Manager’s Commentary

Greg Taylor, CFA

Market Update

July continued the themes of a summer of uncertainties, as global events continue to shape the macroeconomic backdrop, creating new opportunities as well as risks for investors.

As the month came to a close, investors remained cautious as US-Iran tensions escalated, and once again shipping through the Strait of Hormuz came to an effective standstill. The ceasefire between the US and Iran, reached through a memorandum of understanding in June, broke down in July. By late July the ceasefire remains fragile, and shipping through the Strait of Hormuz stayed well below normal, with fewer than 10 vessels passing daily compared with about 100 before the war.

Oil prices reflected this uncertainty, rising over the month. Brent swung between $72 and $102 before settling at $88, with markets pricing in each de-escalation only to reprice from scratch on every setback. This also impacted gasoline prices, raising concerns about another stretch of inflationary pressures. Until a durable resolution is reached, we believe markets appear to be pricing in that elevated energy prices are likely to persist, keeping upward pressure on inflation and costs for consumers and businesses and adding uncertainty to the economic outlook. That said, gold, which is often viewed as a safe-haven asset, rose 1.3% to reach $4,061/oz and remains -6% lower for the year.

Trade tensions also continued to rumble through markets, with one tariff regime replaced by another. Statistics Canada reported in July that Canada's merchandise trade surplus widened to $4.2 billion in May, the largest in four years, as exports climbed to a record $77.1 billion while imports edged lower. Exports to the US rose for a fourth straight month, pushing Canada's surplus with its top trading partner higher. Trade tensions with the US escalated further in July, as President Donald Trump signed an order imposing new 50% tariffs on a range of Canadian goods, taking effect in mid-August, citing Canada's unfair treatment of US dairy, alcohol and auto exports. Days later, Washington launched a separate round of tariffs on dozens of countries, citing concerns about forced labour in global supply chains. Canada, alongside Mexico and the UK, was hit with a 10% tariff, while several other countries/regions face a 12.5% tariff; goods compliant with the Canada-United States-Mexico Agreement remain exempt from this round. The layering of new US tariffs adds fresh uncertainty, and if these tariffs persist, they could weigh on exports and economic growth in the months ahead, adding pressure to an already fragile outlook for Canada's economy.

In keeping with another theme this month, central banks, including the Bank of Canada (BoC), Bank of England and European Central Bank (ECB), held policy interest rates steady at their July meetings. The US Fed also held rates steady, at a target range of 3.50%–3.75% at its July meeting, which was widely expected by economists. The Fed noted its commitment to price stability, saying it is willing to shift monetary policy depending on the prevailing economic conditions. Markets had priced in a 40% chance of a hike going into the meeting. Chair Warsh offered no forward guidance beyond confirming there would be none, framing the decision not as a pause but "a rigorous review of the economic situation," and repeating his defining line: "we will deliver price stability." With the FOMC split and inflation above target, markets are now pricing hikes before year-end. The US and Europe both reported their respective economies expanded in the second quarter of 2026.

One notable wrench in markets was a mechanical selloff after Situational Awareness LP was margin called. As a reminder, this was an AI fund run at roughly four times leverage by 24-yearold former OpenAI researcher Leopold Aschenbrenner. As concentrated AI bets unwound, the fund was forced into a $16 billion liquidation that Citadel picked up at a discount. Korea saw a similar dynamic: after the Kospi, South Korea's benchmark equity index, heavily weighted to Samsung Electronics and SK Hynix, more than doubled in H1 2026, leveraged positions hit a record 29.2 trillion won in early July, and when sentiment on memory names shifted, over 1.2 million accounts faced margin calls and roughly 360,000 were forcibly liquidated. MSCI Korea fell -23.7% on the month (though remains up +79% for the year). However, the rebound that followed was substantial, with Samsung and SK Hynix each gaining over 20%.

Underneath the leverage-driven volatility, though, corporate fundamentals remained steady. With two-thirds of S&P 500 companies having reported by month end, 87% had beaten expectations by an average of 14%, and earnings grew 22% year-over-year. Microsoft and Amazon both rose +16% on cloud strength. But dispersion told its own story: Alphabet fell -7% despite 82% cloud revenue growth, and Apple dropped -7% on chip-driven cost pressure. Markets remain willing to pay for AI capex, just far more selectively.

Performance

As the Fund has not yet reached its one-year performance mark, we are unable to include performance data. However, we can comment on the individual performance of the underlying funds that make up the Fund.

In July, the Pender Small Cap Opportunities Fund (PSCOF) returned 2.5%[1], ahead of the S&P/TSX Composite at 1.2% and the Russell 2000, which declined -4.1%, in an eventful month for Canadian and international markets. Canadian markets saw significant divergence in July, characterized by a rotation into value stocks and energy, while growth-oriented segments and broader small-cap indices faced headwinds. The Fund has taken a more defensive position than in previous months, with cash and equivalents at approximately 16% of the portfolio. The current defensive stance, including elevated cash reserves, is intended to provide the flexibility to move into high-quality businesses should liquidity needs create compelling opportunities.

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 was down -0.6% in July, with year-to-date performance of 18.5%[1]. This compares to the S&P/TSX Composite return of 1.2% for July and 12.6% for the year-to-date. The overweight in materials sectors acted as a drag, as weakness in gold stocks weighed on the portfolio through the month, although this was partially offset by strength in the energy sector. In our view, the addition of several Hyperscalers during the month has likely set the Fund up for a stronger August.

The Pender Alternative Arbitrage Plus Fund (PAAPF), held for merger arbitrage exposure, was flat in July and is now down -0.8% YTD[1]. Its benchmark returned -0.2% and 4.0%[2], respectively, for the same periods.

Our expectations of a volatile start to 2026 appear to be playing out. To best position the Fund going forward, we continue to adjust weightings across our underlying portfolios. Cash remains a component of the asset mix, as we continue to monitor correlations across the Fund's underlying exposures and will introduce additional asset classes or make tactical shifts as opportunities arise.

Greg Taylor, CFA
August 28, 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 (Hedged to CAD)*

PENDER
PenderFund Capital Management Ltd.