

Manager's Commentary

Greg Taylor, CFA

Market Update

The first half of the year had a little of everything. We have all come to expect the unexpected under President Trump but the events that have unfolded caught even the most cynical off guard.

Heading into 2026, one of the consensus calls was that the FOMC would cut interest rates. They were one of the last Central banks to normalize policy after the aggressive rate hikes over the past few years, and it was time to correct that. Inflation was expected to fall and yields would follow. But as is often the case when everyone agrees, that wasn't what happened.

It started with a shockingly successful strike on Venezuela that resulted in the US essentially taking control of the country (and its oil reserves) in a matter of hours. Markets appeared to cheer this outcome and that likely embolden the President to take further action. After a year of tariff wars, the pivot was to actual shooting wars.

By the end of February, the attack began on Iran with expectations of a similar result to Venezuela. But, it wasn't that easy. There was no decisive outcome, and the attacks resulted in an almost worst-case scenario. The old regime remained in place with the Strait of Hormuz blocked, and commodity prices skyrocketing higher.

Crude oil prices that had been drifting lower surged to over \$110 a barrel on WTI. Grains and other commodities followed. Suddenly that dream of a drop in inflation vanished and with it yields spiked. The month of March saw a rise in volatility and fall in equity prices. Investor sentiment fell with the market.

To further add to market uncertainty, the rise of AI was suddenly seen as a threat to many software companies as well as white-collar jobs. The Mag7 names that had looked invincible started to show cracks. The race to build data centres was sucking up all of the free cash flow these companies could generate.

Most symbolic of the AI spend was the price of DRAM. This overlooked technology commodity is in everything. As demand surged, prices followed, and we suddenly had another source of inflation. The rise of DRAM, the move higher in oil prices, and the still present tariffs are likely making the case for interest rate cuts a challenge. We are even hearing calls for rate hikes, a scenario that had almost a zero chance of happening a few months ago.

Yet this is far from the worst start to the year for equity markets. Most equity indices are up around 10%, and bond markets are positive. In our view, there remain elevated levels of cash on the sidelines looking to buy on any dip and that is helping to keep a bid to markets and prevent the selloff many had feared.

But at the halfway point of the year, while hard to believe, it's difficult to expect the second half to be much calmer. One overwhelming positive has been that corporate earnings were stronger than expected, and continued earnings resilience will likely remain important. There is also an expectation that the worst may be behind us for the US-Iran war, as neither side wants this to continue. In addition, there is a new FOMC Chair which must thread the needle of the need to lower inflation and not look like puppet for a President desperate for a strong economy heading into the Mid-Term elections. For Canada there remains the unlikely ability to reach an agreement on a new USMCA deal. All these questions will keep investors on their toes and have the potential to elevate volatility.

One nuance to this market that is different from past years, is the amount of new equity and bonds in circulation. After many years of a corporate buybacks shrinking supply, that has flipped. The SpaceX IPO looks to be just the start as other large deals are to follow. On the fixed income side, it has already been a record year for high yield bond issuance. Going back to simple supply and demand models, the underlying support of fewer shares outstanding has gone away, and increased supply is now a headwind.

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 in the face of several real struggles, this is hardly the time to get complacent. We believe there will be opportunities for active managers to prove their worth in this environment, and they need to do so. Enjoy the warm weather but be ready to act on market dislocations.

Performance

The Pender Alternative Multi-Strategy Income Fund was down 0.39% for June and is now higher by 2.05% YTD¹. The Fund's blended benchmark returned 0.25% and 3.12%² for the same period.

Our expectations of a volatile start to 2026 appear to be playing out. Following continued positive performance in the first quarter, the Fund has seen more muted results of late.

To best position the Fund going forward, we continue to adjust weightings across our underlying owned portfolios.

The Pender Alternative Absolute Return Fund (PAARF), held to dampen volatility and provide downside protection in choppy markets, which played out for June as the PAARF returned 0.26%¹. Its benchmark returned 0.52%³ in June.

The Pender Corporate Bond Fund (PCBF), held for its total return and opportunistic credit approach, it was down -0.7% for June and is now up by 5.0% YTD¹.

The Pender Alternative Arbitrage Plus Fund (PAAPF), held for merger arbitrage exposure, it was down -1.1% for June and is now down -0.7% YTD¹. Its benchmark returned 0.7% and 4.2%⁴ for the same periods. It has been a challenging year for Arbitrage funds due to tighter deal spreads, yet we expect this to improve in the second half of the year.

Portfolio Positioning

Today's markets are volatile and constantly shifting. Given the current environment of historically tight credit spreads, we remain in a neutral stance with equal exposure to both PCBF and PAARF. The continued uptick in M&A activity and new issuances is encouraging. We expect this to increase, which should act as a catalyst for PAAPF.

As we enter the summer months, we are looking for opportunities to add to our PCBF exposure in the event of market dislocations. Cash remains a component of the asset mix, though it is not material at this point. We continue to monitor correlations across the Fund's underlying exposures and will introduce additional asset classes or make tactical shifts as opportunities arise.

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

² The Fund's blended benchmark consists of 9% FTSE Canada Universe Bond Index, 25% ICE BofA US High Yield Index, 33% HFRI Credit Index (Hedged to CAD), 33% HFRI ED: Merger Arbitrage Index (Hedged to CAD)

³ The benchmark used is the HFRI Credit Index (USD). The Fund's benchmark is the HFRI Credit Index, hedged to CAD.

⁴ Benchmark HFRI ED: Merger Arbitrage Index (USD)