MAXAM

CAPITAL MANAGEMENT

Maxam Diversified Strategies Fund – February 2017 Commentary

The Maxam Diversified Strategies Fund[1] gained +1.7% in the month of February and is up +2.3% year to date.

Canada's S&P/TSX Composite index gained +0.7% through the first two months of the year as strength in the Financials and Materials sectors offset weakness in the Energy and Consumer Staples sectors. In the U.S., stock markets picked up right where they left off in 2016 by continuing to rally on anticipation of the Trump administration's new policies, which are expected to bring lower corporate taxes and reinvigorate economic growth.

Event-full.

It has been an eventful start to the year for our fund. In mid-February two of our larger holdings – both in the Technology sector – announced that they had agreed to be acquired.

RDM Corporation, a provider of software and hardware solutions to the financial industry, announced that it had accepted an all cash bid from U.S. based peer Deluxe Corporation. We first invested in RDM in January 2014 on the thesis that the stock was undervalued and that downside was limited, in part, due to the company's fortress-like balance sheet. Furthermore, its financial technology solutions business counted many of the top Fortune 500 U.S. companies as clients, something we believed would be attractive to potential acquirers.

TIO Networks, a technology company specializing in processing bill payments, changed its tact by moving from acquirer to acquiree when it agreed to be bought by U.S. digital payments behemoth PayPal for over $300 million. Owing to a mix of both organic growth and highly accretive growth through acquisition, TIO has been a very successful investment for our fund – and a real Canadian success story.

With respect to both RDM and TIO we believed that we had identified attractive value and future catalysts which would unlock that value. In the case of RDM we believed that its balance sheet would either allow the company to make a catalytic acquisition or, combined with its growing business, make it an acquisition target. With TIO Networks, we believed that the bill payment processing and money transfer network that it had built would lead to strong organic revenue growth and margin expansion – both driving its share price higher, and potentially make it an attractive acquisition candidate for a larger player as well.

While an acquisition is sometimes part of our overall investment thesis, we typically don't target companies solely for that reason. More common is that the attributes that attract us to an investment can end up also being attractive to potential acquirers. In the end, we're clearly quite pleased with how these two investments worked out.

Always be prepared.

In our 2016 year-end commentary, we discussed our belief that compelling investment opportunities are available in all types of market environments, and the notion that an investor needs to *always be prepared* in order to take advantage of such opportunities.

It's been pretty smooth sailing for North American equity markets lately. Canada's stock market has marched steadily higher since the sharp sell-off in January 2016, and the U.S. market has rallied higher since Donald Trump's presidential victory. Sentiment indicators that we follow suggest that investor optimism is decidedly bullish – something we monitor as a potential contrarian signal – and it has been a while since we've seen a market correction of any real substance.

Don't mistake us for being outright bearish – we're not. In fact, we are bullish on what we hold in the fund, and we're bullish on our philosophy and strategy.

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Our sleeves are rolled up.

We believe that our active, opportunistic and flexible approach to investing is especially important in the current investment environment – one that just might become more volatile, therefore providing us with compelling opportunities to take advantage of.

We've alluded to increasing the fund's short exposure in some of our recent commentaries. We continue to examine additional short sale opportunities and remind our investors that short exposure can provide two benefits: first, as an opportunity to profit from unfavourable company specific dynamics, events or catalysts; and second, as a hedge against possible overall market weakness.

In keeping with our style of investing in situations where we believe we've identified value with a catalyst, we've been busy on the acquisition front as well. We are in the process of establishing new positions in several opportunities that we believe have significant upside from current levels. We look forward to discussing these companies in future commentaries.

Finally, we currently have about 12% of the fund exposed to merger arbitrage, which is our highest allocation to this strategy in several months. We see two benefits to merger arbitrage in today's market environment: first and foremost, we believe the transactions that we are exposed to exhibit attractive risk-reward dynamics with high probabilities of closing; and second, these positions can provide us with a quick source of funds for when we are ready to pull the trigger on more compelling opportunities.

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 Master Units, and are net of fees and expenses.