Manager's Commentary

Justin Jacobsen, CFA

Dear Unitholders,

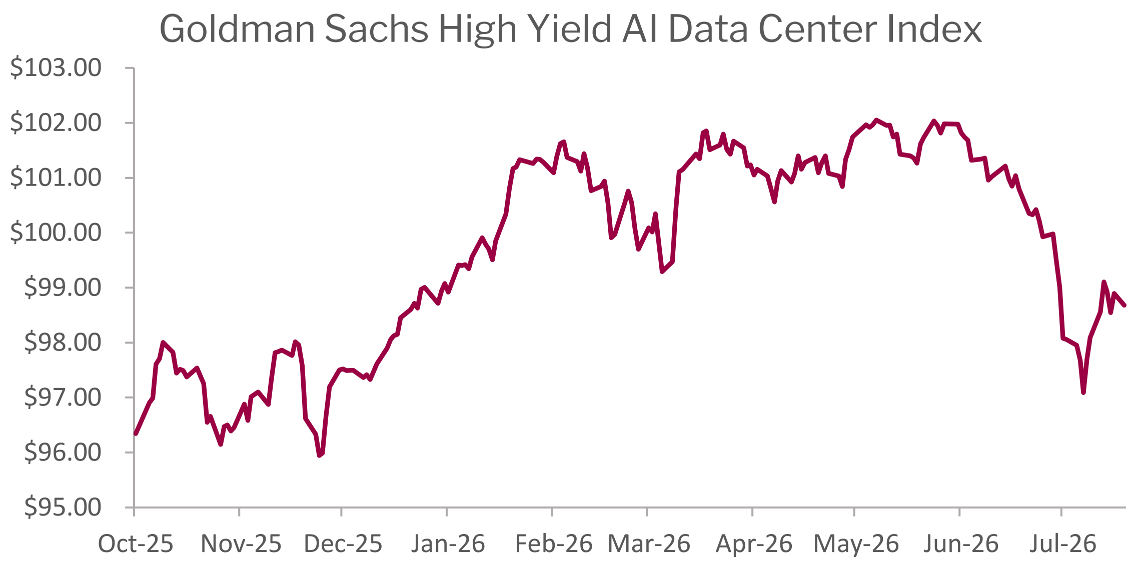
The Pender Alternative Absolute Return Fund returned 0.8%[1] in July, bringing year to date return to 1.8%.

Credit markets were softer in July despite a sharp rally to close the month, impacted by both higher government bond yields and modestly wider spreads. High volumes of supply, much of which used to fund the AI capital investment cycle, were a significant drag on markets. High yield spreads finished July at 285bp Govt OAS, 10bp wider on the month.

The HFRI Credit Index hedged to CAD; the Fund's benchmark returned -0.6% in July, bringing year to date returns to 2.9%.

Portfolio & Market Update

As valuations improved in high yield data centre bonds in July the Fund increased exposure to the sector with a focus on higher quality financings backed by investment grade tenants like NVIDIA and Alphabet Inc. Unfortunately, our initial buys proved to be early but better prices allowed us to average down later in



Source: Bloomberg, Goldman Sachs

the month. The Goldman Sachs High Yield AI Data Center index experienced a drawdown of 4.2% from June 30 to July 29, before ultimately finishing the month down about 3.2%. The Fund subsequently took some sales on strength in early August as the market continued to rally in the first couple of trading days of the month.

We closed our small short position in CoreWeave Inc. unsecured bonds in mid-July, covering our short more than six points lower than our last sale in June. If we had waited another week or two this trade would have been even more profitable. The cause of the large sell-off in AI infrastructure bonds was

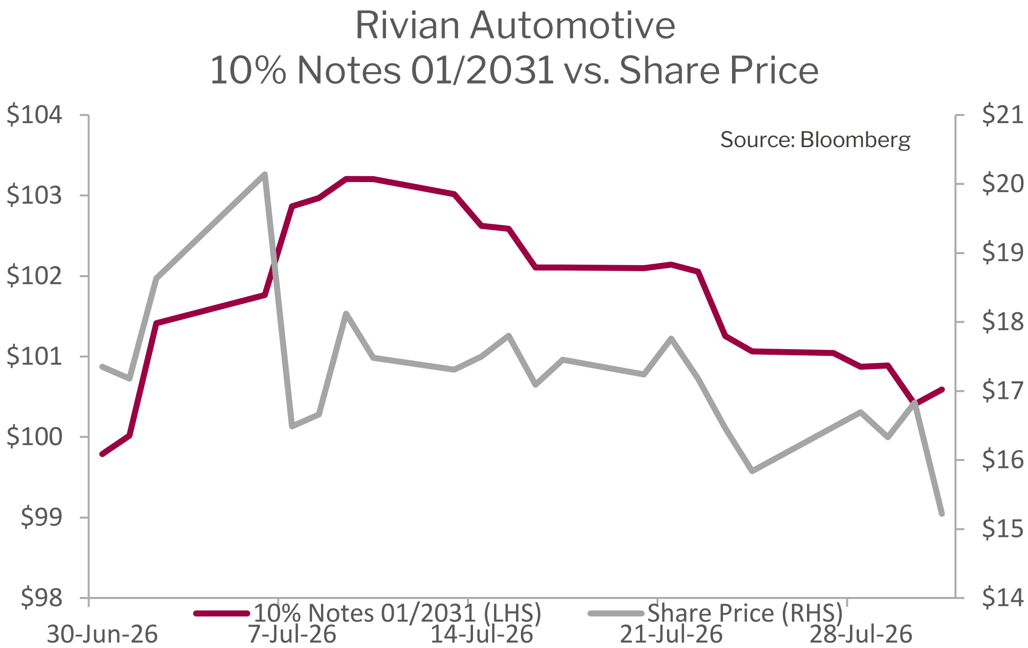
[1] *All Pender performance data points are for Class F of the Fund unless otherwise stated. Other classes are available. Fees and performance may differ in those other classes. Standard performance information for the funds can be found here: https://penderfund.com/fund/pender-alternative-absolute-return-fund/*

both a combination of macro concerns and some large financings which often struggled to generate demand, causing the initial proposed terms to be sweetened significantly.

CoreWeave issued a $2.6 billion delayed draw term loan with a spread of SOFR + 550bp and a three-point discount to par, after initial terms had been floated at SOFR + 425-450bp and a one-point discount. This increased the effective yield by about 150bp. There was a similar increase in yield for a $3.5 billion financing from Galaxy Helios Data Centers II LLC which was the lone high yield financing of the month and supposed to be the first of several transactions, potentially totaling $15 billion or more by Labor Day. It took until mid-August for another high yield data centre financing to come to market. We didn't participate in either CoreWeave or Galaxy's issues due to credit quality concerns, but we did purchase an investment grade rated issue from a Meta Inc. leased and supported transaction for Sopaipilla Investor LLC, which priced at a yield of just over 7.5% for a A+/AA- rated issue with an average life of about fourteen years.

There were positive developments in our capital structure trade in Rivian Holdings LLC (Nasdaq: RIVN) where we own a first lien secured bond and hedge with a much smaller short position in the company's equity. Our thinking behind this capital structure trade was that the bond and equity were pricing in significantly different risk profiles for the business. As a sub-scale automotive OEM, we believed that Rivian would likely need to raise equity capital, which would require a discount to market while also presenting a positive catalyst for credit spreads to compress.

This thesis played out in early July as the company reported better than expected second quarter sales volumes and increased guidance for vehicle deliveries for the full year. Following a rise in stock price after this update, Rivian raised about $1.2 billion in equity to fund future growth at a more than 20% discount to the last trade prior to the announcement. Rivian has also raised equity from strategic partners Volkswagen and Uber in 2026 for a combined $1.3 billion in the first six months of the year. We used the decline in share price to opportunistically cover most of our short position. Despite this credit positive development, our position in Rivian's bonds closed the month about a point lower than where they traded prior to the equity raise. While the bond price rebounded somewhat in August, at a yield to worst of more than 9%, we believe this credit is mispriced relative to the broad market and is one of our highest conviction long positions in the Fund. Our bond is the top $1.25 billion of Rivian's capital structure, which has an equity market value of over $20 billion.



We continued to add exposure in the Canadian dollar high yield market through attractively priced new issues from MDA Space Ltd. (TSX: MDA) which issued a 7-year bond at 6.5%, Saturn Oil and Gas Inc. (TSX: SOIL) which priced a 5-year bond at 7.5%, and finally Arterra Wines Canada issued a 5-year bond at 7.5%. Arterra is private, but we believe has strong equity sponsorship from Ontario Teachers' Pension Plan. We are expecting some larger positions in the fund could be called in the coming weeks, creating cash for us to recycle into the market in September and October, which is often a period when markets experience greater volatility. We have seen an uptick in trading opportunities this summer and are optimistic that our defensive positioning may serve us well for the balance of the year.

Market Outlook

Equities took relief in late July and early August from strong earnings related to the AI buildout. Credit markets stalled relatively quickly, which has been a consistent theme in risk rallies in recent months. The indigestion of AI-related supply across credit markets we believe poses a risk to the investment cycle as a whole. High yield, investment grade, leveraged loan and structured product markets have all been heavily utilized to fund capital expenditures for data centres. Another drawdown in high yield data centres at the same scale that we saw in July could, in our view, effectively freeze the market except for projects of the absolute highest quality and lowest construction risk.

For many of the transactions we've seen in the high yield market, the tenant is a Special Purpose Vehicle (SPV) which is ultimately owned by a hyperscaler. We have seen different totals of the scale of off-balance sheet obligations for hyperscalers, as some reporting focuses on leases not yet commenced that are direct obligations, whereas creative uses of SPVs would bring the total off balance sheet obligations higher. The highest total we have seen was $1.65 billion as reported by Nikkei in July[2].

Everything we have seen in markets this year argues that these figures could continue to grow over the near term. The use of SPVs to move certain obligations was widespread by banks in the lead up to the Global Financial Crisis in 2008. Even some Canadian banks, which probably got excessive credit for being good risk managers during that period ultimately supported SPVs that held troubled assets.

We recognize that markets are auto correlated as rising prices bring out buyers, and falling prices bring out sellers. These price cycles determine much of the market narrative over the short term. We see some clear examples of market excesses today, combined with cracks appearing in credit markets from AI to CCCs. In our view, the case for a patient and defensive approach to risk management is compelling as we enter what has often been a seasonally challenging time of year.

Portfolio Metrics

The Fund finished July with long positions of 148.7% (excluding cash and T-bills). 34.9% of these positions are in our Current Income strategy, 112.5% in Relative Value and 1.3% in Event Driven positions. The Fund had a -69.9% short exposure that included -3.9% in government bonds, -43.5% in credit and -22.5% in equities. The Option Adjusted Duration was 1.86 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 1.47 years.

The Fund's current yield was 7.55% while yield to maturity was 7.63%.

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[2] *Nikkei, July 21, 2026*