

# PENDER LIQUID ALTERNATIVES



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PORTFOLIO MANAGER

## Investment Process: Pender Alternative Arbitrage Fund

In Excess of \$2T of Annual M&A Activity in North America



Target Investable Universe of Deals Over \$100m: >500 Deals per Year



DEAL  
ANNOUNCED

EVALUATION

RETURN  
ANALYSIS

RISK  
ANALYSIS

POSITION SIZE  
OPTIMIZATION

EXECUTION

CONTINUAL MONITORING OF DEVELOPMENTS AROUND THE DEAL

### Deal Announced

When an announcement is made, we screen the deal against our criteria to see if it qualifies for an investment by the Fund.

### Evaluation

We look closely through the details of the deal ensuring it is a definitive agreement and understanding the terms and clauses within the agreement. This includes assessing the strategic rationale behind the deal and the benefits to both parties. We also review the legal documentation, paying close attention to the valuation and whether there is potential for the offer to be increased, for a counter-offer from another competitor and, crucially, whether shareholders are likely to accept the deal.

### Return Analysis

With this analysis we are trying to answer the question: Is this likely to be a good investment for the Fund? Here we are looking at the factors that will generate our Internal Rate of Return on the investment, in particular the spread from where the target stock is currently trading to the proposed bid price.

### Risk Analysis

This is a stringent part of the process in which we analyze several scenarios to stress test our thesis. We assign probabilities to a checklist of weighted risks and issues (key elements from this checklist are included in the chart below). These include financial, antitrust, regulatory, credibility and approval factors. We also assess the risks of the deal being extended or broken off, and the risks specific to the deal such as foreign jurisdictional considerations.

### Position Size Optimization

Using our return and risk analysis we determine a range of outcomes and assign probabilities to those scenarios. With this information we can optimize the position size to generate our highest risk-adjusted return. Positions are sized with the goal to minimize drawdowns in individual positions as well as at the portfolio level.

### Execution

Trade cost analysis including the potential borrow cost to hedge a deal with stock consideration is undertaken, aimed at locking in a targeted merger arb spread.



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## Risk Analysis Checklist

Risk analysis is an integral part of our investment process. Each position is evaluated through a multiple step process when considering an investment. Risk factors are assigned a score which acts as a gating factor impacting the investability and position size of a deal.

