5% for June and 11.2% for the year-to-date. This Fund entered in a more defensive position with a higher amount of cash and an overweight position in precious metals (gold). The Fund also trimmed exposure to areas of the market that seemed overbought and expensive on a valuation basis. However, the month didn't go as planned as the gold exposure acted as a drag, and several companies which had been sold from the Fund kept moving higher. Regardless, it has been a good start to the year, and we remain optimistic for the Fund's performance going into the second half.

The Pender Alternative Arbitrage Plus Fund (PAAPF), held for merger arbitrage exposure, was down -1.1% for June and is now down -0.7% YTD[1]. Its benchmark returned 0.7% and 4.2%[2] for the same periods.

Portfolio Positioning

M&A activity across small and mid-cap names continues to pick up, a trend we believe will persist. Several holdings have become acquisition targets this year, others have drawn activist attention, and some have announced strategic reviews. We view this as a meaningful signal: private markets are beginning to recognize value in public small and mid-caps, where valuations have remained disconnected from long-term fundamentals. This is a tailwind with real potential to surface and unlock value in underappreciated names, one we're hopeful will act as a catalyst for both PAAPF and PSCOF holdings.

Credit spreads remain historically tight, so we continue to monitor correlations across the Fund's exposures and will make tactical shifts, or introduce new asset classes, as opportunities arise.

We are also maintaining a defensive cash position, increasingly favouring cash on hand over other options as a way to capitalize when quality names become available at attractive entry points. We see current market performance as driven more by momentum than underlying fundamentals, which reinforces our preference for liquidity over broad market exposure at this stage. Heading into summer, our portfolio managers are watching for market dislocations, particularly oversold sectors where we have deep expertise, as a chance to add exposure.

Greg Taylor, CFA
July 24, 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 Funds may be found here: https://penderfund.com/solutions/
[2] *Benchmark HFRI ED: Merger Arbitrage Index (USD)*

PENDER
PenderFund Capital Management Ltd.