

Maxam Diversified Strategies Fund – Q1 2017 Commentary

The Maxam Diversified Strategies Fund¹ gained +2.1% in the month of March and +4.4% for the first quarter of 2017.

Canada's S&P/TSX Total Return Index gained +1.3% in March and +2.4% for the first quarter of 2017. Strength in the Materials, Industrials and Consumer Discretionary sectors offset weakness in the Energy and Health Care sectors. Following a very strong start to the year, the bellwether indices tracking U.S. equities were essentially flat in March, taking a breather as some uncertainty on the timing and execution of Trump's tax and health care policies crept into the equation.

A nice start to the year.

Notable strong performers for the Maxam Diversified Strategies Fund in the first quarter included: TIO Networks, RDM Corporation, ZCL Composites, Bird Construction and Norsat International.

As discussed in our February commentary, two of our long-time holdings in the Technology sector – TIO Networks and RDM Corporation – announced that they had agreed to be acquired by PayPal Inc and Deluxe Corporation, respectively.

ZCL Composites keeps on giving ...to shareholders. The manufacturer of fiberglass reinforced underground storage tanks not only announced strong quarterly results in early March, but also a 50% increase in the regular dividend and a one-time special dividend of \$0.65 per share. Management communicated confidence in their "10/10/10 Plan" which calls for 10% compound annual growth rates in revenues, earnings and dividends. We like their chances – as the company continues to capitalize on replacing underground storage tanks that are nearing the end of their useful life, or deemed unsafe due to leakage or corrosion.

Bird Construction is one of our newer holdings in the fund, and while it is still early days, its shares are already moving in the right direction (I wish that was always the case!). Bird is a general contractor focusing on construction projects in the Canadian commercial, industrial, and institutional markets. Core components to our positive thesis on the stock include a rock-solid balance sheet – cash covers roughly half of the market cap – and a healthy pipeline of P3 (public-private partnership) opportunities that should help improve the company's project backlog. Furthermore, we expect Bird to win its fair share of work from Mr. Trudeau's much anticipated federal infrastructure boost. We expect that the Liberal government will want to have this spending in full swing leading up to the next scheduled election in 2019. With an attractive valuation profile and potential catalysts in future project wins, we think Bird's characteristics are befitting of our '*value with a catalyst*' approach.

March was quite the eventful month for Norsat International – a provider of unique and customized communications solutions for remote and challenging applications. Shares of Norsat initially jumped higher in mid-March when they announced that their largest shareholder, Privet Fund Management, had provided them with a non-binding letter of interest to acquire the company for cash consideration of US\$10.25 per share. Then, near the end of March, Norsat announced that they had entered into a definitive agreement to be acquired by Hytera Communications for cash consideration of US\$10.25 per share. While consideration was the same under both Privet and Hytera's offers, shareholders (ourselves included) will clearly assign more value to a definitive agreement that does not have further due diligence or financing conditions.

Hot off the press update as we pen the final comments of this letter: On the morning of April 17th Privet raised its non-binding proposal to acquire Norsat to US\$11.00 per share and said it "does not view financial terms of the proposed Hytera arrangement to be in the best interests of Norsat shareholders at this time." *Stay tuned!*

We recently initiated a new position in Blackline Safety. Blackline is a global provider of connected safety technology that enables companies to better monitor their 'lone-worker' employees. We're excited about Blackline's new disruptive product offering for the gas detection market, the G7 connected safety device, which allows companies to respond to a gas leak, injury, or health event in seconds. Blackline's G7 safety solution delivers work-anywhere wireless, two-way voice communication, text messaging, evacuation management and

complete customization. Leading the Blackline team is CEO and founder, Cody Slater, who sold his previous company to Honeywell – *we like that pedigree.*

How full is your glass?

Investor complacency with the state of the capital markets has largely continued through quarter-end despite a laundry list of potentially market moving themes. Global stock markets have steadily moved higher against a backdrop of uncertain policy outcomes, rising protectionism, and increasing geopolitical discord. Broadly speaking, stock market investors appear to have taken a decidedly glass half-full view of the world at a time when we believe more discretion is warranted. Since the turn of the quarter there has been a notable move in 'risk-off' assets with rallies in Gold, US Treasury Bonds, and the Japanese Yen.

With respect to our positioning and strategy, we're more than glass half-full. A more volatile environment means increased opportunities for our active strategy – which, in-turn, sows the seeds for future returns.

We've been actively positioning the fund to both prepare for a potential increase in market volatility and, most importantly, to take advantage of it. Over the last few months we have trimmed and sold holdings that we considered to be non-core, we've selectively added to some of our favourite names, increased our exposure to merger arbitrage (a market neutral strategy), added some new short positions and raised our cash position.

We are excited about how we are positioned. As always, we will remain true to our bottom-up, value-focused, active, opportunistic and flexible investment approach.

Thank you for your investment and your continued trust.

Sincerely,

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

¹Returns are for Series F Units, and are net of fees and expenses.