

Pender Alternative Arbitrage Fund

Manager's Commentary – August 2026

Amar Pandya, CFA



Dear Unitholders,

The Pender Alternative Arbitrage Fund and the Pender Alternative Arbitrage Plus Fund were 0.5%¹ in August 2026 while the HFRI ED: Merger Arbitrage Index (USD) returned 1.9%².

M&A Market Update

Global M&A activity continued its strong recovery through August, with approximately \$2.1 trillion of deal value announced during the first eight months of 2026, up 15% compared with the same period last year and 11% above the ten-year average³. North America continues to lead global activity, with \$1.2 trillion of announced transactions involving North American targets, an increase of approximately 17% year-over-year, including \$1.1 trillion of US activity. In our view, the headline strength has been driven disproportionately by larger transactions, with 37 deals greater than \$10 billion announced through August compared with 24 during the same period last year and exceeding the comparable record set during the 2021 M&A boom. In contrast, deal volumes below \$1 billion remain below longer-term averages, highlighting that the recovery in M&A has yet to fully broaden into the small and mid-cap market.

While August experienced some seasonal moderation, the underlying environment for dealmaking remains constructive. US deal announcements declined 15% sequentially during the month, but M&A activity over the three months through August was considerably stronger than a year ago, with transactions valued above \$100 million increasing 22% in value and 23% in volume⁴.

Technology, life sciences and aerospace and defence have been among the most active areas, supported by readily available private credit and strategic demand for capabilities related to AI, data and critical infrastructure. Energy also remains an important source of activity as increased power demand from AI and electrification are driving a wave of consolidation as producers look to secure inventory.

With corporate balance sheets healthy, financing available and strategic buyers increasingly willing to pursue transformational acquisitions, we believe the backdrop remains supportive for further M&A activity. A broader recovery in smaller transactions would be particularly constructive for the Fund, where the less competitive and shorter-duration nature of small and mid-cap deals continues to provide an attractive opportunity set.

SPAC Market Update

SPAC issuance moderated in August following a particularly active July, with 12 SPAC IPOs completed during the month raising approximately \$1.8 billion of capital in trust⁵. Four SPAC mergers closed and two SPACs liquidated. At month-end, there were 377 active SPACs with \$60.6 billion of value held in trust, including 270 SPACs actively searching for acquisition targets. Despite the seasonal slowdown, the pace of issuance remains historically strong, with 147 SPAC IPOs completed through the end of August, already surpassing the 144 completed during all of 2025. The continued expansion of the market is placing greater emphasis on sponsor quality and differentiated deal sourcing as a growing number of SPACs compete for attractive private companies. Recent filings remain concentrated in growth-oriented areas including artificial intelligence, advanced computing and financial technology, while repeat sponsors continue to return to market with new vehicles.

At the end of August, SPACs searching for targets were trading at a discount to trust value providing a yield-to-maturity of 5.23%, largely unchanged from 5.24% at the end of July⁶. We believe the stability in yields despite continued new issuance suggests that the expanding supply of SPAC capital is continuing to provide attractive entry points for arbitrage investors. With 270 SPACs now actively seeking transactions, up from 264 at the end of July, competition for targets may continue to intensify, increasing the importance of sponsor experience, transaction structure and the ability to provide committed financing.

Industry participants have similarly highlighted sponsor quality as an increasingly important differentiator as deals move through the pipeline at a faster pace. We continue to favour shorter-duration SPACs approaching extension votes or liquidation deadlines, where investors can potentially earn attractive low-volatility returns supported by cash held in trust while retaining potential upside optionality from a merger announcement. The growing universe of searching SPACs should continue to generate a steady pipeline of extensions, redemptions and liquidations, providing an attractive opportunity set for SPAC arbitrage through the remainder of the year.

Portfolio Update

August was another active month for the Fund, as the pickup in M&A activity that emerged late in July carried through what is typically a seasonally slower period for dealmaking. Despite the traditional end-of-summer lull, a steady flow of new merger announcements provided a broad opportunity set for the Fund and allowed us to continue redeploying capital from completed transactions into new positions. The sustained pace of activity reinforces our view that confidence among strategic and financial buyers has improved and that the pipeline for M&A remains healthy heading into the fall.

The Fund initiated positions in 19 new merger deals during August, while 11 deals held within the Fund closed during the month. The combination of new deal activity and completed transactions provided consistent portfolio turnover and opportunities to recycle capital across a diversified set of merger arbitrage situations. We continue to focus primarily on small and mid-cap transactions, where deal structures can be less complex, financing requirements more manageable and regulatory risk generally lower. At the end of August, the Fund held 25 investments in transactions valued below \$2 billion, 19 of which were valued at under \$1 billion.

While several larger transactions continue to capture headlines, we believe the breadth of activity further down the market-cap spectrum remains particularly supportive for the Fund's strategy. A healthy cadence of new announcements, combined with the progression and closing of existing deals, continues to provide opportunities to deploy capital across transactions with varying durations, return profiles and deal-specific risks. With deal activity remaining resilient through the seasonally slower summer period, we enter the fall with a robust opportunity set and a diversified portfolio of active merger arbitrage positions.

Outlook

August reinforced the increasingly difficult balance facing investors as resilient economic growth, persistent inflation and elevated asset valuations continue to challenge expectations for easier monetary policy. The Federal Reserve held rates unchanged at its July meeting, but three policymakers voted for a rate increase, while Chair Kevin Warsh used his Jackson Hole speech in August to emphasize that inflation remains meaningfully above the Fed's 2% objective and that further policy action may be required if underlying price pressures fail to moderate. Long-term Treasury yields remained elevated through August, with the 10-year yield ending the month at approximately 4.75% and the 30-year yield at 5.25%. With inflation remaining sticky, commodity prices elevated and economic activity proving resilient, the risk that interest rates remain higher for longer or move higher still continues to represent an important headwind for traditional fixed income and other long-duration assets.

We believe this environment highlights several attractive characteristics of arbitrage strategies. Unlike traditional fixed income, where rising rates can result in meaningful mark-to-market losses as bond prices decline, merger arbitrage investments typically have relatively short durations and spreads that can reset wider as underlying interest rates increase, giving the strategy characteristics similar to floating-rate credit.

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At the same time, a robust M&A pipeline provides a broad set of announced transactions from which to generate returns as deals progress toward completion, while the expanding SPAC market continues to offer short-duration investments backed by cash held in trust. With SPAC yields at 5.23% at the end of August and merger activity remaining strong, we believe the combination of attractive absolute yields, limited interest-rate duration and low correlation to traditional asset classes leaves arbitrage well positioned in an environment where inflation and the future path of rates remain uncertain.

Amar Pandya, CFA

Portfolio Manager

September 29, 2026

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. Standard Performance Information for the Fund may be found here:

<https://penderfund.com/fund/pender-alternative-arbitrage-plus-fund/> and here: <https://penderfund.com/fund/pender-alternative-arbitrage-fund/>

² The benchmark for both funds is the HFRI ED: Merger Arbitrage Index (USD) hedged to CAD

³ Boston Consulting Group, In Search of a Wider Recovery: The 2026 M&A Report

⁴ EY-Parthenon, US M&A Activity Insights: August 2026

⁵ SPAC Research

⁶ SPAC Insider

Standard Performance Information for Pender's Liquid Alternative Funds may be found here: <https://www.penderfund.com>

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