

Pender Alternative Arbitrage Fund

Manager's Commentary – September 2026

Amar Pandya, CFA



Dear Unitholders,

The Pender Alternative Arbitrage Fund and the Pender Alternative Arbitrage Plus Fund were 0.1% and 0.0%¹ in September 2026 while the HFRI ED: Merger Arbitrage Index (USD) returned -0.5%².

M&A Market Update

Global M&A activity remained well ahead of last year through September, although momentum slowed during the third quarter. According to LSEG, approximately \$3.9 trillion of transactions were announced during the first nine months of 2026, an increase of 28% compared to the same period last year, while the number of announced deals declined 8%.³

The US continued to drive global activity with approximately \$2 trillion of announced transactions, up 38% year-over-year and accounting for over half of global deal value. The divergence between deal values and volumes reflects the disproportionate contribution from larger transactions, with 57 mega-mergers exceeding \$10 billion announced year-to-date, representing approximately \$1.4 trillion of total deal value.

Despite the strong year-to-date figures, dealmaking slowed sharply in the third quarter as rising borrowing costs, inflationary pressures and economic uncertainty weighed on activity. Global announced M&A declined 41% sequentially to \$993 billion, the first quarter below \$1 trillion since the second quarter of 2025. Notably, only 10 mega-mergers were announced during the quarter compared with 26 in the preceding quarter, highlighting the sensitivity of larger transactions to changing financing conditions. The pullback was particularly pronounced in North America and Europe, while Asia-Pacific activity proved more resilient.

Technology remained the leading sector for M&A, accounting for 22% of global deal value through September, with activity increasing 45% year-over-year. Strategic demand for AI capabilities, data infrastructure and technology assets continues to drive consolidation, while energy and power and industrials have also experienced increased activity. Although the recent slowdown demonstrates that dealmakers are not immune to higher financing costs and economic uncertainty, corporate demand for scale, technological capabilities and operational efficiencies remains supportive of acquisition activity.

For the Fund, the concentration of activity in larger transactions reinforces our preference for small and mid-cap mergers, where less complex financing arrangements, shorter closing timelines and reduced regulatory scrutiny can provide attractive risk-adjusted returns. While a broader recovery in smaller transactions has yet to materialize, we believe the strategic rationale for consolidation remains intact and should continue to provide opportunities to deploy capital selectively.

SPAC Market Update

After a strong start to the year, SPAC new issuance slowed considerably in September with five SPAC IPOs raising \$0.9 billion, the lowest monthly issuance volume of 2026. Despite the slowdown in IPO activity, the pipeline remains robust with 17 new SPAC registrations filed during the month seeking to raise approximately \$2.3 billion. There were 15 new SPAC merger announcements during September, while three de-SPAC transactions closed and no SPACs liquidated. At the end of September, there were 379 active SPACs with \$60.8 billion held in trust, including 263 SPACs actively searching for acquisition targets. The significant growth in the SPAC universe over the past year has created a substantial pool of capital seeking merger opportunities, which should support continued business combination activity in the quarters ahead.

At the end of September, SPACs searching for targets were trading at a discount to their trust value, providing an estimated yield-to-maturity of 5.73%. With yields on SPAC arbitrage investments remaining attractive relative to short-term fixed-income alternatives, the strategy is likely to continue

to offer a compelling combination of downside protection through cash held in trust and potential upside from successful merger announcements. While the increase in SPAC issuance has expanded the opportunity set, it has also increased competition among sponsors seeking attractive targets, potentially creating challenges for less experienced sponsors as deadlines approach. With a substantial universe of SPACs searching for targets and attractive yields available, we remain constructive on the opportunity set for SPAC arbitrage.

Portfolio Update

September was another active month for the Fund, with a steady flow of new merger announcements providing opportunities to deploy capital as existing transactions progressed towards closing. The Fund initiated positions in nine new merger deals during the month, while six deals held within the Fund closed, allowing us to recycle capital into new opportunities. We continue to focus on small and mid-cap transactions where we believe deal risks are generally lower, durations shorter and potential annualized returns more attractive. At the end of September, the Fund held 27 investments in transactions valued below \$2 billion, 20 of which were valued at under \$1 billion.

One notable transaction announced during the month was the acquisition of Sangoma Technologies Corp. (TSX: STC), a holding in Pender's equity funds. The transaction currently offers an attractive double-digit annualized yield, highlighting the opportunities available in smaller, less widely followed merger deals. In our view, a key advantage for the Fund is our ability to leverage the deep fundamental research, industry knowledge and company-specific insights of Pender's equity teams when underwriting merger transactions involving companies they hold or actively cover. This collaboration provides an additional layer of diligence in assessing deal risks, potential outcomes and the underlying value of acquisition targets. We believe there may be further M&A activity across our core small and mid-cap investment universe as strategic and financial buyers seek to capitalize on attractive valuations, providing a continued source of high-quality deal flow for the Fund.

Outlook

The market environment has become increasingly challenging as the ongoing conflict with Iran has driven a sharp increase in oil prices, reigniting inflationary pressures and pushing bond yields higher. The disruption to energy supplies and uncertainty surrounding the duration of the conflict have complicated the outlook for monetary policy, with central banks increasingly concerned about persistent inflation. US Treasury yields have risen to levels not seen in nearly two decades, increasing borrowing costs for corporations and consumers while putting pressure on valuations across asset classes. Higher financing costs could also weigh on M&A activity, particularly for larger leveraged transactions, although strategic acquirers with strong balance sheets should remain well positioned to pursue acquisitions.

Adding to market uncertainty are emerging concerns surrounding the substantial debt being raised to finance the AI infrastructure buildout. With hundreds of billions of dollars being deployed into data centres, computing infrastructure and related projects, credit investors are increasingly questioning the sustainability of capital spending and the ability of more highly leveraged companies to generate sufficient returns to service their debt. The growing interconnectedness of financing arrangements between AI companies, infrastructure providers and private credit markets creates the potential for broader market disruptions should growth expectations fail to materialize. With equity valuations remaining elevated despite rising interest rates and mounting credit risks, we believe the potential for increased market volatility remains significant.

In this environment, the short-duration, non-correlated and absolute return characteristics of merger arbitrage remain particularly attractive. While higher interest rates and market volatility may temporarily widen merger spreads, they can also provide opportunities to deploy capital at more

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attractive prospective returns. With a healthy pipeline of merger activity and SPAC arbitrage yields remaining attractive relative to traditional fixed income, we continue to see a favourable opportunity set for the Fund. Our focus remains on high-quality transactions with limited financing and regulatory risk, where disciplined deal selection and active portfolio management can generate attractive risk-adjusted returns regardless of broader market direction.

Amar Pandya, CFA

Portfolio Manager

October 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 LSEG Q3 M&A

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

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