

## Maxam Diversified Strategies Fund – November 2016 Commentary

The Maxam Diversified Strategies Fund<sup>1</sup> delivered a strong result in November, rising +2.7%. Through the first 11 months of 2016 the fund is up +12.0%.

It's been over a month since Donald Trump's surprise U.S. presidential election victory. The market's initial positive reaction that we discussed in our October commentary has continued into mid-December. While the world debates the policies that will come into effect during a Trump presidency, the capital markets have been telling us what they think.

We have witnessed a clear shift in stock market leadership over the past several weeks. Defensive stocks in the consumer staples and interest-rate sensitive sectors of real estate and utilities have sold off – while the pro-growth sectors of energy, financials and industrial metals have rallied. Another significant change has been a sharp rise in global bond yields; if the cost of money has seen its multi-decade lows then there will certainly be implications. Furthermore, the US dollar – as measured by the DXY Index – has pushed to highs not seen since 2002.

### *Embrace volatility*

We believe that the changes witnessed over the past few weeks may lead to a more volatile market environment ahead. Equity markets have moved in anticipation of what may come from a Trump presidency, and as new policies are eventually put in place – whether expected or not – the markets will react. In Canada, with the recent approval of two major oil pipelines our own Prime Minister, Justin Trudeau, disappointed many of the environmental advocates who helped vote him into power – demonstrating that decisions made while governing are sometimes different than those inferred while campaigning.

With our active, opportunistic and flexible approach to investing we believe that we are well positioned to embrace the opportunities that volatility presents.

### *November's movers*

Strong performers for the Maxam Diversified Strategies Fund during November included long-term positions Medicare, TIO Networks and Boyd Group. ECN Capital, a newer holding and one we discussed in last month's commentary also rebounded nicely during the month.

Our risk arbitrage position in the preferred shares of Canadian home renovation retailer RONA closed successfully in November. Like many preferred share issues in Canada, RONA's were trading at a steep discount to their stated par value in early 2016. This dramatically changed for RONA's preferred shares when U.S. giant Lowe's announced that they had agreed to acquire RONA Inc. for \$24 per common share. However, much to the chagrin of RONA's preferred shareholders, Lowe's only offered \$20 per preferred share. While this was a substantial premium to the \$12-14 price range that these securities were trading at prior to the Lowe's acquisition, it was a somewhat insulting \$5 discount to the preferred shares' par value of \$25.

We acquired a position in RONA's preferred shares at \$20 per share with the expectation that our downside was limited to owning a security that paid us a solid yield and was backed by a high-quality U.S. mega cap corporation. The upside scenario was that Lowe's would eventually sweeten its offer to redeem the preferred shares. In November Lowe's delivered on our upside scenario by acquiring the preferred shares for \$24 per share.

We've been quite active over the last several weeks taking advantage of some select opportunities – and I expect we'll continue to be opportunistic into year end.

We look forward to providing you with our usual more detailed year end commentary early in the new year.

All the best from the Maxam team to you and your families for the holiday season.

Thank you for your investment and your continued trust.

Sincerely,

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

<sup>1</sup>Returns are for Series A Master Units, and are net of fees and expenses.