

Volatility remained the dominant theme as markets moved into the fall. Renewed inflation concerns and ongoing tensions in the Middle East weighed on sentiment for another month, with no sign of easing. What set September apart from recent months was the strain that began to show in the bond market. Global government bond yields rose sharply on inflation and deficit concerns, and several US Treasury yields across the curve reached multi-year highs. The 30-year Treasury yield hit its highest level since 2002, while the benchmark 10-year briefly touched 5.25%, a level last seen in 2007 on the eve of the Global Financial Crisis. The speed of the move was as notable as its size. Moves this fast have usually come alongside some form of economic stress, which has left investors on edge and markets repricing risk.

Particularly noteworthy was the Federal Reserve's September meeting, where it raised the federal funds rate by 25 basis points to a target range of 3.75%–4.00%. It was the Fed's first increase in more than three years. The decision was unanimous, and the Fed said inflation had been elevated for too long and that the hike was needed to put it back on a path to the 2% target. Fed Chair Kevin Warsh noted that underlying inflation trends have not meaningfully improved. The Fed now expects inflation to end 2026 at 3.7%, and most officials expect at least one more increase before year-end. The Fed also raised its 2026 growth forecast to 2.3%. Higher rates may help cool price pressures by slowing US spending, but they could also slow economic activity more broadly, for example softer US demand could reduce spending on Canadian exports and add pressure to an already fragile trade relationship.

That fragility was on full display in September, as the Canada–US trade dispute escalated. After negotiations broke down in late August, the US imposed 50% tariffs on about \$28 billion of Canadian goods. On September 8, Canada responded with retaliatory tariffs of 15% to 50% on a similar value of US goods. The US then banned nearly US\$1 billion (C\$1.4 billion) of Canadian imports effective September 29. Although the ban is small relative to total bilateral trade, the broader dispute is already taking a toll and with the Canadian economy already under strain, higher trade barriers could weigh further on exports, business investment and employment in the months ahead.

In response, Ottawa is stepping up efforts to diversify its trade relationships beyond the US. During Prime Minister Carney's visit to the European Union, Canada was offered associate membership. It's not yet clear what the designation would involve, though it would likely mean closer trade and security ties. Any move would need to be voted on in Parliament but it's something worth keeping an eye on.

Moving to equity markets, higher rates weighed on returns, though not evenly. The AI theme lifted many growth stocks in September, helping offset weaker results in July and early August. Fundamentals continue to hold up, with most S&P 500 companies beating consensus earnings estimates on higher revenues and expanding margins. However, many smaller, more rate-sensitive companies were hit hard during the month and the Russell 2000 declined more than 5% (USD).

One other item of note: the US midterm elections are only weeks away, and markets are awaiting the outcome against a highly partisan backdrop. Historically, divided government has tended to be good for equity markets. However, given how divided the parties are, both within and between them, the next twelve months could see continued volatility, with market returns and sentiment swinging on headlines. As usual, there are reasons for both optimism and caution about where the economy and markets are headed. In our view, uncertainty is often what creates opportunities for investors. Waiting for the outcome is the hard part.

Performance

The Fund has not yet reached its one-year performance mark, so we are unable to include performance data. We can, however, comment on the performance of the underlying Funds. The Fund's allocation changed during the period: the Pender Alternative Arbitrage Plus Fund was removed, and the Pender Alternative Special Situations Fund and the Pender US Small/Mid Cap Equity Fund were added.

In September, the **Pender Small Cap Opportunities Fund** returned 0.1%¹. That outperformed the Russell 2000 Index, which declined -2.7% (CAD), and the Russell Microcap Index, which fell 1.6%. Small caps faced a difficult month. Elevated interest rates, higher borrowing costs and continued market concentration in large-cap technology all weighed on relative performance. We remain cautious on broader market conditions, but we believe long-term opportunities emerging from infrastructure investment across several sectors. In this environment, we continue to look for undervalued small-cap businesses with strong economic characteristics and attractive valuations, and we maintain high conviction in the opportunities within software.

The **Pender US Small/Mid Cap Equity Fund** returned -2.0% for the month and 10.0% over one year¹. The S&P MidCap 400 Index returned -1.9% and 14.0% over the same periods. One theme was hard to ignore in September: the gap between the parts of the market driving returns and the parts being left behind. Dispersion has been a recurring feature of 2026, and it became especially pronounced heading into the fall. Periods like this are a useful reminder of what we are, and are not, trying to do. We remain focused on owning quality businesses with strong cash flows, attractive returns on capital and capable management teams, at valuations we believe provide an appropriate margin of safety. This discipline can lag when the market is rewarding rapidly rising valuations or the latest investment theme. We do not believe the right response is to abandon the framework. We remain patient and focused on finding businesses where fundamental value creation can drive long-term returns.

The **Pender Alternative Special Situations Fund** returned -4.0%¹ in September, compared with a 2.6% decline in the S&P/TSX Composite Index. It was a difficult month for equities, as persistent inflation pushed the Fed to resume tightening. Even so, several key positions made significant progress during the month, and a handful of holdings contributed meaningfully to returns. That reinforces our focus on company-specific catalysts, sound balance sheets and attractive valuations, meaning opportunities where value creation does not depend solely on a broader market recovery.

The **Pender Alternative Select Equity Fund** declined 3.9% in September, bringing its year-to-date return to 23.7%¹. Over the same periods, the S&P/TSX Composite Index returned -2.6% and 13.0%. For the third quarter, the Fund gained 3.75%. It was a volatile quarter, to say the least, as equity markets worked through the impact of higher yields. We entered September with a defensive stance and higher cash levels, but our commodity exposure weighed on overall performance.

Our expectation of a volatile 2026 continues to play out. To best position the Fund going forward, we continue to adjust weightings across the underlying portfolios. Cash remains part of the asset mix. We are monitoring correlations across the Fund's underlying exposures and may introduce additional asset classes or make tactical shifts as opportunities arise.

Greg Taylor, CFA

CIO and Portfolio Manager

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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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