PENDER
ALTERNATIVE ARBITRAGE FUND

October 2024

Manager's Commentary
Amar Pandya, CFA

Dear Unitholders,

The Pender Alternative Arbitrage Fund was up 0.41%[1] in October 2024. The HFRI ED: Merger Arbitrage Index (USD) returned -0.55%[2] during the same period.

M&A Market Update

Are we about to enter an M&A super cycle? President Donald Trump's return to the White House with a clean Republican sweep of the House and Senate is expected to usher in a wave policy changes which could unlock the flood gates on pent up M&A activity. M&A has been on the rebound this year after two consecutive years of declining volumes with 2023 recording the lowest level of activity in a decade. Global M&A activity totaled nearly $2.7 trillion through mid-November, up 9% from the same period last year.[3] While the regulatory environment has remained a key hurdle for dealmakers, declining interest rates, improved deal financing conditions, strong equity markets and rising boardroom confidence have driven a recovery in M&A this year. With Trump expected to appoint new leaders at federal regulatory agencies, the market anticipates a friendlier environment for dealmaking is ahead. Market participants expect the incoming administration's more pro-business agenda and the potential for corporate tax cut will also be a catalyst for M&A.

The Biden administration's executive order announced in July 2021 promoting competition and enabling their regulatory agencies to take hostile and unprecedented actions to block consolidation and merger activity has had a cooling effect on M&A. This hostile regulatory mandate enforced by Biden appointees at the Department of Justice (DOJ) and Federal Trade Commission (FTC) made for an unpredictable and challenging dealmaking environment leaving many acquirers on the sidelines. A recent example of this hostile regulatory regime is the merger of Capri Holdings Limited by Tapestry Inc which was challenged by the DOJ and FTC and taken to court. Despite operating in the highly competitive consumer handbag market with considerable competition and limited barriers to entry, the companies lost in court and the merger was ultimately terminated. Our concerns about regulatory risk in the merger enabled us to avoid holding the deal in the Fund and illustrates the hurdles for M&A and merger arbitrage over the past few years. The second Trump administration is expected see a roll-back in regulations, a more activist friendly SEC and potential tax cuts, an environment primed to boost M&A.

SPAC Market Update

There were seven SPAC IPOs in October raising $1.2 billion with two SPAC deals closing during the month and two SPAC liquidations[4]. As of the end of October, there were 207

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[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. HFRI ED: Merger Arbitrage Index (Hedged to CAD).

[2] The Fund's benchmark is the HFRI ED: Merger Arbitrage Index (Hedged to CAD).

[3] LSEG Global Mergers & Acquisitions Review - First Nine Months 2024 | Financial Advisor

[4] https://www.spacresearch.com/

active SPACs in the market with assets of $14.3 billion, 101 of which are actively searching for targets. SPACs searching for targets were trading at a discount-to-trust value, which provided a yield-to-maturity of 5.1%.[5] Given the decline in SPAC yields, we anticipate new and recycled capital will be deployed into merger arb deals with our SPAC exposure expected to fall in the coming months.

Portfolio Update

The Fund initiated positions in 10 new merger deals during October while 13 deals held within the Fund closed. M&A activity in our core small- and mid-cap universe softened during the month as we suspect dealmakers wanted to wait until after the US election to finalize terms and announce definitive deals. Still, there was a decent level of activity in the Fund as capital from closed deals was recycled into new and existing mergers trading at attractive spreads. Several of our largest positions have received or are close to receiving all approvals to close the transaction and we expect to fully capture those spreads in the weeks ahead. We continue to find attractively priced deals in the market and expect to see a boost in small- and mid-cap M&A in the weeks and months ahead. Small cap stocks saw a significant rally post-election and with Trump's pro-domestic agenda, North American companies with operations and sales primarily in the US could see a boost of growth. The Fund holds diverse exposure across sectors, geographies and deal types with a healthy mix of high quality financial and strategic acquisitions. Given where spreads and implied yields are today, we have a strong preference for merger arbitrage vs. SPAC arbitrage and expect the fund to allocate new and recycled capital into merger deals. At the end of October 2024, the Fund had 27 investments in small cap deals under $2 billion, 21 of which were valued at under $1 billion.

Outlook

Markets stalled going into the election with the S&P 500 down 0.9% in October with the Nasdaq down 0.5% and the S&P/TSX up 0.9% while the Russell 2000 was down 1.4% for the month. As inflation continues to soften in both Canada and the US, central banks have signaled a path for interest rates to continue receding. With the US election over and the Trump administration set to take over in the new year, we believe there is a compelling backdrop for M&A activity and merger arbitrage strategies going forward. Strong equity markets, tight credit spreads, declining interest rates, record dry powder on corporate and private equity balance sheets and improving sentiment are all supportive of rising M&A activity. With the policy and appointee changes set to occur under the new administration, headwinds which have impacted M&A over the past several years are expected to shift to tailwinds. This is a view that has been reaffirmed by leading bankers and advisors who have indicated that many of their clients who have been waiting on the sidelines now see an opportunity for dealmaking.

We believe merger arbitrage is particularly well suited for this environment with its low correlation to other asset classes and spread over interest rates. Short-duration fixed income investments are likely to face headwinds from declining rates and long-duration

[5] https://www.spacinsider.com/

fixed income have uncertainty given the balance of short-term rate cuts and longer-term inflationary impact of some of Trump's policies. With tailwinds in place, merger arbitrage is an attractive low risk, tax favorable liquid alternative strategy to protect and diversify your portfolio.

Amar Pandya, CFA
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