**Maxam Diversified Strategies Fund – Q3 2018 Commentary**

The Maxam Diversified Strategies Fund[1] gained +1.5% in the month of September and declined -2.0% during the third quarter of 2018. Since fund inception over nine years ago we have generated an annualized return of +10.9% and a cumulative return of +160.3% for our investors.

We are pleased to let you know that the Maxam Diversified Strategies Fund was recognized at the 2018 Canadian Hedge Fund Awards for its track record of strong risk-adjusted returns. For the second year in a row the Maxam Diversified Strategies Fund won 1st Place for Best 5 Year Sharpe Ratio[2].

| | Performance | | | Sharpe Ratio[3] | |
|---|---|---|---|---|---|
| As at September 30, 2018 | 5 Years Annualized | Since Inception Annualized | Since Inception Cumulative | 5 Years | Since Inception |
| Maxam Diversified Strategies Fund[1] | 10.9% | 10.9% | 160.3% | 1.44 | 1.15 |
| S&P/TSX Composite Total Return Index | 7.8% | 7.9% | 102.7% | 0.95 | 0.79 |
| S&P/TSX Small Cap Total Return Index | 4.2% | 7.1% | 88.3% | 0.32 | 0.48 |
| Scotiabank Canadian Hedge Fund Index[4] | 5.3% | 4.4% | 48.8% | 1.05 | 0.71 |

**Risk-on / Risk-off**

Global markets became increasingly volatile as the third quarter progressed. While the reasons for heightened investor uncertainty – global trade tensions, rising interest rates, election uncertainty, a lengthy U.S. equity bull market – were not necessarily new topics or surprises for investors to deal with, they seemed to bubble to the surface in the latter stages of Q3 and now into the final quarter of 2018.

Chalk it up to a confluence of events that shifted investors towards a risk-off stance – or perhaps the markets just needed a breather, like the ones they've taken time and time again throughout history. That which causes investor attitudes to shift in the short term is often clear only in hindsight.

Positive share price momentum, and the excitement that comes with it, have driven some spectacular gains in certain themes this year. Several months ago it was Bitcoin and blockchain revolutionizing the world, of late it's been FOMO[5] with respect to cannabis stocks.

With so much attention focused on the burgeoning cannabis industry in Canada, investment opportunities in other sectors have been downright ignored by investors and starved of risk capital. This has translated to weaker volume and lower share prices for many high-quality companies. *This is where we see opportunity.*

**Q3 Review.**

Against the backdrop of these volatile markets, here's how a few things played out for the fund during the quarter.

Baylin Technologies put in a strong performance during Q3. Baylin designs, produces and supplies antennas and wireless technologies for mobile phones, small devices and base stations. A couple of key recent acquisitions will enable Baylin to capitalize on the coming 5G network build in North America. We're excited about the prospects for this under-the-radar company through what we expect will be a transformative 2019 and beyond.

Parkland Fuel Corp was a positive contributor for the fund after it announced very strong quarterly results in early August. Parkland is a refined-products marketing, supply and distribution company – it is Canada's leading fuel retailer by site count, with a network that spans the country. Parkland is growing through the acquisition and integration of fuel distribution businesses with a focus on realizing benefits and synergies through increased scale. We expect this disciplined management team to continue to capitalize on accretive acquisitions.

Our investment in Canadian specialty pharmaceutical company HLS Therapeutics is a good example of our *value with catalyst* investment approach, and an example of patience and conviction *eventually* being rewarded….

HLS Therapeutics began its life as a publicly traded company in March 2018 through a reverse merger transaction into an already listed public vehicle. HLS is focused on the acquisition and commercialization of pharmaceutical products in the central nervous system and cardiovascular areas. With a proven management team and four drug products – operating in a sector that is currently out-of-favour with investors following the downward spiral of Valeant – we were attracted to the value of the opportunity and a potentially significant catalyst on the horizon.

The targeted catalyst was a trial being run on a drug called Vascepa, which is used for the treatment of high cholesterol and triglycerides. HLS acquired the Canadian rights for Vascepa from Amarin Corporation in September 2017. While already an approved drug in the U.S., Amarin was running a label expansion trial, called REDUCE-IT, with the aim of significantly expanding Vascepa's addressable market. This was essentially a free option for HLS since Amarin was funding the trial. While the specific timing of drug trial results are always unknown, news was expected during Q3 2018.

HLS' share price was $11.50 at the end of March. Absent news or any material updates from this still relatively unknown and underfollowed company, the share price languished to just under $8 per share, 30% below its valuation at the outset of becoming public. Like we do for any company we own with a share price going the opposite direction from the way we expect it to, we doubled down on our due diligence. With continued confidence in our thesis, we incrementally added to our position in HLS.

On September 24th Amarin announced that the Vascepa REDUCE-IT trial not only met its primary endpoint, but that it did so with a relative risk reduction of cardiovascular events far better than the trial's initial target level. This is a huge win for HLS Therapeutics, and the company's share price reacted accordingly, rising to $13.85 by September month end. We think there is more upside for this story and we're excited about what we believe the HLS management team will deliver in the years ahead.

**Hurry up and wait.**

A core tenet of our fund strategy is to invest in situations where we believe we have identified fundamental, or hidden value, plus a catalyst or event that will unlock that value. Our investment in HLS Therapeutics is not only a great example of our strategy, but also an example of exercising patience and conviction in the face of share price volatility.

Not every position we owned worked out for us during the third quarter of 2018. Some of our holdings in the consumer staples, consumer discretionary and industrials sectors were sources of negative attribution. On average, more things didn't work than did if we're measuring just share price performance over a three-month period. Rest assured, we believe we hold many more HLS type investments in our fund today.

Timing is always the hard part. In fact, getting the timing right is generally a mug's game[6]. So, we not only endeavour to get the value side of the equation as right as possible, we also want an accompanying catalyst or event that we believe will unlock value. A cheap company that stays cheap doesn't do us any good.

**β → α**

It is clear that the markets have become increasingly volatile over the past few months, and moreso into October. We believe that this volatility signifies that we are transitioning from a market environment where "beta" driven strategies have worked, to one where strategies focused on "alpha" will produce superior results.

As stock price volatility increases, humans are hard wired to become fearful and they tend to sell with little regard for company-specific value or fundamentals. This creates opportunities because intrinsic company value, which is based on fundamentals and prospects, is generally not as volatile as stock prices are.

In the short-run, the prices of securities can be heavily impacted by sentiment and emotion. Hence the "buy fear / sell greed" advice we typically hear during swift market declines. While it can be hard to follow this wisdom in the midst of the storm… experience has taught us it is the right approach.

We've been opportunistically adding to some of our existing holdings when the market has offered us an attractive chance to do so. We've also been able to add some new holdings to the fund at what we believe are some compelling valuations. We are being opportunistic, but patient.

We believe we are well positioned to take advantage of this market environment. We have approximately 15% cash in the fund today that we can deploy opportunistically. Our short exposure will not only hedge some downside risks, but we think it will also add *alpha*. We have also increased our exposure to merger arbitrage of late and intend to continue to do so.

Although we cannot control market volatility, we can use it to our advantage. We believe this volatile market environment favours our active, opportunistic and flexible approach.

We're excited about the value inherent in our holdings today and the catalysts ahead.

Thank you for your investment and your continued trust.

Sincerely,

Travis Dowle, CFA
President & Fund Manager
Maxam Capital Management Ltd.

[1]Returns are for Series A Units and are net of fees and expenses.
[2]Best 5 Year Sharpe Ratio, Equity Focused Category; Canadian Hedge Fund Awards List of 2018 Winners: www.alternativeiq.com
[3]Sharpe ratio is the average return earned in excess of the risk-free rate per unit of volatility or total risk (*Investopedia.com)*. It is a measure of return per unit of risk taken *(higher is better).* Risk-free rate used is the Bank of Canada Overnight Lending Rate.
[4]Scotiabank Canadian Hedge Fund Index Equal Weighted: http://www.scmonline.com/analytics/cgi-bin/hedgefund/entry_screen.cgi
[5]FOMO = Fear Of Missing Out
[6]"a mug's game" is an activity in which it is foolish to engage because it is likely to be unsuccessful or dangerous.