

Market Update

August kept up with the theme of market volatility, as mid-cycle economic strengthening and an intensifying AI investment supercycle conflicted with the continued geopolitical conflict in the Middle East. Yet, markets proved once again that geopolitical disruption can likely be shrugged off as noise: investors spent much of the month navigating rising bond yields, persistent inflation concerns, and the ongoing trade negotiations between Canada and the United States. Despite these challenging dynamics, equities continued their advance, the S&P 500 gained 2.7% during August, while the S&P/TSX Composite advanced 3.1%, extending an already positive year for both Canadian and US markets.

Beneath the headlines, corporate earnings remained resilient, and economic activity continued to show enough strength to support growth without convincing investors that a recession was imminent. Despite valuations remaining near record levels, earnings this month surprised to the upside, with corporations across many sectors taking advantage of growth opportunities. The broader market theme finally moved beyond AI; precious metals were a standout in August, with gold posting noteworthy gains.

Looking back, gold had set a record high in late January, but the global market disruption caused by the war in Iran pushed investors to exit gold positions to provide capital for other, under-pressure asset classes. The result was a retreat of more than 25% between gold's January high and its July low. The metal has since rebounded, gaining almost 10% in August and briefly topping USD 4,700 an ounce, leaving it about 18% below its January record. The rally has been driven by a weaker dollar, geopolitical uncertainty, and shifting monetary-policy expectations, but also by a newer concern: the sustainability of US public debt.

The catalyst was the US Treasury's decision to increase purchases of longer-dated government bonds, aimed at reducing longer-term Treasury yields, which had surged to highs last seen in 2007. The move briefly pushed yields lower and weakened the dollar, reinforcing the idea of the debasement trade (owning scarce assets such as gold as a hedge against rising government debt and potential currency weakness). Looking ahead, investor demand for the metal is picking up, with record flows into gold-related ETFs alongside continued central bank buying. Physical demand is also providing support. According to the World Gold Council, central banks bought 289 tons of gold in the second quarter, up 62% from a year earlier, with China continuing to accumulate and Poland the largest single buyer; the WGC expects central banks to keep buying over the next 12 months.

Separately, Kevin Warsh's confirmation as the new Fed chair in May has kept markets busy trying to comprehend his policy tilt. When President Trump nominated Warsh markets expected that he would move quickly to bring rates down. That expectation was complicated at Jackson Hole in late August. Warsh's keynote struck a notably hawkish tone, deliberately avoiding forward guidance on the path ahead but flagging that inflation running well above the 2% target left the door open to a hike as soon as the September meeting. Fed funds futures responded immediately, pushing the implied odds of a September hike from roughly one-in-three over 50%. The stance also puts Warsh's preference for a leaner central bank balance sheet somewhat at odds with the Treasury's own move earlier in August to step up purchases of longer-dated debt. For gold, the hawkish surprise took some wind out of the trade that had powered the month's rally, an early signal that the path for precious metals from here may hinge as much on Warsh's next moves as on the deficit narrative.

Heading into the fall, we don't expect volatility to subside. The US-Iran war looks far from settled, which will likely keep energy prices elevated and make it difficult for central banks to bring down yields in a way that helps consumers. Add ongoing trade tensions and an uncertain US election season; we remain cautious and selective, leaning on valuation discipline and using any volatility as an opportunity to add to names where the underlying fundamentals continue to improve.

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, whose allocation changed during the period: the Pender Alternative Arbitrage Plus Fund was removed, while the Pender Alternative Special Situations Fund and Pender US Small/Mid Cap Equity Fund were added.

In August, the **Pender Small Cap Opportunities Fund** returned 1.5%¹, ahead of the Russell 2000, which declined 0.1%. Software remained volatile, with valuations rebounding from 52-week lows even as sector sentiment and flows continued to weigh on many companies regardless of fundamentals. We remain cautious on broader market conditions but see long-term opportunities emerging from infrastructure investment across several sectors. Against this backdrop, we continue to seek undervalued small-cap businesses with strong economic characteristics and attractive valuations, while maintaining high conviction in the opportunities within software.

In the **Pender US Small/Mid Cap Equity Fund**, August marked an important turning point for small- and mid-cap companies, as forward earnings expectations improved. The Fund returned -1.4% for the month and 17.6%¹ over one year, compared to -1.0% and 18.3% for the S&P MidCap 400 Index. Since the Fund's launch in December 2024, two-year forward EPS growth for the Index has risen from just over 5% to roughly 18%, while the Fund's has climbed from approximately 10% to 22%. The path hasn't been linear — some higher-growth holdings have seen share-price weakness as long-term rates have risen — but we view this disconnect between price and fundamentals as an opportunity, and have used it to selectively add to businesses where the long-term growth case remains compelling.

In the **Pender Alternative Special Situations Fund**, the Fund returned 6.7%¹ for the one-month period, compared to 3.1% for the S&P/TSX Composite Index (CAD). Positioning has taken a more cautious, defensive tone amid an uncertain macro backdrop. We continue to preserve optionality via a cash position — not a broad market call, but liquidity that lets the Fund capitalize on forced selling and company-specific dislocations without trimming core positions at an inopportune time. At the same time, we've increased exposure to investments with identifiable, time-bound catalysts — contract awards, recapitalizations, strategic transactions — where returns depend more on company-specific developments than broad market direction; we see these as a more differentiated source of return when market beta becomes less reliable.

The **Pender Alternative Select Equity Fund** was higher by 8.7% in August, which brings the year-to-date performance to 28.7%¹. This compares to the S&P/TSX Composite return of 3.1% for the month and 16.0% for the year-to-date. While August is traditionally one of the weaker months of the year, markets generally posted positive returns, continuing a trend that also played out last year. The Fund came into the month with a defensive stance with higher cash levels, but our exposure to precious metals helped returns. This sector has had a very volatile year. We had been adding to these holdings throughout the spring, and while this had been a drag on performance earlier, the Fund benefited in August as positive momentum returned, and many of our holdings had strong rebounds.

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 may 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 Funds. 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/>

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